Cities and the Global Economy

Josef W. Konvitz

In the 1980s cities contributed to the growth and development of the global economy by providing opportunities for firms and households to make use of innovations in transport, manufacturing and information. Yet, paradoxically, those years did little to provide a basis for long-term, sustainable urban growth.

Rapid economic growth in the 1980s encouraged planners and investors to enlarge cities through outward expansion and by increasing the size and number of buildings, with consequences that included pressure on rural areas and coastal zones, and wide swings in property and housing markets. An increase in economic activity enabled people to travel more, principally by car, leading to increased congestion, a deterioration in air quality and an aggravation of noise problems and heightened dependency on oil. Changes in the role of basic manufacturing in the economy, and of the income and family structures of households, altered the economic viability of many neighbourhoods, provoking a redistribution of population within cities and international migration on an unprecedented scale. These fiscal strains between central governments and municipalities affect the ability of cities to adapt to social change, technological innovation and environmental problems.

In a global economy increasingly characterised by the mobility of capital and of people, the quality of life is a major factor in strategies for economic development. Not only does the quality of life affect the productivity of people and their willingness to invest in their community; it also influences decisions by firms to locate offices and plants. Although less tangible than a port facility or a manufacturing complex, the factors governing the quality of life can be defined and, in some instances, measured: journey-times to work; the ratio of house prices to income; the quality of the housing stock; ease of access to other cities and leisure areas; openness to other cultures; the quality of the education available; responsiveness of the public sector; the quality of legal and financial services and of institutions to resolve conflicts and disputes; the mental and physical health of the population; and the number of new firms and jobs.

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These factors matter more now because individual cities are no longer as closely associated with particular economic sectors as once they were. Many cities thus no longer enjoy a comparative advantage based on past successes, or on the fortunes of geography. Human development, social infrastructure and environmental conditions[1] all influence economic potential.

The divorce between a city and its primary business can be illustrated with the example of Detroit, whose name still symbolises the American automobile industry. Most manufacturing in Michigan now takes place outside of the city proper, in the suburbs, or in one of Michigan's medium-sized cities, such as Lansing, Flint or Ypsilanti. The physical decay of Detroit and the widening gap between urban and suburban incomes create a spiral of decline that is difficult to arrest when businesses can easily locate their activities elsewhere. Increasingly, manufacturing plants are to be found along a superhighway that extends from northern Ohio to Tennessee; Japanese and European car companies have all located plants outside the traditional area of car production. In this instance the name Detroit has come to refer to the economic power of a sector, not to its spatial organisation.[2]

Another example of how the ties between cities and sectors are unravelling is provided by the relationship between the financial sector and some areas of New York or London. In both cities, port facilities explain the emergence and growth of the financial sector. In both, the port has declined in its importance in the local economy. And in both cities, the financial sector was able to grow despite the collapse of maritime activities. But now many back-office operations are being transferred to suburbs or, in some cases, to cities remote from the headquarters of banks and investment firms. In London and New York, indeed, the recent dominance of the financial sector in the local economy may become a liability for the future, if nothing else emerges to generate employment and concentrate business.

Several characteristics of the new global economy have a bearing on cities. International

1. See pp. 17–22.

2. It is revealing that some traditional terms of economic geography such as 'port', 'hinterland' and 'foreshore', which refer to monocentric, hierarchical networks, are used less frequently than 'region', 'cluster' and 'network', which describe interdependent and polycentric patterns.

3. See pp. 12–14.

One of the hallmarks of the global city: ease of access to other parts of the world.

capital movements give them access to credit worldwide. Telecommunications permit firms to co-ordinate work in many places without the friction of time.[3] Container shipping and air cargo can move unprecedented volumes of goods over long distances at lower cost and with minimal handling.

During the commercial revolution of the 16th–18th centuries, and the industrial revolution of the 19th, cities sited near primary resources or on major navigable routes enjoyed a comparative advantage. Pittsburgh, for example, sat at the confluence of two rivers with access to coal, and between the Atlantic seaboard and the Middle West.

Today, by contrast, accessibility is no longer the privilege of a few cities. As a result, the world's networks of communication, trade, manufacturing and finance are increasingly polycentric, and give rise to clusters of regional or metropolitan networks. The economic channels of today are no longer hierarchical, passing from one of a small set of world cities (New York, London, Paris, Tokyo) to those on the rung below (Chicago, Manchester, Osaka), and so on down, until provincial towns are reached. Cities now require multiple pathways and connections to one another within a region, and to other clusters of cities in other countries. As a result, opportunities to participate in the global economy are more widely accessible to alert enterpreneurs and city leaders.

What Cities Have to Offer

The ease of relocating economic activities from one place to another means that cities have to offer business something more than access to a supply of labour, resources and markets. Cities want to draw attention to the high quality of life they can offer, through investment, innovation and the institutions they contain.

What a city can offer to investors depends on its capacity to raise taxes and moderate spending, provide basic services for physical and social infrastructures, and maintain a long-term perspective on such matters as transport planning and environmental quality. The capacity of municipal governments to invest in their own development should reassure firms that they are unlikely to face major local shortages or bottlenecks, or environmental constraints.

But two factors limit the capacity of cities to develop long-term investment plans: voters resist fees and taxes; and the existing volume of debt may limit the amount of money that can be borrowed and serviced now and in the future. As national governments decentralise and deregulate, these local constraints may force cities to compromise projects for long-term investment (expanding the capacity of their infrastructure and improving the quality of the services they provide) so that in the short term they can maintain essential services.

Innovation is increasingly associated with what is called the knowledge-based economy. And the institutions of education and research and the facilities of large companies are predominantly in cities. The new ideas they produce are responsible for many of the productivity gains in manufacturing and for many of the new services offered by the expanding financial and communications

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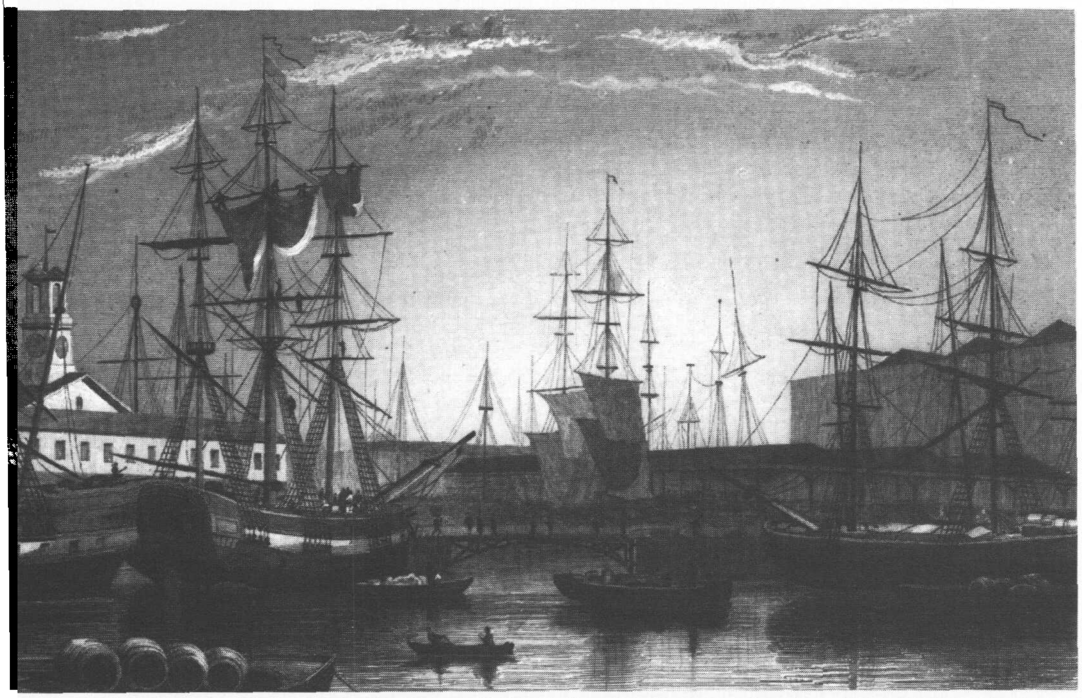

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The docks allowed London to grow as a financial centre – but what sector will emerge to support the city as financial operations are transferred to the suburbs and elsewhere?

sectors. In addition, the cultural sector, the media and the entertainment industries, all largely urban activities, generate employment for highly skilled labour. Indeed, the capacity of individuals to move from one task to another, and their capacity to develop fresh skills and absorb new information, are keys to understanding the capacity of many urban economies to shift from one sector to another.

Increasingly, local and national governments alike recognise that cities in the broadest sense, composed of suburbs and urban cores, organise and concentrate the key functions of the economy: design and production, distribution, finance, and the service sectors. It follows that how urban problems are addressed and how the future demands of cities can be anticipated are two critical dimensions of how regions and nations can improve their competitiveness. These are institutional tasks. Community organisations in particular have a role to play. But the fragmentation of cities over larger areas and more jurisdictions makes it difficult for people to come together to focus on general problems. For the same reason, it is difficult for elected officials in different parts of an urban region to identify a common basis for development plans. It has yet to be seen whether cities have the capacity to develop the institutions for decision-making that will work effectively in decentralised metropolitan areas.

Cities have confronted similar challenges before. At the end of the 19th century, for example, when the beginnings of the global economy tied the hinterlands of North and South America to the industrial centres of the Atlantic, new institutions were created for metropolitan government and for the management of major infrastructural systems on a regional scale – the unification of the City of New York and the port and water authorities, say. Private and public funds were committed to modern rapid transit systems (streetcars, subways) and to public health clinics and hospitals. And new research institutions, universities and an expanded public school system created a better educated public and a range of new inventions and ideas that transformed technology. But the opportunities provided by social change, economic growth, technological innovation and environmental awareness today have yet to find their expression in visions of cities of the future that are at once bold and practical.

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Successful cities are characterised by several common features. They have a wealth of information about current conditions, and a capacity to undertake policy-oriented research. There are strong links between business, educational and cultural institutions, and community groups. They house organisations that generate public participation in decision-making. They have a sound investment plan that includes environmental criteria and goals. They contain institutions and mechanisms that improve co-ordination horizontally, across different sectorial units in government, and vertically, between different tiers of government. And they are home to thriving local markets which enable local firms to supply one another and which respond to demand by expanding the range of goods and services available, both through imports and exports.

A strong economy is not enough, on its own, to solve urban problems. Whether a city is new or old, or growing slowly or rapidly, matters less than whether local and national governments are prepared to develop policies and guide investments that are appropriate to their requirements. And an international perspective is increasingly necessary even when local issues are at stake. Already there are innovative cities responding to the challenges of the global economy. In a world that is increasingly urbanised, the global economy can grow only if cities can absorb the impact of economic change. ■

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