

Urban management in the 21st century

Ten insights from Professor Ed Glaeser



Introduction

In August 2018, CDE hosted Professor Ed Glaeser, the world's leading urban economist and the Fred and Eleanor Glimp Professor of Economics in the Faculty of Arts and Sciences at Harvard University. He shared his critical insights based on vast experience during a series of seminars and engagements with leaders, policy makers and officials from the Johannesburg and Cape Town metro governments.

To help improve the quality of South Africa's discussion about cities' vital role in growth and development, we are publishing here, in collaboration with Professor Glaeser, a summary of the key lessons that we drew from the questions he asked and the talks he gave.

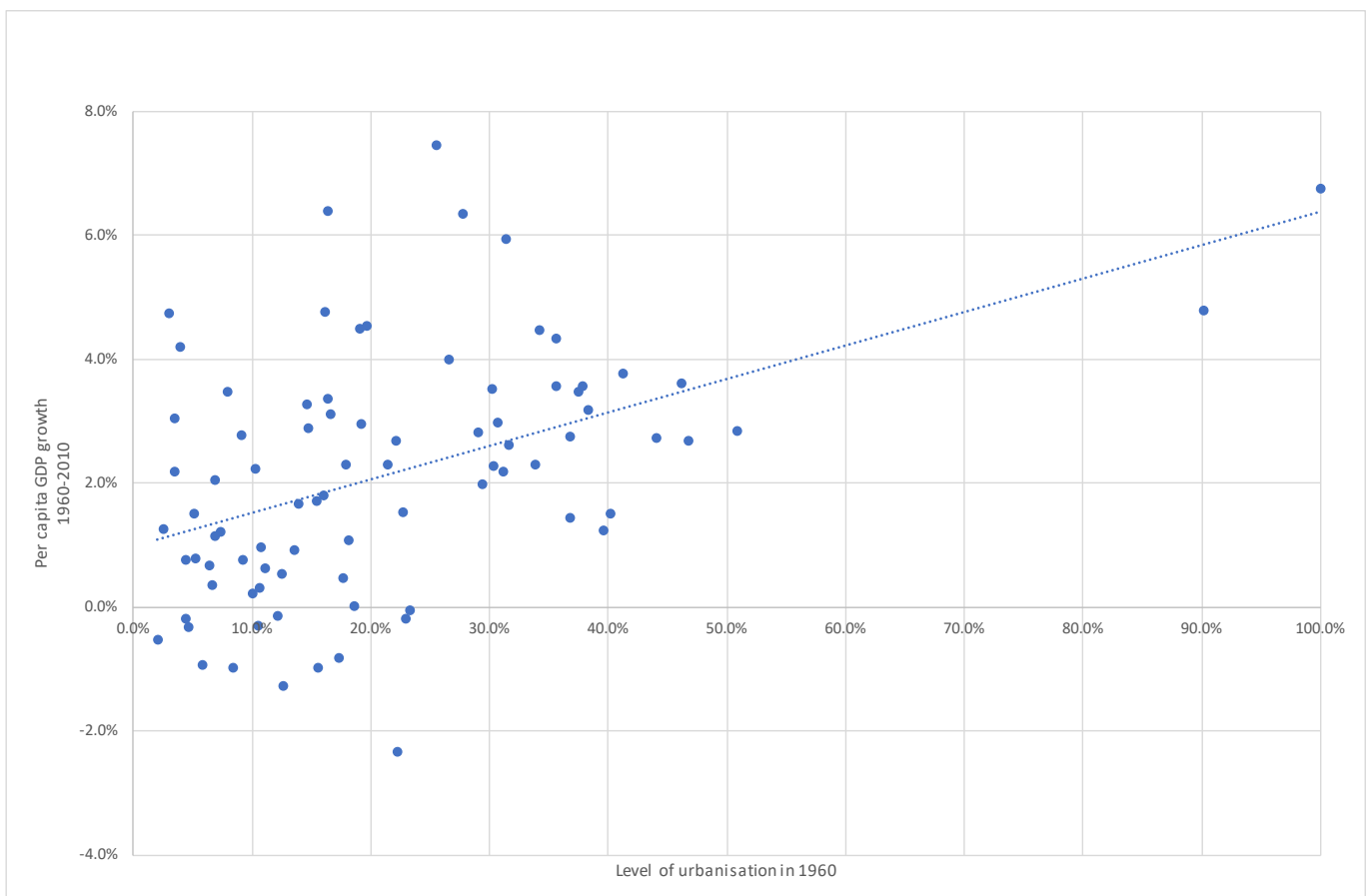
1. Cities should not be judged on how many poor people live in them, but on whether those people stay poor

Cities are among the most efficient vehicles for increasing a society's prosperity. By bringing people together in dense clusters, they facilitate the explosion of productivity made possible in larger markets in which labour can be more finely divided to facilitate exponentially increased levels of specialisation.

This is the underlying dynamic that makes it possible for entrepreneurs to share ideas and learn from each other, start businesses, employ people and create value. It is also why cities attract people from the countryside: prospects for employment and prosperity are normally much greater in urban areas than they are in rural areas where there is much less prospect for business-led dynamism. There is no future in rural poverty; cities make prosperity possible.

This is why, when we look at the trajectories of developing societies, we see that all but a tiny fraction of the countries that get rich, do so while (and by) urbanising. The level of urbanisation in 1960 is a good predictor of which countries would prosper over the next 50 years, and, while there are countries that are urbanising without prospering, there are few that are prospering without urbanising.

Figure 1: Relationship between urbanisation in 1960 and per capita GDP growth between 1960 and 2010 (poor countries only)



Source: Penn World Table, University of California, Davis

Cities' attracting poor people is exactly what you would expect and what societies need if they are to develop. But the prosperity that cities can generate is not inevitable, and if cities do the wrong things, they can get in the way of this process. To succeed, cities need to maximise the benefits of human interaction by making this as fluid as possible by:

- managing land use efficiently to make sure the physical environment facilitates growth
- making sure transport systems work effectively
- managing the "demons of density" such as public health risks, crime, congestion and high property prices.

If cities get these things right, migration, even of large numbers of poor people, can be accommodated, and, more importantly, most of those poor people will become less and less poor over time. When cities get these things wrong, however, poverty levels stay high for longer and the process can become self-reinforcing as the effects of concentrated poverty undermine the city's ability to facilitate faster growth. When cities do not have exclusive jurisdiction over critical functions like policing, public transport planning and the like, as is the case in South Africa, challenges in the coordination of activities across government can stymie even the best plans.

It is much easier to get the spatial structure of the city right before inefficient land use patterns are entrenched, reducing residents' capacity to work, trade and invest efficiently. The quality of urban governance, and, in particular, the foresightedness of its leaders, matters a great deal in determining whether and to what extent it manages these challenges

2. Infrastructure is critical, but it is not enough

Three facts stand out in relation to infrastructure. The first is that infrastructure is critical: cities have enormous needs for good public infrastructure, in the absence of which life and commerce become endlessly complex, expensive and dangerous.

The second is that it is exceptionally easy to waste vast amounts of money on infrastructure projects that are the wrong solution to the problem they purport to address, that are poorly specified and designed, or that are built or managed badly. The costs of this kind of waste drag on economies and city residents and make the economy less efficient than it could be.

The third fact is that engineering is never the complete solution. An iron law of highways, for example, is that the number of highway kilometres driven rises one for one with the number of highway kilometres that are built. In other words, you cannot build your way out of congestion, and the only way to reduce congestion reliably is through congestion pricing. For reasons easily explained by behavioural economics' endowment effect, this is politically difficult, especially when applied to existing roads. Nevertheless, the vast majority of professional economists would agree that congestion pricing is much more effective at reducing congestion than is road building. More generally, it's always worth noting that roads (and infrastructure) are not free, and residents should not be allowed to believe the opposite.

In relation to housing – by far the most common structures in urban areas – cities in the developing world need to recognise the fact that much of the housing that will be built will likely be transitory: what makes sense in Johannesburg in 2020 may make no sense in 2040. Building standards need to embrace and reflect this, and cities need to make sure that zoning and construction laws provide the greatest possible flexibility to facilitate the dynamic changes that will come from development and growth.

3. Cities should attract and train smart people and then get out of their way

Because cities' prosperity is built on the way in which residents in close proximity to each other makes it possible for them to specialise, share ideas with each other, and trade more efficiently, urban development depends less on building infrastructure and more on attracting and training smart people, and then getting out of their way. The city's economy isn't made out of concrete and steel, but of flesh and brains.

It's important to emphasise both parts of this syllogism: a city needs smart, creative people to build businesses and the economy; and it also needs to make sure there are as few obstacles as possible in the way of their trading and transacting. That means as light a regulatory touch as possible, and, where regulation is necessary, as efficient (and honest) a regulatory process as possible. Cities must have the institutional infrastructure needed to ensure compliance with the law, but how it does so matters: if it fines people for non-compliance, fines must be low enough that they do not become a tool used by corrupt officials to enrich themselves (though if they are too low, they may not drive behaviour change, as might be the case, for example, if the fine for illegal dumping of rubble is lower than the cost of transporting rubble to a landfill). If subsidies are to be used, on the other hand, they need to be designed in a way that minimises deadweight costs.

Cities must also tackle other kinds of obstacles to efficient transacting: high crime rates, for example, raise the costs of doing business for a city and deter investment. The same is true of inefficient, unreliable infrastructure (water and sanitation, electricity, transport, etc.).

4. Unclear property rights will make it harder to resolve cities challenges

In communities of millions of people, all kinds of challenges arise in managing collective challenges: how to design, deliver and maintain the systems needed to keep the city functioning efficiently; how to manage the inevitable clashes that arise when people with different interests and passions interact; how to decide what the city's collective priorities should be; how to ensure that everyone pays their fair share towards the upkeep and development of the city (and, indeed, deciding what "fair share" means). Designing systems and institutions to manage these complex forces is far more complicated if property rights are unclear or contested, and it is now abundantly clear that if you are to have a reasonably functioning city that can shape the spatial economy appropriately, ensure compliance with norms and rules, and, critically, finance itself, you are going to have to have something close to a formal titling system so that you can identify who owns (and is responsible for) land and structures in the city

The desire to protect property rights is often understood to reflect a desire to protect the rights of the rich. But in the absence of property rights, it is impossible to protect the poor. Consider, in this regard, New York's experience with cholera. By 1842, it had built all the bulk infrastructure that was needed to supply clean water to its residents, but cholera outbreaks persisted for another 25 years because the city didn't have a sufficiently accurate property registry to be certain who owned individual residential buildings. As a result, they could not force owners to connect buildings to the water mains. Only when ownership was properly clarified could the city get the required action, on threat of civil and criminal penalty, from owners. This reinforces a point made earlier: engineering alone will not solve a city's problems.

The absence of clarity about who owns many of the buildings in Johannesburg's inner city, and the inability of the authorities to protect some owners from organised crime syndicates that hijack buildings, is a critical reason why the city is struggling to secure the rates and services revenues that should be flowing from an area in which there is far more, and far more dynamic, economic activity than is usually supposed. One point to remember is that any improvement to a city's economic prospects or to the quality of life of its residents should show up in

rising property values. Unless cities ensure that property rights are clear and secure, however, property values won't increase and nor will the revenues flowing in from land and property taxes. If you don't protect private property, in other words, you can't socialise the benefits of growth through higher property taxes. And, critically, if you are unable to do this, it will not be possible to pay for local government activities and investment.

5. A city government plays two core roles: poverty alleviation and property development

Cities' most potent power to shape the local economy derives from their role in regulating land use, which allows them to shape the kinds of activities that can take place in different areas through zoning laws and infrastructure and services provision. These powers can be used to structure the spatial economy, and, critically, to facilitate densification.

Cities need to use these powers in ways that facilitate the ongoing development and renewal of urban spaces so that they are relevant to the changing needs of the economy as the number of residents rises, technologies change, and economies evolve. Cities do not have to build structures themselves; they must let the private sector do most of the heavy lifting and take the bulk of the risk (and enjoy the rewards of success). But cities also do not have to do private developers any favours: to the extent that a city's authority is needed to release land or to have it rezoned, they should capture as much value as possible and then seek to use the proceeds to finance infrastructure development and improve service delivery.

If cities' one task is akin to property development, its other is to maximise the opportunities that individuals have to prosper. And, within this, cities also have a role to play in alleviating poverty. Mostly, this is about providing the institutional and infrastructural prerequisites for the urban economy to prosper and for jobs to be created. But cities with large numbers of poor residents cannot ignore their needs, and, though most public spending aimed at alleviating poverty is managed by provincial and national government, cities play a role in providing services, constructing housing and managing social housing projects. Cities also have to decide where to spend their infrastructure and maintenance budgets, and will sometimes have to choose between providing services in communities of very different average income levels.

There are no easy answers about how to manage these competing priorities, but some broad ideas might help improve policy-making:

- Most poverty alleviation will happen through the creation of economic opportunities and employment. Maximising skills formation, the attraction of entrepreneurs and skilled workers, and the creation of the necessary institutional framework for this are the critical goals for policy-makers.
- Cities do not do their poor residents any favours if they refuse to allow developers to use land in the most economically and commercially profitable ways. Cities should allow and facilitate as much development as possible, and use the revenue flows to reduce poverty and inequality.
- The use of rent subsidies needs to be very well thought-through with a full appreciation of the costs of these policies and the unintended, but perfectly predictable, ways in which they can become a brake on further development. Rent control is a very bad idea that chokes off residential construction.
- While public health needs demand the provision of basic municipal services – clean water, sanitation, refuse removal – even when households cannot afford them, those household that can afford to pay for these services should do so. This is critical for sustainability and for creating the institutional and social basis for improving basic services when this becomes affordable. Entrenched cultures of non-payment make improving services above basic levels impossible.

It is really important that cities maintain a clear distinction in their minds between their roles as agents of poverty alleviation and their role as property developers. As far as possible, they should see these functions as distinct, with the latter being used to generate the funds needed for the former. They should think of themselves, in effect, as non-profit institutions aimed at poverty alleviation that happen to own, and are funded by, a profit-maximising entity that is involved in property development. At the same time, a city that is good at raising revenue but which spends those revenues wastefully and unproductively can do significant harm to the local economy. Cities need to focus very closely on the extent to which their programmes actually achieve the goals of poverty reduction and at what cost.

6. Too often, cities' development is harmed by NIMBYism and monumentalism

Cities' spatial development is often hindered by two contrasting challenges. The first is the instinctive attitude of NIMBYism – not-in-my-back-yard – of those who regard all developments, especially the rezoning of land to allow for its much more intensive utilisation and densification, as potential threats to their property values and/or quality of life. This is a real challenge in many communities, though it is likely accentuated in cities with deeper social and economic divides, in which changes in zoning can generate significant changes in the composition of the local community or the population of people who use the area.

Opposition to change limits the ability of a city to allocate land to its optimal use, raising costs and lowering efficiency. NIMBYism can also raise the costs of development by slowing down development and tying developers (and officials) up in legal processes. Inevitably, this means higher costs of housing and office space even when developments do eventually go ahead.

Cities should adopt much more open, as-of-right zoning rules that grant land owners much more space to choose appropriate developments. In changing zoning rules, however, cities are, in effect, providing existing land owners with something of real economic value. Cities should socialise some of this benefit through appropriate claw-back mechanisms as land is developed.

If NIMBYism, combined with over-strict zoning rules, is one reason why cities sometimes fail to make the best and most productive use of their land, another is a tendency towards monumentalism – a preference for large projects with grand ambitions. The political attractiveness of these kinds of projects should not blind policy-makers to the fact that, while some of these succeed, it is just as likely that investments of this kind will cost much more, and achieve much less, than their advocates claim. Building these can also tie up not just the finances of a city, but much of its institutional capability.

Transport-oriented development can sometimes be distorted by monumentalist urges, resulting in hugely expensive transport infrastructure that, especially when trains are a key component of the plan, can actually reduce a city's capacity to adapt to its own changing needs. Train tracks, once laid, shape cities for decades and even centuries. Much more flexibility is provided by other forms of transport, notably buses. The provision of these is not always economic on strictly commercial terms, necessitating on-going public support, but bus routes can be changed in response to cities' changing needs, which train tracks, however efficiently they are rolled out, cannot. Having said that, where cities have rail tracks, using them as efficiently and sustainably as possible to promote growth should be a policy goal.

7. Most physical structures in the city are for accommodation, so rules governing housing provision really matter

South African cities face very severe housing crises, crises that may not get better just because cities' economies grow faster: rising prosperity in the cities would attract new migrants. The challenge of housing a large population of poor people is significant, and the scale of the challenge was manifest on site visits to Johannesburg's inner city and to Dunoon on Cape Town's northern periphery. The two sites were vastly different: inner city Johannesburg is a mix of high and medium-rise apartment buildings; Dunoon is an RDP development in which residents are choosing to build additional structures in their properties and, in some cases, even demolishing the original RDP house to build structures of two and three storeys. Notwithstanding their physical differences, housing market dynamics in both areas are driven by the vast, unmet need for affordable accommodation and the difficulties of providing this in circumstances in which property rights are unclear, cities have limited institutional capacity, and households are poor. The fact is that South African cities face complexity and inequality on a grand scale, and addressing this will require enormous effort over a long period.

South Africa is making it harder to accommodate poor households in our cities by failing to create the conditions needed to build a much larger and more dynamic housing rental market. This is essential, especially given the real fiscal and spatial constraints that mean that relying exclusively on the RDP housing programme is bound to lead to failure. Much more plausible than using the delivery of large RDP developments consisting of scores, hundreds or even thousands of houses in single projects, that must inevitably be located at cities' peripheries, would be a strategy that sought to maximise the delivery of hundreds of small projects, each delivering much fewer units, but each helping to densify the city by using empty spaces in already built up, central areas or repurposing existing buildings. This requires a different approach to the delivery of housing – which would be much more decentralised, much more entrepreneur driven, and dominated by rental stock to a much greater degree.

We witnessed the power of this approach in Johannesburg where an innovative housing finance company provides finance to people who wish to buy, redevelop or renovate existing buildings for conversion into high-density, labour-intensive rental accommodation. Taking this to even greater scale seems a much more plausible and sustainable approach to providing affordable urban housing than a city's taking responsibility for developing and managing housing stock, particularly when much of that will be developed on the city's outskirts.¹

8. Urban planning needs much better data

Historically, city planners have far too little real-time data on which to base decision-making. Census data, which normally comes out in, at best, five year cycles and normally even less frequently, and which takes months to process, gives you information that, in a dynamic city, feels like it relates to ancient history.

Until recently, it was simply not possible to access high-quality, real time data relevant to city planning, but big data may be making more and more high-quality, highly relevant data available to cities if they know where to look. We are developing automated tools, for example, that can estimate property values based on Google Street View images of city streets. We can also tell how quickly areas are gentrifying by tracking all kinds of data such as Yelp reviews, patterns of social media use, etc. Tracking service delivery needs through apps and digital images is already happening in many places. Over time, these data are going to become more and more accessible and usable, and cities are going to be able to be much more nimble in responding to the needs of their citizenry.

¹ CDE has commissioned a report on the approach developed and implemented by TUF, that will be released in 2019.

9. Mayors who cannot fire underperforming staff will struggle to deliver for their voters

Public service bureaucracies are beset by challenges of management, oversight and managerial control. This is a reality faced by all governments at every level of the state in every country. Part of this is a function of the complexity of many of the tasks municipal governments perform and the necessity to devolve decision-making and implementation to individual employees and units, where the quality of work performed and of the exercise of judgement can be difficult to monitor. But part of it is also a result of the fact that public service employment rules often make it very difficult for managers to replace under-performing staff and deny elected officials (who are directly accountable to the electorate) the tools needed to properly monitor, motivate and discipline their staff. This is an area in which reform is needed, and it is needed most in relation to senior staff, for whom the protections of labour law should be replaced by those of the law of contract.

Having said that, it is important to maintain those protections needed to avoid the undue politicisation of appointments in the public service, a corollary of which is that it is somewhat risky to give political leaders unchecked power to replace public servants with whom they disagree on policy or whom they claim are unwilling to do their bidding. Getting the balance right is no easy matter, but it is clear that if mayors cannot fire underperforming staff because of their underperformance, they will struggle to deliver on the mandates they have from their voters.

10. The politics of a city's development plans matters

Cities' two core functions – poverty alleviation and property development – need, as far as possible, to be kept separate. Because poverty alleviation roles are financed through the economic gains made primarily through cities' property development functions, doing the latter well is essential. But doing it well means facilitating developments that will sometimes seem to benefit richer members of the community rather than poorer ones. Not all city leaders are going to be equally able to sell these kinds of initiatives to voters who suspect that they are in the pockets of developers or the city's elite. The successful selling of these kinds of policies and initiatives is, in the nature of things, easier for political leaders with high levels of personal and political credibility among the poor than it is for mayors who are more easily identified as members of the city's economic elite.

This does not mean that mayors with elite backgrounds cannot sell their policies to poor constituents or that mayors from poor communities will always have credibility with members of those communities. What is important, is that the politics of cities' development matters, and mayors who navigate more easily through those politics will encounter less resistance from communities. Urban politics is, however, constantly confronted with complexity and inequality on a grand scale, and the quality of leadership provided by mayors will generally matter a great deal in how the city navigates these challenges.



CENTRE FOR
DEVELOPMENT
AND ENTERPRISE

CDE Board

L Dippenaar (chairman), A Bernstein (executive director), A Ball, C Coovadia, B Figaji, R Khoza, M Le Roux, S Maseko, I Mkhabela, S Nkosi, W Nkuhlu, S Ridley, M Teke, S Zibi

Published in June 2019 by the Centre for Development and Enterprise
5 Eton Road, Parktown, Johannesburg 2193, South Africa | PO Box 72445, Parkview, 2122
Tel +27 11 482 5140 | info@cde.org.za | www.cde.org.za