2013

Poor Face a Public Policy Challenge: A Commentary

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Recommended Citation

Bahl, Roy. 2013. "Poor Face a Public Policy Challenge." Environmental Forum 30 (6): 29.

Another View

Poor Face a Public Policy Challenge

The world's population will increase by about 2 billion people between now and 2025. Nearly all of this growth will be absorbed by urban areas in less-developed countries. Of the 27 urban areas with populations greater than 10 million, 21 will be in poor countries and these big cities will house about 10 percent of the world's population. Finding ways to make such cities more sustainable — home to adequate public services and shelter, greener, more inclusive, enabling the growth of human capital — is one of the great public policy challenges facing leaders in these countries. In too many cases they are ill-equipped to take it on.

The price tag for absorbing new urban residents is steep. One estimate places the annual cost of new urban infrastructure (the capital facilities that support services, such as roads and water supply) at 5 percent of GDP. Slum upgrading, which must target about 1.4 billion people, or one-third of the world's urban population, poses an even heavier financing burden. The 200 million new migrants who will arrive in Chinese cities in the next 20 years will cost about 2.5 percent of GDP per year. When one considers that less-developed countries raise an average of only about 17 percent of GDP in taxes for all the things that they must do, the magnitude of the problem comes into better focus.

Is there a way forward for these urban areas, or is "sustainable city" an interesting but unreachable goal? In fact, two policy directions might be taken, and if politics could be shunted aside, there is reason for optimism about both. One approach is based on living smarter and planning smarter to lower the cost of urbanization. More compact urban settlements can lead to a lower cost of energy consumption, as well as less new infrastructure construction and maintenance, and can be more effective at capturing the agglomeration and scale economies that come when people and companies live and work in closer proximity. Compact cities and better mass transit can crowd out cars, something that congestion has not been able to do. In India, for example, the motor vehicle population increased by 100 times between 1951 and 2004, but the road network expanded by only eight times. There are some hopeful signs: e.g., the success with congestion pricing in Singapore and the auctioning of transportation rights in Shanghai. Even the politics might line up because the love affair between people and their automobiles is less strong in low-income countries, especially among the new migrants.


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This is not to say that there aren't formidable obstacles to building the lower-cost cities. For example, standing in the way of coordinated, area-wide delivery of public services is local autonomy or home rule, which is a cherished tradition in many low-income countries. For example, the Mexico City metropolitan area, with a population of 20 million, is overlapped by a federal district, two states, and 59 municipalities, with little coordination in service delivery. Metropolitan São Paulo, also about 20 million in population, is made up of 39 municipal governments, with no area-wide government. Local boundaries do not go away quietly, yet Toronto's relatively recent success with metropolitan government does give hope for the area-wide solution.

Another obstacle is corruption. Whenever heavy public investments are made, and businesses are relocating, as will happen with rapid urbanization, there will be more incentives for illegal money making such as through contracting, under the table land use arrangements, and such. There also will be political trading that might benefit the career advancement of local leaders, but at the expense of efficient urban development.

An alternative approach to financing sustainable cities is simply to raise more revenue. Urbanization will bring increased economic growth and a significant fiscal dividend, but this will not likely be enough to pay for the increased services demanded. There are several good routes to more revenues, if only the political roadblocks can be overcome.

First, tax those things that stand in the way of constructing a more livable city, and provide incentives for those things that do not. This would lead to heavier charges on motor vehicle use, capturing the full social costs of urban sprawl with development charges, and levying higher taxes on under used property.

Second, rediscover the virtues of land and property taxes as local revenue instruments in cities, and use them aggressively. This would include not only the annual property tax, but also capital gains taxes on land and various land development charges and incentives that are consistent with building the more compact city. Third, set user charges at cost-recovery levels, which would reverse a long term pattern of subsidy.

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