

PECC GM XXII



Urbanization and Sustainable Development of Cities

September 10, 2014

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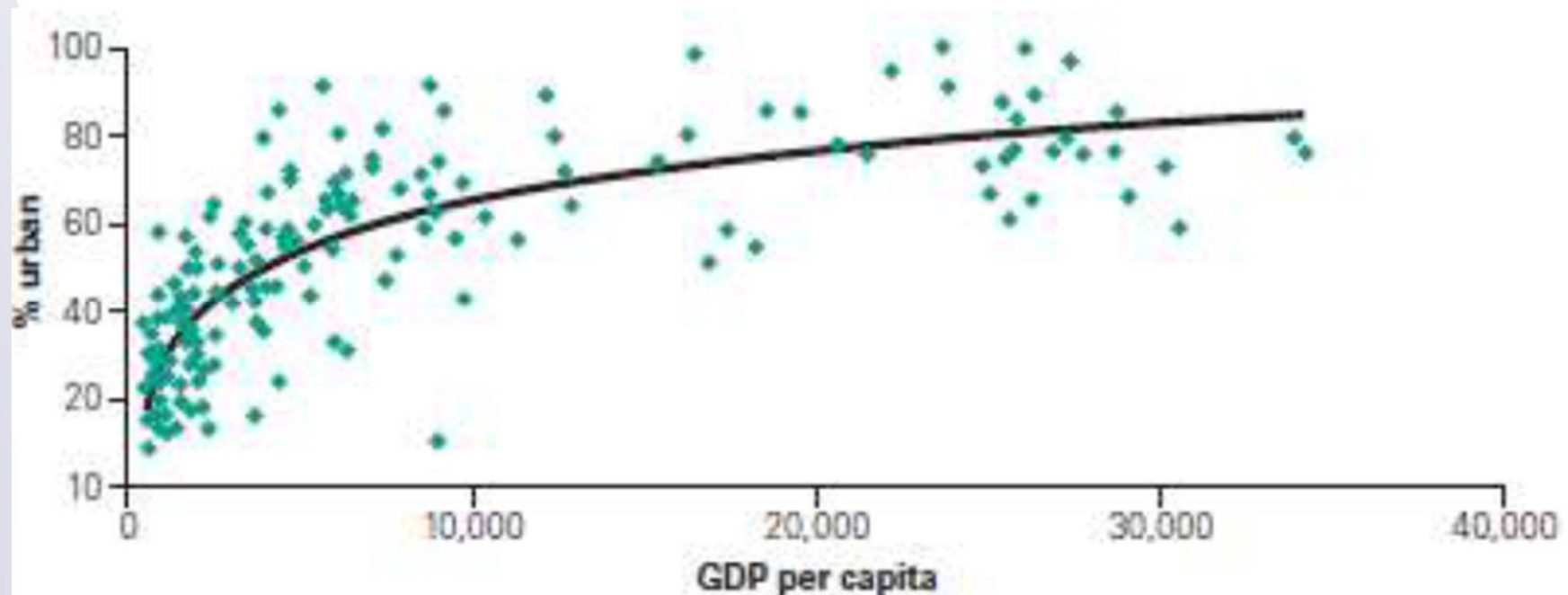


Urbanization and Economic Growth

Urbanization as a Channel for Growth?

■ Urbanization, Industrialization, Economic Development: parallel processes

- Economic growth tends to increase urbanization.
- More than 50% of people of the world live in cities.



Source: Annez and Buckley (2008).

■ Agglomeration and Growth

- Geographical concentration of economic activity (urbanization) fosters economic growth due to localized spillovers.

■ Urbanization: a Key to Development?

- Dependent on the development level; economies of agglomeration in early stage and diseconomies of congestion in later stage
- ⇒ Higher rates of urbanization can be detrimental to growth if per capita GDP greater than \$10,000 (in 2006 prices)
- Growth-enhancing effects of urbanization depend on the way urbanization takes place.
- Degree of urbanization and scale effects; the larger urban agglomeration, the greater growth-enhancing effects of urbanization

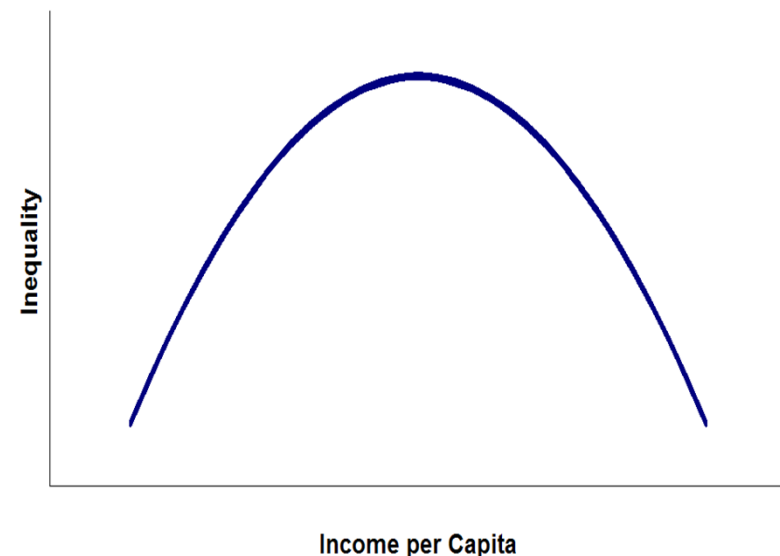


Urbanization, Growth, and Inequality

Growth and Inequality

■ Kuznets inverted U-shaped curve

- Inequality rises and then falls with development
- Income inequality positively correlated with growth in the short run and negatively in the long run



■ Initial Condition of Inequality Level

- Increasing inequality tends to foster growth where inequalities were lower initially than higher.

Urbanization and Inequality

■ Inverted U-shaped relationship between urbanization and inequality

- Urbanization fosters growth at least in the early stages of development.
- ⇒ Inequality is an inevitable outcome of urbanization due to the mean income differential between rural and urban areas.
- ⇒ Also, rising inequality within the urban sector between formal and informal employment (underemployment)
- Inequality falls back as urbanization increases; the exodus from rural areas raises agricultural wages (also reduces an incentive to migrate from rural to urban and hence reducing intra-urban income differentials).

■ Agglomeration Economies and Congestion Diseconomies

- Urbanization raises inequality initially then lowers later.



Economic Geography; Urban & Skill Premium

Economic Geography and Skill

■ Increasing inequality between urban and non-urban areas

➤ Roback (1982)

⇒ Inequality due to the costs of living; amenities and compensation.

➤ Glaeser and Maré (2001)

⇒ Learning-by-urban working; rapid skill acquisition by urban workers compared to non-urban workers through greater opportunities in denser settings

➤ Inequality falls back as urbanization increases; the exodus from rural areas raises agricultural wages (also reduces an incentive to migrate from rural to urban and hence reducing intra-urban income differentials).

■ Agglomeration Economies and Congestion Diseconomies

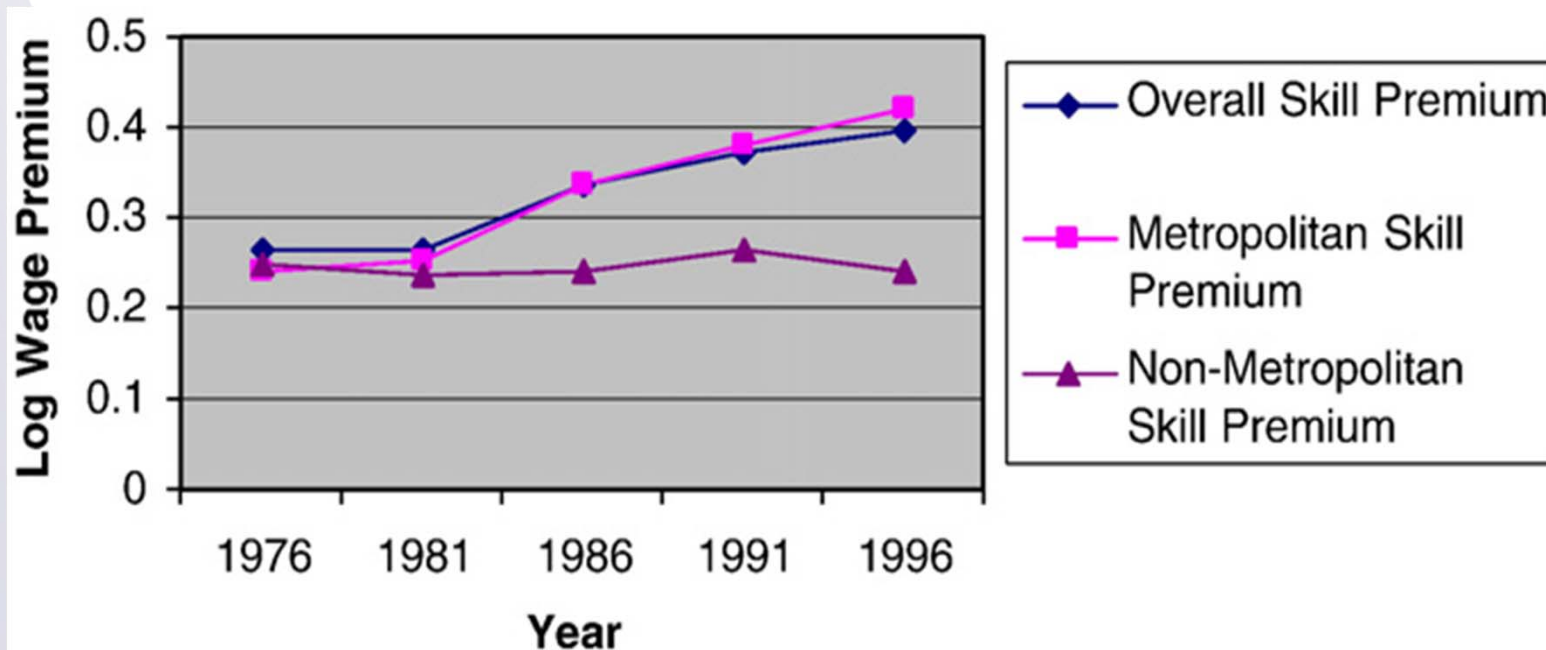
➤ Urbanization raises inequality initially then lowers later.

Rising Skill Premium: location-specific?

■ Chung, Clark, and Kim (2008)

➤ Findings from the Current Population Survey (CPS) data:

1. rising metropolitan wage premium during the 1980s
2. *extra* skill wage premium in metropolitan areas
3. rising skill premium *location-specific*, only in metropolitan areas



Possible Explanations

- **Technical progress was both skill and urban-biased in the gains to productivity it conferred.**
- **Jovanovic and Rob (1989): Disproportionate Spillover Effect**
 - Skilled workers may better decrease the cost of acquiring knowledge and facilitating communication for urban than non-urban employers.
- **Composition Effect**
 - More skill-intensive industries may have grown faster inside metropolitan areas than outside them in the 1980s, disproportionately drawing highly educated workers.
 - The higher urban demand for skilled labor contribute to the additional premium such workers would enjoy.



Conclusion and Policy Suggestions

■ Urbanization, Economic Growth, and Inequality

- Inequality to some degree is natural to the process of urbanization, which enhances economic growth (maybe unbalanced).

■ Economic Geography: Agglomeration of Economic Activity (Urbanization)

- Location-specific effects: local, national, international

■ Economic Integration is the Key to Sustainable (Inclusive) Development

- Integration of rural and urban areas, lagging and leading provinces, isolated and well-connected economies
- good institutions and regional infrastructure to connect



Thank you!