



Chapter 6: Macroeconomy and Urban Productivity

Michael Cohen and Lena Simet

6.1 Introduction: Cities as the Locus of Productivity, Value Creation, and Income Generation

In the twenty-first century, cities offer the potential of economic opportunity. Historically, as an increasing share of the total population of a country's population lives in urban areas, GDP has increased (World Bank 2009). As displayed in Figure 6.1, this is more than an accidental correlation: It reflects the clear relationship between the efficiencies and productivity of agglomeration economies and location. Agglomeration, when accompanied by growing density and proximity, allows the reduction of costs of production of goods and services and growing consumption by an ever-wealthier urban labor force. The process of value creation itself is a quintessential process of bringing factors of production together in time and space.

Economies of scale can generate higher productivity as shown in studies in Brazil, which concluded that productivity increased roughly 1 percent for every 10 percent increase in the number of workers employed in an industry or in a city. This very large increase means that by growing from a city of 1,000 workers to one with 10,000 workers, productivity would increase by a factor of 90 (Spence et al. 2009). Thus, over time, aggregate economic growth is closely associated with the urban percentage of total population. Historically, "very few countries have reached income levels of US\$10,000 per capita before reaching about 60 percent urbanization" (Spence et al. 2009: 3). All high-income countries are 70 to 80 percent urbanized (Spence et al. 2009).

In 2016, all countries generated more than half of their GDP in urban-based economic activities (Cohen 1991). Projections for future economic growth in all countries demonstrate that the trend towards greater concentration of economic activity will occur in urban areas of all sizes. Even in the rare case of countries in which urbanization occurred without growth, a pattern that Spence et al. (2009: 8) call "pathological urbanization," there is little evidence that urbanization exacerbated poverty.

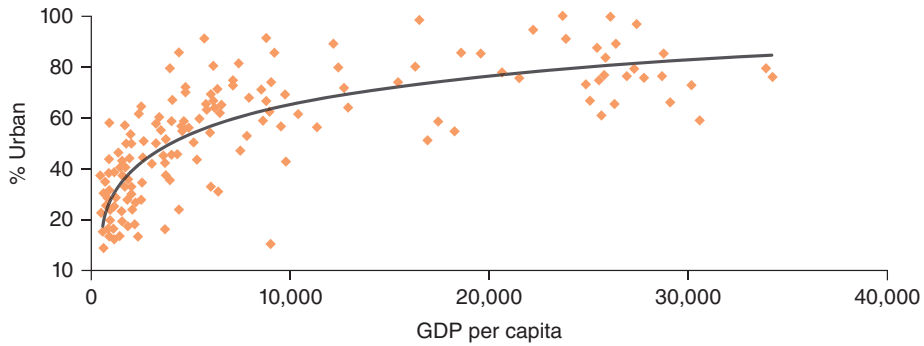


Figure 6.1 The relationship between per capita GDP and urbanization across countries (1996 dollars). Source: Jerker Lokrantz/Azote, modified after Spence et al. (2009).

Productivity is a highly localized phenomenon. Location, in turn, greatly impacts a person's opportunities. The country, region, city, and neighborhood in which a person grows up affect that person's income mobility, living standard, and quality of life. The stark divide between rich and poor countries is therefore a highly localized issue, too. We then have to ask ourselves, what factors encourage some cities to prosper and others to decay? More importantly, what can be done to change it? How can gaps between labor productivity be reduced, and how can labor from low-productivity activities flow to high-productivity activities?

This chapter attempts to respond to these questions in the light of the adoption of the New Urban Agenda, the outcome document of the Habitat III conference held in 2016, which is set to guide the urbanization efforts of the next 20 years.

6.2 Productivity Enhancing and Constraining City Characteristics

In 1991, the World Bank identified four major constraints on urban productivity – infrastructure deficiencies, regulatory effects, weak local governments, and the absence of urban finance institutions (Cohen 1991) – that help to answer our motivating questions.

While the weaknesses of urban infrastructure have been observed all over the world, a comparative study from Lagos, Jakarta, and Bangkok concludes that small- and medium-sized enterprises spent from 35, to 20, to 12 percent of gross fixed investments, respectively, to provide water supply; electricity; solid waste collection and disposal; and worker transport in cities where these services were largely unreliable and frequently unavailable (Anas et al.

1996). It was thus no surprise that these firms had limited profits and did not grow to be very large. These heavy “infrastructure taxes” constrained firm size and employment growth. In this way, infrastructure deficiencies undermine economic productivity. These direct impacts are accompanied by other negative externalities from infrastructure failure, such as the traffic problems in Bangkok, flooding in Jakarta, or air pollution in Mexico City, each of which has generated citizen action and political demands for remedial action.

The second major constraint to urban productivity is *costly regulation*. While many forms of regulation are essential for public safety, whether in the form of fire laws or environmental protections, some forms of regulation greatly increase the cost of urban economic activity. A 1989 study of the housing sectors in Kuala Lumpur and Bangkok found that, while Malaysia is much richer than Thailand, Bangkok produced better and cheaper housing than Kuala Lumpur. The answer to this puzzle lay in the 55 steps and three years required to obtain a building permit in Kuala Lumpur – delays that amounted to about 3 percent of GDP. Regulations imposed heavy taxes on households and firms hoping to start new construction (Hannah et al. 1989). Colonial housing regulations in former British colonies in West Africa had similar effects. When apartheid ended in South Africa in 1994, builders had to complete 24 steps to obtain necessary permits. The number has now been reduced to nine.

These constraints do not exist in an institutional vacuum. A third important constraint on urban productivity is *the many institutional, technical, and financial weaknesses of local government*. In many cases, national governments keep local governments closely constrained, dependent on monthly or annual financial transfers that are conditional on fulfilling national objectives and policies. The financial constraints to local governments are clear in the low percapita amounts of budgetary resources available for local spending.

It follows, then, that local governments fail to maintain local infrastructure or social services, while at the same time providing notably slow and inefficient services to urban residents in such matters as renewing drivers’ licenses. Moreover, local governments should be given the institutional capacity to introduce policies that improve the welfare of their citizens by, for instance, adjusting the local minimum wage to the high costs of living in some cities.

A fourth constraint is *the lack of urban finance institutions to finance long-term, durable assets*, such as infrastructure or housing. While cities need long-term finance for these important assets, most developing countries lack robust financial sectors to provide the quantity of finance needed on reasonable terms. This dearth of financial resources contributes to the presence of infrastructure deficiencies and the slow rate of investment in public goods.

Taken together, these four constraints – identified more than 20 years ago – continue to be relevant in explaining why cities are not more productive than they already are. While these local constraints are the basis for enhancing or reducing productivity levels, exogenous factors might be just as influential. The following section will shed light on the influence of global exogenous forces and how they affect urban economic performance.

6.3 Urban Areas as Sites of Impact of Global Economic Change

The position of urban economic activities in macroeconomic performance becomes increasingly complicated as we consider the multiple and shifting impacts of global economic processes. The global economic crisis, which began in 2008–2009 generated diverse impacts in cities, including the initial freezing of credit, reduced demand for manufactured goods and exports, growing unemployment, lost incomes, reduced public revenues, and contracting local economies. These impacts were well recorded in the Asian financial crisis of 1997 and in Argentina after the crisis of 2001–2002, and have been noted in the ongoing European recession.

The process of urban economic contraction is very painful and also very visible. As public and private spending declines, street vendors and service purveyors lose demand for their services. As sales decline, so do tax revenues, which finance public expenditures.

Studies of Latin American economies in the 1990s showed that when economic growth occurred, the urban poor benefited. But when recession hit, the poor fell farther than the rich, and they stayed down for a longer time (Morley 1998). The worsening income distribution in Latin American countries the resulted cannot be easily separated from the patterns of volatility that have affected the region. This is also exacerbated by drastic reductions in the flow of important cash remittances that have dwarfed any official aid to Latin America (Terry 2005).

Cities can be expected to continue to feel the impact of global economic crises, leaving deep footprints on the urban social fabric and the physical conditions of urban areas. Within the public sector, there is an obvious need for expenditures to provide basic services and to operate and maintain urban infrastructure, but these are challenged by low levels of public investment and the lack of credit. These shortages of funds have serious effects on the quantity and quality of public goods in cities. Both the reduced level and the changing composition of public expenditures have been observed within regions and for the world as a whole (World Bank 2009).

6.4 The Urbanization of Poverty, Productivity, and Rising Inequalities

As cities have generated higher incomes, they have also become the preferred destinations of migrants, whether from rural areas or from other countries (Harris and Todaro 1970). In 1970, about half of urban growth in developing countries could be attributed to migration, the other half to natural increase. By 1990, that ratio had shifted towards 70 percent from natural increase and 30 percent from migration (Preston 1990; see Chapter 1). While in most countries of Latin America, the Middle East, and East Asia, the large population shifts to urban areas have already occurred, newer accelerated international migration – by Syrian refugees to Europe in 2015–2016, for example – has added new demographic pressures to receiving cities and countries.

Though we reached a tipping point in 2008 when the world's total population became more than half urban, this shift has not led to a deceleration in urbanization; rather, new projections for the 2015–2030 period predict another two billion residents will be added to cities. That number is equivalent to adding about 70 million people per year, or the population of Pittsburgh or Hanoi every week.

While people in cities generally live at higher income levels than in rural areas, this massive demographic transformation is also reflected in what has been called “the urbanization of poverty” (Martine 2012). For example, in Latin America, a region that experienced economic growth rates of about 5 percent on average from 2005 to 2007, more than 350 million people continue to live on less than \$3,000 a year, and 120 million are living on less than \$2 a day.

Moreover, increasing numbers of the world's urban population live in slums. The Millennium Development Project estimated this number of people at 924 million in 2003. Projections suggest that the additional two billion urban residents expected to move into cities by 2030 will live in poor housing conditions that lack a clean water supply and sanitation, as well as other infrastructure services such as drainage, solid waste collection, and electricity. To this we must add significant deficits in essential social services, such as schools and clinics, as well as increasing levels of air pollution and congestion.

Poor living conditions also contribute to lowering the productivity of the urban labor force. Poor sanitary conditions create health problems, which reduce physical strength and the number of days people are capable of earning wages. High-density settlements with large numbers of unemployed youth are frequently the sites of violence and despair. Often, these slums are located on dangerous sites that are highly vulnerable to flooding and other natural disasters. Slums become the loci of cumulative vulnerabilities, creating scenarios in which it is difficult even for educated youth to overcome their living environments (UN-Habitat 2003).

Two primary conclusions can be drawn from this discussion. First, urban areas are the places of economic and social opportunity, including higher incomes, jobs, and upward mobility. Yet, the combination of rapid demographic growth, growing demand for essential urban infrastructure and social services, and inadequate resources to deliver these services creates severe challenges for urban governance. Local governments are increasingly unable to satisfy the scale and complexity of demands coming from urban civil society.

While many exogenous forces contribute to urban poverty and inequality, public policies can directly contribute to their reduction. Developments and challenges in two dimensions are critical to this endeavor: 1) productivity, unemployment, and inequality and 2) the informal sector.

6.4.1 Productivity, Unemployment, and Inequality

Much of the period spanning the 1990s to the present has been dominated by a policy and strategic focus on macroeconomic management, heavily influenced by arguments for liberalization of the “Washington Consensus” and the *unproven belief* that growth over time will reduce unemployment. This perspective supported the view that state intervention in employment issues was inefficient, harkening back to the New Deal or state-backed programs in the former Soviet Union or in China. Such beliefs have had a lasting and negative impact on efforts to strengthen the abilities of municipalities to address urban employment and underemployment by developing unrealistic expectations from the private sector, and by side-stepping the public sector – that is, city government – rather than working to strengthen its areas of comparative advantage for job creation.

For these reasons, we should be surprised that the past decades have been marked by increasing inequality. Although aggregate economic growth and local productivity have increased, wages have stagnated, and structural inequality of both income and wages has become a social and economic concern (Bivens and Mishel 2015).

In 17 out of 22 OECD countries, inequality has increased since 2000 (OECD 2015). Industrialized countries are currently experiencing levels of inequality not seen since the nineteenth century, and many developing countries have become more unequal over the past decade. Asia, the region that experienced the highest growth rates in the world (with a GDP growth rate of about 7 percent) and the largest reduction in poverty ever recorded in history (from 54 percent living in poverty in 1990 to 21.5 percent living in poverty in 2010), is also the region in which the rich-poor divide is widening most quickly (OECD 2015).

Piketty’s (2014) ground breaking historical analysis of inequality offers an explanation for this surge in inequality. The present state of affairs, which he refers to as “patrimonial capitalism,” favors capital owners and “rentiers” over

the working population. According to his analysis, the reason for this scenario is the rate of return on capital (r), which has increased at a much greater level than the rate of economic growth (g): in mathematic terms, $r > g$. For the last 300 years, the rate of return on capital has increased at a steady rate of about 5 percent, while g , conversely, has shown severe fluctuations and lower growth rates. As wealth grows faster than economic output, economic growth is accumulated in the hands of a few, increasing the wealth gap between the famous 1 percent and the rest of society.

Piketty (2014) stresses that conditions vary across countries, depending on the level of government intervention in the market. Figure 6.2 displays the relationship between GDP per capita and the Gini coefficient – a measure of inequality – in selected countries in Latin America and the Caribbean. The relationship illustrated here confirms Piketty’s theory, revealing that there is no clear link between these two variables. Mexico and Brazil, for example, have similar levels of income per capita, yet starkly contrasting levels of inequality (Mexico’s Gini is .45; Brazil’s reached .57 in 2010).

Among many developed countries, there is increased concern about a *productivity-pay gap*, where wage growth has fallen greatly behind productivity growth. The case of the United States is particularly striking. Figure 6.3 presents the cumulative growth in net productivity of the total economy and inflation-adjusted average compensation of workers in the private sector since 1948. In the decades following World War II, hourly compensation of workers increased in tandem with economy-wide productivity. After 1973, however, hourly wages stagnated for the majority of US workers, while productivity continued to rise. This trend became even more severe after 2000, after which a

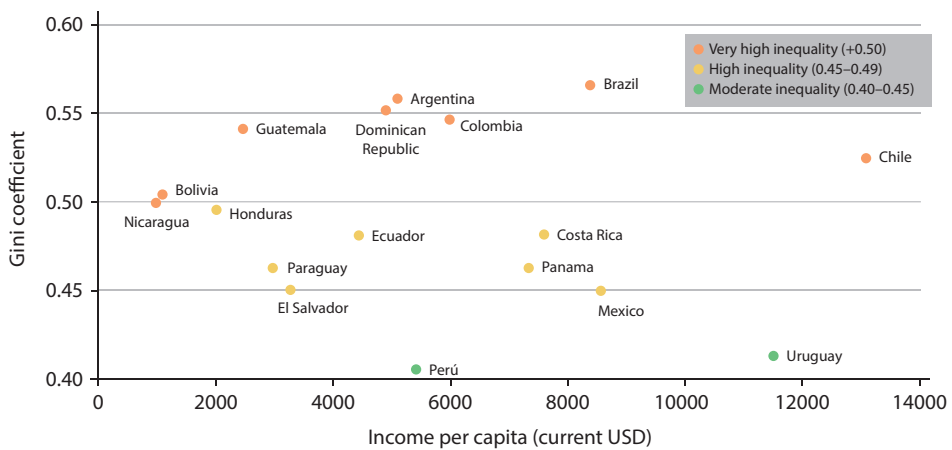


Figure 6.2 The relationship between income per capita (current USD) and Gini coefficient in Latin American countries. Source: Jerker Lokrantz/Azote, modified after UN Habitat (2014).

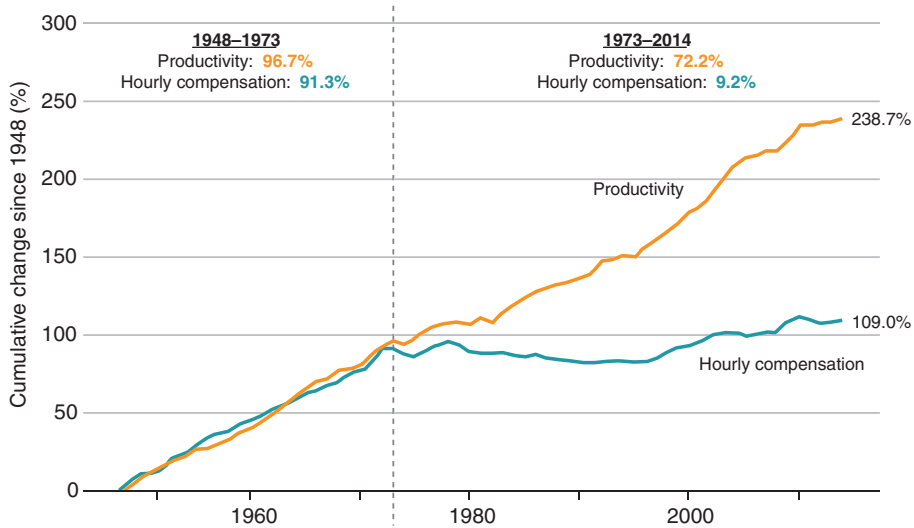


Figure 6.3 Cumulative change in productivity (orange) and hourly compensation (green) in the United States between 1945 and 2015. Source: Jerker Lokrantz/Azote, modified after EPI (Bivens and Michel 2015).

mere 1.8 percent of the net productivity growth of 21.6 percent was translated into compensation for workers.

According to the Economic Policy Institute’s Bivens and Michel (2015), the central driver of this productivity-pay gap is inequality, inequality of compensation, and the falling share of income allocated to workers relative to capital owners, which confirms Piketty’s theory of $r > g$, where rate of return on capital has become greater than the rate of economic growth.

Because cities play an important role in national economic development and productivity growth, the next logical step provoked by these patterns is to consider possible implications of these national trends on urban areas, and to identify how urban areas impact developments on a national level.

In a study of 220 metropolitan areas in the United States, Hsieh and Moretti (2015) found that the most productive cities, including New York and San Francisco, are not contributing to national GDP growth as one might expect. The New York metropolitan area serves as a prime example. It ranks among the top 20 most productive metropolitan areas in the United States (Parilla and Muro 2017). According to Hsieh and Moretti’s analysis, however, the New York metropolitan region was only responsible for 5 percent of the country’s aggregate output growth. While cities like New York are more productive and offer higher nominal wages, these pull factors are offset by extremely high costs for housing, which present constraints to worker mobility and a spatial misallocation of labor across the country.

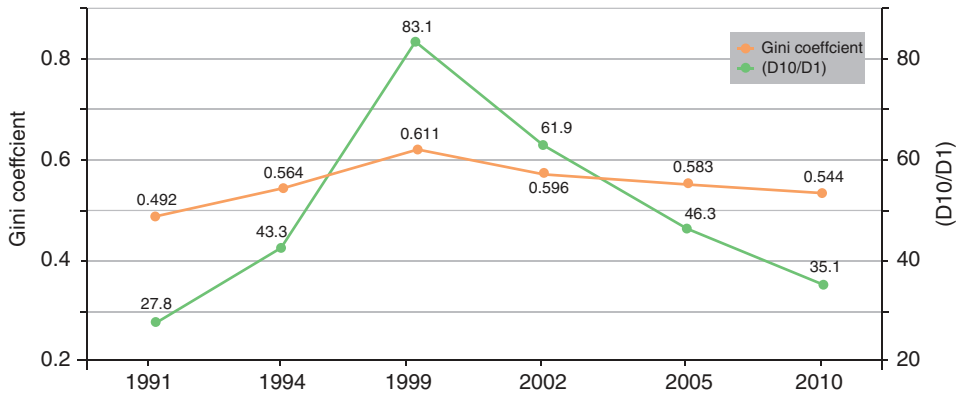


Figure 6.4 Changes in the Gini coefficient, as well as the differential between the salaries earned by the richest and the poorest 10 percent (a metric called D10/D1) in Bogotá between 1991 and 2010. Source: Jerker Lokrantz/Azote, modified after UN-Habitat (2014).

The case of Colombia’s capital, Bogotá, is a more positive example of shared economic growth. After the 1998 crisis, both Colombia and Bogotá experienced economic recovery; in 2007, Bogotá’s GDP grew by approximately 7 percent (UN-Habitat 2014). As depicted in Figure 6.4, the economic growth occurred in tandem with a constant reduction in the city’s Gini coefficient, as well as a reduction in the differential between the salaries earned by the richest and the poorest 10 percent of the population. A study by UN-Habitat (2014) finds that this reduction in income inequality is a result of structural changes and the introduction of local social policies aimed at reducing inequality, including a wide provision of public services. Even in times of economy recovery from the 2008 crisis, when economic growth slowed significantly, inequality in Bogotá continued to decrease, falling below the national urban Gini coefficient.

In sum, increased urban productivity does not always go hand in hand with more equitable income distribution and better working conditions. This is not to say that economic growth and the generation of inequalities are inextricably linked, but rather point to the importance of national and local government efforts to limit increases in inequality.

6.4.2 The Informal Sector

The informal economy is widespread and increasing in size in most parts of the world, especially in low- and middle-income countries, where it accounts for half to three-quarters of all nonagricultural employment (Chen 2010; ILO 2013). Informal employment comprises about 65 percent of nonagricultural employment in developing Asia, 51 percent in Latin America, 48 percent in

North Africa, and 72 percent in sub-Saharan Africa; in these regions, this labor force produces between 20 and 40 percent of GDP.

How the informal sector fits into and develops within individual regions and countries varies considerably. Asia has felt the impacts of globalization, with its effects on capital and labor flows, movement of technology, and wage rates, most intensely. The East Asian financial crisis of 1997–1998 affected the small-scale sector, weakening the demand for locally produced products while increasing interest rates and reducing purchasing power. Bank credit became scarce at a time when input prices for energy and other raw materials increased. At the macro-level, economists nonetheless assumed that local economies were relatively sheltered from this regional crisis. Some observers with their feet on the ground wrote about “the geography of change” in this period (Amin and Robins 1990), raising questions about the resilience or vulnerability of the urban and local economies to external shocks.

Many studies on the informal sector have argued that there is a negative correlation between the size of the informal sector and the growth rate of per capita GDP, as is illustrated in the downward sloping trend line in Figure 6.5 (Slonimczyk 2014).

In contrast, other studies (for example, Heintz 2006) point out that the correlation between informality and slow growth of GDP does not necessarily imply causality. In fact, slow growth could explain a certain degree of informality, rather than the other way around. Rather than perceiving the formal and informal sectors as conflicting, the two economies may work in symbiosis. In an era of globalization and outsourcing, many key components and services used by the formal sector are outsourced to the informal economy.

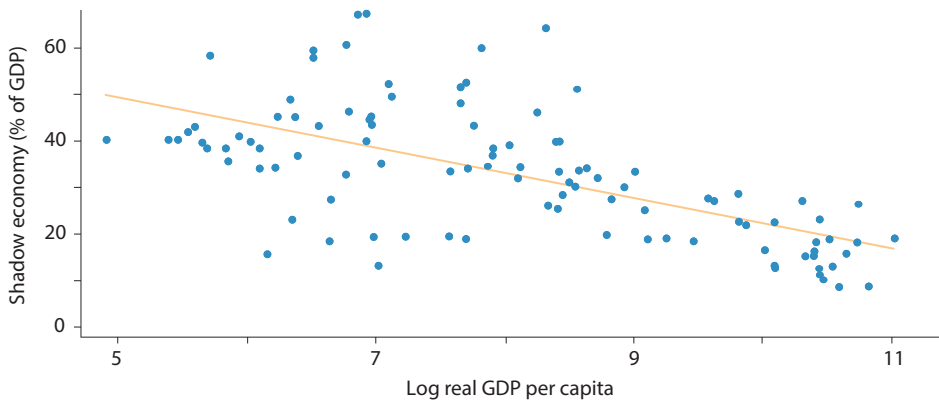


Figure 6.5 The relationship between GDP per capita and the shadow economy as a percentage of total GDP on a global average. Source: Jerker Lokrantz/Azote, modified after Slonimczyk (2014).

The perception of the informal sector as a pool of potential entrepreneurs whose wealth creation capacity is constrained by a regulatory burden sidesteps the fact that most workers in the informal economy are engaged in disguised employment relationships (Chen 2006). This alternate vision views the informal economy as linked, in a dynamic and often subservient relationship, with the formal economy, and indicates that efforts to “formalize” the informal economy are doomed to failure without addressing the broader dynamics that stimulate job creation in the larger economy – formal and informal, rural as well as urban.

Heintz (2006: 5) recognizes the growing importance of urban informal employment “as rapid urbanization continues and the growth of formal job opportunities lags behind the expansion of the urban labor force.” He further argues that “municipal regulations frequently fail to recognize urban informal activities as legitimate.”

The International Labour Organization (ILO 2013) argues that the root of the informal economy problem is the inability of economies to create sufficient numbers of quality jobs. Employment growth in the formal segment of the economy in most countries has lagged behind the growth of the labor force, trends that are likely to continue in the future (ILO 2008). Even in China, where the rates of economic growth and poverty reduction have been remarkable, the informal economy is growing.

Workers in the informal economy are not only disproportionately affected by global economic forces, but also by changing climate patterns. In turn, the informal economy can, and already does, play a crucial role in greening the urban economy and contributing to climate resilience. Brown et al. (2014) encourage local governments to collaborate with the informal sector in achieving more inclusive and green economies.

6.5 Imagining the Future of Urban Productivity

According to a recent OECD (2015) report, global economic growth is projected to slow in most countries. While the OECD considers structural changes, it misses to explore the potential of cities in fostering productivity growth. The Habitat II Agenda of 1996 recognized that urban economies are a prerequisite for improved living conditions and sustained national development. Whether and to what degree economic growth will be sustained over the next decades will therefore depend greatly on the increase of productivity, more specifically, urban productivity. Identifying challenges and opportunities of cities can therefore inform urban agendas for sustained growth in the future.

6.5.1 Future Challenges

The pace of urbanization combined with a lack of institutional capacity presents a major challenge for cities in the developing world. As fiscal powers continue to concentrate at the national level, local governments lack the resources to manage and accommodate the growth of cities. Lagos exemplifies this challenge. Estimates suggest that 2,000 new people arrive in the city daily; it is expected to double in size by 2031 (Obioma 2013). How can a city possibly cope with such a population increase? This challenge manifests itself particularly in increasing demand for infrastructure and access to basic services, including public transportation, water, sanitation, electricity, and access to health care and education. Yet, if urban growth continues to be unplanned and underfinanced, informal settlements will continue to proliferate and overcrowding will become worse, which could lead to the creation and spread of new and old diseases.

Cities in upper-income countries face major challenges regarding their infrastructure, too, as they find infrastructure aging and in desperate need of repair. Especially in large and growing cities, existing systems built in the early phases of industrialization are coming under increasing strain. Insufficient maintenance and expansion efforts limit the transport possibilities within cities, affecting productivity and growth. In the case of New York City, estimates suggest that approximately \$47 billion is needed over the next five years to bring the city's aging infrastructure to a state of good repair (Forman 2014). The neglect of public infrastructure will pose a financial and logistical challenge to the city and its capacity for future growth.

Second, adapting to the changing patterns of demographics will present a growing challenge for cities everywhere. Low fertility rates and a declining and aging population pose a particular challenge to cities in Europe and Northeast Asia (see also Chapter 5). This demographic shift places a major burden on the public welfare system and decreases the likelihood of productivity growth; it will further increase the stress on public infrastructure services, too. Shrinking cities negatively affect economic growth, as vacant buildings reduce the capital value of real estate and create a diminishing tax base; financing public sector services, such as schools and hospitals, requires a strong tax base.

Cities in developing countries face demographic challenges, too, yet they are very different in kind than the cities in the developed world. In the developing world, the very young will constitute the majority of the population living in cities. In Uganda, for example, close to 50 percent of the national population is currently below the age of 14, and a mere 5 percent of the population is older than 55 (Indexmundi 2017). If these young people are not successfully absorbed into the labor market, pathological urbanization processes are unlikely to contribute to sustained urban productivity growth, but are likely to

exacerbate urban poverty, social and political instability, and emigration of the highly skilled members of the labor force.

This brings us to the next challenge: changing migration patterns. An increasing number of people are fleeing conflict, economic stresses, and climate change hazards in their home countries, and are seeking new homes in cities within developed countries. Strict labor protection laws in the recipient countries often prevent migrants from working in the formal sector, who find themselves either working in activities in the informal sector or as recipients of public assistance programs. If not accounted for, a large influx of migrants increases local pressures on land and housing, and can increase the costs of living in cities. Countries that migrants are fleeing from are also left with challenges, including the emigration of members of a highly skilled labor force. This so-called brain drain reduces the potential of local productivity. Overall, when highly skilled migrants are legally constrained from contributing to high-productivity activities in their recipient countries, the global urban productivity frontier is diminished.

Rising inequalities in wages and wealth present another major challenge for the future of urban productivity. High inequality, paired with distorted land and housing prices, results in spatial misallocations of labor away from high-productivity and into low-productivity cities. Inequality disproportionately affects women, minority groups, and lower-income earners, reinforcing differences among classes, genders, and races. While inequality is on the rise in cities of developed countries, inequality levels in cities across Africa, Asia, and Latin America continue to be the highest in the world and are increasing in many cities. If unaddressed, inequality levels could reach new thresholds, reducing the labor productivity potential of a large share of the world's population.

Finally, cities across the world are encountering increasing pressures from global market economies. Cities that have managed to become one of these "global cities" now find themselves with high productivity levels, yet benefits are often captured by a global elite and seldom trickle down to the local workforce. In particular, those employed in the non-tradable sector experience stagnating wages, resulting in increasing polarization of income and wages. Cities that are not one of the "global players" are confronted with declining industries and emigration of skilled labor.

6.5.2 Opportunities

While pessimists are absorbed by these challenges, leading to predictions of economic slowdown in the foreseeable future, optimists believe in the human capacity to find creative ideas for future adaptation, turning challenges into

opportunities for future growth. Nobody can predict the future of urban productivity with perfect accuracy. However, judging from the obstacles ahead, preventing these challenges from turning into crises is increasingly important.

For instance, cities experiencing an aging population could strategically incorporate newly arriving migrants into local labor markets to counter their negative population growth, ensuring sustained future economic growth that, in turn, is required to finance local infrastructure services. Wage-led growth could be an equitable strategy for recovery in economic downturns, as wage growth can support demand via consumption expenditures, and can induce higher-productivity growth. Changes in functional income distribution also have important supply side effects.

Moving towards a green economy could have tangible and considerable effects on productivity and economy growth. UNEP suggests that transitioning to a green economy does not only generate wealth and gains in natural capital, but it also produces a higher rate of GDP growth (UNEP 2011). The structural change from extractive capitalism towards a more sustainable system could create new jobs, especially for vulnerable communities. This requires reeducating and re-skilling the labor force, and must include those outside of the formal economy.

In addition, the role that cities and local governments can play in fostering urban productivity has yet to be realized. A great divergence between cities within the same country can be traced back to effective versus destructive policies at the local level. Yet, effective policy-making at the local level alone cannot overcome the challenges that lie ahead. Aside from enabling national policies, the international level is crucial in and of itself, too. Especially in a globalizing world in which cities are deeply embedded in and affected by global dynamics, international collaboration in addressing future challenges is key. According to Piketty for example, the introduction of a progressive global tax on capital is the only way to address patrimonial capitalism and increasing wealth inequality.

Considering the level of international collaboration needed to implement such an endeavor, the years 2015 and 2016 should be contributing to optimism rather than pessimism. In September 2015, more than 150 world leaders came together to adopt the Sustainable Development Goals; in October of 2016, a series of member states reconvened at the Habitat III conference to envision the future of cities. Still, achieving the necessary levels of structural change in the way our world operates will require more than international, high-level conferences that result in commitments without actions, or agendas that will be rapidly forgotten. Local and national governments must be held accountable for their commitments, their misallocation of public resources, and the maldistribution of increased returns on productivity.

In cities across the world, imbalances of labor markets, increasing costs of housing, and a lack of pro-poor policies are damaging. Astronomical levels of income inequality in cities point to institutional and structural failures in income distribution, which must be addressed to ensure inclusive urbanization. Considering Piketty's findings on the state of today's capitalism, a more progressive tax on wealth and a fundamental adjustment for the financial system will be necessary to make today's economy socially equitable and ecologically sustainable. To reduce inequalities, we need accountable institutions, effective social programs, and strong links between the various levels of government in addition to stable economies and productivity growth.

Perhaps we should depart from using efficiency and productivity as the main metrics for judging the performance of urban areas and urbanization, and reintroduce moral philosophy into the equation, as Hausman and McPhearson (2006) suggest. Extensive public transfers and improvements to fiscal policy fostered better social cohesion in many Latin American countries, reducing poverty and widening access to both public services and opportunities at the national level. These strong national institutions must be recreated at the local level to address growing threats of urban inequality. A higher minimum wage, improved overtime thresholds, strengthening workers' collective bargaining rights, and stronger employment protection legislation would not only improve the situation of the working poor, it would also help reduce the wage gap between men and women, and between minority and non-minority workers. After all, the values of ethics, liberty, justice, and equality influence the outcomes of economics, and therefore could help economies work more effectively.

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