Detroit and **Beijing**, 2010 (Elvin Wyly).

The Economist's City
Urban Studies 200, *Cities*
November 22, 2011
Elvin Wyly

Voice, Vocabulary, and The City

Economics is central to an understanding of cities and urban life. As Barbara Phillips puts it in *City Lights*, "Scholars from many fields and interdisciplines agree ... that, fundamentally, the metropolis can (and should be) seen as a focus of production."[1] Unfortunately, it is not always easy to discuss important economic issues, because of "a serious mismatch between theorists' high ranking of economics as an influence on our fates and the general public's economic literacy."[2] Literacy is indeed crucial here, because over the course of the last several centuries, the study of economics has created a rather specialized vocabulary. Consider, for a moment, the kind of language we might find in a simple summary of the mainstream perspective of urban economics:

> The neoclassical view holds that dynamic, competitive urban markets rely on the price mechanism to coordinate the unlimited array of complex signals and incentives in a city, yielding short-run equilibrium supply-and-demand solutions that regularly clear markets and provide the greatest possible utility to the largest number of consumers. In the long run, rational, profit-seeking entrepreneurs competing to serve rational, utility-maximizing, and fully-informed consumers in the marketplace will drive innovations that sustain consistent real increases in living standards.

There's a lot of jargon here -- utility-maximizing, supply-demand equilibrium, market-clearing, and so on. And what does "neoclassical" mean?

One of the disciplinary paradoxes of economics is that it is universally accepted as a crucial area of study and policy -- even by those who have very little understanding of its basic terms. Perhaps the enduring power of the *discipline*, in fact, can be explained by the very careful, *disciplined* way that economists choose their words, so that when economics experts communicate with one another, they minimize confusion and thus maximize efficiency. Ah, efficiency-maximizing discourse! We really are in a world of specialized jargon, aren't we?

What about the rest of us? In her chapter of *City Lights* devoted to the study of urban economics, Phillips starts right at the beginning, with an elementary introduction to the very language of contemporary economics -- "A Beginning Vocabulary."[3] Likewise, as a response to the problem of economics "written for a small audience of specialists," the Nobel Prize-winning economist Joseph Stiglitz started an entire journal, *The Economists' Voice*. The mission of the journal:

---

[1] E. Barbara Phillips (2010). *City Lights: Urban-Suburban Life in the Global Society, Third Edition*. New York: Oxford University Press, p. 616.
[2] Phillips, *City Lights, Third Edition*, p. 616.
[3] Phillips, *City Lights, Third Edition*, p. 617-621.

> "We believe that anyone concerned about the central issues of the day, whether they are students, policymakers, or other citizens, would benefit from hearing economists debate what should be done about problems from budget balancing to global development, from intellectual property to outsourcing, from health care reform to how to provide old age security."[4]

Today, we'll explore a brief introduction to the economists' voice -- and to the voices of other students and citizens who care about economic issues -- in relation to cities and urban life. We'll begin with a brief history of neoclassical economics, before considering the contemporary vocabulary of mainstream economic theory. Then we'll consider some of the most influential alternative languages and theories, before taking a look at the way empirical events of our current age are prompting widespread reconsideration of urban economics.

The Classical Enclosure and the Rise of Neoclassical Economics

"Classical" economics was political economy, also called "moral philosophy": it involved the holistic and historical analysis of economy, society, and moral questions of how to adapt to the revolutions of science and capitalism that were undermining the authority of Christianity.

Today's mainstream economic thought is based firmly on the advances in the study of markets, production, and trade achieved in the "classical" period of the eighteenth and nineteenth centuries. The most influential of the classicists, of course, was the Scottish political economist Adam Smith (1723-1790), whose *Wealth of Nations* provided a powerful manifesto for capitalism. At the time Smith was writing, "political economy" was a thoroughly historical, political, and moral affair -- indeed, the field was also described as "moral philosophy." Smith, and other writers who would later be remembered primarily *as economists*,[5] were struggling with deeply philosophical and moral questions raised amidst the collapse of Europe's theological and political order. With the expansion of science and technology, the European Enlightenment was undermining and replacing the vast, comprehensive explanatory decrees of Christianity. Auguste Comte (1798-1857), the French philosopher who built the theory of knowledge known as positivism specifically to challenge the reactionary theological explanations of the old order, took note of Smith's contribution:

> "Adam Smith made the remark that there never was, in any age or country, a god of weight."[6]

---

[4] Joseph Stiglitz (2010). "Aims & Scope." *The Economists' Voice.* Berkeley, CA: Berkeley Electronic Press.

[5] One of Smith's political-economist colleagues, Thomas Malthus (1766-1834), read mathematics at Cambridge, and was then ordained as a church minister in 1793. A few years later he wrote his famous *Essay on the Principle of Population*, which argued that the nonlinear, geometric increase in the human population would inevitably outstrip the food supply (which can only grow at a linear rate) -- creating constant poverty and misery.

[6] August Comte (1830-1842), *Course de Philosophie Positive, Book VI, Social Physics.* In Gertrud Lenzer, ed. (1998). *Auguste Comte and Positivism*. New Brunswick, NJ: Transaction Publishers, p. 291.

Official Church doctrine was being questioned. The sciences of observation, theory, and measurement were undermining the authority of the theological assertions of "what is" in the world, and so it was perhaps inevitable that philosophers would also have to replace the once-unquestioned Church moral decrees of "what should be." In a world that was being remade by the dramatic expansion of exploration, trade, and production -- a world that was also seeing more greed and violence -- what was the morally right thing to do?

For Adam Smith, economics provided a new set of secular principles that replaced theological moral doctrines without contradicting them.

> "It was held that the state could not rein in human passions, implying that the key was harnessing self-interest for this purpose. Avarice became constructed as a beneficial and mild interest rather than a passion, capable of taming other passions deleterious to society. Adam Smith solved the puzzle of how self-interest could create a society beneficial to all. He reduced self-interest to economic calculation, and articulated the principle of the *invisible hand*, whereby market competition would translate individual self-interest into mutual benefit. ... These justifications gradually transformed into the abstract argument that self-interested practices of economy were universal, and generally socially beneficial."[7]

"Neo-classical" economics gradually replaced classical political economy, with a narrower "scientific" focus on rational choice and the use of the price mechanism to achieve an optimal, efficient allocation of resources.

This abstract argument was the focus of intense debate in political economy throughout the nineteenth century. It eventually became a crucial part of the foundation for a new perspective that replaced the holistic approach of political economy. This new perspective is now known as neoclassical economics,

> "A school of economics defined by the study of rational choice and the price-based optimal allocation of resources, using a body of analytically rigorous and mathematically sophisticated theory and techniques. It is the school of economics, at least in Anglo-America, ubiquitous, hegemonic and mainstream. The economist Roy Weintraub says, 'we are all neoclassicists now.'"[8]

[7] Eric Sheppard (2009). "Economy." In Derek Gregory, Ron Johnston, Geraldine Pratt, Michael J. Watts, and Sarah Whatmore, eds., *The Dictionary of Human Geography, Fifth Edition.* Malden, MA: Wiley-Blackwell, 184-185, quote from p. 184.

[8] Trevor Barnes (2009). "Neoclassical economics." In Derek Gregory, Ron Johnston, Geraldine Pratt, Michael J. Watts, and Sarah Whatmore, eds., *The Dictionary of Human Geography, Fifth Edition.* Malden, MA: Wiley-Blackwell, 495-496, quote from p. 495.

Neoclassical economics emphasizes

1. A focus on individual, rational economic choice.

2. Market equilibrium and the self-correcting tendency of markets, which behave, as a Adam Smith put it, as if directed by an 'invisible hand.'

3. A clear definition of efficiency as the result of competitive market processes that achieve optimal resource allocation: non-market (political) decisions are viewed with suspicion, and should only be permitted under narrowly specified circumstances.

4. A clear separation between positive and normative statements.

5. The privileged position of sophisticated mathematical techniques as the superior language of economic explanation and expert communication.

Neoclassical economics evolved in many ways over the course of the twentieth century, but its present configuration is distinguished by five main features.[9]

1. The focus is on individual, rational economic choice, the idea that individuals -- consumers and producers -- are constantly working to maximize utility and profit. Neoclassical theory is built on the assumption "of the methodological sovereignty of independent, rational individuals ... who form the back-stop of neoclassical explanation. Everything -- institutions, firms, social classes -- is reducible to the law of individual rational choice."[10]

2. An emphasis on market equilibrium, the condition in which all incentives among producers and consumers are balanced out, so that nobody has an incentive to change their decision. Market equilibrium is the aggregate, societal result of individuals pursuing utility-maximizing, rational economic choice. The unregulated dynamics of supply and demand in the marketplace tend, over the long run, to return most markets to a state of equilibrium, even after serious shocks -- this was the 'self-correcting' feature of markets that fascinated Adam Smith, and which he described as the 'invisible hand.'

3. A clear definition of market efficiency as the result of competitive processes that achieve an optimal allocation of resources. Non-market decisions on how to allocate resources -- such as state intervention -- are viewed with deep suspicion in

[9] Adapted and revised from Barnes, "Neoclassical."
[10] Barnes, "Neoclassical," p. 496.

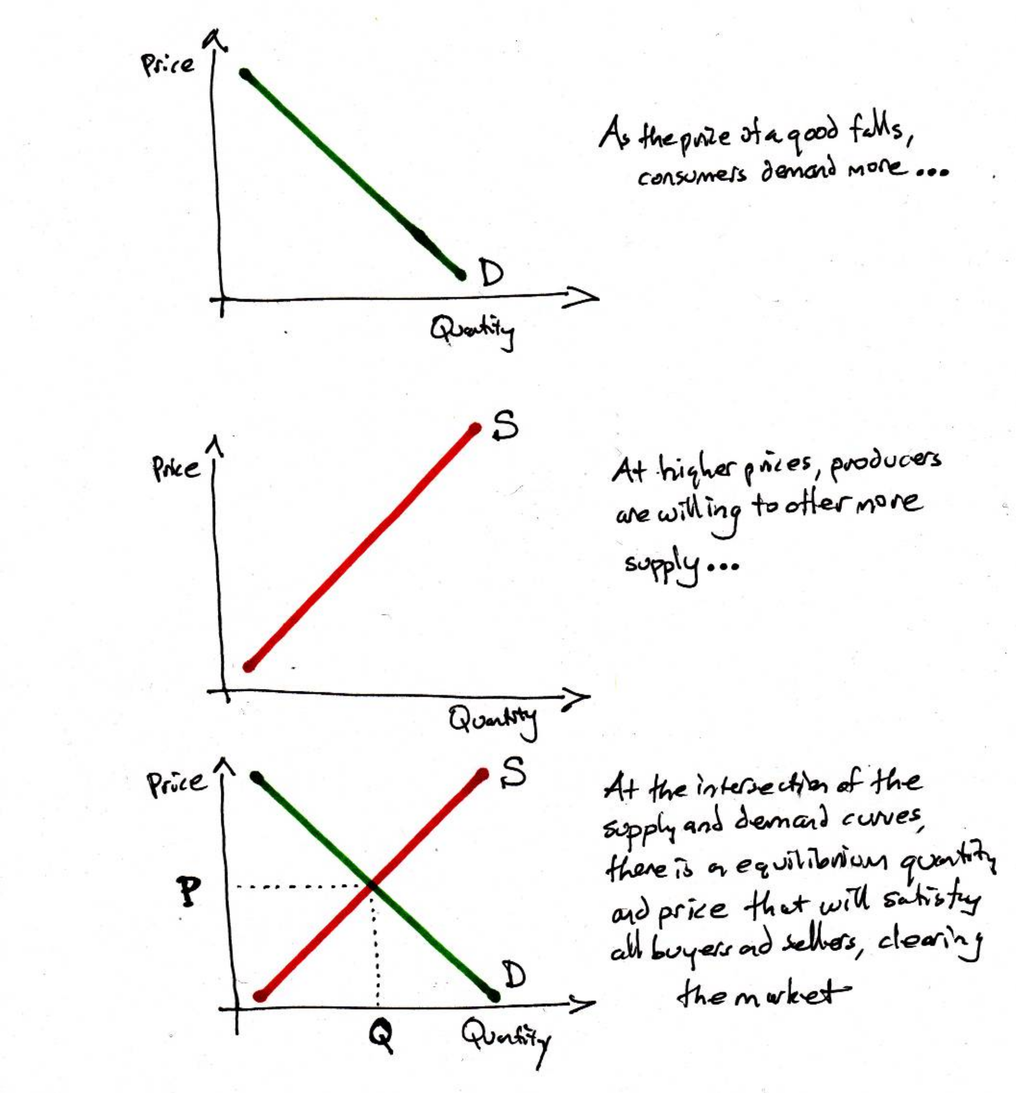
neoclassical theory, since they ‘distort’ the process by which competition sorts out resources among competing needs on the way towards equilibrium.

4. A clear separation of the *positive* and *normative* aspects of economics, as part of the effort to build the credibility of economics as a science. Whereas classical political economy emerged in the context of questions that were simultaneously about explanation and moral judgments, neo-classical economics separated the two. Positive economics is the science devoted to explaining what people will do given a particular set of incentives and market conditions. Normative economics involves recommendations on *what should be done*. The authority and credibility of the discipline relies on the priority given to positive economics. But authority, credibility, and disciplinary prestige increase the demand for economists to move into the normative realm, and provide recommendations on policy decisions.

5. A privileging of mathematical modeling as a sophisticated, objective, and reliable mode of analysis. This feature developed most clearly after the Second World War, when dominance in neo-classical thought passed from Britain to the United States. While a great deal of economic thought from earlier years involved accessible, engaging accounts of historical conditions and contemporary economic processes, mathematical reasoning came to dominate as economics sought to achieve the status of a science on a par with the physical sciences (especially physics and chemistry). The heavy use of mathematical analysis required more specialized training to achieve expertise in the field, and reinforced the increasingly specialized vocabulary of economic discourse. This methodological turn also created the possibility for subtle confusions between positive and normative economics, that remained largely invisible to non-specialists. When stated in the form of complex, sophisticated mathematical formulas, for example, normative assumptions on how individuals should behave are easily mistaken for purely technical features of positive economics models of market equilibrium.

Supply, Demand, and Equilibrium

For any given good or service, consumer demand will tend to decline as price increases. For producers, by contrast, higher prices act as a powerful incentive to offer a greater supply; higher prices ensure that the difference between sales and the cost of production will yield a good profit. The aggregate preferences of consumers for higher quantities at lower prices, and lower quantities at higher prices, yields a *demand* curve that slopes downward; the sum of the desire of producers to sell higher quantities at higher prices yields a *supply* curve that slopes upward. The intersection of the supply and demand curves identifies an equilibrium price, which serves as a market-clearing mechanism: at this level, producers will be able to find willing buyers for all of the supply, and, conversely, everyone who is willing to pay this price will be able to make the purchase (i.e., there will be no systemic shortages).



Supply, Demand, and Equilibrium

Since supply and demand curves can be dynamic, fluctuating and shifting, it is best to think of *dynamic equilibrium*: the equilibrium price may move around quite a bit, but wherever it is the result is a powerful adjustment mechanism. If prices are below the equilibrium point, many buyers are unable to find what they want, and producers quickly learn that they can raise prices and still sell all of their output. On the other hand, if prices stay above the equilibrium price for very long, there will be a surplus of unsold goods and services, placing downward pressure on prices. And since higher prices hold out the promise of greater profits for anything producers do sell, prices above the equilibrium will encourage more entrepreneurs to enter the market and gain market share by slightly undercutting the existing firms; such competition will push the price downward until, at the equilibrium level, the market clears, all consumers are able to meet their needs at a price they are willing to pay, and all producers are able to sell all their output at a profit level that is just enough to keep them in business and motivated to continue to compete in the market. In mainstream economic formulations, this level of profit is labeled the “normal” rate of profit; its precise level depends on broad historical and societal conditions of economic development and production technology. As with the notion of dynamic equilibrium, however, economists draw attention to the role of profit in driving change in the system: in an open, competitive environment, the only way for producer to get a profit above the normal rate is to have something that other producers cannot offer. The profit motive drives innovation, which will allow the most motivated producers an above-normal profit rate for a limited period of time, until other competitors follow the lead.

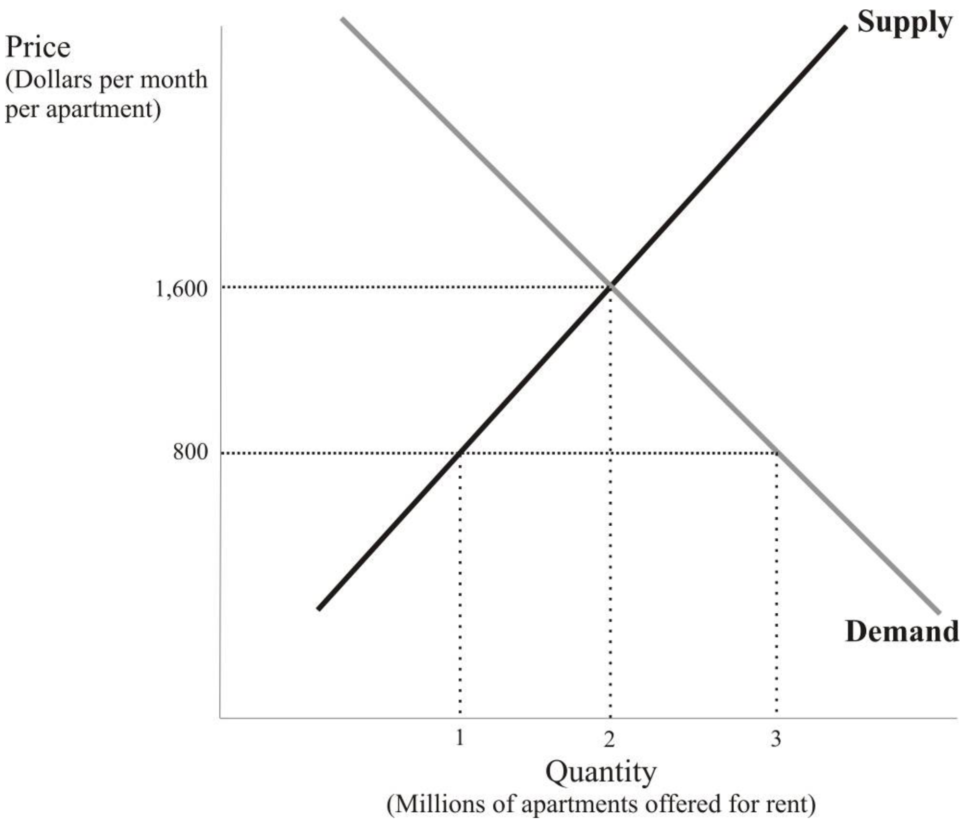
How are these principles applied to urban questions? Supply and demand curves can be (and are) used to study an almost unlimited array of goods and services provided in cities -- including such quintessentially urban phenomena such as location and accessibility. But one example from a leading introductory text provides a vivid illustration of several features of contemporary economic logic. In a section analyzing the differences between central planning versus market economies, the authors write that

> "...with the fall of the Soviet Union and its satellite nations in the late 1980s, there are now only three communist economies left in the world: Cuba, North Korea, and China. The first two of these appear to be on their last legs, economically speaking, and China has by now largely abandoned any attempt to control production and distribution decisions from the center. The major remaining examples of centralized allocation and control now reside in the bureaucratic agencies that administer programs like New York City's rent controls -- programs that are themselves becoming increasingly rare."[11]

Supply and demand curves, of course, make it possible to show how rent controls distort the incentives at the heart of the neoclassical model. In a market where the equilibrium price for a New York City one-bedroom apartment is $1,600 per month, suppose that

> "acting purely out of benign motives, legislators made it unlawful for landlords to charge more than $800 per month for one-bedroom apartments. Their stated aim in enacting this law was that no person should have to remain homeless because decent housing was unaffordable."[12]

[11] Robert H. Frank and Ben S. Bernanke (2009). *Principles of Economics, Fourth Edition.* Boston: McGraw-Hill, p. 63.
[12] Frank and Bernanke, *Principles*, p. 71.



The Neoclassical Objection to Rent Control. "When rents are prohibited from rising to the equilibrium level, the result is excess demand in the housing market." In this example, setting a controlled rent level at $800 per month would yield an excess demand of 2 million apartments. *Source:* Modified and adapted from Robert H. Frank and Ben S. Bernanke (2009). *Principles of Economics, Fourth Edition.* Boston: McGraw-Hill, quote from p. 71.

Unfortunately,

> "when rents for one-bedroom apartments are prevented from rising above $800 per month, landlords are willing to supply only 1 million apartments per month, 1 million fewer than at the equilibrium monthly rent of $1,600. Note also that at the controlled rent of $800 per month, tenants want to rent 3 million one-bedroom apartments per month. ... So when rents are prevented from rising above $800 per month, we see an excess demand for one-bedroom apartments of 2 million units each month. Put another way, the rent controls result in a housing shortage of 2 million units each month."[13]

Externalities

Production processes create a wide array of externalities, however. Externalities are best understood as "spillover" effects: results of production or market transactions that affect individuals not directly involved in the process itself. "These effects may benefit or penalize innocent bystanders."[14] A large factory pollutes the air and water for everyone in the vicinity, regardless of who buys the products (a negative spillover effect). A big airport, on the other hand, will give a boost even for entrepreneurs who never fly anywhere themselves; these firms

[13] Frank and Bernanke, *Principles*, p. 71.
[14] E. Barbara Phillips (1996). *City Lights: Urban-Suburban Life in the Global Society*. New York: Oxford University Press, p. 499.

simply enjoy the benefits of the positive externality of the arrivals and potential customers. Yet for people who live too close to the airport, they suffer a negative externality: even if they never fly anywhere, they still must endure the unbearable noise of jet engines. An externality, then, can also be thought of as a mismatch between *individual* and *societal* cost-benefit calculations.[15] Externalities are problematic, because they represent a failure of the price mechanism, which would otherwise involve a cost-benefit calculation among buyers and sellers to find an optimal solution to minimize pollution, congestion, noise, or other problems.

Externalities have always been extremely difficult to calculate, and there is consensus that measurement is even more difficult in the contemporary service economy. Moreover, questions over externalities are often bound up with broader questions over equity -- debates over the fair or just allocation of resources and risks. Many economists draw sharp lines between what they view as the detached, objective science of economics and political questions of equity, justice, and morality; at the same time, most mainstream economists see an inherent tradeoff between equity and efficiency. Although it is widely recognized that growth in unregulated markets tends to widen inequality, for instance, mainstream analysts often emphasize that attempts to mitigate this process (through interventions such as income support programs or subsidies for poor neighborhoods or declining cities) will simply ease short-term pain at the expense of long-term distortions; according to this view, market processes that create massive inequalities will, over the long run, lead to new, more efficient equilibrium outcomes that will provide the largest possible aggregate utility for the largest number of people.[16]

The Place of 'the Urban' in Neoclassical Economics

The contemporary neoclassical strand of political economy, as it has evolved from the middle decades of the twentieth century, is rich, sophisticated, and multi-faceted. But its relation to urban studies has been limited and partial. On the one hand, neoclassical economic thinking taps into simple, intuitive perspectives on cities. It seems logical, and well in line with the concepts of equilibrium, for example, that things are more expensive in cities, where everyone is competing for goods and services, particularly a place to live. But wages are also higher in cities. Workers living in metropolitan areas earn nearly one-third more than their counterparts in rural areas, even after controlling for education and other factors:

> "Given standard neoclassical assumptions, higher wages for the same workers in cities must reflect a higher marginal productivity of labor for workers. This remains true even though the higher wages in cities are completely offset, from the workers' point of view, by the higher cost of living in cities. ... higher wages must also imply greater productivity. After all, if workers weren't more productive, firms would leave cities altogether and hire elsewhere. Since the urban wage premium appears to be a centuries-old phenomenon, we must assume that over the long run, firms are quite willing to pay these higher wages."[17]

---

[15] Paul A. Samuelson and William D. Nordhaus (1994). *Economics, Fourteenth Edition*. New York: McGraw-Hill, pp. 720 ff.

[16] And yet, as the liberal economist John Kenneth Galbraith once remarked, in the long run, we're all dead.

[17] Edward Glaeser (1998). "Are Cities Dying?" *Journal of Economic Perspectives* 12(3), 139-160, quote from p.

Other intuitive connections can be found inside cities. One of the commodities that has a fixed supply (land) has an equilibrium price that varies widely with location. In large cities, the most accessible, centrally-located land becomes extremely valuable; the result is that only the most lucrative activities are able to generate the cash flow to be able to compete for these high-ticket locations. Downtown space becomes extremely valuable, forcing people and firms to economize on space, or in fact to make more of it by building artificial land (filling in swamps, waterfronts, or building parcels of land on top of one another to form a skyscraper).

Nevertheless, despite the intuitive connections, many economists have seen the "urban" as a research path with little prestige. As E. Barbara Phillips points out, "urban economics did not even exist until 1965, when the first urban economics text appeared. Just one generation later, the subdiscipline of urban economics seemed woefully outdated."[18] Since Phillips penned these words, however, there has been a remarkable rediscovery of the urban by a small but influential band of urban economists, led by Edward Glaeser, Michael Porter, Paul Krugman, and John Quigley.[19] Much of this newfound interest reflects a natural curiosity in the paradox that has emerged in the last fifteen years or so: even as new technologies seem to have reduced the friction of distance to near zero for many communications functions, urbanization is still thriving,[20] and firms still find that they can enjoy positive externalities by locating near functionally similar enterprises -- a phenomenon known as "agglomeration economies," and sometimes as "external economies." Many years ago, a series of descriptive case studies of big-city manufacturing summed up the dynamic like this:

> "Rubbing elbows with others of their kind and with ancillary firms that exist to serve them, [firms] satisfy their variable wants by drawing upon common pools of space, labor, materials, and services. In more concise language, they can take advantage of external economies. The economies are external in the sense that the firm obtains them from outsiders, and they are economies in the sense that the firm can satisfy its variable or part-time needs in this manner more cheaply than it could satisfy them from within. The outsider, in turn, can afford to cater to the firm's factional needs because he also caters to many other firms. The external economy may derive from an electrician or a sewing machine repairman or a free-lance photographer, responding to the call of a firm which does not need him full-time .... It may even grow out of a revolving supply of specialized labor, such as garment workers accustomed to seasonal cycles, printers, staff writers, editors, or electronic engineers. Such a supply enables a firm to pick up employees quickly and let them go with equal suddenness, and makes it unnecessary to maintain a stable force of workers for an unstable demand. Thus, it is obvious that external

---

[18] Phillips, *City Lights*, p. 496.

[19] Urban economies and city-systems figure prominently in such volumes as Masahisa Fujita, Paul Krugman, and Anthony J. Venables (2001). *The Spatial Economy: Cities, Regions, and International Trade*. Cambridge, MA: MIT Press. Not long ago, Paul Krugman took a leave from his position as a *New York Times* columnist to write an economics textbook; it will be interesting to learn how recent urban (and political) debates are evaluated in this new text.

[20] This is not to say, of course, that *every* city is thriving. Some cities are declining, others are growing rapidly, but urbanization overall is still increasing. Recall that urbanization levels in wealthy countries are high and increasing slowly, while urbanization in poor countries is much lower but increasing rapidly.

> economies reduce the cost of doing business just as labor and transport [savings] do. Indeed, there is no real line of demarcation."[21]

In the 1980s and 1990s, many urbanists and regional economists refined and updated these ideas to understand the powerful external economies in Silicon Valley and many other high-tech and "new-economy" districts. And yet much of the high-tech revolution of the last quarter-century has involved rapid information and communications technology innovation, which has become a major research focus for urban economics. How do cities survive when communication seems to allow producers and consumers to be located anywhere? Ed Glaeser approaches the paradox of urbanization amidst technological transformation by distilling urbanization to its essential economic logic:

> "Conceptually, a city is just a dense agglomeration of people and firms. All of the benefits of cities come ultimately from reduced transport costs for goods, people, and ideas. The positive impacts of agglomeration that comes from reducing the costs of moving goods lost most of its importance over the 20th century as transportation costs fell and large-scale manufacturing declined. The costs of moving people and ideas, however, appear to be as important as ever. The future of the city's productivity depends on whether available substitutes for face-to-face interactions (e-mail, the internet, and so on) will make the need for personal contact obsolete, or whether the new technologies harbor the dawn of a more interactive era where the ability to contact in person easily is particularly prized."[22]

The prominent urban economist Edward Glaeser nicely sums up the essence of the economist's city: "Conceptually, a city is just a dense agglomeration of people and firms. All of the benefits of cities come ultimately from reduced transport costs for goods, people, and ideas."

Alternative Languages

Despite the revival among some neoclassical economists, urban studies is still not seen as the central focus of a discipline that privileges highly theoretical work on national and international processes. And in any event, many urbanists in the last generation have noted that neoclassical economics has paid attention to selective elements of its heritage. Neo-classical economic theory, and neo-liberal economic policy, have added "neo" to only one half of the classical tradition. The work of David Ricardo, Adam Smith, and other classical political economists was refined and updated, but another prominent political economist was seen as threatening. Karl Marx's critique of political economy has thus been a dissident, oppositional school of thought, providing important critiques of mainstream urban economic thinking. Marxist urban economists' most important critique is this: capital is not simply a factor of production that finds use in the market process with all those fancy supply-and-demand curves. Capital is a social relation, made possible by the

[21] Max Hall, ed. (1959). *Made In New York*. Cambridge, MA: Harvard University Press, pp. 12-13. Cited in John Quigley (1998). "Urban Diversity and Economic Growth." *Journal of Economic Perspectives* 12(2), 127-138.
[22] Edward Glaeser (1998). "Are Cities Dying?" *Journal of Economic Perspectives* 12(3), 139-160.

monopolization of certain resources by a particular class that is able to control production and to pursue *accumulation*, largely by exploiting those who have only their labor to sell. Labor is ultimately the source of all value. Capitalists hire workers to produce, and set wage levels such that production costs are below the market price for the output; this gap -- the difference between the market price and the cost of production -- is the *surplus value* appropriated by the capitalist. This relation is known as the labor theory of value. Once capitalists appropriate surplus value, they can reinvest in production, and in so doing they face strong incentives to invest in machines and other technology (in order to save on labor costs). Marx famously referred to this type of investment as "dead labor," since it allowed capitalists to enjoy further rounds of accumulation even from previous generations of workers.

What neoclassical economists label the "normal" rate of profit, or simply a fair return to capital as a factor of production, radical economists refer to as the exploitation of labor.

Marxist political economy became influential in urban studies in the 1960s and 1970s, and remains an area of active debate today -- although it has faced challenges from the right (the ascendance of neoliberal and neoconservative thought and policy) and the left (feminist and poststructuralist critiques that marxist theory is too deterministic and too economistic). In the 1970s, there was a thriving discussion of the importance of monopoly capitalism in which production was controlled by cartels and alliances between large corporations and the state. Radical urbanists were fascinated by the powers of this "organized" capitalism, and its potential for mobilizing the advantages of particular cities and regions to accumulate enormous wealth. But of course radical urbanists also questioned the inequalities of monopoly capitalism, and they also criticized the ways in which capital investment and disinvestment distorted city politics. In a process often described as "urban managerialism," city governments usually found themselves taking a large share of the responsibility for cleaning up after the externalities of capital and production, or making costly investments that individual capitalists found unprofitable or risky. Capital went after the lucrative opportunities wherever they were, while city governments took on the risks and responsibilities avoided by companies and investors.

The debate over "organized" capitalism that fascinated theorists, however, was suddenly rendered obsolete and irrelevant by real-world changes. Economic uncertainty in the 1970s destroyed the competitive advantage of large monopoly corporations, which could dominate markets only when macroeconomic conditions – especially inflation – were stable and predictable. When inflation and exchange rates began to fluctuate wildly in the 1970s, the enormous fixed costs of large monopoly corporations – and the cities relying on them – became huge liabilities that left vast inventories of unsold goods and unused capacity. Cities reliant on old-line industrial companies endured a long and painful period of economic restructuring, marked by devastating plant closings, job losses, and declining tax bases, in turn forcing municipal governments to slash spending. Fiscal belt-tightening, however, made it difficult for cities to make the investments required to attract new employers; but the only alternative (raising tax rates on remaining residents and corporations) risked encouraging more people and jobs to flee for the suburbs or beyond.

As these trends continued, therefore, urbanists began to develop new theories to understand the dynamics of "disorganized" capitalism. Allen Scott, conducting careful research on high-tech manufacturing and advanced services industries of Southern California, developed a "transaction cost" framework that showed how the end of organized capitalism had actually accentuated the importance of location.[23] His work showed that when large, vertically integrated companies – firms that owned and controlled large parts of the production process, from the basic raw materials all the way through final processing – encountered crisis in the 1970s, they responded by selling off many of these subsidiaries and replacing them with subcontracting arrangements with newly independent suppliers. With contracts specifically crafted to consider market conditions, companies could easily respond to, say, a decline in product orders by reducing their purchases from an independent supplier; conversely, with a rise in demand the company would increase its purchases from a supplier, using a subcontracting arrangement rather than making the enormous investments of, say, building its own new factory. Allen Scott's research showed that these subcontracting arrangements made geography much more important, with lots of small, flexible companies interacting repeatedly and thus benefiting by locating near one another. Flexible companies also proved advantageous as cultural and demographic shifts began to replace standardized, mass-market consumer taste with fast-changing styles and shifting demands: for consumers, the technological innovations of the last generation have created more choices, rapid changes in the kinds of goods and services available; for companies, the changes have meant that constant innovators survive, while staid, inflexible companies are more likely to die when fashions and preferences change. The 1990s brought an enormous wave of interest in "flex-spec" urban economies: innovative cities and districts within cities or suburbs that were hotbeds of new products and new services.

Neoclassical and radical analysts shared an intense fascination with these new industrial districts, new "flex-spec" environments of creativity and entrepreneurial talent. But radical urbanists were deeply troubled by some of the problems associated with contemporary economic restructuring. First, the collapse of predictable corporate forms with the transition from organized to disorganized capitalism vastly increased the uncertainty for *workers*. As companies used more and more subcontracting networks, workers found it harder to find secure, stable jobs; indeed, more and more companies have found it profitable (for a mixture of economic and regulatory reasons) to attempt to replace "employees" with "independent contractors" who can be discharged more easily. Urban labor markets have thus become much more unequal, and organized labor has found it more difficult to organize in segments of the economy where firms are constantly reorganizing (and these difficulties can be magnified when labor laws are still premised on factory-style workforces.) Second, the "new industrial districts" created with the rise of flex-spec production exposed a fundamental mismatch between theory and the real world. Neoclassical urbanists celebrated the entrepreneurial vitality of places like California's Silicon Valley as utopias of free markets, for example, while often ignoring the enormous investments made by public institutions such as universities and the military. Radical analysts viewed the creation of these new urban flex-spec landscapes as just the latest tactic used by capitalists to pursue accumulation under the banner of "free market" justifications while persuading governments to bear risks, pay for unprofitable infrastructure, or undertake other activities that routinely violated all of the assumptions of free, competitive markets. Moreover, it became clear that city governments faced with disinvestment and capital flight suddenly had to change roles – from a managerial role (working to clean up after the externalities of capital investment) to an

[23] Allen J. Scott (1988). *Metropolis: From the Division of Labor to Urban Form*. Berkeley: University of California Press.

In the past generation, the crisis of capitalism in the West has undermined the old model of "urban managerialism," where cities served as custodians cleaning up after the externalities and inequalities of national capitalism. The new era of "urban entrepreneurialism" requires cities to become businesses themselves, competing and marketing themselves to footloose transnational firms and wealthy workers and investors. More and more cities are abandoning policies to help their local communities of poor and working class people hurt by the inequalities of transnational capitalism, instead devising policies targeted towards the wealthy and the mobile.

entrepreneurial role, in order to lure new capital investment to replace the jobs lost to deindustrialization. By the end of the 1980s, this process had extended to include nearly all cities. Urban governance had come to mean doing whatever it took to lure business and ensure a "friendly" business climate; city governments no longer *managed the environment* for urban capital accumulation – city governments were now forced to actively pursue opportunities for capital accumulation, working hand in hand with local companies and investors as well as potential suitors from other cities, regions, and countries. Obviously, not all cities could post consistent winning records in such locational tournaments; for many cities, in many regions, intensified urban entrepreneurialism was a zero-sum game.[24]

Paths of Urban Entrepreneurialism

Cities locked in intensified competition can choose between four main avenues of urban entrepreneurialism. First, "Competition within the international division of labour means the creation [and] exploitation of particular advantage for the production of goods and services. Some advantages derive from the resource base ... or location ... But others are created through public and private investments in the kinds of physical and social infrastructures that strengthen the economic base of the metropolitan region as an exporter of goods and services. ... Hardly any large- scale development now occurs without local government (or the broader coalition of forces constituting local governance) offering a substantial package of aids and assistance as inducements."[25] Many critics have come to call these inducements "geobribes." Second, the city can try to compete on the basis of "the spatial division of consumption." This competition is not only for tourism and retirement, but for ever-larger segments of the population:

> "Investments to attract the consumer dollar have paradoxically grown apace as a response to generalized recession. They increasingly focus on the quality of life.

---

[24] David Harvey (1989). "From Managerialism to Entrepreneurialism: The Transformation in Urban Governance in Late Capitalism." *Geografiska Annaler, Series B, Human Geography* 71(1), 3-17.
[25] Harvey, "Managerialism to Entrepreneurialism," p. 8.

> Gentrification, cultural innovation, and physical up-grading of the urban environment (including the turn to post-modernist styles of architecture and urban design) consumer attractions (sports stadia, convention and shopping centres, marinas, exotic eating places) and entertainment (the organization of urban spectacles on a temporary or permanent basis) have all become much more prominent facets of strategies for urban regeneration. Above all, the city has to appear as an innovative, exciting, creative, and safe place to live or to visit, to play and consume in."[26]

Positive and beneficial as this sounds, critical urbanists pointed out the risks: not all cities have the favorable climate or natural environment that can be sold as an attractive amenity, and creating an "exciting, creative, and safe place" sometimes involves creating artificial landscapes or sanitizing the streets of people deemed incompatible with the officially-sanctioned 'quality of life' image. Third, cities can enter the "fierce struggles over the acquisition of key control and command functions in high finance, government, or information gathering and processing (including the media)."[27] Finally, cities can pursue a competitive edge through redistributions through higher levels of government. Although budget constraints and privatization have reduced these possibilities, they remain a crucial priority for urban elites who have a vested interest in the survival of specific urban locales.

Critical research on urban entrepreneurialism inaugurated new discussions of "late capitalism"; the intense competition seemed to hint at some kind of end-game to the inequalities of uneven development. There was a renewed interest in the process of "creative destruction," in which sudden restructuring destroys and devalues old investments in order to make way for new growth and accumulation opportunities. The concept was first described by Marx, but attracted widespread attention when the economist Joseph Schumpeter coined the phrase as he diagnosed the massive dislocations of the 1930s:

> "Schumpeter believed that capitalism would inevitably self-destruct and the creative destruction internal to capitalist society would lead to the creation of socialism. 'The opening up of new markets, foreign or domestic,' and the periodic reorganization of capitalist production amidst crises, 'incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism.'"[28]

The renewed interest in these insights brought a wave of studies of how cities and communities struggled to adapt in the face of deindustrialization, plant shutdowns, capital flight, and all the other signs of creative destruction. But by the mid-1980s, it became clear that restructuring in the context of national and continental competition was giving way to much more geographically expansive rounds of creative destruction. Cities began to experience unprecedented flows of

---

[26] Harvey, "Managerialism to Entrepreneurialism," p. 9.
[27] Harvey, "Managerialism to Entrepreneurialism," p. 9.
[28] Neil Smith (2000). "Creative Destruction." In R.J. Johnston, Derek Gregory, Geraldine Pratt, and Michael Watts, eds., *The Dictionary of Human Geography*. Oxford: Blackwell, pp. 119-120, quote from p. 120; Joseph A. Schumpeter (1975). *Capitalism, Socialism, and Democracy*. New York: Harper Torchbooks.

transnational investment (and disinvestment) with the ascendance of large transnational corporations. And so over the last decade, urban economic inquiry has become more closely aligned with the study of globalization and world cities. Manuel Castells identified an emergent "informational mode of development" in which cities fought to become central nodes of decision-making in ever-larger flows of strategic, selective, and customized market and financial knowledge.[29] Saskia Sassen, John Friedmann and others have portrayed cities in a hierarchy of "command and control" centers coordinating a dynamic, sprawling global network of production and consumption.[30] Peter Taylor and several colleagues at Loughborough University have produced dozens of working papers and full-length studies seeking to map these global networks, and to analyze continuity and change in the world's hierarchy of large cities.[31]

The Creative Destruction of Cities

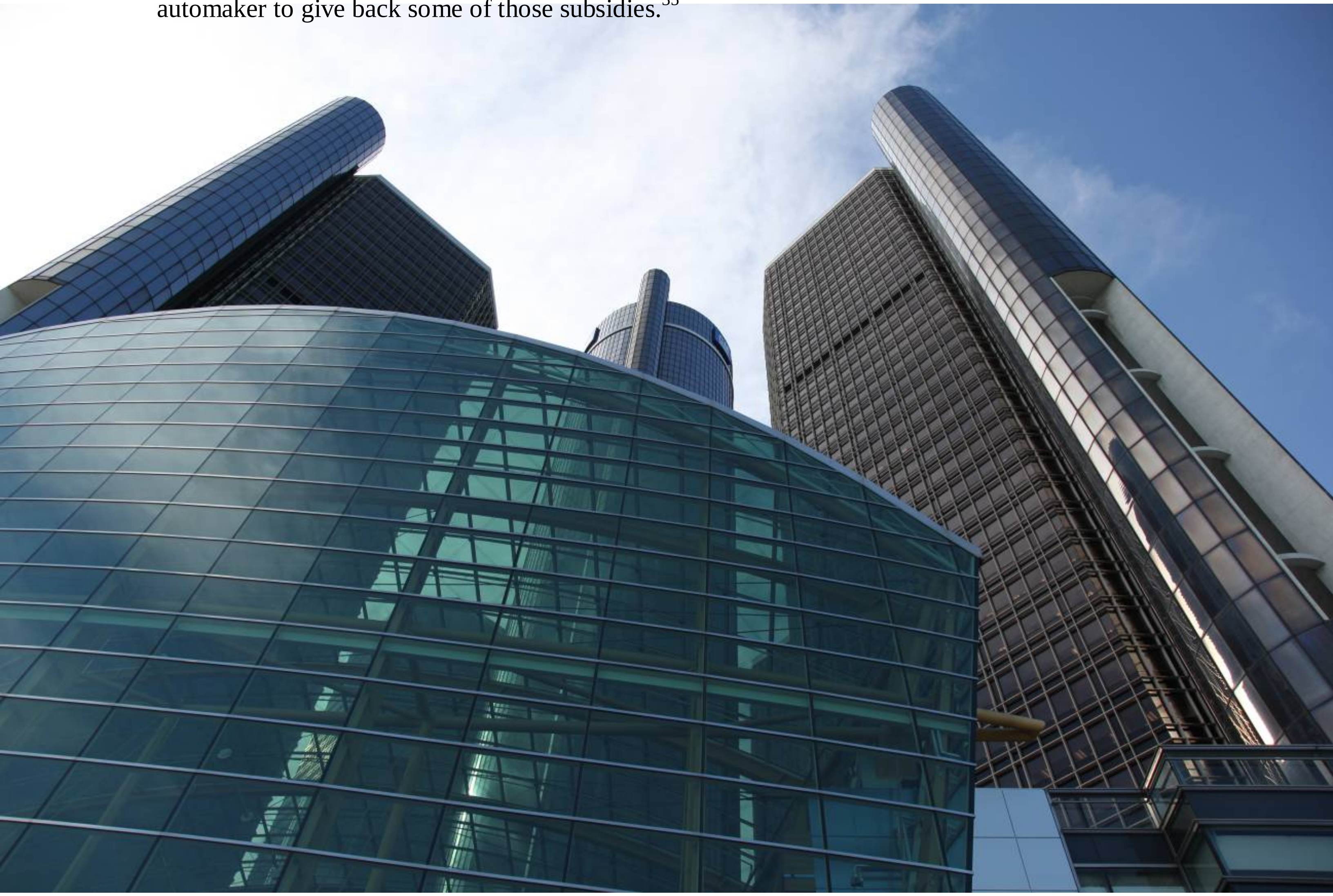
The terms "restructuring" and "deindustrialization" proliferated in urban economic inquiry in the 1980s and 1990s, creating a widespread sense of pessimism and unease on the future of cities.[32] The terms also created the impression of a discrete historical period, after which the processes would be complete. In reality, of course, creative destruction and restructuring continue, with important ramifications for cities. In November, 2005, General Motors announced plans to undertake a major restructuring, involving a total of 30,000 job cuts at its remaining North American plants, including 3,700 at the continent's most efficient plant in Oshawa, Ontario. The map of affected plants across the U.S. and Canada provided a vivid reminder of the ongoing process of reorganization and its effects for cities. But in Oshawa, the planned job cuts exposed the individual human facets of those broad forces described by economists across the spectrum from neoclassical to radical. Joe Demoe, laid off more than four years ago from his job in St. Catherine's, Ontario, managed to use his seniority to get a job in Oshawa; he gets up every morning to make the 4:00 am commuter van that takes him and several dozen other St. Catherine's residents to their new workplaces in Oshawa.

> "Alongside regular corporate parking, the Oshawa General Motors lot has an area for vans and buses -- increasingly ubiquitous vehicles responsible for transporting a new breed of employees: the migratory auto worker. These employees travel as much as 2 1/2 hours from their homes across Southern Ontario to any town where high-paying auto-sector jobs still exist. But even migratory auto workers always had a place to go: Oshawa. The Southern Ontario haven's car factories absorbed employees on the rebound from layoffs and plant closings in places such as St. Catherine's, Scarborough, and Sainte-Therese, Que."[33]

---

[29] Manuel Castells (1989). *The Informational City: Information Technology, Economic Restructuring and the Urban-Regional Process.* Oxford: Blackwell.
[30] Saskia Sassen (1994). *Cities in a World Economy*. Thousand Oaks, CA: Pine Forge Press; John Friedmann (1986). "The World City Hypothesis." *Development and Change* 17, 69-83.
[31] See Peter J. Taylor (2004). *World City Network: A Global Urban Analysis*. London and New York: Routledge. See also http://www.lboro.ac.uk/gawc/
[32] This unease was, of course, worsened when new technologies seemed to promise the complete annihilation of space by time, thereby destroying the value of centrality at the heart of urbanism, and leading to titles such as Glaeser's question, "Are Cities Dying?"
[33] Omar El Akkad (2005). "Migratory Auto Workers See Fewer Options as Jobs Disappear." *The Globe and Mail*, November 22, A14.

The reductions at Oshawa can, of course, be understood through the theoretical lens of neoclassical urban economics -- as a necessary adjustment of supply to correspond to competitive pressures, shifts in the U.S.-Canadian exchange rate, the pressures of labor costs in the face of declining profit margins, and the uncertainties of market demand after the fuel price spikes of the summer and fall of 2005.[34] And yet the restoration of a market-clearing equilibrium for General Motors requires substantial adjustments on the part of those who lose their jobs, and the close interpenetration between corporate financial strategy and public support violates the classical assumptions of free, competitive markets. GM's job-cut announcement came only months after the Canadian and Ontario governments gave the automaker a financial "inducement" package worth some $435 million; GM's planned cuts were expected to leave the complex with just enough employees to avoid triggering a clause that would require the automaker to give back some of those subsidies.[35]



General Motors Headquarters, Renaissance Center, Detroit, July 2010 (Elvin Wyly).

[34] It is also worth noting that GM's restructuring plan still relies on continued high production of some of its largest Sport Utility Vehicles, which provide the highest profit margins for the company. If fuel prices increase again in 2006 and 2007, reduced SUV sales will force GM into an even more painful bout of restructuring.
[35] Simon Tuck (2005). "Ottawa Taking Brakes off Auto Lures." *The Globe and Mail*, November 23, B1, B4.

In the summer and fall of 2008, conditions worsened for North America's industrial cities. In the aftermath of a financial crisis, the world economy slipped into a painful recession, and the dominant automakers headquartered in North America saw unprecedented, catastrophic short-term declines for their products. Caught between a sudden and traumatic shift in market demand away from their most lucrative product lines (large, gas-guzzling sport utility vehicles, pickup trucks, and sports cars), General Motors and Chrysler sought government assistance, and received financial bailout packages from both the U.S. and Canada. The bailouts involved harsh terms to achieve new, sustainable business models, and to reduce the "legacy costs" that made most U.S. automakers economically un-competitive with international automakers.

The terms of the financial rescue packages were negotiated and approved as one of the first major economic decisions of U.S. President Barack Obama, in early 2009. When General Motors finally emerged from bankruptcy protection in November, 2010, the initial public offering (IPO) of new GM stock shattered records on the New York Stock Exchange. The IPO became the largest single corporate offering to investors in history. One of the reasons why hedge funds and other institutional investors were eager to invest in the newly restructured company: the elimination of those legacy costs, which now made the new firm much more competitive with other firms. Consider, however, what "legacy costs" really mean: the costs of having been in business since the 1930s, and having made promises to current and former workers. A major part of the restructuring plan involved tearing up the old costly agreements on pensions and healthcare benefits promised to hundreds of thousands of retired workers. Another part of the restructuring plan involved separating the newer, healthier parts of GM from the older, outdated factories. Fifteen manufacturing plans were closed and transferred to a new corporate entity -- Motors Liquidation Company -- that was soon called "Old GM." "Old GM was cobbled together from assets discarded by GM as it went through its government-funded bankruptcy," and eventually those assets were featured in "a sell-off that represents the largest industrial garage sale of all time."[36]

[36] Deepa Seetharaman (2010). "'Old GM' Holds Largest Garage Sale of All Time." *Vancouver Sun*, November 8, p. C2.

Abandoned Packard Plant. In the middle decades of the twentieth century, Packard Motor Company was one of the most prominent manufacturers of luxury automobiles. Its large factory on the East Side of Detroit was at one time the largest industrial building in the world. Packard went bankrupt in the late 1950s. Photograph by Elvin Wyly, July 2010.

For cities, towns, and neighborhoods reliant on these jobs, the new supply-and-demand equilibrium seemed to be putting entire communities on the auction block at a garage sale. Tom Dilworth, 58, an engineer at one of GM's other plants, lamented the closing of GM's Pontiac Plant, which had employed 1,100 people before it was shuttered in October, 2009. "This is just flat-out heartbreaking," Dilworth said. "There's no other word for it."[37]

[37] Seetharaman (2010). "Old GM," p. C2.

These kinds of stories, clearly, are important as we consider the ways that economic theories are expressed on the urban landscape and in the lives of individual workers. But there are optimistic stories, too, from cities enjoying waves of new growth, investment, and wealth creation. Radical analysts usually view these growth centers with a certain degree of caution, reminding us again of Schumpeter's ideas on creative destruction: today's boomtowns are tomorrow's landscapes of disinvestment, just as places *now* equated with decline were once hailed as leading cities. Most neoclassical economists, however, view these new urban frontiers of growth with optimism. Let's consider three illustrative stories of contemporary urban-economic optimism.

Michael Porter in Boston

Michael Porter, in a widely-cited article in the *Harvard Business Review*, offered a new way of understanding poor, distressed inner-city neighborhoods. While generations of thought and policy have understood the inner city as an area with many social *needs* (often cited to justify welfare and other public assistance), Porter argued that there were real competitive advantages -- competitive *assets* -- to these neighborhoods. Porter argued that many aspects of economic change that were viewed as threatening overall -- such as the collapse of organized, stable workforces as companies became lean and mean subcontracting machines -- actually allowed inner-city labor markets to find a new niche. Inner-city neighborhoods have rich (and often under-served) consumer markets, large supplies of workers willing to accept low-paid or temporary work, and locational advantages in terms of proximity to downtown businesses. Porter argued that inner-city economic development policy should move away from a model of "redistributing wealth" to a more entrepreneurial path of "creating wealth," by supporting the growth of small businesses who would provide short-term and flexible services for downtown businesses, and then begin to tap into the needs of companies in the broader regional economy. Porter concludes that

> "The economic model provides a new and comprehensive approach to reviving our nation's distressed urban communities. However, agreeing on and implementing it will not be without its challenges. The private sector, government, inner-city residents, and the public at large all hold entrenched attitudes about the inner city and its problems. These will be slow to change. Rethinking the inner city in economic rather than social terms will be uncomfortable for many who have devoted years to social causes and who view profit and business in general with suspicion. Activists accustomed to lobbying for more government resources will find it difficult to embrace a strategy for fostering wealth creation. Elected officials used to framing urban problems in social terms will be resistant to changing legislation, redirecting resources, and taking on recalcitrant bureaucracies."[38]

[38] Porter, Michael. 1995. "The Competitive Advantage of the Inner City." *Harvard Business Review*, May/June, reprinted in Richard T. LeGates and Frederic Stout, eds. (2003), *The City Reader*. London and New York: Routledge, 277-289, quotes from p. 289.

“The Voice of Urban Opportunity”

“The Voice of Urban Opportunity.” This is the current motto of the Initiative for a Competitive Inner City (ICIC), founded in 1994 by Harvard Business School Professor Michael E. Porter. Porter advocated a ‘distinctive, market-based approach’ to understanding and resolving problems of persistent poverty in inner-city communities. “ICIC was founded on the conviction that the only sustainable path out of economic distress is to leverage the existing assets in inner cities to enable them to participate in the market economy. Our mission is to promote economic prosperity in America's inner cities through business development and private sector engagement that leads to jobs, income and wealth creation for local residents. We bring together business and civic leaders to transform thinking, drive innovation and action, and accelerate inner city business growth and investment.” Source: Institute for a Competitive Inner City (2011). “About ICIC.” Boston, MA: Initiative for a Competitive Inner City. Available at http://www.icic.org.

And yet, Porter argues, the “time has come to embrace a rational economic strategy and to stem the intolerable costs of outdated approaches.”[39] Porter’s call has been wildly successful, and has inspired hundreds of studies, conferences, and foundation initiatives to identify and enrich the competitive assets of various neighborhoods. There are few undisputed ways to measure the success of such “asset-based” community development strategies, however; and critics charge that the strategy is simply the extension of market imperatives that will create wealth for only a privileged few entrepreneurs in the inner city. Advocates dispute the charge, and believe that the shift from urban managerialism to urban entrepreneurialism has reduced dependency and fostered individual responsibility and work.

Adam Smith in Beijing

The second set of optimistic stories of urban growth, investment, and wealth creation comes from China. China’s rapid pace of urbanization is a societal, economic, and political transformation with wide-ranging consequences for the circumstances of local life in hundreds of cities in China. But it also has implications for global trends in production, consumption, investment, debt, and trade. China’s urbanization is also raising wonderfully fascinating questions about standard, Eurocentric histories of economic theory. This is a good thing. The godfather of Western economic theory himself understood the importance of China:

> “Smith ... was the last major (Western) social theorist to appreciate that Europe was a Johnny-come-lately in the development of the wealth of nations: ‘China is a much richer country than any part of Europe,’ Smith remarked in 1776. Smith did not anticipate any change in this comparison and showed no awareness that he

[39] Porter, “Competitive Advantage,” p. 289.

> was writing at the beginning of what came to be called the 'industrial revolution.'"[40]

The "industrial revolution" did indeed take off, however, in the decades after Adam Smith. The result was a "Great Divergence" between the economies of East Asia and those of Western Europe (and, later, North America and Japan). East Asia's economies continued to follow a labor-intensive path of development, while Western Europe saw the development of a much more capital-intensive form of capitalism, that steadily replaced labor-intensive production processes with investments in machines and various other labor-saving technologies. For about a century, the Western path sustained much greater increases in standards of living and wealth accumulation, while the labor-intensive Asian model was associated with more severe limits to technological innovation and productivity. The labor-intensive model could only expand in tandem with increases in population, and by bringing new lands under cultivation or resource extraction; the capital-intensive model, by contrast, continually intensified the production process and achieved ever more economic output per unit of labor. But

> "after 1950, as the Western capital- and energy-intensive path attained its own limits and the selective incorporation of Western technologies within the labor-intensive strategy bore fruits, the latter began to narrow the GDP per capita gap."[41]

For the political economist Giovanni Arrighi, China's renaissance restores an Asian supremacy that reigned for two thousand years, until the industrial revolution briefly eclipsed the region's power in global context. The

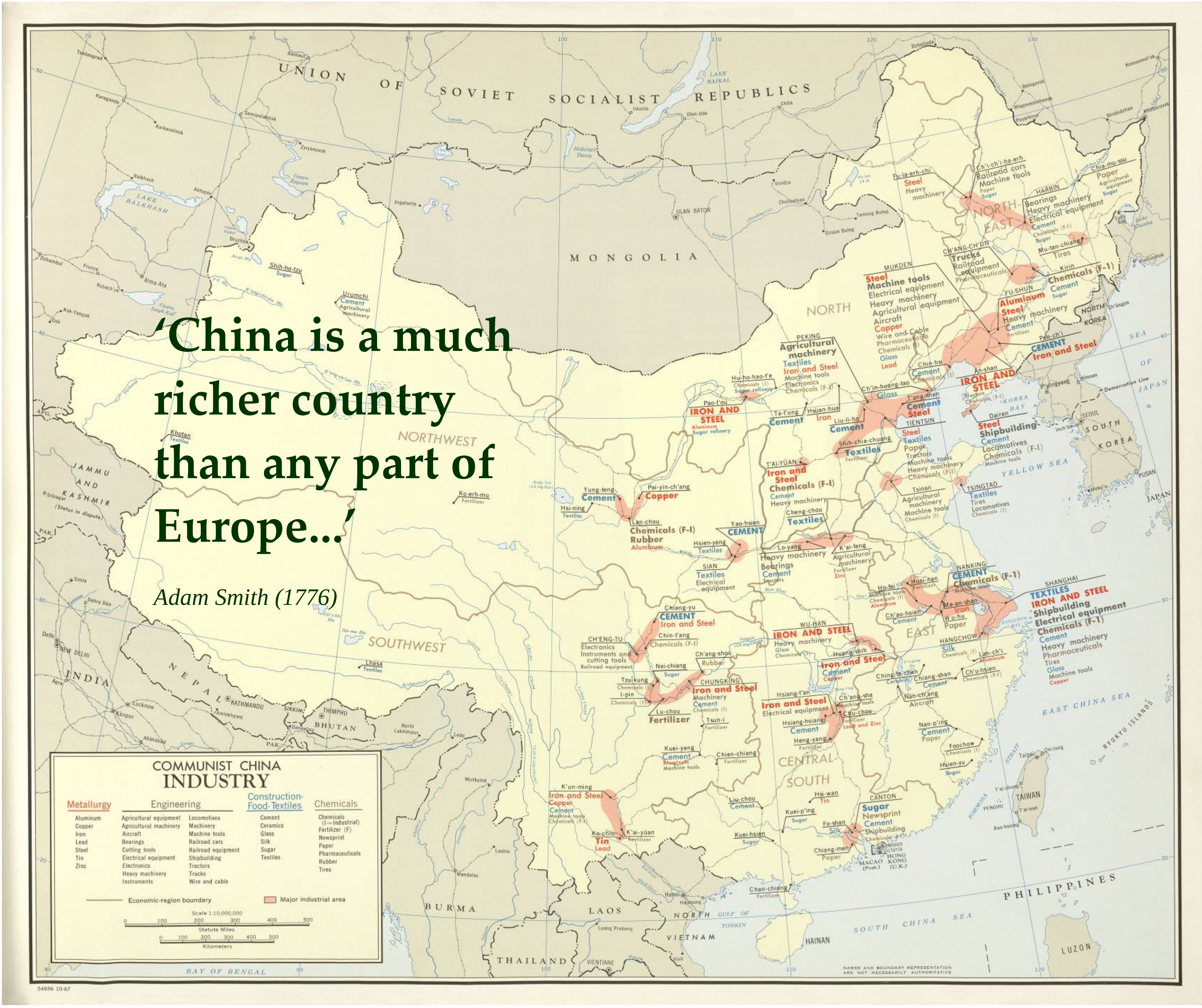
> "emergence of China as the world's most dynamic center of economic and commercial expansion" represents the final and culminating transformation in "a snowballing process of connected economic 'miracles' in a succession of East Asian states, starting in Japan in the 1950s and 1960s, rolling on in South Korea, Taiwan, Hong Kong, Singapore, Malaysia, and Thailand in the 1970s and 1980s...."[42]

Urbanization is a key part of this story -- both on a global scale (in which the balance has finally tipped so the world is now past the fifty-percent urban threshold), and across China, which is experiencing the largest, most sustained rapid national city-building era the world has ever seen. China's configuration of political economy, however, defies easy Western categorization and caricature. The introductory economics textbook reassurance that "China has by now largely abandoned any attempt to control production and distribution decisions from the center"[43] is a naive and misleading oversimplification. A durable yet dynamic fusion of centralized state power and dynamic market entrepreneurialism, China's capitalist urbanization is a fascinating

---

[40] Andre Gunder Frank (1998). *ReOrient: Global Economy in the Asian Age.* Berkeley: University of California Press, p. 13.
[41] Giovanni Arrighi (2007). *Adam Smith in Beijing.* London: Verso, p. 37.
[42] Arrighi, *Smith in Beijing*, pp. 1-2.
[43] Frank and Bernanke, *Principles*, p. 63.

empirical phenomenon that is undeniably real. But it defies the standard categories of neoclassical economic theory.



A New Global Equilibrium? "...the East Asian renaissance suggests that Adam Smith's prediction of an eventual equalization of power between the conquering West and the conquered non-West might finally come true." Sources: Quote from Giovanni Arrighi (2007). *Adam Smith in Beijing*. London: Verso, p. 2. Map from U.S. Central Intelligence Agency (1967). Communist China Map Folio. Washington, DC: U.S. Government Printing Office, public domain image, via Perry-Castañeda Library Map Collection, University of Texas. Smith quote from Andre Gunder Frank (1998). *ReOrient: Global Economy in the Asian Age*. Berkeley: University of California Press, p. 13.

Florida ... Everywhere

The third contemporary neoclassical vignette comes from Florida. Here I cannot resist the temptation to simply tell a story of urban exploration. In the Spring of 2009, Jatinder and I found ourselves on the Gulf Coast of Florida, with a bit of time to explore a few interesting places in the patchwork of luxury coastal resorts and labor-intensive migrant-worker agro-industrial complexes further inland. I had also read a bit about a latter-day utopian community, Ave Maria, a 5,000-acre master-planned community east of Naples, where "you will discover a new life, inspiring every family, every lifestyle, and every dream."[44] "Ave Maria" is Latin for "Hail Mary," which in Catholicism refers to a prayer to the Virgin Mary -- using the words the Archangel Gabriel addressed to her as the future Mother of God. This theological reference found its way into a giant subdivision in Florida thanks to the work of Tom Monaghan, who had become famous as the founder of Domino's Pizza. After hard work and entrepreneurial skill over several decades, Monaghan sold Domino's to a private equity group for approximately $1 billion in 1998. Then he "turned his energies to selling Catholicism, through groups that he hopes will spread nationwide the way his pizza franchises did."[45] One part of this effort involves creating a model community -- a town built around a new Catholic parish, along with a Catholic university that would take a much more conservative view of the role of religion in society and public life:

> "For 25 years, I've felt the need for a school with more spirituality," says Monaghan. "The reason God created us was to earn heaven, so we could be with Him, and my goal is to help more people get to heaven. You can't follow the rules of God unless you know what they are and why they are. At some Catholic universities, students graduate with their religious faith more shaky than when they arrive."[46]

The "shaky faith" of some Catholic university graduates is in part a product of the 1960s, "when the Second Vatican Council opened much more positive relations to the modern world of science, technology, and politics."[47] Ave Maria University, the first new Roman Catholic university in the United States in four decades, would counter that liberalization and secularization, and would strengthen conservative principles of theology and politics.

A Hail Mary pass was surely needed by the time the new community was established and growing in the spring of 2009. Only a few months earlier, the entire global financial system had teetered on the edge of collapse. The most conservative daily newspaper in the United States published the *Wall Street Journal Guide to the End of Wall Street as We Know It*,[48] and tense political discussions in Washington, DC, had actually featured a curious (if inaccurate) Catholic

---

[44] Ave Maria (2009). *Ave Maria: Every Family, Every Lifestyle, Every Dream*. Marketing Brochure. Ave Maria, Florida.
[45] Tamar Lewin (2003). "A Catholic College, A Billionaire's Idea, Will Rise in Florida." *New York Times*, February 10.
[46] Lewin, "Catholic College."
[47] Dr. Monika Hellwig, president of the Association of Catholic Colleges and Universities, quoted in Lewin, "Catholic College."
[48] Dave Kansas (2009). *The Wall Street Journal Guide to the End of Wall Street as We Know It*. New York: HarperCollins.

scene, involving the Holy Trinity of neo-classical free-market theory, the stewardship of good conservative members of the U.S. Republican Party, and the invisible hand of an increasingly globalized capitalism. After a disastrous week of financial chaos that the *Wall Street Journal* declared "a decisive turn in the evolution of American capitalism,"[49] President Bush's economic team sought Congressional authorization for an unprecedented intervention - a bank bailout program of at least $700 billion. Free-market Republican members of Congress were suddenly at odds with the once intransigent free-market enforcers of the Bush Administration. The two key figures, of course, were Ben Bernanke (Chairman of the Federal Reserve) and Hank Paulson, Jr. (Secretary of the Treasury). Texas Congressional Representative Jeb Hensarling spoke for many conservative Republicans when he attacked the Paulson-Bernanke proposal, enraged at "being asked to choose between financial meltdown on one hand and the road to socialism," and being "told to do it in 24 hours."[50]

In high-stakes, high-pressure negotiations in the White House in Washington, DC, House Republican Leader John Boehner surprised everyone by declaring that his caucus would refuse to support the Bush Administration plan. Senators John McCain and Barack Obama, locked in competition for the Presidential election barely six weeks away, had left the campaign trail to join the meeting. McCain was evasive when he was asked whether, as a Republican, he would be willing to support the outgoing Republican President's bailout plan. At that point "all hell broke loose," and McCain "just sat there and let them scream."[51] At one point in the meeting, Treasury Secretary Paulson literally bent down on one knee before the Democratic Speaker of the House, Nancy Pelosi, and begged her not to withdraw her party's support for the plan.

Pelosi felt betrayed: Boehner and the Republicans seemed to be trying to force the Democrats to pass the bailout plan on their own, so that Democrats could be blamed for a deeply unpopular rescue of wealthy Wall Street bankers. Amidst the anger and tension in the room, Pelosi tried to keep a sense of humor as the Treasury Secretary kneeled before her. "I didn't know you were Catholic," Pelosi said. "It's not me blowing this up, it's the Republicans." Paulson sighed, and replied, "I know, I know."[52]

After the measure failed and the financial markets went into freefall again, a revised bailout package finally gained approval. (Two years later, the Republican strategy in the midterm Congressional elections worked out precisely as Pelosi had feared, with Obama and Democrats blamed for the Wall Street bailouts.)

---

[49] David Wessel (2008). "In Turmoil, Capitalism in U.S. Sets New Course." *Wall Street Journal*, September 20.
[50] Quoted in Carl Hulse (2008). "Conservatives Viewed Bailout Plan as Last Straw." *New York Times,* September 26, A1.
[51] John D. McKinnon, Laura Meckler, and Christopher Cooper (2008). "An Inside View of a Stormy White House Summit." *Wall Street Journal,* September 27.
[52] All quotes from David Herszenhorn, Carl Hulse, and Sheryl Gay Stolberg (2008). "Talks Implode During a Day of Crisis: Fate of Bailout Remains Unresolved." *New York Times,* September 25, A1, A22.

Ave Maria Basilica, Ave Maria, Florida, May 2009 (Elvin Wyly).

So these were the thoughts that came to mind, standing in the middle of the brand-new *La Piazza* of a beautiful master-planned community in Southwest Florida: Nancy Pelosi wondering if Hank Paulson was Catholic (he is a Christian Scientist); Ben Bernanke and Hank Paulson meeting with Congressional representatives and warning "God help us all" if they did not get authorization to bail out institutions that had been built on the doctrine of self-correcting markets;[53] and the long-ago concerns of Auguste Comte and Adam Smith over the proper moral philosophy and social system to replace the authority of a European Catholic Church whose teachings were being challenged by science, technology, and capitalism.

So the next question was obvious: what would be the required textbook for the introductory economics course at the new Ave Maria University?

A stroll into the small, impeccably organized campus bookstore yielded a quick answer: *Principles of Economics, Fourth Edition,* coauthored by Robert H. Frank and Ben S. Bernanke. Bernanke, who had been sworn in as Chairman of the U.S. Federal Reserve System on February 1, 2006, was facing the astonishing, frightening challenges of putting textbook economic theory into practice, into policy, in the midst of economic freefall in late 2008 and early 2009. The

[53] Henry M. Paulson, Jr. (2010). *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System*. New York: BusinessPlus.

entire globe had finally crossed the fifty-percent urban threshold right about the same time that global capitalism went into the worst crisis since the Great Depression of the 1930s. Surely it is meaningless coincidence: neoclassical economists question the value of this data as "anecdotal." Still, paging through to Chapter 3, "Supply and Demand," would surely have made Tom Monaghan smile:

> "The market for any good consists of all the buyers and sellers of that good. So, for example, the market for pizza on a given day in a given place is just the set of people (or other economic actors such as firms) potentially able to buy or sell pizza at that time and location. ... Where does the market price for pizza come from?"[54]

The Other Florida

Another Florida has been even more important for the role of economics in urban theory and urban policy. Richard Florida became an expert in local economic development policy in the 1980s and 1990s. Sometime near the turn of the millennium, he moved away from the standard academic path, which involves developing new scientific insights and publishing for an audience of experts. Florida moved towards a more popular, broad-based appeal to policymakers, talk-show hosts, and local economic development officials working to revive stagnant cities or preserve the wealth of vibrant places. Florida's move succeeded beyond all expectations. His Rise of the Creative Class (2000) and Cities and the Creative Class (2002) became runaway bestsellers -- a rarity for a policy-oriented field better known for try, technocratic discussions of supply-demand equilibria and cost-benefit analysis.[55]

Florida's argument was simple: the old rules of economic development were obsolete, because of the rise of a "creative class" of talented individuals who privilege quality of life, diversity, tolerance, and urban vitality. The old model for economic development (jobs drive growth; getting jobs means attracting firms to your city; attracting firms to your city may require offering various kinds of bribes) had to be reversed. A vibrant city, Florida argues, attracts the creative class, and firms will follow the creative class. As Florida summarizes the argument:

> "The rules of the economic development game have changed. Companies were the force behind the old game. Cities and suburbs gauged their status by the number of corporate headquarters within their borders. Economic developers used financial and other incentives to lure companies to their communities. Now, however, people are the center of the action. High human capital individuals -- or, as we like to call them, talent -- are the key to success in this new era of economic growth. Their ideas and creativity are the most important ingredients in the economic success of a firm or region.

[54] Frank and Bernanke, *Principles*, p. 64. There is other curious economic anecdotal evidence as well. The University of Glasgow has an Adam Smith Building, and there is also an Adam Smith Chair of Political Economy. As of late 2010, the current scholar to hold the Adam Smith Chair is Professor Ronald MacDonald. See http://www.gla.ac.uk/departments/economics/ourstaff/professorronaldmacdonald/ Thanks to Tom Slater for providing the reference.

[55] Richard Florida (2000). *The Rise of the Creative Class*. New York: Basic Books.

> ...Our theory is that a connection exists between a metropolitan area's level of tolerance for a range of people, its ethnic and social diversity, and its success in attracting talented people and high-technology firms. People in technology businesses are drawn to places known for diversity of thought and open-mindedness. These places possess what we refer to as low barriers to entry for human capital. Diverse, inclusive communities that welcome gays, immigrants, artists, and freethinking 'bohemians' are ideal for nurturing creativity and innovation, both keys to success in today's economy."[56]

Florida distilled his theories into points that could be easily understood and easily remembered: in the twentieth century, winning the economic development game requires cities to nurture the "three T's:" technology, talent, and tolerance. Florida also assembled a teach of researchers and devised a wide range of headline-ready indices -- ranking cities on a "Gay index" and a "Bohemian index," for instance, and correlating the results to concentrations of highly-educated workers and economic growth. Florida packages the storyline into a compelling series of presentation templates that can be altered easily to appeal to audiences in different places. Florida quickly became "an economic development guru," with speaking fees up to $35,000 per appearance, paid by scores of audiences eager to hear one of the most optimistic urban messages heard by local officials in the past half-century: "the good-looking urban studies professor" offered a clear recipe for "how to get young professionals to move in" to even the most distressed, deindustrialized cities:

> "If cities could make themselves appealing to the Web designers, architects, biomedical researchers, and other innovators who are now the drivers of economic growth, then they would also attract the businesses that want these footloose pioneers to work for them."[57]

---

[56] Richard Florida and Gary Gates (2004). "Technology and Tolerance: The Importance of Diversity to High-Technology Growth." In Terry Nichols Clark, ed., *The City as an Entertainment Machine.* Research in Urban Policy, Vol. 9. Amsterdam: Elsevier, 199-219, quotes from p. 199, 200.
[57] Alec MacGillis (2010). "The Ruse of the Creative Class." *The American Prospect,* January 4.

Richard Florida's Creativity Group. Legal copyright restrictions prevent including illustrations of Florida's website, but if you have time, it's worth visiting the Internet Archive's "Wayback Machine" [http://www.archive.org/web/web.php] to evaluate changes in http://www.creativeclass.org. In 2005-2006, CreativeClass.Org presented itself as the "home of the Richard Florida Creativity Group," with a rich selection of positive press coverage and a section of short "In-Flight Readings" for the busy business-class set. At the top of the page was a bright yellow banner for "Creative Shopportunities.com," a site best thought of as a virtual intellectual shopping mall: like the idea? Buy it! "Your one-stop shopping source for anything and everything creative class." Several years later, the website had undergone a major redesign. Noteworthy changes: the phrase "creative class" has been registered as a trademark, and print news coverage is now accompanied by high-profile talk-show appearances, including the satirical Colbert Report. Image source: Anonymous author (user Clp1917) (2007). "Richard Florida Presenting His Keynote Address at the National Conference on the Creative Economy." Reproduced under Creative Commons Attribution-Share Alike 3.0 License, via Wikimedia Commons.

Florida has become a true academic rock star. He "has made real waves in the brackish backwaters of urban economic development policy."[58] But enormous popularity -- and the considerable wealth accompanying market success -- have also attracted scrutiny. Florida is "haled in may quarters as a cool-cities guru," but he is "assailed in others as a new-economy huckster."[59] Four distinct lines of criticism are worth considering.

1. First, analysts on the political right have recoiled at Florida's message, particularly the emphasis on diversity, multiculturalism, and tolerance for a plurality of lifestyle choices and family/household arrangements. "Pointed, sarcastic, and in some cases plain nasty criticisms have come from the right, from economically conservative bastions like the Manhattan Institute and from a tawdry band of anti-immigrant and homophobic groups, who variously construct Florida's thesis as an attack on (big) business-oriented development and suburban lifestyles, if not a frontal assault on 'family values.'"[60] In many ways, Florida's

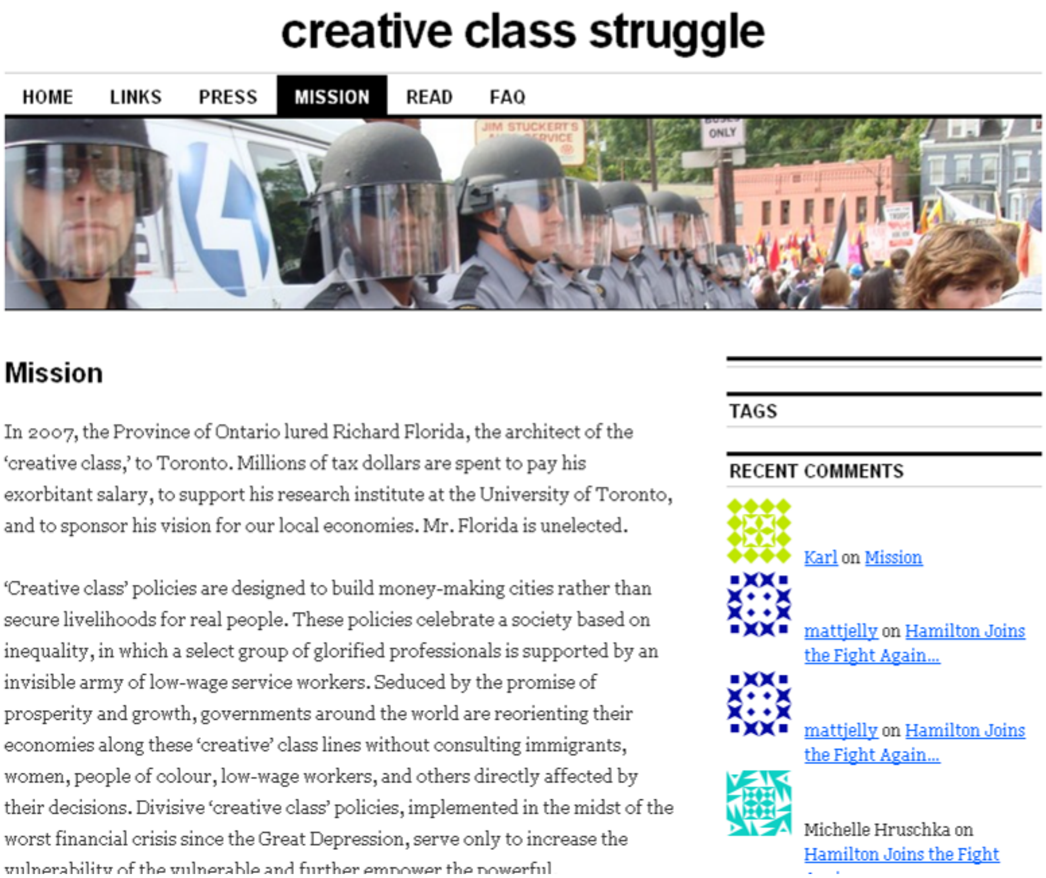
[58] Jamie Peck (2005). "Struggling with the Creative Class." *International Journal of Urban and Regional Research* 29(4), 740-770, quote from p. 740.
[59] Peck, "Struggling," p. 741.
[60] Peck, "Struggling," p. 741.

theory takes neo-classical, neo-liberal doctrine to its logical conclusion, in a way that brings us back again to the "moral philosophy" of the classical era of Adam Smith. If the market -- all those footloose, talented people -- prefers diversity and openness, then the only morally and ethically correction choice is to support tolerance, no matter what the objections of culturally conservative advocates of traditional family values. Florida threatens the longstanding alliance between cultural conservatives and economic conservatives. The twin doctrines of conservatism are set off against one another: if the free market is always right (as economic conservatives maintain) then peoples' choices to abandon traditional cultural and family values will undermine all of the institutions and social rules held dear by cultural conservatives.

2. Second, analysts on the left have reacted with horror to the ways that Florida's perspective on social and cultural diversity seem to be sold off in a race-to-the-bottom competition for highly-paid professionals and entrepreneurs. The "old" game involved catering to footloose *firms* in an unequal national and global capitalism; the "new" game involves catering to footloose *individuals* -- really, only the highly-paid ones -- in an even more unequal world. The entire theory privileges the neoclassical economic construct of the utility-maximizing consumer -- just with a focus on the new mixture of preferences for those city neighborhoods that are suited to the accelerated work schedules of young professionals working ever longer hours for a more ruthless form of postindustrial, service-sector capitalism. As Peter Marcuse puts it, the theory is built on an "engaging account of the lifestyle choices of yuppies."[61] In this account, "there is no place ... for obsolete forms of politics, like unions or class-aligned political parties, all of which are breezily dismissed."[62]

Canadian critics of Florida were less than happy when he was recruited in 2007 to the Martin Prosperity Institute at the University of Toronto. Scholars and activists launched an oppositional response to Florida's Creative Class Group. The oppositional *Creative Class Struggle* seeks to challenge policies that "celebrate a society based on inequality."

[61] Peter Marcuse (2003). "Review of *The Rise of the Creative Class*." *Urban Land* 62, 40-41.
[62] Peck, "Struggling," p. 746.



Creative Class Struggle. In response to the runaway popularity of Florida's ideas, a diverse group of scholars and activists created a parallel, oppositional challenge. "Creative class policies are designed to build money-making cities rather than secure livelihood for real people," the group charges. "These policies celebrate a society based on inequality, in which a select group of glorified professionals is supported by an invisible army of low-wage service workers. Seduced by the promise of prosperity and growth, governments around the world are reorienting their economies along these 'creative' class lines without consulting immigrants, women, people of colour, low-wage workers, and others directly affected by their decisions." The group serves as a clearinghouse for information on alternative and inclusive economic policies, and seeks to draw attention to the flaws, failures, and polarizing effects of creative-class public policy. *Source:* Creative Class Struggle (2010). "Mission." Toronto: Creative Class Struggle, available at http://creativeclassstruggle.wordpress.com/mission/

3. Third, Florida's theories have been subject to withering methodological critique by many scholars. Much of his work relies on simple rankings blended with entertaining anecdotes of those places that meet all of the criteria for technology, talent, and tolerance -- and that have all of the qualities of growth and vibrancy that local economic development planners everywhere are trying to create. As a description of a particular city or neighborhood, this is fine. But Florida's theory is an assertion of causality, explanation, and prediction: his theory holds that the locational decisions of individual creative-class workers take precedence over (and now determine) firms' locational decisions, and that creative class workers' locational choices are determined primarily by the cool, hip. and funky "buzz" environment found in the right kinds of city neighborhoods. The quantitative evidence is not assembled in a way that permits

any rigorous evaluation of these claims. But the entertaining anecdotes distract from this problem, creating a powerful sample-selection bias that seizes upon a small number of successful cases to argue that all places can replicate such success. The analysis becomes circular. "As Florida explained to *Money* magazine, 'what makes a place hot,' is, well, being hot: 'As a paid consultant, Florida often suggests that cities should look to successful role models like Austin or Seattle at the same time that they nurture their own qualities ... [Florida believes] that buzz and energy are very real factors in a city's popularity.'"[63]

Correlating economic growth rates with various measures of class privilege -- renamed as the 'creative class' -- and social diversity does provide a useful test of many theories of the recent evolution of urban inequality. But this methodology does not support claims that 'success' at the peak of the hierarchy can be replicated elsewhere. Even this 'success,' where it is observed, has very serious consequences for social and political inequality.

4. The fourth set of critiques come from Florida's market itself. Quite a few city councils, chambers of commerce, and local economic development agencies -- in a lot of economically distressed cities -- paid a lot of money to have Florida present his analysis and recommendations. Not all are happy with the results. When the Great Recession hit in 2008, moreover, Florida began to back away from the optimistic idea that all cities could actually win out in the creative-city competition: "We need to be clear that, ultimately, we can't stop the decline of some places, and that we would be foolish to try," he wrote in a cover story for the *Atlantic*.[64]

A journalist writing for *The American Prospect* read this, and wondered if "ill will could exist in cities that paid handsomely for his insights, only to find themselves declared beyond repair a few years later." Florida offered a spirited defense: "I've never tried to sugarcoat the message to any of them. ... I've given them the facts ... about what they were up against. I've never tried to give them false hope. ... I tried to be honest and objective in helping them engage their problems. I hope they don't feel let down."[65]

We should take Florida at his word regarding his intentions. But the market may not do so, because paying customers entered the transaction expecting something more. Florida's rise on the lecture circuit involved a partnership with the consulting company Catalytix, "which charges up to $250,000 for its reports, though they differ little from city to city in their 'focused impact areas,' 'success factors,' and 'tactics and action plans.'"[66] Florida's former tour manager, Rodgers Frantz, estimated that Florida spoke in "several hundred cities" over a

[63] Peck, "Struggling," citing J. Gertner (2004). "What Makes a City Hot." *Money*, June, 87-92, quote from pp. 88-89.
[64] Quoted in MacGillis, "Ruse."
[65] Quoted in MacGillis, "Ruse."
[66] MacGillis, "Ruse."

five-year period, and "several overseas visits reaped well above the usual $35,000 or $40,000." In the glory days before the Great Recession hit, the enterprise was big business indeed:

> "'There was a tremendous money-making aspect to Richard's work,' Frantz says. 'We did it in a grand way. We traveled in style. We stayed in boutique hotels in most of the places we were working.' But it is wrong, he says, to see any conflict in Florida's dire pronouncements on the places that bankrolled this success, because he hadn't promised prosperity in the first place. 'He wasn't really making prescriptions,' Frantz says. 'This wasn't Jesus Christ throwing the money men out of the temple -- this was an academic. He's a fucking college professor, and you're hoping to resurrect Canton, Ohio? Yeah, good luck with that.'"[67]

One useful hint: anyone with a tour manager, a lucrative private consulting company, and a downloadable media package for journalists to use to illustrate self-promotional stories forfeits the right to be called a "college professor" -- no matter what adjective (or adverb?) is used to modify that subject.

Emerging Vocabularies

The last decade has brought an exciting outpouring of new thinking on the economy of cities. Several trends are clear in this new scholarship. First, there has been a renewed effort to reclaim the economic from economics: in other words, many in the social sciences and humanities reject the clear dividing lines between the analysis of markets and other social institutions. Legal scholars have also been a key part of this debate, drawing attention to the social construction of markets. Second, there has been a revived interest in debates over equity and justice, in ways that move beyond the simplest findings of, e.g., racial and spatial inequalities in exposure to toxic wastes. Third, there has been an extraordinary growth in discussions of sustainability. There is now a rich literature on urban sustainability that challenges many of the longstanding theoretical assumptions of urban economics (particularly those dealing with externalities, and divisions between private market action and the state). Unfortunately, this growing literature has brought confusion, as well. For some, sustainability involves finding new ways of preserving and protecting existing ways of life (which usually means defending existing divisions of wealth and privilege); for others, sustainability is a more radical questioning of global carrying capacity, the voracious appetite for urbanites in wealthy countries for energy and resources, the costs and consequences of mega-cities in poor countries, and the role of cities in accelerating (or mitigating) global environmental catastrophe.

We do live in very interesting urban-economic times.

[67] Quoted in MacGillis, "Ruse."