

The Missing Link. Connecting Cities with Macroeconomic Concerns: The Impact of Urban Services on Productivity

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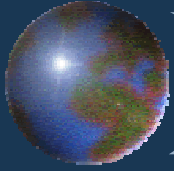
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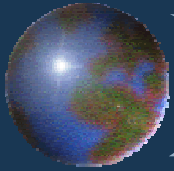
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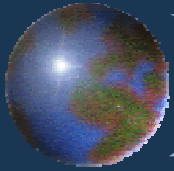
André Lemelin

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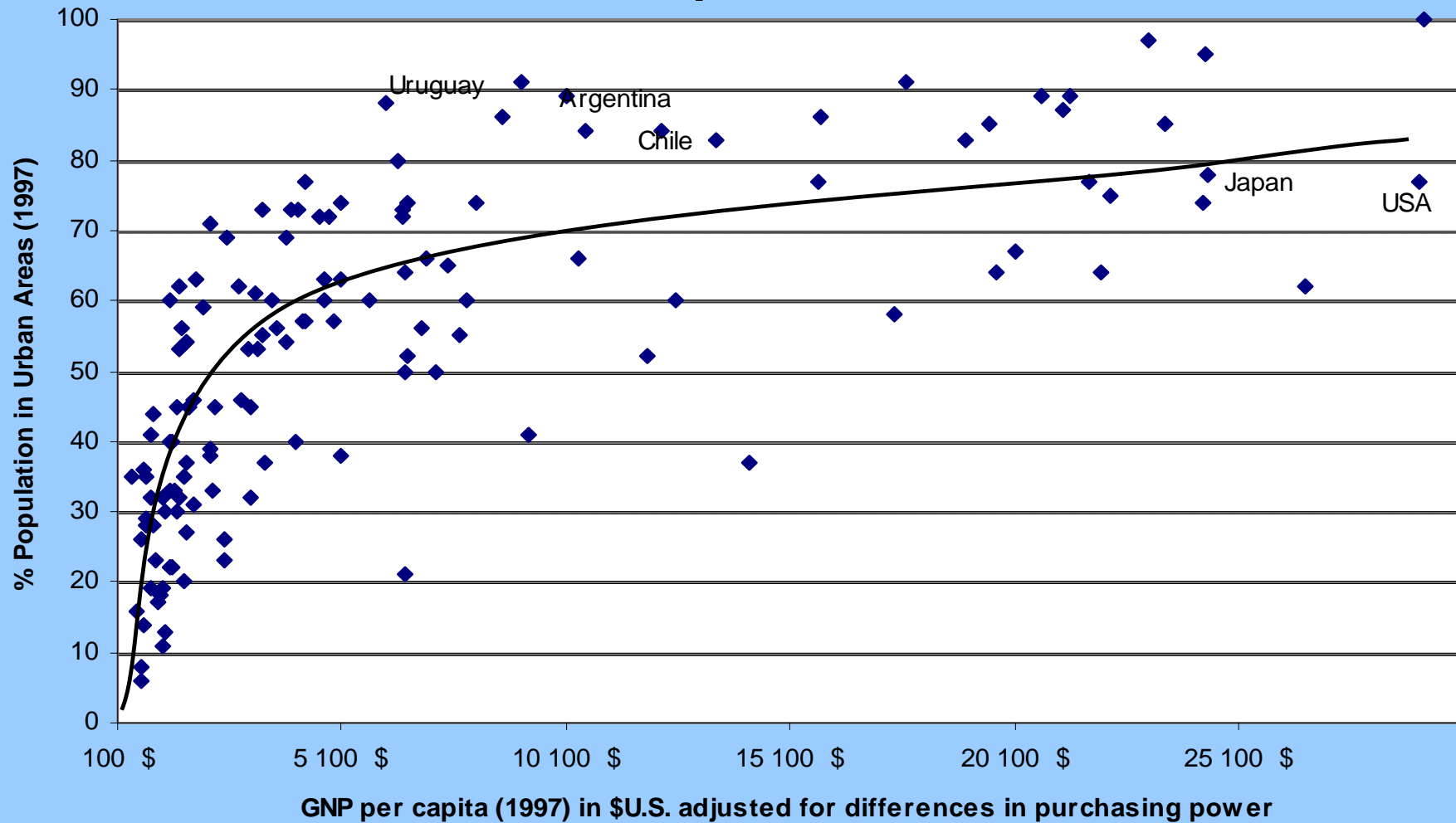
The Positive Link Between Economic Growth and Urbanization

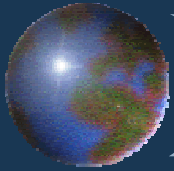
- The evidence is well-known, illustrated on the following slide.
- Urbanization is positively related to higher per capita incomes.
- ❖ **But (However)**, fairly high levels of urbanization can be attained early in the development process, with fairly low incomes.



GNP per capita and Urbanization Levels

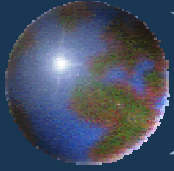
Each dot represents a nation





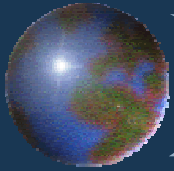
The Potential Gains from Urbanization are Sensitive to Local Conditions

- Public policy in part sets the upper limits of the gains from agglomeration.
- Sound national and macroeconomic policies are necessary pre-requisites.
- ❖ Local public services affect business costs in cities, and thus the potential gains from agglomeration.



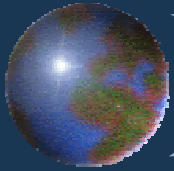
The Impact of Urban Services on the Productivity of Firms

- We have attempted to evaluate the impact of inferior public services:
 - ❖ ‘True’ public services, for which there are no private substitutes.
 - ❖ Services that directly impact agglomeration economies: the ability to interact, exchange, and congregate.



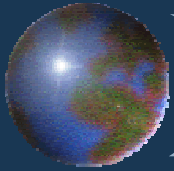
We Looked at the Following Public Services:

- Services related to the local transport of goods: road maintenance, traffic control, etc.
- Services related to the movement of persons: regulation of collective transport.
- Services related to safety and security: police & public order.
- Norms & Regulations governing local public services and infrastructures.



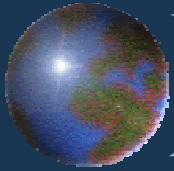
Measuring the Impact of Inferior Local Public Services

- The impacts are very difficult to measure, because rarely accounted for.
- Costs are most often indirect, hidden, and not perceived as such by firms.
- The concept of 'economic' cost, as distinct from financial cost, is not readily understood.



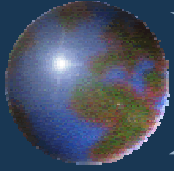
The Study

- 165 firms surveyed in 5 cities in the apparel and food-processing industries.
- Low response rates. We encountered numerous conceptual and logistical difficulties.
- The survey was supplemented by discussion groups in 3 cities.

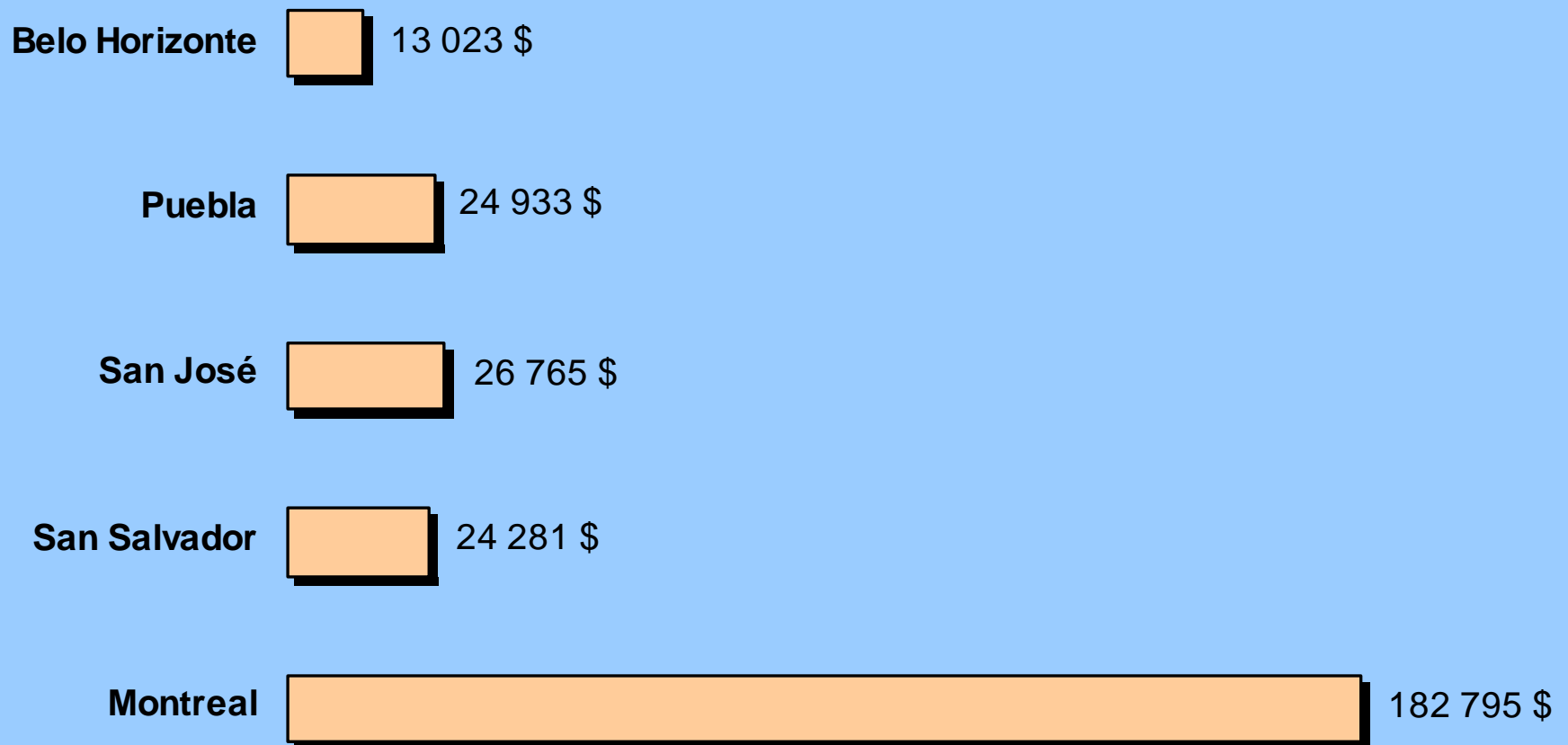


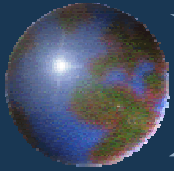
Research Results

- Selected preliminary results are shown on the following slides.
- Results should be viewed with caution, given the small survey samples per city.
- The results, nonetheless, suggest that the indirect effects of inferior urban services are significant.

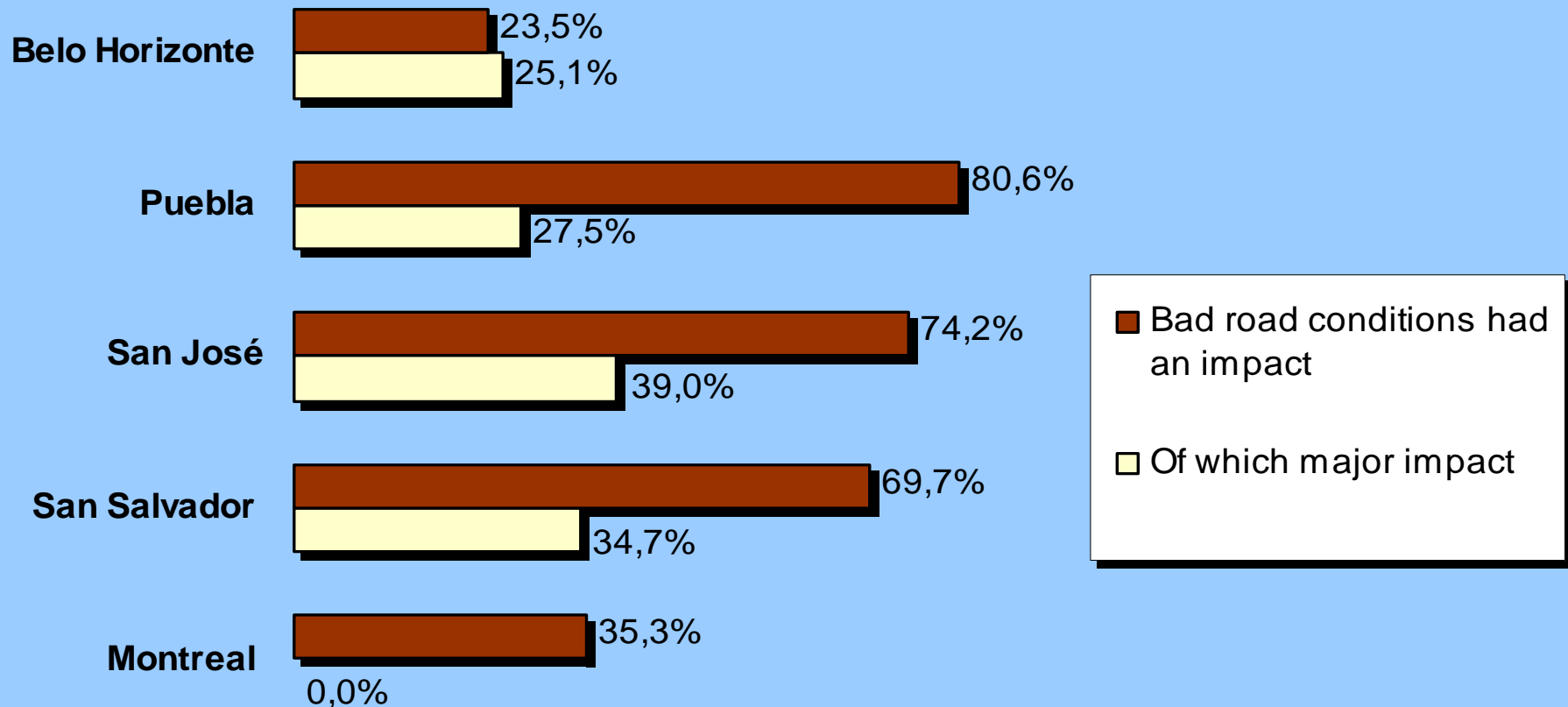


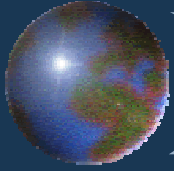
Average Sales per Employee \$US [2001]. Firms Surveyed



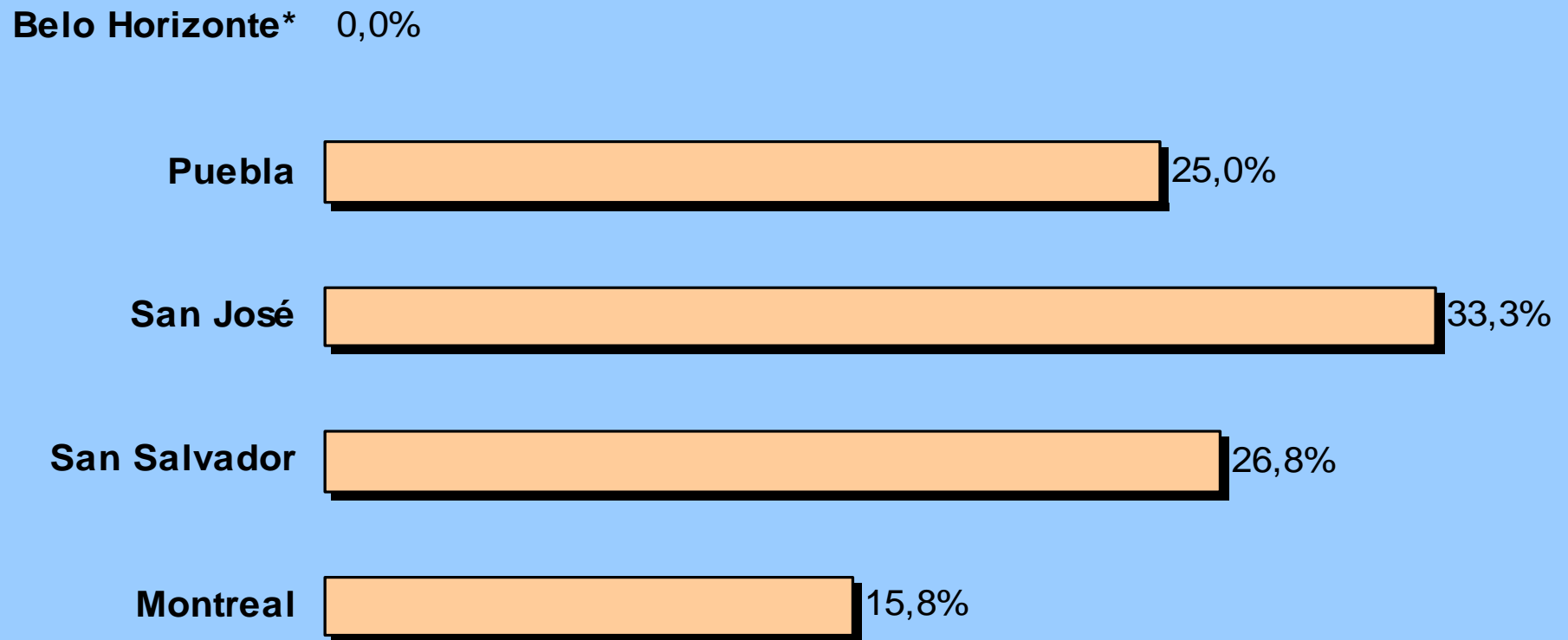


Firms [%] Responding that Poor Road & Street Conditions Impacted Costs

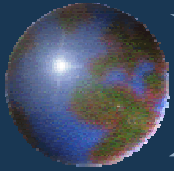




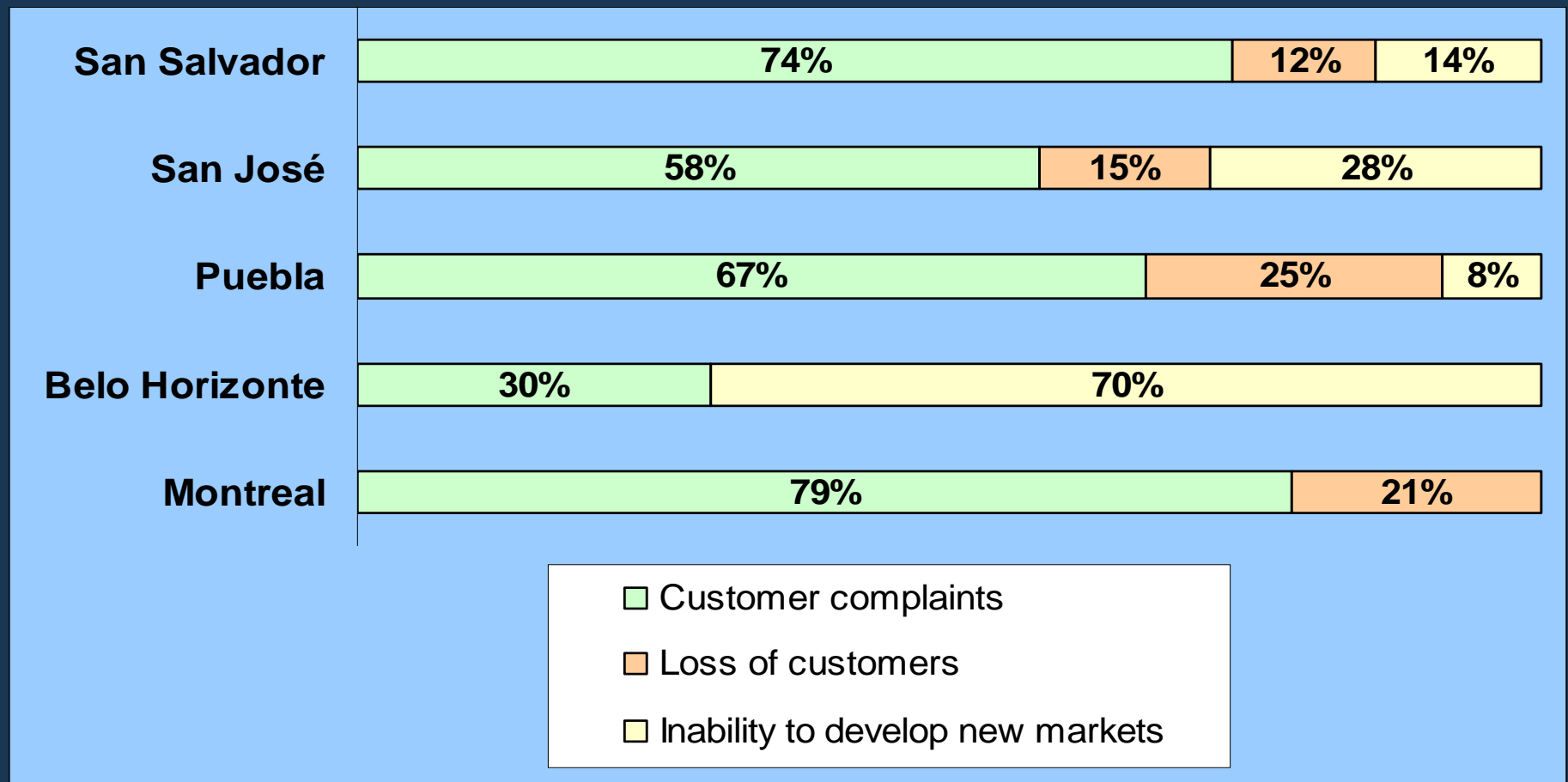
Firms [%] Responding that Deliveries Arrived Late at Least Once a Week

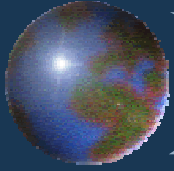


* Results unavailable

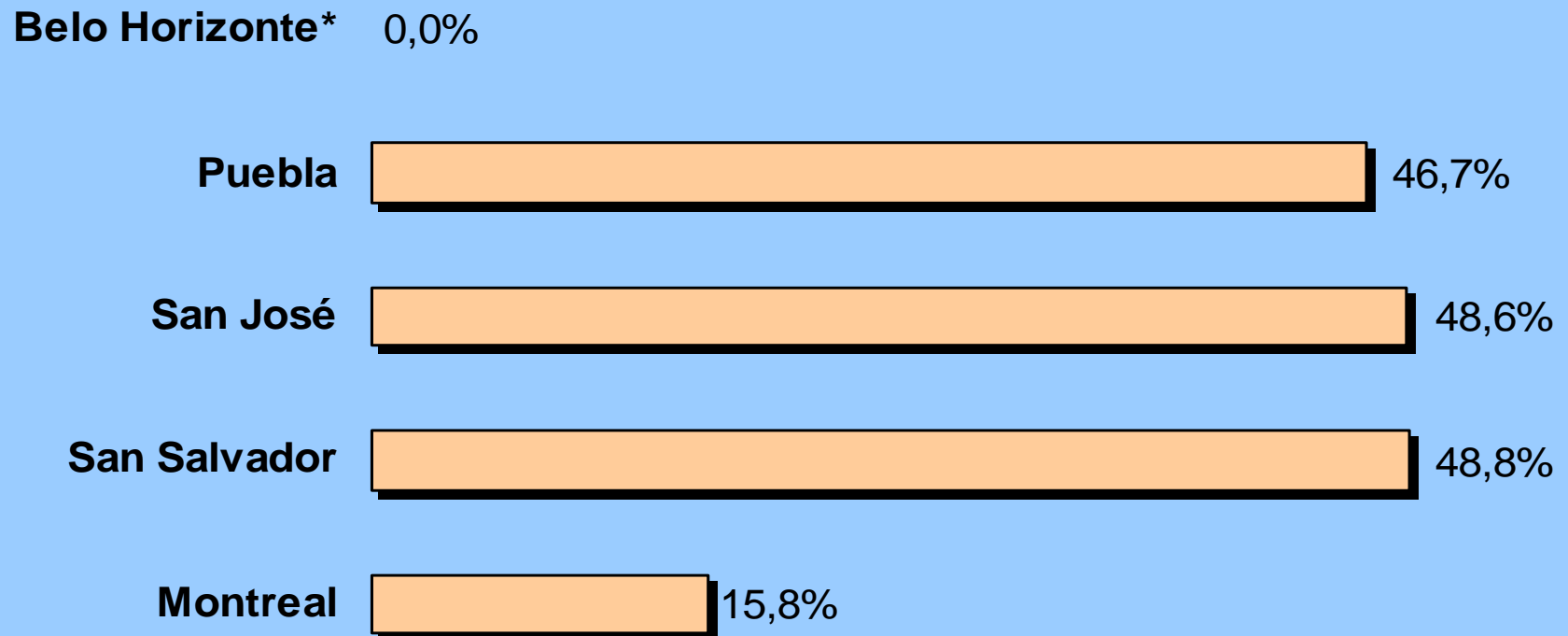


Impacts of Late Deliveries to Customers

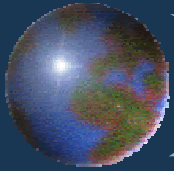




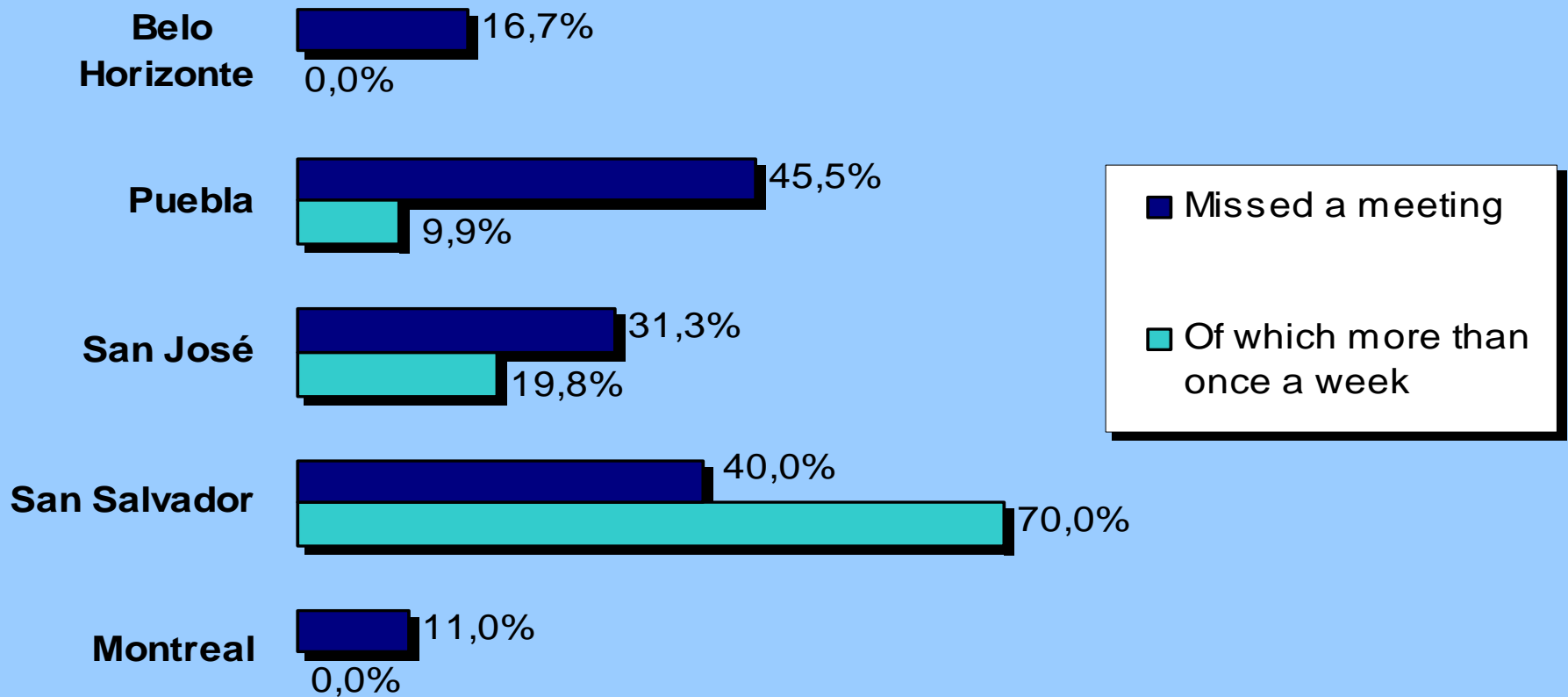
Firms [%] Responding that Employees Arrived Late at Least Once a Week, Causing Production Losses

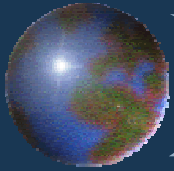


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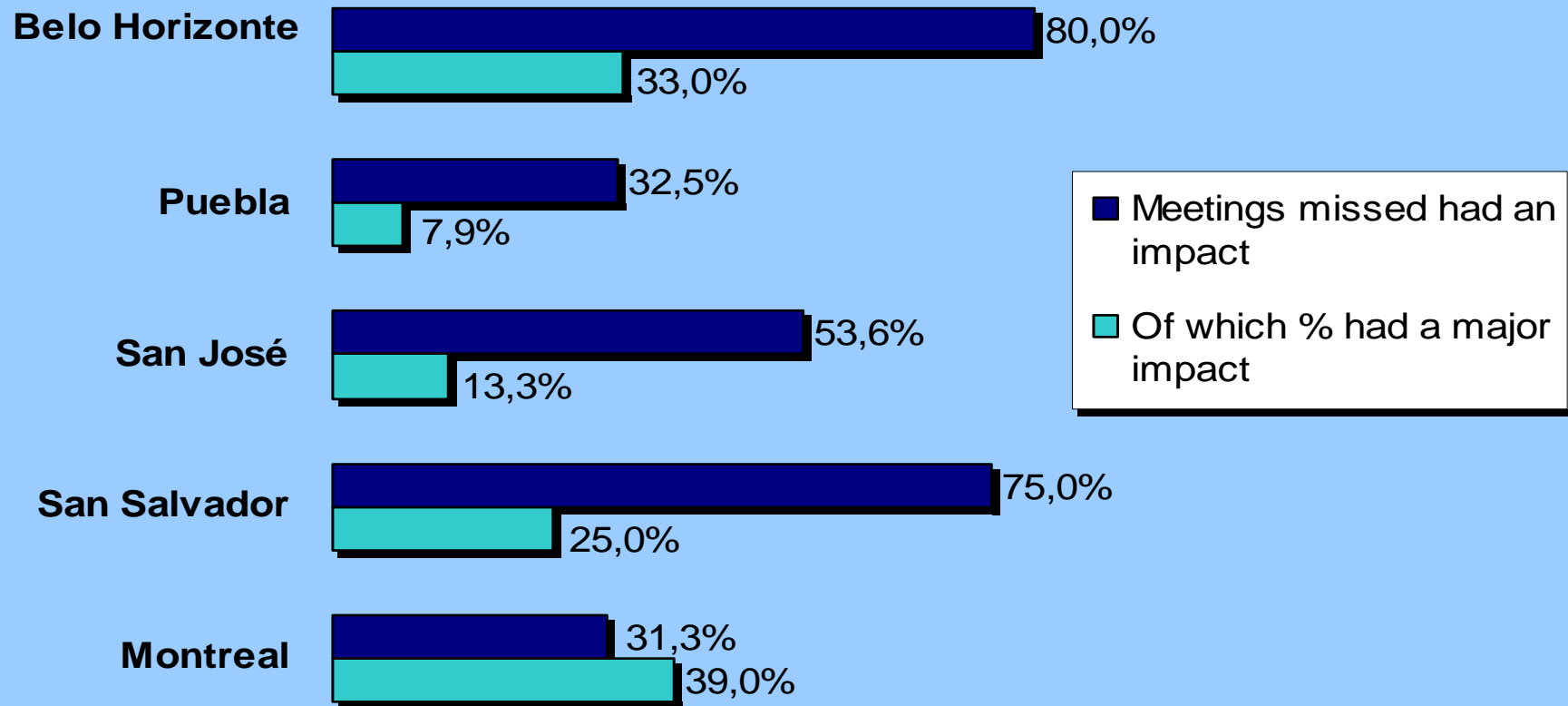


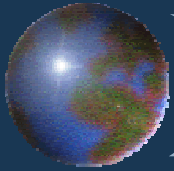
Respondents [%] Missing at Least One Business Meeting a Month Due to Poor Traffic Conditions



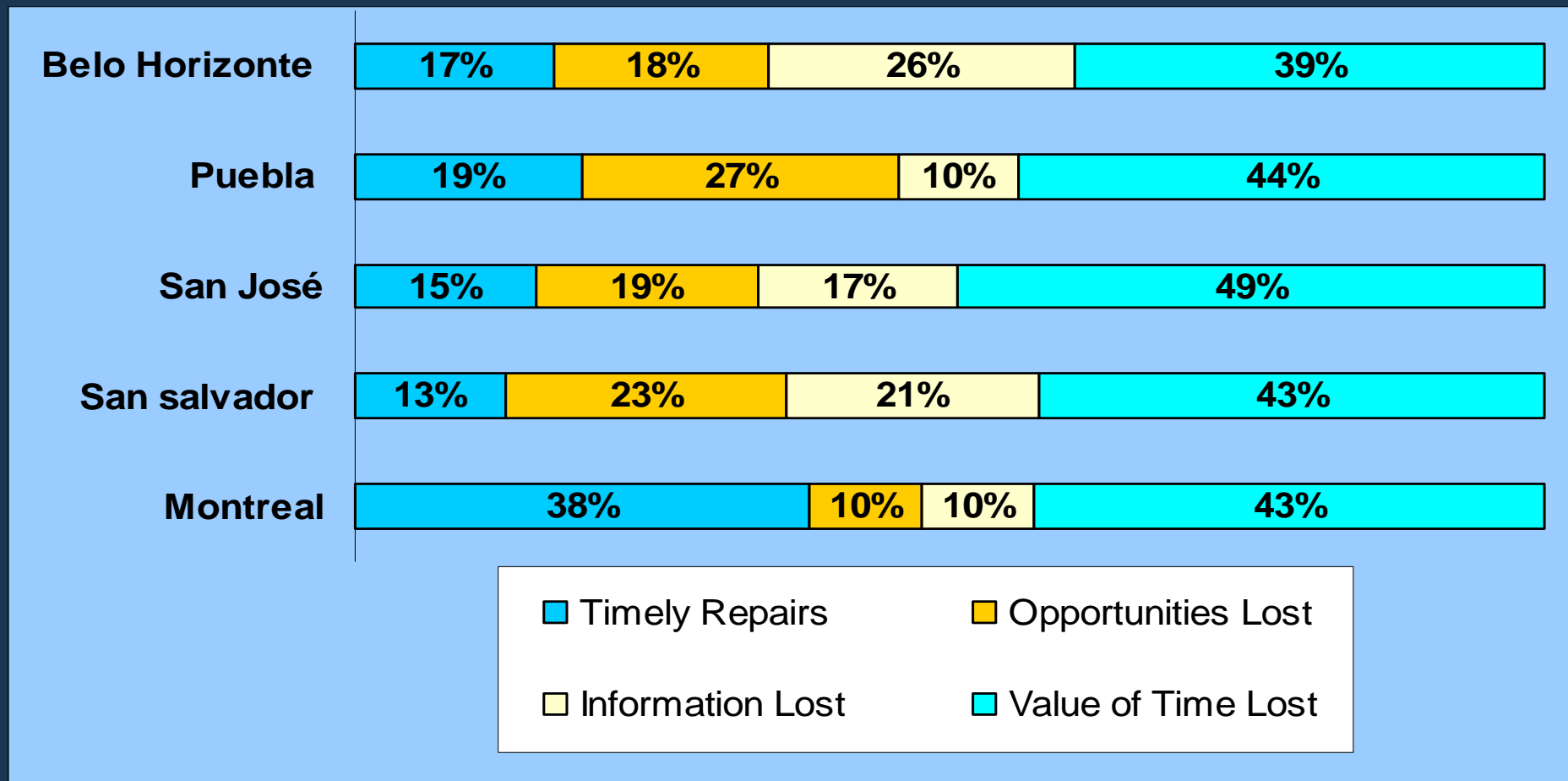


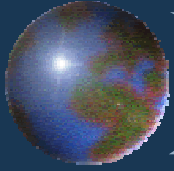
Firms [%] Responding that Missed Business Meetings Impacted their Productivity



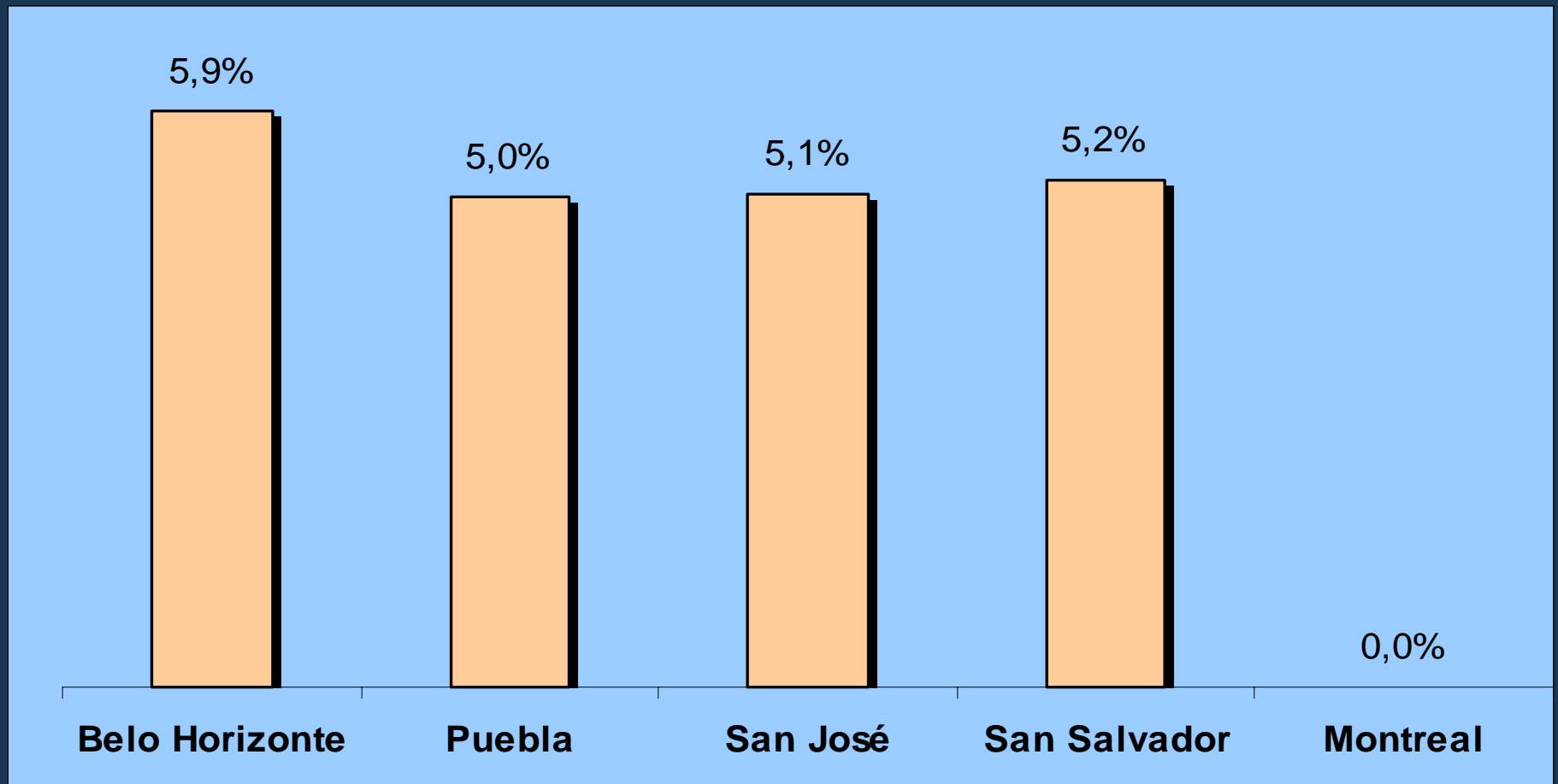


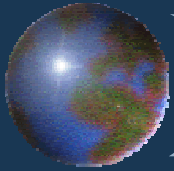
Relative Importance of Possible Impacts of Lost Business Meetings



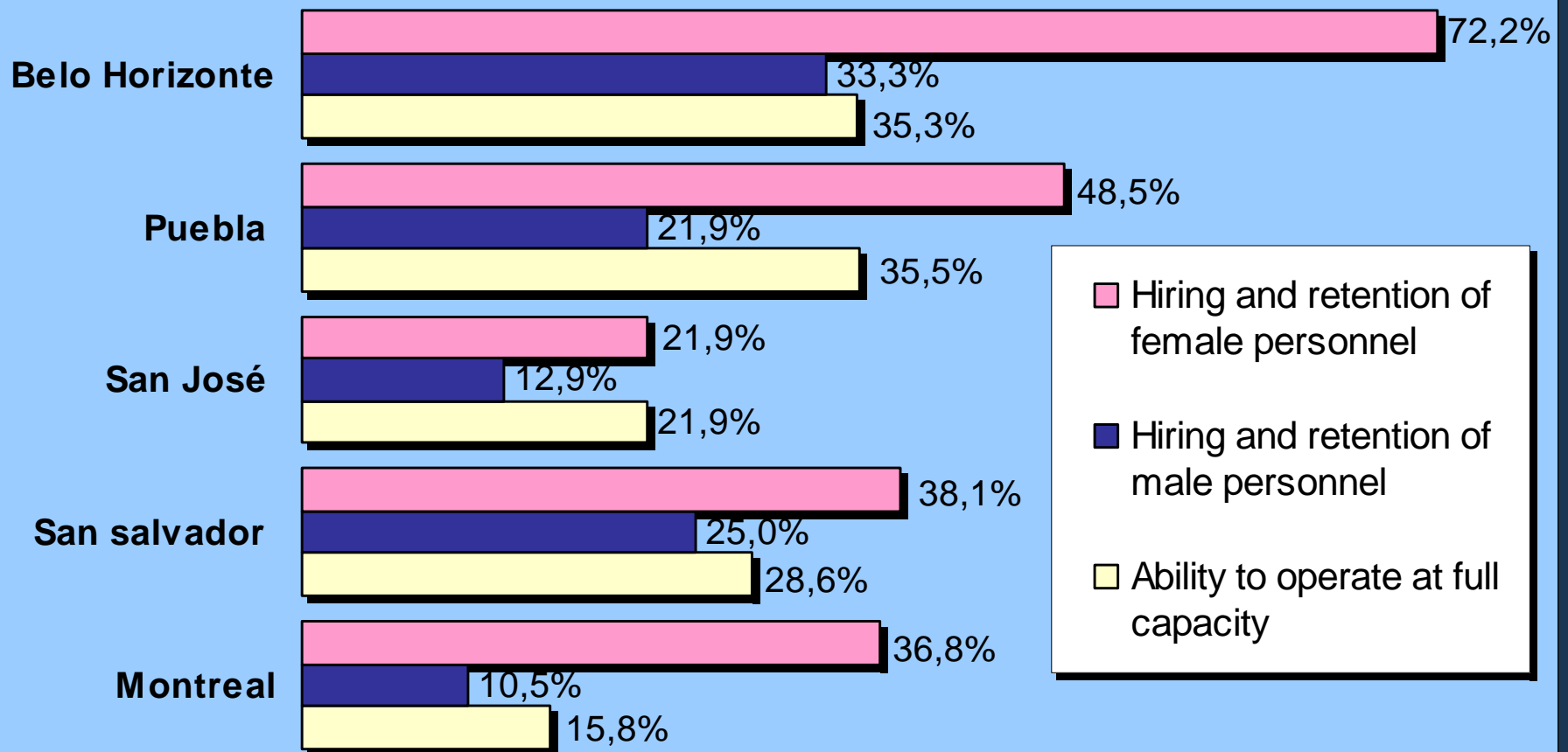


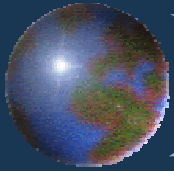
Security Personnel as a % of Total Workforce



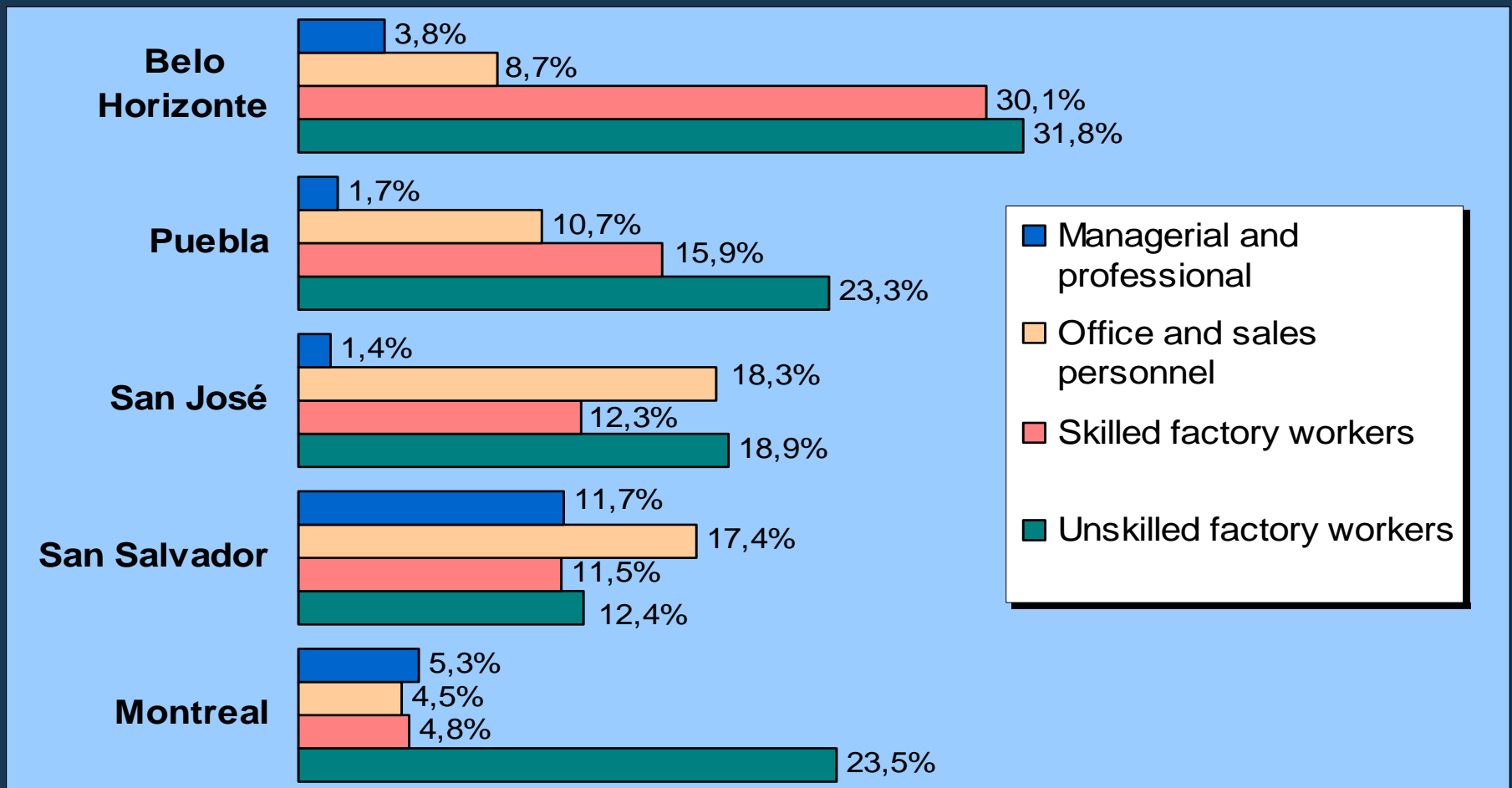


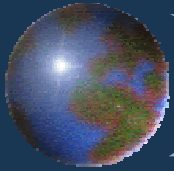
How Urban Crime & Violence Affect Firms: % Identifying Impact



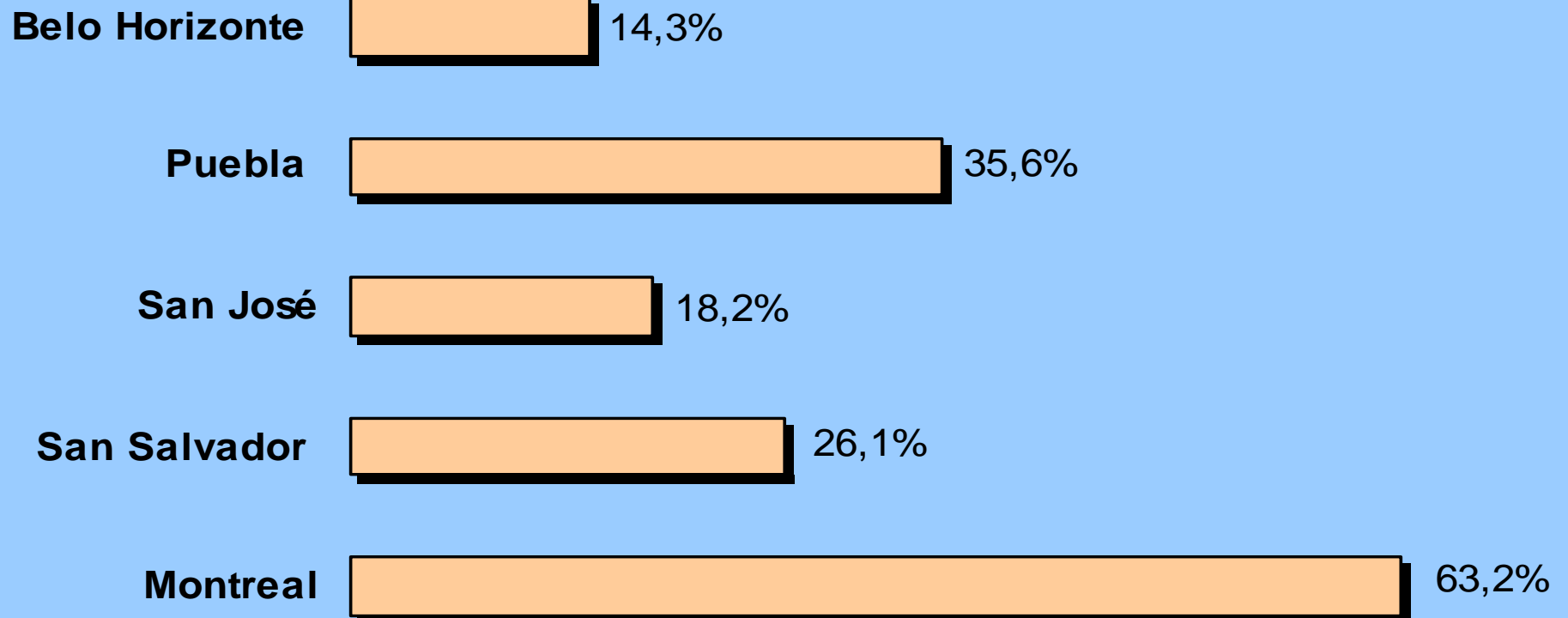


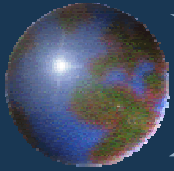
Annual Turnover of Workforce. Last 5 Years.





Firms [%] that Feel Secure: Not Vulnerable to Arbitrary Administrative Decisions





The Multiple (Indirect) Effects of Inferior Services

1. Reduces interaction, information diffusion, and exchange. Higher transaction costs.
2. Higher worker turnover. Raises recruitment and training costs.
3. Increases the costs of hiring and retaining female workers.
4. Reduces the ability to serve markets where punctual deliveries are vital.
5. Discourages local business start-ups.