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The global expansion of urban slums poses questions for economic research as well as problems for policymakers. We provide evidence that the type of poverty observed in contemporary slums of the developing world is characteristic of that described in the literature on poverty traps. We document how human capital threshold effects, investment inertia, and a “policy trap” may prevent slum dwellers from seizing economic opportunities offered by geographic proximity to the city. We test the assumptions of another theory — that slums are a just transitory phenomenon characteristic of fastgrowing economies — by examining the relationship between economic growth, urban growth, and slum growth in the developing world, and whether standards of living of slum dwellers are improving over time, both within slums and across generations. Finally, we discuss why standard policy approaches have often failed to mitigate the expansion of slums in the developing world. Our aim is to inform public debate on the essential issues posed by slums in the developing world.

Full text: <http://www.aeaweb.org/>