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# THE POLITICAL ECONOMY OF URBAN POVERTY IN DEVELOPING COUNTRIES

THEORIES, ISSUES, AND AN AGENDA FOR RESEARCH

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*Editor's Note:*

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# THE POLITICAL ECONOMY OF URBAN POVERTY IN DEVELOPING COUNTRIES

## THEORIES, ISSUES, AND AN AGENDA FOR RESEARCH

**Raj Desai**

### **ABSTRACT**

**T**he implications of urban development for overall economic prosperity are well known. Employment, housing, policing, infrastructure and social policies in cities have been shaped and institutionalized through a complex set of interactions between various urban interests, public officials, and institutions. In advanced industrial countries, for example, the rise of influential coalitions with the urban working class at the center was responsible for the proliferation of social protection in the 19<sup>th</sup> and 20<sup>th</sup> centuries. Consequently, a great deal is known about the dynamics of urban political mobilization and behavior in richer countries, and of participation among the urban poor. In the cities of the developing world, however, there is far

less information available regarding these issues. I survey some theoretical foundations for understanding the political-economy of urban poverty before examining several pathologies of political life for the urban poor in the developing world. I focus on some aspects of the city-dweller's political agency—or the lack thereof—that limit the ability of the urban poor to engage in collective action, to participate in decision-making, to form effective organizations, and to resist predatory behavior by officialdom. I then examine some areas where further research is needed, including the political-economic bases for mobilization, the prospects for pro-poor urban social policy, conditions determining the effectiveness of delegation, and of membership organizations for the urban poor.

I swear to the Lord,  
I still can't see  
Why Democracy means  
Everybody but me.

- Langston Hughes

*The Balkans start in the slums of Vienna.*

- Otto von Bismarck

## INTRODUCTION

In 2008, the percentage of the world's population living in urbanized areas surpassed 50 percent for the first time in history. Urban areas everywhere are expected to remain the sources of investment and innovation. In developing countries in particular, the urban contribution to capital formation and urban participation in the labor force is expected to continue its steady rise (Grimmond 2007; World Bank 2008). As figure 1 shows, levels of urbanization are strongly related to long-run economic development—urbanization two decades ago is highly correlated with current per-capita income across countries. The trajectory of urban development and poverty will shape the fortunes of both middle- and lower-income nations for years to come.

The availability of human, financial and physical resources in cities in these poorer countries, as well as the policies that allocate and mobilize these resources in urban areas, are vital elements in combating poverty. But policies, to a certain extent, are a first-order effect of the political and institutional dynamics that characterize cities. Understanding these effects can shed light on how the main policies affecting the urban poor—health, education, infrastructure, housing, employment, migration, welfare, etc.—are designed and implemented. The purpose of this paper, therefore, is to identify and analyze relationships between

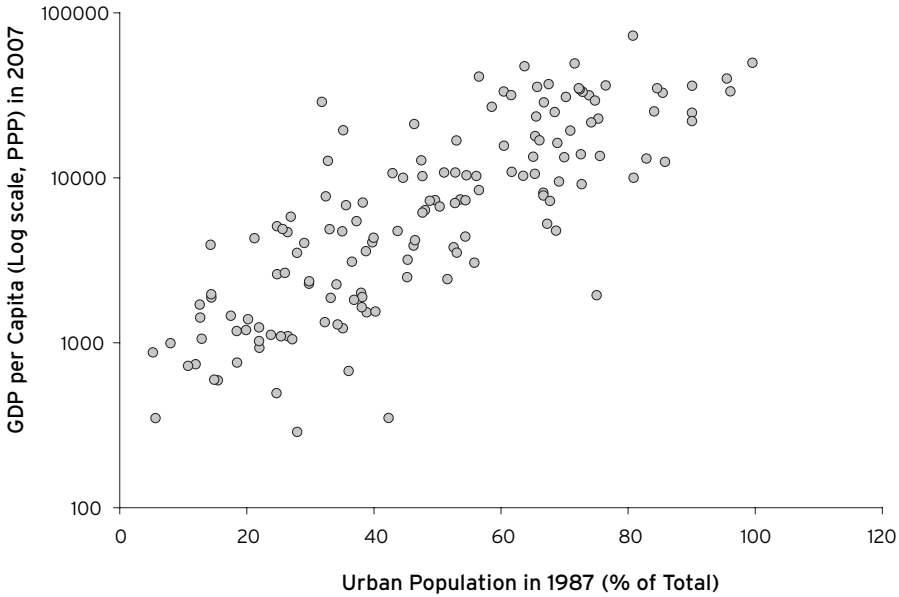
the urban poor their immediate governing institutions and elites, both public and private, in middle- and lower-income countries.

In this survey I focus largely (though not exclusively) on the *political agency* of the urban poor, or the capacity of the poor to select, reward and sanction the leaders, institutions, policies, formal rules and informal norms that directly affect their lives. The concept is sufficiently broad to cover a range of political interactions in which the urban poor—or indeed, urban citizens more generally—find themselves enmeshed, from dealings with police, landlords, employers, bureaucrats and middlemen, to relationships with political or community organizations and law-making bodies. At the same time, the notion of “agency” also highlights a specific channel by which the poor obtain (or fail to obtain) the policies, goods and services that benefit them, namely, access and representation in governance.

I argue that a suitable agenda for future research can be found in better understanding (i) the sources and determinants of political agency among the urban poor (as well as of the differences between the degree of political agency of those below the poverty line and those above it in urban areas); and (ii) the consequences of the absence of stable, reliable political agency for urban development and poverty.

I first examine briefly the role of agency in some major approaches to urban-poverty analyses in developed nations, before examining some implications for the political-economy of urban poverty. I then explore some of the “pathologies” or urban poverty and their connections to agency problems, as well as the consequences for the urban poor. I conclude by examining several research directions that could shed light on some of the main puzzles regarding the politics of urban poverty.

Figure 1: Urbanization and income across countries



Source: The World Bank, World Development Indicators

## THE URBAN POLITICAL ECONOMY: REFLECTIONS FROM DEVELOPED NATIONS

Political analyses of the poor in developed nations have been implicitly shaped by a certain perspective on political behavior, namely, that the political inclusion of previously excluded individuals should ultimately enhance their agency. That is, greater access and representation implies that the policy preferences of the poor should be reflected in actual policies and institutional arrangements. Yet, the history of the political and civic inclusion of the poor is replete with disappointments—low levels of resulting participation, or even if participation was high, a low correspondence between participation and pro-poor policymaking outcomes.

### Understanding the lack of agency among the urban poor

Why has the development of effective political agency for the poor proven so difficult? Questions of participation and collective action have been enormously important for the urban poor in industrialized nations, given the prolonged periods of agitation for political reforms beginning in the cities in these countries. Due in no small part to urban labor unrest, the watershed period for political enfranchisement was the late 19<sup>th</sup> century when the franchise was extended to the working poor in the United States and in Western Europe. In America, the Fourteenth Amendment, which guaranteed to all the privileges and immunities of citizens, was adopted in 1868; in Britain, the Reform Act of 1867 gave working men, including a sizable proportion of unskilled laborers, the preponderance of the vote; in France, the Organic Law of 1875 instituted manhood suffrage. Similar events occurred in other Western European countries.

But these efforts—and the expectations that the spread of the franchise to a larger, more heterogeneous citizenry would force changes on governments and their relationships to the poor—were followed by a series of disillusionments as ruling oligarchies continued to assert themselves, and as inequities persisted. I examine four perspectives on this problem in richer nations, before addressing some implications for developing countries.

### *The resource-mobilization theories*

Social movements were traditionally seen as extensions of more elementary forms of collective behavior and as encompassing both movements of personal change (e.g. religious sects, cults, and communes) and those focused on institutional changes (e.g. legal reforms and changes in political power).

In explaining why the urban poor, for example, joined social movements aimed at agitating for urban reform, traditional explanation (“mass society” or collective-behavior approaches) pointed to sudden increases in individual grievances generated by the “structural strains” of rapid social change. These traditional theories shared the assumptions that movement participation was relatively rare, discontent was transitory, movement and institutionalized actions were sharply distinct, and movement actors were “arational” if not irrational. The urban movements of the 1960s dramatically challenged these assumptions. By providing a rich array of experience and enlisting the active sympathies of an enlarged pool of analysts, the movements stimulated a shift in theoretical assumptions and analytic emphases that eventually became formalized in the resource mobilization theory of social movements (Tilly 1978; Zald and McCarthy 1988).



In its most basic form, the resource-mobilization thesis argues that social movement actions are (i) rational, adaptive responses to the costs and rewards of different lines of action; (ii) the basic goals of movements are defined by conflicts of interest built into institutionalized power relations; and (iii) the grievances generated by such conflicts are sufficiently ubiquitous that the formation and mobilization of movements depend on changes in resources, group organization and opportunities for collective action.

Richard Cloward's and Frances Fox Piven's *Regulating the Poor*, published in 1971, examines the "social control" functions of welfare regimes, particularly for the urban poor, in the United States. Cloward and Piven argue that urban antipoverty programs, for example, are designed not to raise the incomes of the poor, but to ensure a steady supply of cheap labor to employers. In sum, the poor's agency problem results from systemic rules, norms, or customs of social control that "regulate" the lives of the poor to their detriment, e.g., because these same rules have been designed by those for whom the poor are a source of cheap labor. So social policy is not based on humanitarian concerns but on forms of social control intended to maintain stability, strengthen the position of ruling elites, and reinforce a work ethic. Cloward and Piven summarize this as follows:

[W]hen mass unemployment leads to outbreaks of turmoil, relief programs are ordinarily initiated or expanded to absorb and control enough of the unemployed to restore order; then, as turbulence subsides, the relief system contracts, expelling those who are needed to populate the labor market. Relief also performs a labor-regulating function in this shrunken state, however. Some of the aged, the disabled, the insane, and others who are of no use as workers are left on the

relief rolls, and their treatment is so degrading and punitive as to instill in the laboring masses a fear of the fate that awaits them should they relax into beggary and pauperism (Piven and Cloward 1971).

The conspiratorial nature of these views notwithstanding, the resource-mobilization approach focuses on this broader class conflict between the poor and the non-poor, over which the poor are at a perpetual disadvantage due to their lack of organizational resources. Thus political agency among the urban poor is ineffective because the channels of access and representation are ultimately controlled by groups in whose interest it is for the urban poor to remain fragmented, uncoordinated and ultimately disenfranchised.

### ***The culture-of-poverty theories***

A second perspective examines the social settings in which the urban poor live, and the effects of these networks on the incentives and behaviors of the urban poor. Here one finds two inter-related strands. The "Culture-of-Poverty" thesis originally supported the idea of a distinctive, self-perpetuating culture of poverty that deals with authority in certain ways, that promotes certain forms of self-destructive (even criminal) behavior, and that largely is self-excluded from civic life (for example, in the writings of Daniel Patrick Moynihan, Nathan Glazer, and Oscar Lewis). A different strand articulates the view that authority patterns among the urban poor is an "adaptive" response to the defining trait of urban poverty: being compelled to live with and manage high scarcity in a populous, crowded setting:

Though societies no doubt have cultures that cut across class lines, we may also posit that objective conditions of life shared by social strata will

underlie subcultural differences, as determinants or constraints. For the lower, less advantaged strata, the most obviously shared objective condition is great scarcity. Thus, it seems reasonable to posit that there will exist everywhere essentially similar authority-cultures of poverty—a core of common attitudes toward processes of governance and relations of authority associated with low incomes, little instruction, and menial work (Eckstein 1984).

These culture-of-poverty views have been influenced by political sociology and focus on the mechanisms by which individuals are socialized in urban settings—through the family, schools, and urban civic society. The latter category encompasses organizations ranging from religious groups to mafias and street gangs and other informal groupings. The main explanation for the absence of effective agency is one of self exclusion, but self-exclusion as a coping mechanism given the barriers to inclusion present in the authority-culture of the urban poor. There is an assumption, throughout these analyses, that the authority exercised in urban-poor life is unlikely to breed participatory dispositions in family members, nor are family relations among the poor likely to produce the sense that one can be effective in influencing policies and governing institutions.

### ***Social capital theories***

Some analysis have employed the familiar concept of social capital—networks of generalized trust and reciprocity—in urban settings to explain institutional performance, self-governance, as well as other societal and individual benefits such as individual health and personal happiness (Putnam 2000; Newton 2006; Saxton and Benson 2005). Generalized trust indicates the potential readiness of citizens to cooperate with each other and the abstract preparedness to engage in civic endeavors with each other:

Attitudes of generalized trust extend beyond the boundaries of face-to-face interaction and incorporate people who are not personally known. These attitudes of trust are generalized when they go beyond specific personal settings in which the partner to be cooperated with is already known. They even go beyond the boundaries of kinship and friendship, and the boundaries of acquaintance. In this sense, the scope of generalized trust should be distinguished from the scope of trust toward people one personally knows (Rothstein and Stolle 2002: 2).

Some social-capital theories share much in common with the culture-of-poverty thesis. From one widely-shared perspective, the capacity of a society to produce social capital among its citizens is determined by its long-term experience of social organization anchored in historical and cultural experiences that can be traced back over centuries (e.g., Banfield 1958; Fukuyama 1995; Putnam, Leonardi, and Nanetti 1993). These “society-centered” accounts see the most important mechanism for the generation of social capital as regular social interaction, preferably as membership in voluntary associations or more informal types of social interactions. The absence of political agency, in this view, as with the previous argument, often focuses on the absence of dense social networks as *both* a feature of enduring poverty and an explanation for social and political “withdrawal” by poor communities, urban or rural (Newton 2001; Woolcock 1998; Woolcock and Narayan 2000).

A second strand of social-capital theory focuses on the relationship between social networks and institutions. From this perspective, it is the effectiveness and perceived legitimacy of the broader governing institutions that can encourage generalized trust to develop:

Consider the following: that institutions of law and order have one particularly important task: to detect and punish people who are “non-cooperative” in a particular setting, that is, those who break contracts, steal, murder and do other such non-cooperative things and therefore should not be trusted. Thus, if citizens think that these institutions do what they are supposed to do in a fair manner then they also have reason to believe that the chance of people getting away with such treacherous behavior is small. If so, citizens believe that people have very good reason to refrain from acting in a treacherous manner, and they will therefore believe that “most people can be trusted.” Here that it is not just the efficiency alone with which treacherous behavior is punished, but the efficiency paired with the fairness of these institutions that matters for generalized trust (Rothstein and Stolle 2002).

In other words, if citizens can trust the institutional effectiveness and fairness of higher-order institutions such as the judicial system and the police, then one’s generalized trust in others can be facilitated. From this perspective, the fault for the lack of agency among the urban poor rests squarely on the poorly-performing, often predatory institutions of law and order—police brutality, corruptible bureaucrats, etc.—which undermines social capital. Note that, in contrast to more society-centric views, these institutional views imply that social capital can be augmented via urban governance reforms.

### **Voting theories**

Agency-based voting models study the choices of politicians facing the threat of re-election (where the politician is “agent” and voters are “principals”). In other words, political-agency models deal with a critical process in democracy, i.e., the appointment of pub-

lic leaders through elections, and the extent to which elections can resolve conflicts of interest between citizens and their representatives. But agency is similarly relevant in non-democratic settings, as the tenure of non-elected leaders is ultimately a function on a tacit compliance of the governed.

In formal voting models, voters’ preferences do not translate into electoral outcomes for a number of reasons. First, there is the standard rational-voter problem, where citizens do not see any *individual* reward to voting given the costs involved (Verba, Scholzman, and Brady 1995). In American cities, of course, this problem was partially solved by the presence of urban political machines that distributed public services and jobs in exchange for votes.

Second, there is the informational constraint, which can be severe to lower-income voters. Extrapolating from first generation agency models the assumption is that the urban poor view all politicians as identical and employ a “cut-off” rule, that is, they support leaders if their performance exceeds a threshold and do not support them otherwise (e.g., Barro 1973; Ferejohn 1986). Alternatively, they may vote for incumbents if and only if they believe they are better candidates than the challenger, and politicians separate according to type, with better politicians taking superior actions (e.g., Banks and Sundaram 1998, Coate and Morris 1995, Fearon 1999, and Rogoff 1990). The problem is that neither the “performance” of politicians nor their “type” is fully public information. Thus poorer, uninformed voters rely on signaling mechanisms that politicians use to garner support—appeals to sentiments, symbolism, and other appeals to the biases in the electorate (Caplan 2007).

Third, and partly as a consequence of this informational constraint, poorer voters in particular tend

to engage in significant amounts of non-economic voting. That is, some political dimension other than redistribution trumps voter behavior—religion, ethnolinguistic or regional identity, etc. The phenomenon of poorer citizens voting for right-wing parties that oppose redistribution (or favor regressive redistribution) has been extensively documented at both the individual and country-wide level in developed democracies (Roemer 1998; Scheve and Stasavage 2006; Huber and Stanig 2007).

### **Implications for urban politics in low-income countries**

According to standard median-voter models, for example, redistribution should be increasing with a rising income gap between the median and the mean voter. If the median voter is a poor, urban resident, redistributive taxation should run from rich to poor, from rural to urban areas. The evidence for this correlation—between rich/poor or urban/rural inequality and redistribution—in developing countries is thin. While some authors find a connection (Alesina and Rodrik 1994; Persson and Tabellini 1994; Milanovic 2002), others do not (Perotti 1996; Kenworthy and McCall 2007). This has led some to believe that a robust empirical relationship does not exist, or that redistribution runs from the ends of the income distribution toward the middle class (Stigler 1970; Dixit and Londregan 1996; Epple and Romano 1996).

Much of the explicitly political analysis of urban poverty in developing nations shares much in common with analyses of richer countries' urban areas, in particular, analyses of the effects of bargaining and distributional conflicts between the urban poor and non-poor over antipoverty and social policy. Much of this work points to a similar lack of stable, effective agency among the urban poor: (i) that the urban poor have less access and representation in the political system than the urban non-poor; (ii) that the poor have fewer opportunities than the non-poor to shape and influence their governing institutions; (iii) that the urban poor endure a far more hostile, fearful relationship with institutions of urban law and order; (iv) that the urban poor are more likely to live on the margins of society, not just in the informal economy, but without legal "identity" or access to a functioning system of justice; (v) that antipoverty programs remain limited in scale because of the limited political engagement by urban beneficiaries as a coherent "interest group" in determining social policy and in shaping institutional environments; and (vi) that the urban poor are more likely to be adversely affected by local mafias, protection rackets, other street organizations that fill the vacuum left by the absence of state enforcement. How these traits of the political life of the urban poor operate in practice is the topic of the next section.

## POLITICAL PATHOLOGIES OF URBAN POVERTY IN DEVELOPING COUNTRIES

**F**or the urban poor there is the general problem of effective disenfranchisement despite the fact that in many developing nations the voting turnout of the urban poor is actually higher than that of the middle classes and the rich. As I explore further below, the urban poor in developing countries—with few exceptions—vote in order to secure public goods and services that they otherwise lack, rather than to express policy preferences. In addition, very little political action beyond voting is undertaken by the urban poor. In non-democratic settings, moreover, the disenfranchisement of the urban poor is often more extreme, as the urban poor (as opposed to the urban middle classes or the rural poor) rarely matter in the calculations of even the most “populist” authoritarian regimes.

From this disenfranchisement stems a host of political-economic obstacles to poverty reduction in cities. I summarize from some of the pathologies attendant with this disenfranchisement that may be gleaned from political-economic analyses of poverty in developing nations.

### Collective action and social movements

One of the peculiarities of urban political life is the relative absence of protest given the appalling conditions in which so many people live (Gilbert 1994). The urban poor face unique barriers to collective action. Research consistently shows that greater intra-urban inequality increases the costs of collective action and marginalizes the poor (see, e.g., Das Gupta, Grandvoinnet, and Romani 2004; Emmett 2000; Platteau and Abraham 2002). When faced with the op-

portunity costs of participation, the poorest are also less likely to be engaged in city government, community organizations, or civil society—an obstacle to the effective functioning of community-based projects (Mansuri and Rao 2004). Civic organizations—which could potentially fill gaps left due to the failures of markets or governments to provide critical services for the poorest (Devarajan and Kanbur 2005)—are often under-developed in poor communities, both urban and rural.

A wide body of evidence suggests that social and political fractionalization in poor communities limits the ability of the poor to engage in collective action. Heterogeneous preferences—due to ethnic or linguistic fractionalization, high levels of inequality, etc.—also lower the quality of public goods. The inability of members to impose credible sanctions in diverse communities, the unwillingness of some community members to fund essential services that will be used by members of other groups, the lack of consensus on what public goods should be demanded, and the tendency of all groups in a diverse community to free-ride on the efforts of others, are all cited as explanations of the problem (Posner 2005; Barr 2004; Alesina, Baqir, and Easterly 1999). Consequently, the degree of semi-permanent disenfranchisement may be extensive. The empirical evidence supporting the claim that public goods provision in ethnically diverse communities suffers is overwhelming. Regardless of location, ethnic diversity is associated with:

- Persistent price distortions (Easterly and Levine 1997);
- Lower primary school-funding and poor-quality school facilities (Miguel Miguel and Gugerty 2005);
- Lower access to functioning basic infrastructure (Banerjee, Iyer, and Somanathan 2005; Khwaja 2006);

- Poorer-performing microfinance institutions (Karlan 2007);
- Communal violence (Fearon and Laitin 2003; Varshney 2003);
- Exclusion (via discrimination) and self-exclusion of potential social program beneficiaries (Platteau 2000; Castro-Leal et al. 1999).

In addition to ethno-linguistic cleavages, it is possible that labor market dualism—where it is strong—also undermines the capacity of the urban poor to coordinate. Rural-to-urban migration has established a sizeable group of migrant workers in cities, whose residence may be short term and whose links to firms in urban areas may be fleeting. Intense labor-market competition in urban areas, moreover, further weakens incentives urban residents from similar socioeconomic strata to coordinate action.

Expanding informal-sector employment and the resulting wage dispersion in urban areas has created a constituency largely unknown to industrializing European or American cities, e.g., where in the late 19<sup>th</sup> and first part of the 20<sup>th</sup> centuries migrant workers were quickly absorbed into formal labor markets.<sup>1</sup> The small formal sector is regulated by the state; firms pay taxes and observe minimum-wage guarantees while workers are protected by social security systems and labor law. The informal sector by contrast operates beyond the reach of state regulation, providing no social protection for workers apart from cash-transfers to those below an income threshold.

Until the late 1990s, the dominant view of the poor in developing country cities emphasized their failure to become radicalized, their self exclusion from political life generally, and their unwillingness to become involved in organized social movements whose aim it may have been to improve their lives. To a certain extent, some current studies of urban participation con-

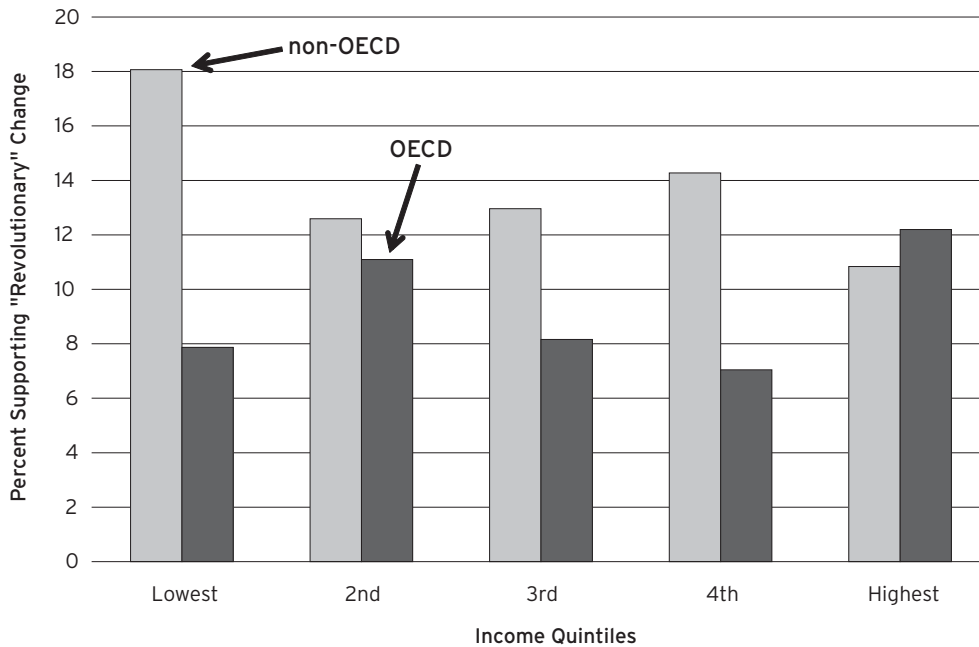
firm this characterization, showing the urban poor to be reluctant to join groups or to engage in any form of political action beyond clientelistic voting. A study of participation in Dhaka's wards, for example, finds that disillusionment with municipal government combined with fear of ward commissioners is so pervasive, that few slum-dwellers could envision any individual benefits from political action (Banks 2008). This unwillingness to act is despite evidence from global survey data that lower income quintiles in urban areas in the developing world are ideologically more "radicalized" toward their economic or political institutions (see figure 2).

Still, a fuller picture of the political-economic bases of urban social movements is needed. Recent years have shown that the political attitudes and behavior of the urban poor are more sophisticated than once thought. A recent historical review of squatters in Peru, for example, casts doubt on their characterization as alternatively passive or patronage-seeking. In some districts, innovative squatters employed a mixed repertoire of clientelist deal-making strategies combined with militancy to get services delivered, including piped water, electricity, and land titles (Dosh 2006). Surveys of the poor in New Delhi, too, have found a much more varied picture of participation and mobilization by the poor than was once believed (Harriss 2005).

## Participation and representation

In the cities of developing countries, large segments of the population experience chronic poverty with limited opportunities for geographic and intergenerational mobility. To the extent that these groups are absorbed into the urban economy it is principally through the underemployed informal tertiary sector where representative organizations (e.g. trade unions) and collective action (e.g. strikes) are not present (Walton 2001).

Figure 2: Radicalization among urban populations by income



Source: World Values Surveys database; respondents are asked whether they support changing their current government through "revolutionary" means.

What about voting? Democracy is associated with greater social spending for the poor. In Latin America, for example, studies have found that democracies in the region were more likely to maintain social security, health and education expenditures in the face of recessions in the 1980s than non-democracies (Brown and Hunter 1999). Evidence from over two decades suggests that the shift to democracy in Latin America has a stronger (positive) effect on health and education spending than on pensions and other welfare transfers that tend to benefit the middle class (Kaufman and Segura-Ubierno 2001). In Sub-Saharan Africa during the 1980s, prior to the democratic "wave" spending per student on tertiary education exceeded spending on primary education by a ratio larger than for all other regions (Pradhan 1996). Multiparty democracy in Africa reversed some of these patterns,

with democratic governments more likely to prioritize primary education (Stasavage 2005).

Lacking the basis for broad-based political movements, neighborhoods and communities are the more common focus of participation and urban services are the currency of political exchange—public goods such as water, electricity and transportation that improve the material condition of households, or employment. Political participation is aimed at obtaining these goods. Nelson's early (Nelson 1979) survey of cities in Africa, Asia and Latin America compares participation of the poor in political parties, special-interest groups and ethnic associations with a fourth type, *clientelism*, and concludes that "patron-client links are the most universal."

Clientelism or “vote-buying” pervades urban political participation among all socioeconomic strata, but is particularly prevalent among the poor. In the classic patron-client exchange, elected officials enjoy discretion in the implementation of laws and allocating jobs. These goods are distributed to voters on an individualized basis, in return for their political support in elections (Chandra 2007). In Bangalore, for example, vote-buying is depicted in the following narrative:

A group of women in worn-out saris, domestic servants who clean houses for a living, sit chatting outside their one-room concrete shacks with tin roofs. They have no bathing or cooking facilities in their shacks. They share the same water tap with hundreds of neighbors. Their toilet is the nearby railroad track. A well-dressed man exits a car and approaches: “Good day. My name is Rama and I am running on the BJP party ticket for the upcoming local election. Are you registered to vote? [The women nod that they are registered]. Can I offer to help you improve your life? In exchange for your vote, the BJP party not only has sewing machines, but we will teach you how to use them and help you set up your own tailoring shops. Are you interested?” The women nod in agreement (Breeding 2007).

Clientelism, in one sense, can subvert one of the main objectives of political participation, i.e., to impose accountability on politicians. The picture of inhabitants of Latin America’s, Africa’s and Asia’s burgeoning shantytowns shows these populations to be either passive or blindly loyal to incumbent politicians. According to this picture, instead of removing poorly-performing politicians, the urban poor will forge clientelistic ties with those same government leaders. Despite deteriorating conditions in Peruvian cities, for example, Lima’s poorest residents continued to

support Alberto Fujimori, particularly after Fujimori’s government poured money into urban public works and antipoverty programs prior to elections (Schady 2000). In Mexico between 1989 and 1994, the national poverty-alleviation program (and precursor to PROGRESA), *Programa Nacional de Solidaridad* (PRONASOL) spent 1.2 percent of GDP annually on transfers heavily skewed toward municipalities dominated by the governing Institutional Revolutionary Party (PRI) (Diaz-Cayeros and Magaloni 2003).

One additional note on city politics in non-democratic countries is needed. Most authoritarian governments, as is well-known, cannot rely on perpetual repression for their survival, but rather, make calculations regarding the provision of public goods and (limited) political voice to secure some degree of loyalty from citizens (Desai, Olofsgård, and Yousef 2009). More often, dictators rely on key “swing” constituencies—“selectorates” rather than electorates—to shore up their support; these selectorates benefit from transfers from other segments of the population (Bueno de Mesquita et al. 2005). But seldom have the urban poor been among these main swing groups. The urban middle classes, business groups, the military, are more commonly found as key allies or critical swing groups in dictatorships, and most likely to benefit. In left-wing, “populist” dictatorships, on the other hand, it is typically the rural poor who feature prominently among regime adherents. To be sure, there are examples where the urban poor formed an important constituency for an authoritarian government—in Peron’s Argentina—but this is rarely at the expense of the rural poor.

## Political machines

The third idea that runs through the literature of urban politics is that the organizations of the poor that do exist, far from being organs of civic education and



advancing public interests, are in effect little more than “gangs”—that is, mechanisms for exploitation, not least of the poor themselves. The need to organize political life—and in particular, the distribution of rewards in exchange for support—breeds urban political machines that effectively monopolize the channels by which these exchanges occur. But centralized control over things people need and the organization of action and supervision along clear-cut hierarchical lines can draw large numbers of people into extended networks of personal and political obligation. These in turn can be employed for disciplined political action, such as winning elections, or for more generalized forms of cooptation (Johnston 2000).

To illustrate the organization of political life, consider how *Personismo* operated in Argentine cities. The Peronist Party, with direct access to public resources, was linked to the urban poor through a series of *unidades básicas* (grassroots party offices). The local bosses who ran the *unidades* would act as *punteros* (brokers) each of whom had strong ties to groups of slum-dwellers. These brokers would secure medicine, food, or other goods for the poor, while at the same time mobilizing people for Peronist rallies or delivering votes in internal elections (Auyero 2000).

In American cities in the 20<sup>th</sup> century, political machines were often interlinked with organized crime syndicates. In fact, until the early 1980s, mayors in cities such as Boston, Philadelphia and New York, were credibly linked to mafia activities. Similarly, in developing nations, the political machines and organized crime often intersect in urban, impoverished areas.

Favela-based organizations in Brazilian cities, for example, have been famously involved in both patronage-clientelism and in organized drug dealing, often creating parallel systems of authority for favela resi-

dents (Leeds 1996). In Colombia, the Cali cartel in the 1990s was active in Cali’s poor neighborhoods, working behind the scenes to bribe the police, the military, judges and politicians:

It was later revealed that President Samper’s 1994 election campaign received funding from the cartel, something that eventually led to his political downfall although not to his conviction. But at least 12 Colombian legislators and an attorney general were in jail for accepting money and favors from the Cali traffickers, and the numbers of those who received funds were obviously higher. According to Samper’s campaign manager more than 70 Colombian congressmen were elected in 1994 with funds provided by the cartel (Skaperdas 2001).

## Labor organizations

Research on union effects in developing countries finds generally positive effects on wages, non-wage compensation, and wage dispersion. Effects on firm productivity, however, tend to vary from country to country. But labor unions and other organizations that represent urban workers tend to be weaker and less institutionalized in developing countries. In several cases, unions function as appendages of political parties (and in fact, operate as political machines), or are actively suppressed by governments.

Although there is some danger of over-generalization, labor relations in most developing countries may be characterized as atomistic because most urban workers have fluid, short-term links to firms, and weak or no horizontal links to other urban workers. Few countries in the region have any special institutions for micro coordination within firms (Huber 2002). As a result, labor and employment relations are individualized and

usually hierarchical (as employees have little leverage in relations with employers). Very high turnover is a first major factor contributing to atomized employment relations since workers enter firms with few expectations of staying long (Schneider 2009). Figure 3 shows that union densities in the mid 1990s were, in Latin America, Asia, and Africa, between one-half and one-seventh that of OECD countries. Union density is low and even where unions do exist, they often do not have much of a formal presence on the shop floor.

Even where unionization rates are high (sometimes due to compulsory membership), unions are not useful institutional vehicles for coordination between workers and employers, due largely to political and state intervention. Developing country states have intervened both structurally in the sense of legislating levels and conditions of bargaining, both an ad hoc basis through labor courts or direct intervention, so that both employers and union leaders often had stronger incentives to reach agreements with state actors, than with each other (see Buchanan 1995; French 2004).

As indicated above, many poorer urban residents work in the informal sector without legal protections. Formal market regulations, on the books, are more extensive on average in developing countries than in OECD countries (Botero et al. 2004). The de facto reach of these regulations is limited, however, because they do not cover the large informal sector—and compliance in the formal sector is uneven at best (Berg 2006).

Note that in the case of OECD economies, although union density has been declining for decades, the “coverage” of unions—i.e., the percentage of workers who work under collectively-bargained agreements—remains high. In developing countries, where unions forgo collective bargaining for other activities, the wage effects tend to be non-existent.

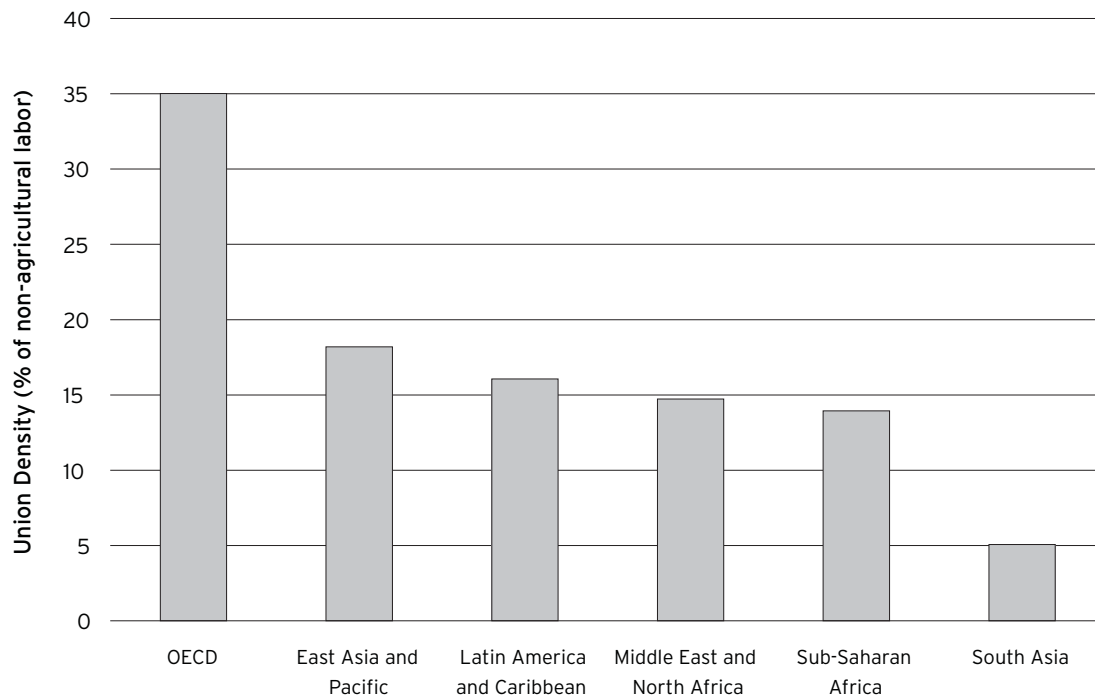
## Legal exclusion

In addition to the familiar “gaps” between rich and poor in developing countries—in terms of income, vulnerability, access to public services, asset ownership, land quality, etc.—the ability to access and use legal institutions is also distributed unevenly in most societies. In developing countries, the urban poor in particular have little access and are infrequent users of the legal system. They often live in various forms of illegality—in housing or in work, in the use of electricity—and encounter the legal system primarily in criminal prosecutions (Anderson 2003).

Informality in employment has been discussed above. The urban poor also run informal businesses—without formal loans or contracts that are enforceable beyond a small range of acquaintances. These urban-poor entrepreneurs can rarely obtain tax breaks and other business incentives that may be awarded other entrepreneurs. They must work around urban zoning regulations that prevent them from trading. They are often denied the right to use common and public resources. And they may be constrained by burdensome public health and sanitation rules (Schneider and Karcher 2007).

The informal sector also makes an important contribution to the physical growth of urban areas. In most cities and towns of Asia, Africa and Latin America the purchase of urban land, in particular land near sources of income, tends to be beyond the means of the urban poor (and even the urban middle class). Because neither the public sector nor the private sector can produce adequate and sufficient low-income housing, the urban poor (as well as many others) are forced to turn to the informal sector for accommodation. It is estimated that the informal sector houses more people than the public and private sectors combined (United Nations Economic and Social Commission for

Figure 3: Union density across regions (mid-1990s)



Source: Lawrence and Ishikawa 2005.

Asia and the Pacific 2006). Most urban poor rely on the informal sector to acquire land (without title) to build their house, or buy or rent a house in an informal settlement or slum. Thus new migrants to the city begin their urban lives as outlaws, and remain vulnerable to police exploitation or bribe taking) for the duration of their stay. Because both accommodation and employment often take place on roads, abandoned lots, and other public spaces, the urban poor are also vulnerable to the laws prohibiting “public nuisance” or vagrancy, which can result in convictions on the basis of little evidence, and which gives the police wide latitude to use their discretion in arresting or harassing the poor (Anderson 2003).

Consequently, a significant portion of the urban poor live on the margins of the legal system, without land title to their houses or market stalls, without an address, even without legal identification—birth certificate or other documentation proving their identity. The U.N. Commission on Legal Empowerment of the Poor (UNCLEP) suggests that some four billion people may live without legal protection, a large portion of whom are urban dwellers:

[I]n Kibera, a squalid slum . . . a million Kenyans struggle to survive and poverty is passed down from one generation to the next. Without legal documents, their ability to make the most of their efforts and assets is limited, and they live in

constant fear of being evicted by local officials or landlords. Criminals prey on them; corrupt officials fleece them. And, as witnessed in the recent violence in Kenya, security eludes them. Shortly before the violence erupted, Joseph Muturi, who ran a small clothing business in Toi market, told friends and colleagues: “I know that in a matter of hours all this can disappear.” He was mainly concerned with the threat of bulldozers flattening the market to make way for more powerful economic interests. In the end, the violence was political, triggered by a disputed election. For thousands of people in Toi market, the event simply proved the fundamental truth of Joseph’s words. Everything did disappear (United Nations Commission on Legal Empowerment of the Poor 2008).

This exclusion of the urban poor from access to the basic protection of law (and other public services) is exacerbated by the presence of large numbers of rural migrants in urban areas—who may not be accustomed to holding registration and other documents, and may therefore be denied access to these protections or services. In some countries, they may not have the same rights to urban services as urban residents.

## **Urban social protection**

One related effect of the clientelist mode of participation is that the urban working class does not have a natural political “home” in the cities of the developing world. Unlike Europe and North America, where strong urban-based labor movements established a political spectrum in which class conflicts between urban working classes and business groups were fought (and ultimately resolved) between left-of-center and right-of-center political parties, no such characterization is possible in most cities in developing countries.

In addition to the absence of a robust labor-union movement, weak party systems mean that political parties do not have well-established constituencies. In Asia, Sub-Saharan Africa, and some Latin American countries, for example, party systems are transient and personalized, with shifting coalitions of secular, religious, nationalist, communal and regional parties, each of which potentially includes voters from all socioeconomic strata. In countries with strong single-party legacies—Mexico, Malaysia, Tanzania, India, for example—party splits reflect deep political divisions over national identity.

One of the accepted “laws” of social policy reform has long been that strong and encompassing social-democratic parties with strong allegiances to the urban working class is a precondition for universalistic social protection. But the introduction of universal-type reforms (some of which include private provision) from countries such as Korea and Taiwan to Bolivia and Botswana challenge these assumptions. What accounts for the expansion of universal social protection, and in particular, social protection for the urban poor?

In Europe and North America, “Bismarckian” extensions of social protection occurred as a means of co-opting the urban working class. In developing countries, by contrast, it is the urban middle class, formal-sector employee that has proven to be the critical political group. Consequently, depending upon whom these groups ally with (i.e., higher- or lower-income groups), social policies may or may not have a pro-poor bias (Mares and Carnes 2009). But in the face of highly fragmented or weakly institutionalized party systems, cementing such political alliances may be impossible, with the effect that extensions of social protection to the urban (or rural) poor are compromised.

## AREAS FOR FUTURE RESEARCH

**C**onstraints on the ability to coordinate action, to exercise effective influence over policy decisions, to join membership organizations, to advocate for better social services, and to resist depredations of police and bureaucrats, are among the features of political life for the urban poor in developing countries. In this section I identify three questions regarding the political-economy of urban poverty that remain unanswered and/or questions for which new data or information are now available: (i) to what extent can decentralization of decision-making to municipal authorities address the main problems of political agency for the urban poor; (ii) under what conditions can membership organizations for the urban poor be effective; and (iii) can microfinance programs achieve efficiencies in heterogeneous urban environments?

### Decentralization

A first area for inquiry is with respect to the effectiveness of delegating responsibility and fiscal authority to municipal governments. Political agency for the urban poor is also subject to other types of abuse by political elites. At the central-governmental level, one type of abuse is through inefficient transfer mechanisms: where administrators allocate resources on the basis of loyalty, ethnic or linguistic solidarity, or other factors not related to need. These forms of patron-clientelism are well known to analysts of social service-delivery in developing countries. But at the municipal level a different type of problem has to do with the ability of local elites who control municipal governments to use them to extract private benefits.

Supporters have argued that decentralization is better suited to antipoverty programs for two reasons. First, better information is available at the regional or local level than to the center. Second, local institu-

tions, being closer to program beneficiaries, are more accountable to citizens. Field research on community-driven projects has shown that there does tend to be an informational advantage, but that the informational resource of locals is not always put to best use. Researchers have found that local community agents have better information on household characteristics and can therefore assess beneficiary eligibility better than outsiders who rely on cruder proxies (Cremer, Estache, and Seabright 1996). Among urban communities in Albania, for example, those using local information that was unlikely to be obtained on the basis of a questionnaire or formula demonstrated better poverty targeted than those that relying on proxy indicators alone (Alderman 2002).

But any informational advantage of urban communities can be compromised by its diversion to benefit local elites. Depending on the peculiar lineages of community power relations, local governments may be more prone to capture (and consequently, less accountable than the central government). Under these conditions, decentralization may simply shelter local elites, who use their position to over-provide essential services to themselves or their families, or otherwise expropriate wealth (Bardhan and Mookherjee 2007).

A range of studies has revealed the number of mechanisms local elites can use to divert resources from the poor, and even engage in predatory behavior. The implementation of community-based projects can create an adverse-selection effect whereby those individuals who are more likely to obtain leadership roles are precisely those who are better able to extract rents (Gugerty and Kremer 2000), who are better able to convince donors that their motivations are based on the collective good of their community (Harrison 2002), or who are better able to create the façade of community participation (Conning and Kevane 2002).

**Table 1: Membership organizations for the urban poor: selected examples**

Membership Organization	Year founded	Number of members	Funding sources
INDIA: National Slum Dwellers Federation and Mahila Milan	1974 and 1986	<2 million	SPARC (1984); Community-Led Infrastructure Finance Facility (CLIFF)
SOUTH AFRICA: Umfelanda Wonye (South African Homeless People's Federation)	1991	~100,000	Community Managed Resource Center; The Utshani Fund (for housing); Inqolobane (The Granary)
ZIMBABWE: The Zimbabwe Homeless People's Federation	1993	~45,000	Dialogue on Shelter; Gungano Fund
NAMIBIA: Shack Dwellers Federation of Namibia	1992	13,000	Namibian Housing Action Group (1997); Twahangana Fund; Build Together Program
KENYA: Muungano wa Wanvijiji	2000	~25,000	Pamoja Trust (2000); Akiba Mashinani Trust
MALAWI: Malawi federation	2003	20,000	CCODE - Center for Community Organization and Development; Mchenga Urban Poor Fund
SWAZILAND	2001		Peoples Dialogue, Swaziland
THAILAND: Various regional and city-based federations	1990	Thousands	CODI - fund set up by the government of Thailand
PHILIPPINES: Philippines Homeless People's Federation	2003	50,000	Vincentian Missionaries Social Development Foundation Inc (VMSDFI); Urban Poor Development Fund
SRI LANKA: Women's Development Bank	1998	31,000	JANARULAKA; Women's Development Bank Federation
CAMBODIA: Squatter and Urban Poor Federation	1994	Active in 200 slums	Asian Coalition for Housing Rights; Urban Poor Development Fund
NEPAL: Nepal Mahila Ekta Samaj	1998		LUMANTI; Nepal Urban Poor Fund

Source: d'Cruz and Satterthwaite (2006)

In the words of one study, scaled up antipoverty projects—without fundamental changes to authority relations within affected communities—often constitute “nothing other than new ‘structures’ with which [elites] can seek to establish an instrumentally profitable position within the existing structure of neo-patrimonialism” (Chabal and Daloz 1999, pp. 24-25).

### **Membership organizations for the urban poor**

A second topic for inquiry is of the role of “membership organizations”—self-governed organizations aimed at advancing a mutual cause of members—for the urban poor. As is often reported, there is sometimes a contentious relationship between the urban poor and outsider-run NGOs that serve these communities. In the

Dhaka study referenced above, responses of surveyed slum-dwellers to NGOs were uniformly negative. A survey of citizens in 10 cities in Africa, Latin America, and Asia finds that urban NGOs often have “tense relationships with community leaders and little capacity to organize the support the poorest citizens (Devas 2004).

A study of membership organizations in urban areas in developing countries finds that they generally focus on efforts to:

[U]pgrade slums and squatter settlements, to develop new housing that low-income urban households can afford, and to improve provision for infrastructure and services (including water, sanitation, and drainage). They also are supporting their members to develop more stable livelihoods, and working with governments to show how city redevelopment can avoid evictions and minimize relocations . . . The foundations for these organizations are thousands of savings groups formed and managed by urban poor groups (d’Cruz and Satterthwaite 2006, p. 1).

A sample of these groups—and the NGO support they receive—is listed in the table above. These groups, which go by names such as “self-help groups” in India or *co-operativas* in Latin America, provide support mainly (though not exclusively) to informal-sector women, who in turn are attracted to these groups because they can obtain credit, skills, job training, and other services not easily available to women in poor communities (see, e.g., Satterthwaite and Sauter 2008).

The larger question regarding these organizations relates to their scalability. Can these groups form the building blocks of what begins as a local process and develops into citywide or national federations? These groups not only manage savings and credit efficiently, but their collective management of money and the trust it builds within each group increases their capacity to work together on housing and related initiatives.

## Urban microfinance

In developing countries, efforts to provide financial services to poor and low income households have centered on rural areas. While the commercial banking sector in most developing countries have grown considerably in terms of both credit and deposits since the early 1970s leading to significant broad-basing of financial services, the bulk of the benefits of this growth has been accrued to large cities. Microfinance Institutions (MFIs), by contrast, have focused more explicitly on rural areas. Credit, then, has remained as inaccessible to the lower income households in urban areas as to their rural counterparts. The reluctance of microfinance intermediaries to work among the urban poor is evident from a minimal presence in towns and cities. MFIs have tended to avoid urban areas for many of the political-economic reasons identified above, namely, the transient nature of the potential micro-borrowers, and the high level of heterogeneity among the urban poor, possibly undermining the group-liability nature of micro-lending, in addition to a presumed larger minimum loan size.

There is, however, expanding interest among both the MFIs and commercial banks to extend micro lending to urban areas. The key question remains whether MFIs can achieve efficiencies despite the expected constraints in urban areas by developing new instruments. For example, some urban MFIs have sought to address the problem of heterogeneity and lack of affinity among urban population by relying on individual lending or lending through joint liability groups in which loans are given individually to each member, but the liability to repay is shared. Credit is offered mainly to finance different needs associated with housing (upgrading, rental advance payment and construction), working capital needed for micro enterprises, as well as for basic consumption.

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## **ENDNOTE**

1. A recent study of labor migration to U.S. cities during the Great Depression, for example, shows that by shifting out the labor supply, in-migration caused wages to fall and firms in all sectors were attracted to the relatively cheap labor available in migrant destinations (Boustan, Fishback, and Kantor 2007).



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