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Thoughts on Deborah Stevenson's *The City*

Peter Gordon[1]

Introduction

Here is the publisher's blurb: "In *The City* Deborah Stevenson argues that, as theories and concepts shape what is known about cities and urban life, it is necessary to build conceptual frameworks that engage with the intersections and tensions between urban processes and trends, as well as with the complexities of everyday urban life." It's a bit wordy and even off-putting. Is it in a code that I do not understand? Having always looked at cities from the perspective of an economist, I thought it might be interesting to put in the effort to see how a sociologist looks at cities. There is more to cities than economics. And the economics of cities is not simply the province of economists.

The City (no trailing colon and subtitle) by Deborah Stevenson is actually about the author's understanding of the academic field of Urban Studies (mentioned 32 times in 176 pages according to a Google search). In light of the very broad title of the book alongside its brevity, readers may ask what they are in for. The author mentions the "overarching objective" (page 24), "… to take the concept of the city and, with reference to an array of urban theories, examine how it has been understood, explained, and experienced in a range of contexts." In plainer English, the book is actually a romp that briefly touches on the author's favorite themes and writings on cities. Mostly they ascribe the problems of cities to something called "neoliberal" agendas. There are no data and no arguments from evidence. There is an effort to squeeze insights from the critique of "neoliberal." My claim is that the book actually demonstrates the futility of that approach.

I want to reference three of the big ideas of modern social science research. First, much of humanity has only very recently escaped the Malthusian trap because economic growth has finally been achieved. Second, cities have flourished with this expansion because they facilitate economic growth. Third, cities do this because they are an essential part of the capital market process that facilitates growth.

Getting capital wrong

Almost ten years ago, one commentator noted that, "The Marxist view that private property and free markets are obstacles to economic development has been ruthlessly falsified by experience. There is not a single case of a non-market state-dominated economy that has turned out to be a success."[2] But Marxists have not retired from the scene. Arnold Kling (2013) notes that we now see a widely applied "Folk Marxism" which emphasizes struggles between the oppressor and the oppressed. Deborah Stevenson's book can be seen as Folk Marxism of cities.

Cities that now house over half of humanity are, of course, amazingly complex and elicit many reactions and reflections. The biggest question of them all is still the one posed by Adam Smith (and revisited many times since[3]): Why are some places rich and others poor? But when we contemplate big-think city questions (as Stevenson wants to), we should add: What do cities mean for the Adam Smith question? Is the Adam Smith question linked to the question of why labor and capital move to cities?

The problem with Stevenson's approach is that Marxist (or folk-Marxist) analysis cannot address the key questions. There is mostly oppressors vs. oppressed. But even at a most basic level, the class warfare story has to contend with the idea that power and tenure at the top are more tenuous than ever. "… whereas in 1980 a firm in the top fifth of the industry ran only a 10 percent risk of falling out of that tier after five years, by 1998 that risk was up to 25 percent. Among the top 100 companies in the Fortune 500 listing in 2010, 66 were survivors from the 2000 list. Thirty-six hadn't even existed in 2000 …" Naim (2012, locations 3445-54, Kindle version). Today's elites are not the same as the elites of 40, 50 or 60 years ago. In this process of flux, living standards rise and new opportunities are created. Stevenson's version of flux is all about poor people being displaced. There are surely poor people in today's cities, but would one rather be one of them than among the poor in the less dynamic world that Stevenson seems to prefer.

But the author's analysis is problematic for more serious reasons. Stevenson's analysis begins with her description of the recent recession (Chapter 2, "Material: Economies and Inequalities"):

> "Cities—house prices and mortgages—were central to this crisis … The financial crisis revealed much about the scope and texture of contemporary capitalism as well as the interconnectedness of cities and nations and the consequences of their enmeshment in a global economic system that is built on financial capital and demands continued economic growth … the processes of contemporary urbanization are driven substantially by the imperative of capitalism—in particular by the requirement to attract investment, maximize profit and absorb capital. … The goals of enticing capital investment in all its forms and fostering international trade were pivotal in the 1980s to the removal of a raft of regulations and protocols that had been in place after the Second World War to protect economies and societies from the extremes of capitalism, but that had come to be considered by some as barriers to growth and the accumulation of capital. It was the consequences of such factors that converged to create the conditions for the economic and urban turmoil of 2007-8." (p. 25-26).

Non-Marxist readers may wonder. Is this why we have cities ("the imperative of capitalism")? Is this an indictment of capitalism ("the goals of enticing capital investment …")? "Capital" has always been a problem for Marxists, including Stevenson. *Das Kapital* simply saw ill-gotten gains for a few and trouble for everyone else. But this view hobbles any capacity to make intellectual progress with respect to the Adam Smith question.

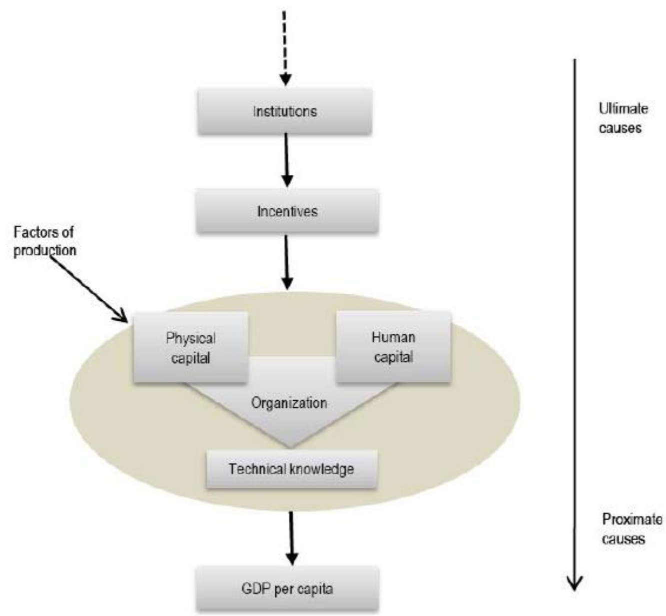
Extreme aggregation obscures the problem of coordination—and thereby the key function of markets. Capital markets *and* land markets are fundamental. But both are missing from Stevenson's analysis. We get growth if and when we somehow solve the problem allocating scarce capital to worthy projects. This is much more complex than the "macro" problem of figuring out how much to consume now vs. how much to save and invest. It is the way societies provision themselves for a better future. This is the *coordination problem* that only capital markets can solve. Not seeing it ignores and obscures the essence of "capital," a term that the Marxists sorely misuse when they use it as shorthand for the oppressors of their narrative. An uncountable number of inter-temporal resource allocations are possible; the challenge is to discover ones that serve the wishes of tomorrow's consumers. Capital markets are required because industrial policies and central planning are not up to the job. One cannot address the fundamental economic problem if one does not even see it.

The 2007-8 economic crisis that Stevenson wants to address can be traced to capital markets as we know them malfunctioning. There were unusually large coordination failures. (See, for example, Andrei Shleifer and Robert Vishny, 2011). But capital markets as we understand them are missing from Stevenson's treatment. As such, there is no hint of the overleveraging (and its causes) of the pre-2007 period, nor of the subsequent deleveraging and its consequences. Overleveraging refers to misallocation of scarce capital. This was not prompted by "neoliberalism" (which supposedly eclipsed the role of the state), but rather by crony capitalism that failed to establish a proper wall between Wall Street and state. The slow deleveraging (and slow recovery) unfolding as this is written can be traced to the same problem.

Cities, growth and capital

What is the role of cities in the massive and intricate coordination that gives us economic growth? We can illustrate by building on a concise depiction of economic growth as shown in a graphic developed by Tyler Cowen and Alexander Tabarrok (Cowen and Tabarrok; reproduced in **Figure 1**). Note the "ultimate" and "proximate" causes. To add cities to the analysis, we should place them in this context. How? Note that CT place "organization" at the center of their chart. Most economists note the complexity of supply chains—and the entrepreneurial challenge of determining which elements of any supply chain take place within and beyond each firm (Coase 1937). Any supply chain

Figure 1: Economic Growth



Source: Cowen and Tabarrok (2011)

involves many firms; the managers of each one face the constant challenge of deciding which parts of the chain take place within or beyond their firm. But the 'beyond vs. nearby' aspect involves location and space. This means that urban economics must also be about the study of supply chains. The various supply chains are spread over space; parts occur within as well as between cities. It is likely that the within-the-firm-or-not choice is made concurrently with the nearby-or-not nearby choice. To make it more interesting, the latter can be in the same city or beyond.

The same applies to individuals who can be seen as cogs in the supply chains that manufacture ideas and innovations. In other words, the coordination problem has a spatial dimension. The latter helps to define the nature and form of cities. No plausible city authority that can plausibly rule (or "solve") this (although many naively aspire to). Just as plant managers must grapple with the problem of what to produce within and outside the firm, they must also decide what is produced locally as well as not. Analogous to capital markets, land markets are the only known institution up to the task of handling this complex coordination problem.

Part of wealth formation is successful supply chain formation. The chains have a spatial dimension because it is in the interests of all involved to secure propitious locations. This discussion elaborates a bigger claim. Cities as "engines of growth" has become a cliché; discussions of economic growth require a deeper understanding of the role of spatial arrangements and land markets. Spatial concentrations reduce transactions costs. But there are additional benefits gained as positive spillover effects are realized; spillovers have a spatial ambit and are realized at a limited set of proximate locations. The latter phenomenon is especially important for the exchange of ideas. Creativity comes from new arrangements of thoughts and ideas. The thoughts of others facilitate forming new combinations of ideas. Propitious spatial arrangements facilitate both sets of interactions. The spatial arrangements involve choices from a very large combinatorial set. The choice problem is much too complex to entrust to models or planning agencies. Flexible land markets are essential. Urban economics suggests that cities are self-organizing spatial arrangements. The claim that there are institutions that incentivize inventive activity has been addressed many times. What about the role of spatial arrangements? Labor and capital migrate to cities if and when (and where) they expect opportunities (including spatial arrangements) to be productive. In fact, entrepreneurs look for spatial arrangements (including networking opportunities) where they can be inventive and productive. Society as well as the economy progress by finding ways to integrate and nurture the best ideas. Putnam (1993) suggests that "social capital" is involved; norms and trust are developed as ideas are exchanged. The role of successful cities in this unfolding cannot be understated (Gordon, 2012).

Aggregating land, labor, capital *and cities* risks missing the essential story. Cities belong in the economic growth discussion, but Stevenson's sweeping analysis of the economics of cities involves broad brush discussions of large and impersonal forces -- and their vague interactions. The "neoliberal agenda" and "neoliberal hegemony" are her workhorses; they are highlighted in terms of whether there was excessive deregulation[4], whether there is an emphasis on fighting inflation or creating jobs, on whether the "neoliberal" sharpens class divisions, prompts ghettoization, etc. This is not the way to grasp the crucial importance of cities.

Notes

[1] University of Southern California

[2] L. Balcerowicz (2004)

[3] Notably *Why Nations Fail* (2012).

[4] Zingales (2012) reports that, "Between the Federal Reserve, the Office of the Control of the Currency, and the State Regulators there are about 30,000 people in charge of supervising banks" (p. 207).

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