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Economics of Urban Renewal

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ABSTRACT - Urban renewal is an integral aspect of sustainable development. While it involves desirable programmes designed to rebuild and redevelop urban slums it goes with it undesirable effects on the already poor slum dwellers. This paper shows that Urban renewal constitute cost to existing urban communities in terms of displacement and dislocation which brings with it some period of inactivity and resultant declining productivity. Also urban renewal diverts funds from core welfare issues to slum clearance and rebuilding. On the positive side urban renewal promotes tourism and also serve as a precondition for take-off to self sustained growth through agglomeration of economies of scale accruable to urban centers. Be that as it may urban renewal must be made to have a human face in order to rehabilitate its bad reputation. Its policies must be reviewed to embrace less destruction and more renovation, rehabilitation and investment.

Key words: Economics, urban, renewal, rehabilitation, slum

INTRODUCTION

Urban renewal may be viewed as an integral aspect of sustainable development efforts. UNESCO (2001) defines sustainable development as

"The will to follow a rational approach to economic administration and the creation of economic policies; to manage public matters efficiently and predictably; to show respect for future generations by integrating a concern for environmental protection into decision-making and progressively to evolve towards democracy – the full participation of all concerned actors, while taking into account specific local circumstances".

The World commission on environment and Development (WCED), however, defined sustainable development as the development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Accordingly, sustainable development stands on three pillars → social development, economic development and environmental protection (Kufoniye and Akinyede, 2004). Incidentally these three issues constitute some of the major benefits which urban renewal seek to achieve. This paper explores the economics of urban renewal.

CONCEPTUAL ISSUES

Urban renewal: Urban renewal is defined as the rehabilitation of impoverished urban neighbourhoods through large-scale renovation or reconstruction of housing and public works. It involves programmes designed to clear, rebuild, and redevelop urban slums. Urban renewal has also been viewed as government-sponsored destruction of slum housing with a view to the construction of new housing. Therefore in urban renewal efforts are made to clear and rebuild and redevelop urban slums.

At times urban renewal or regeneration breed controversy, as it often implies the employment of eminent domain law to enforce the reclaiming of private property for civic projects. It is usually envisioned as a way to redevelop residential slums and blighted commercial areas and often results in the creation of urban sprawl-vast areas being demolished and replaced by free ways, by-passes, expressways, vacant lots and housing projects.

As cities and urban areas experience rapid growth, and as economic activities and social upheavals bring to bear on them, physical infrastructure decay and fail and the need arises for urban renewal.

When cities become dirty, with slums, narrow and crooked streets as well as economically depressed, then it is ripe for renewal. Such increasing physical deterioration of core urban centers and neighbourhoods and commercial districts as well as forced concentration of the population into crowded areas would create low standards of living in unhealthy environments. To curb the ruinous effects of urban decay, governments usually invest in city revitalization and public housing to improve the living conditions of the citizens especially the poor. It must, however, be noted that urban renewal always go with it a trade-of between life in squalor and degradation and modernization.

Urbanization: Mabogunje (1974) defines urbanization as a process of human agglomeration in multi-functional settlements of relatively substantial size. However, in Reissman's (1970) view urbanization is a social change on a large scale, deep and irrevocable enough to cause alteration to all sectors of the society, be it in

style, purpose or demand. There is a strong association between urbanization and development.

This association is explained by the fact that urban centers are, to a large degree, formed because they provide cost advantages to producers and consumers through agglomeration economies (Todaro and Smith, 2004). These agglomeration economies manifest in two forms. First, urbanization economies are effects associated with the general growth of a concentrated geographic region. Second, localization economies are effects which are captured by particular sectors of the economy, such as finance or automobiles, as they grow within an area.

Localization economies may take the form of backward and forward linkages. For instance, in the face of significant transportation costs the users of output of an industry may benefit from a nearby location to save costs. This is a type of forward linkage. Moreover, firms in the same or related industries may benefit from being located in the same city, so they can all draw from a large pool of workers with specific skills used in that sector or from specialized infrastructure.

One of the most obvious “stylized facts” of the development process is the fact that per capital income is an increasing function of urbanization. In which case, the more developed a country is, measured by per capital income, the greater the share of population living in urban areas. It is also a fact that the highest income countries, such as Denmark, are also among the most urbanized, while the poorest countries such as Rwanda are among the least urbanized. One of the most significant demographic characteristics over time, which promises to loom large even in the future, is the rapid growth of cities in developing countries. UN estimates in Todaro and Smith (2004) show that the world’s urban population has reached almost 3 billion by the year 2001, with over two-thirds living in metropolitan areas of developing countries. Accordingly, it is projected that in 2025, over 4.1 billion, or 80% of the urban dwellers of the world will reside in less developed regions. Table 1 presents data on this growth of urban populations by major world regions from 1950 to 1995 and projections to 2025.

Table 1: Urban population in Major World Regions 1950-2025 (Millions)

Region	1950	1960	1970	1980	1995	2000	2025
World	724	1,012	1,352	1,807	2,584	3,208	5,065
More developed regions	449	573	698	834	875	965	1,040
Less developed regions	275	439	654	972	1,709	2,101	4,025
Africa	32	50	83	133	250	331	804
Latin America	68	107	162	241	358	431	601
Asia	218	342	407	596	1,101	1,291	2,615

Source: Todaro, M. P. and S. C. Smith (2004) *Economic Development*. Pearson Education (Singapore) Pte. Ltd. Indian Branch, Delhi. P. 311.

A pertinent question which is related to the unprecedented growth of urban centers in developing countries is how these cities could cope economically, socially, environmentally and politically with such acute concentration of people. It is true that cities offer the cost-reducing advantages of agglomeration economies, economies of scale and proximity, as well as numerous economies and social externalities. Some of these economies include cheap transport, skilled workers, social and cultural amenities. On the other hand the externalities include the social costs of a progressive overloading of housing and social services, increased crime, pollution and congestion, and they tend to outweigh the historical urban advantages especially for the poor. To forestall the possibility that economies of location are dwarfed by costs of congestion, and that rapid urban population growth would have outpaced the growth of human and physical infrastructure needed for even moderately efficient economic life and orderly by political and social relationships, urban renewal must be pursued with assiduous ardor.

PRIVATISM AND THE POLITICAL ECONOMY OF URBAN RENEWAL

Gotham (2001) maintains that throughout the post war era, government officials and policy makers in Kansas city, Missouri designed public policy to stimulate and bolster private investment. Their objectives were based on an ideology of privatism which views the private sector as the most effective mechanism for public service delivery, creation of stable and growing markets as well as the stimulation of economic development. Privatism is, therefore, the underlying commitment by government to hip the private sector grow and prosper.

Privatism is laissez faire-a situation whereby the public sector hands-off and the private sector is encouraged to nurture societal development with the principal goal of making private profit. Gotham (2001) state three major assumptions that are central to the ideology of privatism as follows:

“First, because the desire for material well-being drives human productivity, the market must encourages and reward acquisitiveness and competitiveness. Second, the free market is the most effective and least coercive mechanism for allocating goods and services since it harmonizes individual self-interest with society’s collective development. Third, government’s role is to reinforce and supplement the market in regulating exchange in a manner that maximizes individual freedom and choice”.

ECONOMICS OF URBAN RENEWAL

The facts must be faced that while urban renewal projects do regenerate and revitalize decaying towns and cities, it is often undertaken at a high cost both

to government and existing communities. A case in point is that of Akwa Ibom State in Nigeria. In her 2005 budget a large sum of money has been allocated to the environmental and urban development sector. Such expenditure is intended to ensure the completion of various on going drainage and flood control schemes in the state capital. In the area of urban development, the government is giving priority attention to the completion of markets, motor parks, beautification of urban centers, road development, as well as payment of outstanding compensation on acquired land. While the sum of ₦2.0 billion was provided for the completion of on-going drainage projects in Uyo, the sum of ₦2.70 billion was voted for urban development. The total expenditure proposed and being spent on road development amounts to ₦10.145 billion in 2005, in addition to ₦29.48 billion which was spent on various road development projects in urban centers (Uyo, Abak, Eket, Ikot Abasi) in 2004. (AKS Ministry of Finance, 2005).

According to AK – SEEDS (2004), the long term goal of the state's urban development is to ensure planned co-ordinate development of its urban centers in an orderly way, to enable them grow into truly modern towns. This is important both for the aesthetic value as well as the implications for the cost of living and doing business.

Cost to existing communities: Urban renewal often leads to large number of the working class and other low class and poor people being forced to move to the sub-urban or even rural areas. At the end of renewal these displaced and dislocated people find it almost impossible to relocate to the same areas due to the cost of doing so. Rather the areas now become the preserve of the middle and upper class. In other cases farmlands which constituted the sources of livelihood for many are transformed into expressways and cities. The grief for lost homes due to destruction of urban slums for renewal does lead to periods of inactivity and declining productivity on the part of the dislocated. This may have tremendous effects on macro-economic output.

Funding urban renewal: Slum clearance and urban renewal require large amount of finding. If entire neighbourhoods and business premises are to be torn down and replaced with highways, parks etc., then the public housing programme is an imperative – low rent Public Housing Programme. Funding must be provided to local governments to build new public housing. Mortgages should also be made available to viable citizens under favourable terms to encourage sub-urbanisation during urban renewals.

Using land taxes to pay for urban renewal: David Ricardoo's analysis of land values could be used as an insight on how land taxes should aid efficiency in urban regeneration. According to Brittan (2001) income generated by work, enterprise

or capital investment is diminished or distorted if it is taken away from its owners by tax. On the other hand economic rent is the piece for our home or office, a charge for the use of building and other structures. The economic rent will be for higher in a thriving urban centre than it would be in a rural area. Within the urban area the scarcity value of land can be further increase by urban renewal. The issue of taxing pure space has been widely accepted among economists and this is referred to as site valuation taxation. Since the value of land increases with urban renewal, land rent should also increase accordingly to pay for such urban regeneration. As urban is regenerated, property prices rise, landlords should contribute part of the increment in rent opt urban renewal. It should be possible to tax some of the very large gains that have accrued to land owners as a result for public policy and action of urban renewal. Such tax revenue could be used to finance the capital cost of urban renewal leaving the users to pay for the running costs.

Urban renewal and tourism: Urban renewal has the potential to promote tourism by drawing thousands and even millions of visitors to a city every year. Thereby urban renewal is capable of engendering economic growth of cities.

Urban renewal and economic growth: Urban centres have often served as national or state capital, local government or district headquarters. Hence, they serve as administrative, business, trade and industrial centres. As urban centres and urban renewal satisfy the preconditions for take-off to self sustained growth, there exists an agglomeration of economies of scale (Rostow, 1960). These urban centres are the first to have productive public services like water, electricity, good transportation and communication net-works. Thereby they are regarded as growth poles and growth centres for the purpose of achieving sustained economic growth (Brown and Burrows, 1979). As centres of economic activities renewed urban centres therefore, play significant role in the mechanism of the inducement of growth in a state, nation or region. Urban renewal necessarily calls for investment in infrastructure in urban centres, thereby generating increased urban employment, flow of output and income (Anthonic, 1972).

RECOMMENDATIONS

On the basis of the foregoing discussions we proffer the following recommendations.

- (i) Urban renewal must be made to have a human face in order to rehabilitate its very reputation. In which case, urban renewal policies need to be reviewed to be based less on destruction and more on renovation, rehabilitation and investment.
- (ii) There is a tendency for poorer residents to be priced out of renewed urban areas into suburbs or more depressed areas. Therefore, as

urban slums are regenerated, the public and private sectors must partner to combine highly favourable loan programme with financial literacy education to the poorer members of a community may be able to afford their renewed neighbourhoods.

- (iii) The ideology of privatism, which assumes availability of public subsidies to the private sector, to designate, acquire and clear residential land for redevelopment is capable of reversing urban decay and obsolescence.
- (iv) Urban renewal must serve to unite economic, political and religious interest rather than tearing communities and individuals apart.
- (v) Human and social growth must be made to grow in the same proportion. This is because as urban renewal brings economic growth, if it's human and social growth does not increase proportionately, society lags and needs are not met. It is the people, not buildings that make an urban area what it is. People's programmes must be implemented as a means of a holistic approach to urban renewal.
- (vi) Private sector participation in the delivery and management of urban renewal facilities and services must be encouraged while the citizens are carried along through enlightenment and provision of compensation and/or alternative locations before demolition of their settlements where necessary.

CONCLUSION

Urban renewal has played important role in the economic, social and cultural development of decayed cities and urban centres all over the world for many decades. However, urban regeneration has often been undertaken at great cost to government as well as low-income and minority communities living in them. Therefore urban renewal must be well planned, well executed and well managed so that it does not become a curse rather than a blessing to citizens of regenerated cities. Both the government and the private sector must take steps to ensure that urban renewal does not constitute a source of economic devastation of prospering cities and urban centres.

For urban renewal to achieve its aim of improving the living conditions of the poor, curbing the ruinous effects of urban decay and generally making the citizens better off, we proposed that a mix of renovation, selective demolition, commercial development and tax incentives be used to revitalize urban centres. Moreover urban renewal should be based on a policy of renovation and investment rather than destruction. Finally should not the Pareto Optimality Principle (POP) be adopted in urban renewal? That is, "undertake urban renewal if at least one citizen will be made better off without any citizen made worse off" and vice versa.

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