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One

Overview

FOR CENTURIES, the world economy has shaped the life of cities. This book is about that relationship today. Beginning in the 1960s, the organization of economic activity entered a period of pronounced transformation. The changes were expressed in the altered structure of the world economy, and also assumed forms specific to particular places. Certain of these changes are by now familiar: the dismantling of once-powerful industrial centers in the United States, the United Kingdom, and more recently in Japan; the accelerated industrialization of several Third World countries; the rapid internationalization of the financial industry into a worldwide network of transactions. Each of these changes altered the relation of cities to the international economy.

In the decades after World War II, there was an international regime based on United States dominance in the world economy and the rules for global trade contained in the 1945 Bretton Woods agreement. By the early 1970s, the conditions supporting that regime were disintegrating. The breakdown created a void into which stepped, perhaps in a last burst of national dominance, the large U.S. transnational industrial firms and banks. In this period of transition, the management of the international economic order was to an inordinate extent run from the headquarters of these firms. By the early 1980s, however, the large U.S. transnational banks faced the massive Third World debt crisis, and U.S. industrial firms experienced sharp market share losses from foreign competition. Yet the international economy did not simply break into fragments. The geography and composition of the global economy changed so as to produce a complex duality: a spatially dispersed, yet globally integrated organization of economic activity.

The point of departure for the present study is that the combination of spatial dispersal and global integration has created a new strategic role for major cities. Beyond their long history as centers for international trade and banking, these cities now function in four new ways: first, as highly concentrated command points in the organization of the world economy; second, as key locations for finance and for specialized service firms, which have replaced manufacturing as the leading economic sectors; third, as sites of production, including the production of innovations, in these leading industries; and fourth, as markets for the products and in-

novations produced. These changes in the functioning of cities have had a massive impact upon both international economic activity and urban form: cities concentrate control over vast resources, while finance and specialized service industries have restructured the urban social and economic order. Thus a new type of city has appeared. It is the global city. Leading examples now are New York, London, Tokyo, Frankfurt, and Paris. The first three are the focus of this book.

As I shall show, these three cities have undergone massive and *parallel* changes in their economic base, spatial organization, and social structure. But this parallel development is a puzzle. How could cities with as diverse a history, culture, politics, and economy as New York, London, and Tokyo experience similar transformations concentrated in so brief a period of time? Not examined at length in my study, but important to its theoretical framework, is how transformations in cities ranging from Paris to Frankfurt to Hong Kong and São Paulo have responded to the same dynamic. To understand the puzzle of parallel change in diverse cities requires not simply a point-by-point comparison of New York, London, and Tokyo, but a situating of these cities in a set of global processes. In order to understand why major cities with different histories and cultures have undergone parallel economic and social changes, we need to examine transformations in the world economy. Yet the term *global city* may be reductive and misleading if it suggests that cities are mere outcomes of a global economic machine. They are specific places whose spaces, internal dynamics, and social structure matter; indeed, we may be able to understand the global order only by analyzing why key structures of the world economy are *necessarily* situated in cities.

How does the position of these cities in the world economy today differ from that which they have historically held as centers of banking and trade? When Max Weber analyzed the medieval cities woven together in the Hanseatic League, he conceived their trade as the exchange of surplus production; it was his view that a medieval city could withdraw from external trade and continue to support itself, albeit on a reduced scale. The modern molecule of global cities is nothing like the trade among self-sufficient places in the Hanseatic League, as Weber understood it. The first thesis advanced in this book is that the territorial dispersal of current economic activity creates a need for expanded central control and management. In other words, while in principle the territorial decentralization of economic activity in recent years could have been accompanied by a corresponding decentralization in ownership and hence in the appropriation of profits, there has been little movement in that direction. Though large firms have increased their subcontracting to smaller firms, and many national firms in the newly industrializing countries have grown rapidly, this form of growth is ultimately part of a chain.

Even industrial homeworkers in remote rural areas are now part of that chain. The transnational corporations continue to control much of the end product and to reap the profits associated with selling in the world market. The internationalization and expansion of the financial industry has brought growth to a large number of smaller financial markets, a growth which has fed the expansion of the global industry. But top-level control and management of the industry has become concentrated in a few leading financial centers, especially New York, London, Tokyo, Frankfurt, and Paris. These account for a disproportionate share of all financial transactions and one that has grown rapidly since the early 1980s. The fundamental dynamic posited here is that the more globalized the economy becomes, the higher the agglomeration of central functions in a relatively few sites, that is, in global cities.

The extremely high densities evident in the business districts of these cities are one spatial expression of this logic. The widely accepted notion that density and agglomeration will become obsolete because global telecommunications advances allow for maximum population and resource dispersal is poorly conceived. It is, I argue, precisely because of the territorial dispersal facilitated by telecommunication that agglomeration of certain centralizing activities has sharply increased. This is not a mere continuation of old patterns of agglomeration; there is a new logic for concentration. In Weberian terms, there is a new system of “coordination,” one which focuses on the development of specific geographic control sites in the international economic order.

A second major theme of this book concerns the impact of this type of economic growth on the economic order within these cities. It is necessary to go beyond the Weberian notion of coordination and Bell’s (1973) notion of the postindustrial society to understand this new urban order. Bell, like Weber, assumes that the further society evolves from nineteenth-century industrial capitalism, the more the apex of the social order is involved in pure managerial process, with the content of what is to be managed becoming of secondary importance. Global cities are, however, not only nodal points for the coordination of processes (Friedmann 1986); they are also particular sites of production. They are sites for (1) the production of specialized services needed by complex organizations for running a spatially dispersed network of factories, offices, and service outlets; and (2) the production of financial innovations and the making of markets, both central to the internationalization and expansion of the financial industry. To understand the structure of a global city, we have to understand it as a place where certain kinds of work can get done, which is to say that we have to get beyond the dichotomy between manufacturing and services. The “things” a global city makes are highly specialized services and financial goods.

It is true that high-level business services, from accounting to economic consulting, are not usually analyzed as a production process. Such services are usually seen as a type of output derived from high-level technical knowledge. I shall challenge this view. Moreover, using new scholarship on producer services, I shall examine the extent to which a key trait of global cities is that they are the most *advanced* production sites for creating these services.

A second way this analysis goes beyond the existing literature on cities concerns the financial industry. I shall explore how the character of a global city is shaped by the emerging organization of the financial industry. The accelerated production of innovations and the new importance of a large number of relatively small financial institutions led to a renewed or expanded role for the marketplace in the financial industry in the decade of the 1980s. The marketplace has assumed new strategic and routine economic functions, in comparison to the prior phase, when the large transnational banks dominated the national and international financial market. Insofar as financial “products” can be used internationally, the market has reappeared in a new form in the global economy. New York, London, and Tokyo play roles as production sites for financial instruments and centralized marketplaces for these “products.”

A key dynamic running through these various activities and organizing my analysis of the place of global cities in the world economy is their capability for producing global control. By focusing on the production of services and financial innovations, I am seeking to displace the focus of attention from the familiar issues of the power of large corporations over governments and economies, or supracorporate concentration of power through interlocking directorates or organizations, such as the IMF. I want to focus on an aspect that has received less attention, which could be referred to as the *practice* of global control: the work of producing and reproducing the organization and management of a global production system and a global marketplace for finance. My focus is not on power, but on production: the production of those inputs that constitute the capability for global control and the infrastructure of jobs involved in this production.

The power of large corporations is insufficient to explain the capability for global control. Obviously, governments also face an increasingly complex environment in which highly sophisticated machineries of centralized management and control are necessary. Moreover, the high level of specialization and the growing demand for these specialized inputs have created the conditions for a freestanding industry. Now small firms can buy components of global capability, such as management consulting or international legal advice. And so can firms and governments anywhere in the world. While the large corporation is undoubtedly a key agent induc-

ing the development of this capability and is a prime beneficiary, it is not the sole user.

Equally misleading would be an exclusive focus on transnational banks. Up to the end of the 1982 Third World debt crisis, the large transnational banks dominated the financial markets in terms of both volume and the nature of firm transactions. After 1982, this dominance was increasingly challenged by other financial institutions and the innovations they produced. This led to a transformation in the leading components of the financial industry, a proliferation of financial institutions, and the rapid internationalization of financial markets rather than just a few banks. The incorporation of a multiplicity of markets all over the world into a global system fed the growth of the industry after the 1982 debt crisis, while also creating new forms of concentration in a few leading financial centers. Hence, in the case of the financial industry, a focus on the large transnational banks would exclude precisely those sectors of the industry where much of the new growth and production of innovations has occurred; it would leave out an examination of the wide range of activities, firms, and markets that constitute the financial industry since the 1980s.

Thus, there are a number of reasons to focus a study on marketplaces and production sites rather than on the large corporations and banks. Most scholarship on the internationalization of the economy has already focused on the large corporations and transnational banks. To continue to focus on the corporations and banks would mean to limit attention to their formal power, rather than examining the wide array of economic activities, many outside the corporation, needed to produce and reproduce that power. And, in the case of finance, a focus on the large transnational banks would leave out precisely that institutional sector of the industry where the key components of the new growth have been invented and put into circulation. Finally, exclusive focus on corporations and banks leaves out a number of issues about the social, economic, and spatial impact of these activities on the cities that contain them, a major concern in this book and one I return to below.

A third major theme explored in this book concerns the consequences of these developments for the national urban system in each of these countries and for the relationship of the global city to its nation-state. While a few major cities are the sites of production for the new global control capability, a large number of other major cities have lost their role as leading export centers for industrial manufacturing, as a result of the decentralization of this form of production. Cities such as Detroit, Liverpool, Manchester, and now increasingly Nagoya and Osaka have been affected by the decentralization of their key industries at the domestic and international levels. According to the first hypothesis presented

above, this same process has contributed to the growth of service industries that produce the specialized inputs to run global production processes and global markets for inputs and outputs. These industries—international legal and accounting services, management consulting, financial services—are heavily concentrated in cities such as New York, London, and Tokyo. We need to know how this growth alters the relations between the global cities and what were once the leading industrial centers in their nations. Does globalization bring about a triangulation so that New York, for example, now plays a role in the fortunes of Detroit that it did not play when that city was home to most production jobs in one of the leading industries, auto manufacturing? Or, in the case of Japan, we need to ask, for example, if there is a connection between the increasing shift of production out of Toyota City (Nagoya) to offshore locations (Thailand, South Korea, and the United States) and the development for the first time of a new headquarters for Toyota in Tokyo.

Similarly, there is a question about the relation between such major cities as Chicago, Osaka, and Manchester, once leading industrial centers in the world, and global markets generally. Both Chicago and Osaka were and continue to be important financial centers on the basis of their manufacturing industries. We would want to know if they have lost ground, relatively, in these functions as a result of their decline in the global industrial market, or instead have undergone parallel transformation toward strengthening of service functions. Chicago, for example, was at the heart of a massive agroindustrial complex, a vast regional economy. How has the decline of that regional economic system affected Chicago?

In all these questions, it is a matter of understanding what growth embedded in the international system of producer services and finance has entailed for different levels in the national urban hierarchy. The broader trends—decentralization of plants, offices, and service outlets, along with the expansion of central functions as a consequence of the need to manage such decentralized organization of firms—may well have created conditions contributing to the growth of regional subcenters, minor versions of what New York, London, and Tokyo do on a global and national scale. The extent to which the developments posited for New York, London, and Tokyo are also replicated, perhaps in less accentuated form, in smaller cities, at lower levels of the urban hierarchy, is an open, but important, question.

The new international forms of economic activity raise a problem about the relationship between nation-states and global cities. The relation between city and nation is a theme that keeps returning throughout this book; it is the political dimension of the economic changes I explore. I posit the possibility of a systemic discontinuity between what used to be thought of as national growth and the forms of growth evident in global

cities since the 1980s. These cities constitute a system rather than merely competing with each other. What contributes to growth in the network of global cities may well not contribute to growth in nations. For instance, is there a systemic relation between, on the one hand, the growth in global cities and, on the other hand, the deficits of national governments and the decline of major industrial centers in each of these countries in the 1980s?

The fourth and final theme in the book concerns the impact of these new forms of, and conditions for, growth on the social order of the global city. There is a vast body of literature on the impact of a dynamic, high-growth manufacturing sector in the highly developed countries, which shows that it raised wages, reduced inequality, and contributed to the formation of a middle class. Much less is known about the sociology of a service economy. Daniel Bell's (1973) *The Coming of Post-Industrial Society* posits that such an economy will result in growth in the number of highly educated workers and a more rational relation of workers to issues of social equity. One could argue that any city representing a post-industrial economy would surely contain leading sectors such as those of New York, London, and increasingly Tokyo.

I will examine to what extent the new structure of economic activity has brought about changes in the organization of work, reflected in a shift in the job supply and polarization in the income distribution and occupational distribution of workers. Major growth industries show a greater incidence of jobs at the high- and low-paying ends of the scale than do the older industries now in decline. Almost half the jobs in the producer services are lower-income jobs, and half are in the two highest earnings classes. In contrast, a large share of manufacturing workers were in the middle-earnings jobs during the postwar period of high growth in these industries in the United States and United Kingdom.

Two other developments in global cities have also contributed to economic polarization. One is the vast supply of low-wage jobs required by high-income gentrification in both its residential and commercial settings. The increase in the numbers of expensive restaurants, luxury housing, luxury hotels, gourmet shops, boutiques, French hand laundries, and special cleaners that ornament the new urban landscape illustrates this trend. Furthermore, there is a continuing need for low-wage industrial services, even in such sectors as finance and specialized services. A second development that has reached significant proportions is what I call the downgrading of the manufacturing sector, a process in which the share of unionized shops declines and wages deteriorate while sweatshops and industrial homework proliferate. This process includes the downgrading of jobs within existing industries and the job supply patterns of some of the new industries, notably electronics assembly. It is worth noting that the

growth of a downgraded manufacturing sector has been strongest in cities such as New York and London.

The expansion of low-wage jobs as a function of *growth* trends implies a reorganization of the capital-labor relation. To see this, it is important to distinguish the characteristics of jobs from their sectoral location, since highly dynamic, technologically advanced growth sectors may well contain low-wage dead-end jobs. Furthermore, the distinction between sectoral characteristics and sectoral growth patterns is crucial: Backward sectors, such as downgraded manufacturing or low-wage service occupations, can be part of major growth trends in a highly developed economy. It is often assumed that backward sectors express decline trends. Similarly, there is a tendency to assume that advanced sectors, such as finance, have mostly good, white-collar jobs. In fact, they contain a good number of low-paying jobs, from cleaner to stock clerk.

These, then, are the major themes and implications of my study.

As a further word of introduction I must sketch the reasons why producer services and finance have grown so rapidly since the 1970s and why they have high concentrations in cities such as New York, London, and Tokyo. The familiar explanation is that the decade of the 1980s was but a part of a larger economic trend, the shift to services. And the simple explanation of their high concentration in major cities is that this is because of the need for face-to-face communication in the services community. While correct, these propositions are incomplete.

We need to understand first how modern technology has not ended nineteenth-century forms of work; rather, technology has shifted a number of activities that were once part of manufacturing into the domain of services. The transfer of skills from workers to machines once epitomized by the assembly line has a present-day version in the transfer of a variety of activities from the shop floor into computers, with their attendant technical and professional personnel. Also, functional specialization within early factories finds a contemporary counterpart in today's pronounced fragmentation of the work process spatially and organizationally. This has been called the "global assembly line," the production and assembly of goods from factories and depots throughout the world, wherever labor costs and economies of scale make an international division of labor cost-effective. It is, however, this very "global assembly line" that creates the need for increased centralization and complexity of management, control, and planning. The development of the modern corporation and its massive participation in world markets and foreign countries has made planning, internal administration, product development, and research increasingly important and complex. Diversification of product lines, mergers, and transnationalization of economic activities all require

highly specialized skills in top-level management (Chandler 1977). These have also “increased the dependence of the corporation on producer services, which in turn has fostered growth and development of higher levels of expertise among producer service firms” (Stanback and Noyelle 1982: 15). What were once support resources for major corporations have become crucial inputs in corporate decisionmaking. A firm with a multiplicity of geographically dispersed manufacturing plants contributes to the development of new types of planning in production and distribution surrounding the firm.

The growth of international banks and the more recent diversification of the financial industry have also expanded the demand for highly specialized service inputs. In the 1960s and 1970s, there was considerable geographic dispersal in the banking industry, with many regional centers and offshore locations mostly involved in fairly traditional banking. The diversification and internationalization of finance over the last decade resulted in a strong trend toward concentrating the “management” of the global industry and the production of financial innovations in a more limited number of major locations. This dynamic is not unlike that of multisite manufacturing or service firms.

Major trends toward the development of multisite manufacturing, service, and banking have created an expanded demand for a wide range of specialized service activities to manage and control global networks of factories, service outlets, and branch offices. While to some extent these activities can be carried out in-house, a large share of them cannot. High levels of specialization, the possibility of externalizing the production of some of these services, and the growing demand by large and small firms and by governments are all conditions that have both resulted from and made possible the development of a market for freestanding service firms that produce components for what I refer to as global control capability.

The growth of advanced services for firms, a key component of producer services, along with their particular characteristics of production, helps to explain the centralization of management and servicing functions that fueled the economic boom of the mid-1980s in New York, London, and Tokyo. The face-to-face explanation needs to be refined in several ways. Advanced services are mostly producer services; unlike other types of services, they are only weakly dependent on proximity to the consumers served. Rather, such specialized firms benefit from and need to locate close to other firms who produce key inputs or whose proximity makes possible joint production of certain service offerings. The accounting firm can service its clients at a distance but the nature of its service depends on proximity to other specialists, from lawyers to programmers. Major corporate transactions today typically require simultaneous participation of several specialized firms providing legal, accounting, financial,

public relations, management consulting, and other such services. Moreover, concentration arises out of the needs and expectations of the high-income workers employed in these firms. They are attracted to the amenities and lifestyles that large urban centers can offer and are likely to live in central areas rather than in suburbs.

The importance of this concentration of economic activity in New York, London, and Tokyo is heightened by the fact that advanced services and finance were the fastest-growing sectors in the economies of their countries in the 1980s. It is a common mistake to attribute high growth to the service sector as a whole. In fact, other major services, such as public and consumer services, have leveled off since the middle or late 1960s in the United States and since the 1970s in the United Kingdom and Japan. In other words, the concentration of advanced services and finance in major urban centers represents a disproportionate share of the nationwide growth in employment and GNP relative to population share.

The combination of high levels of speculation and a multiplicity of small firms as core elements of the financial and producer services complex raises a question about the durability of this model of growth. Indeed, by the mid-1990s the larger banks once again had a more central role in the financial industry, and competition and the advantages of scale had led to mergers and acquisitions of small firms. Finally, and perhaps most important, at what point do the sources of profits generated by this form of economic growth become exhausted?

Over the last twenty years, major economic growth trends have produced spatial and social arrangements considerably divergent from the configuration that characterized the preceding decades. The economic sectors, localities, and occupations that account for a large share of economic growth today differ from those central to the immediate post-World War II period. Most commonly, this process has been interpreted as the decline of old and the emergence of new industries, typically seen as two somewhat unconnected events necessary for the renewal of an economy. I shall challenge this disconnecting view; this means asserting that new growth rests, to a significant extent, on deep structural processes of decline. The question of the long-term durability of the global city that I have just posed turns on not seeing decline and growth as distinct. The “high-flying” 1980s and 1990s emerged in part out of the same dynamics that led manufacturing of the old sort to decline.

This systemic connection, I will argue, plays itself out in several economic arenas. I propose to examine this through several working hypotheses. They are the following: First, the geographic dispersal of manufacturing, which contributed to the decline of old industrial centers, created a demand for expanded central management and planning and the necessary specialized services, key components of growth in global cities. The

move of large corporations into consumer services contributed to the closure and decline of many small independently owned consumer service firms. The growing complexity of governmental activity further fed the demand for specialized services and expanded central management and planning. Second, the growth of the financial industry, and especially of key sectors of that industry, benefited from policies and conditions often harmful to other industrial sectors, notably manufacturing. The overall effect again was to feed growth of specialized services located in major cities and to undermine the economic base of other types of localities. Third, the conditions and patterns subsumed under the first two working hypotheses suggest a transformation in the economic relationships among global cities, the nation-states where they are located, and the world economy. Prior to the current phase, there was high correspondence between major growth sectors and overall national growth. Today we see increased asymmetry: The conditions promoting growth in global cities contain as significant components the decline of other areas of the United States, the United Kingdom, and Japan and the accumulation of government debt and corporate debt. Fourth, the new conditions of growth have contributed to elements of a new class alignment in global cities. The occupational structure of major growth industries characterized by the locational concentration of major growth sectors in global cities in combination with the polarized occupational structure of these sectors has created and contributed to growth of a high-income stratum and a low-income stratum of workers. It has done so directly through the organization of work and occupational structure of major growth sectors. And it has done so indirectly through the jobs needed to service the new high-income workers, both at work and at home, as well as the needs of the expanded low-wage work force.

This brief introductory chapter presents the main issues and arguments the book will develop. Part One discusses the major trends in the spatial dispersion of production and the reorganization of the financial industry. The focus here is on the geography, composition, and institutions that constitute the globalization of economic activity since the 1980s. This aims to be a straightforward empirical description of the composition and direction of international investment, service transactions, and financial flows. It entailed dealing with a vast amount of evidence, disaggregating in order to capture dimensions of interest to the analysis in this book and reaggregating in order to facilitate comprehension. The many tables in these chapters serve to summarize the details. The purpose is ultimately to understand how various forms of globalization in economic activity generated new forms of centralization, specifically, the rapidly growing agglomeration of specialized services and finance evident in major cities.

Part Two examines the industries that form the core in these cities and the national and transnational space economy of these industries. The purpose is to arrive at an understanding of the place of global cities in the organization of these industries, and to do so through an examination of the characteristics of the industries—rather than a detailed analysis of the economic base of the cities—in the context of national urban systems as well as an elemental global hierarchy of cities. Chapter 5 examines the characteristics of the new components of centralization. They amount to a new basic industry: the production of management and control operations, of the highly specialized services needed to run the world economy, of new financial instruments. Chapters 6 and 7 discuss the role of global cities in the new organization of the world economy, examining the development of these cities into sites of production for the new basic industry and the growth of inter-city transactions.

Part Three discusses some of the key aspects in the distribution of benefits and burdens of this particular form of growth. What is the range of jobs directly and indirectly sustaining the operation of this type of economic sector? And to what extent does the occupational and income distribution of these cities' resident work forces reflect the existence of a thriving profitmaking economic core? Chapter 8 examines how these transformations in economic activity generate a new labor demand and a new income structure in these cities. Chapter 9 examines the characteristics of the backward economic sectors that appear to thrive in these cities and seeks to understand what, if any, is the articulation between these two types of growth.

The concluding chapter discusses the political implications of these developments, addressing the following three questions. What are the political implications of concentration of the benefits of economic growth in global cities and in a stratum of high-income workers alongside the decline of what were once thriving localities and sectors of the work force? How does the consolidation of the world economy and of global centers for its control and management affect the relationship between nation and city, particularly between global cities and the nation-states they supposedly belong to? The final question concerns the durability of these arrangements: What are the conditions for the reproduction of this mode of growth?

The three central questions organizing this book can be simply put as follows. What is the role of major cities in the organization and management of the world economy? In what ways has the consolidation of a world economy affected the economic base and associated social and political order in major cities? What happens to the relationship between state and city under conditions of a strong articulation between a city and the world economy? These represent only a few of all the questions one

could raise in a study about major contemporary cities. But these questions are strategic for understanding such cities from the perspective of the world economy—what moment in the global accumulation process is contained by or located in major cities? And they are strategic for understanding the interaction of local and global processes—how does the historical, political, economic, and social specificity of a particular city resist, facilitate, remain untouched by incorporation into the world economy? Why has Tokyo's trajectory increasingly diverged from those of New York and London in the 1990s? In this context, the contrasts among New York, London, and Tokyo should be illuminating, given their roles as leading world financial centers and their very different histories, economies, and cultures.

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