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# The City as an Object of Economic Research: from City-Market to City-Element of a Global System

## 1. Preliminary remarks

One might be tempted to say that the title proposed by the conference organiser Bohdan Jałowiecki – who is also a friend of mine – is self-explanatory. At first sight, both 'city' and 'economy' are words which are instinctively understood and well established both in public and specialist discourse.

However, when we set out to define the issues indicated by the topic of this paper we will instantly encounter problems with terminology. How should we understand the notion of 'city' as an object of interest in economic sciences? Is it the very socio-economic spatial system itself (using the category proposed by Zbyszko Chojnicki) that has features of an urbanised area (which term incidentally lacks a precise definition itself and is based on conventional statistical categories which are often differently defined in different countries and by different researchers), stripped of its surroundings? Is it the city (if so, how to delimit its boundaries? administratively? functionally?) with its direct surroundings in their functional relationships (be they social, economic or political)? Or perhaps an urban region – that is the city with its broader hinterland which, in the case of the biggest cities, can cover a large region or an administrative region such as Poland's voidvoship (*województwo*)? Finally, the object of study can be a city (again, meaning what in particular?) seen as an element of a broader network of cities, going beyond one region and including the whole country, the continent or even the world at large.

No matter how wide we mark the city limits, we can treat the city as a system *per se*: a system which has specific components (inhabitants, buildings, infrastructure facilities, organisations and institutions) between which certain interactions occur (material, energy, information and decision-related, etc.), which is furnished with a system for regulation and control (local-government management) and which – last but not least – has a number of ties with its surroundings (material, energy, information and decision-related). As such, the city is a self-standing entity, isolated from its surroundings and leading its own, dynamic 'inner life'.

At the same time, however, the city is an element of space which – as we all know – is the vehicle for all things. An important aspect of scientific investigation is also the study of spatial relationships between different functions or – referring to the city as a system – of the spatial aspects of interactions taking place between its component parts. In this approach, the city is but a passive 'container' for people, objects performing different functions, management units, etc.

The table below shows various possible approaches to the 'city' as an object of economic research, and indicates some possible topics for such research, pertaining to different specialised areas of study. Throughout the paper, references will be made to specific fields of the table below.

Table 1. Various approaches to the 'city'.

| | City as a system | City as an element of a system | | |
|---|---|---|---|---|
| City as an entity | City development factors<br>City economics<br>City management | City as a market: city and its relationships with the region | Network of cities: central places/cities national settlement system | City in the world: world cities global network of metropolises |
| City as a space (vehicle) | Distribution of jobs, places of residence<br>Social segregation, exclusion | Location theories: quantitative, qualitative approach<br>Concentration-deconcentration | | |

The very notion of 'economic research' raises a number of doubts, too. Economy is a science about making choices concerning the use of limited goods in the production process and their distribution. One of such choices is the selection of place where such resources are to be used – which is the domain of the location theory that looks at different variants of choosing locations in terms of the benefits it can bring to enterprises or households. In such a perspective, the city is merely a fragment of space furnished with specific features and having specific spatial relationships with other functions located in space. However, 'using resources' may also apply to a city as an entity, or rather – to be more precise – to city authorities which, within the scope of their competencies, make decisions on the city's management.

Integration of individual scientific disciplines and also undertaking research overlapping two or more areas tends to obliterate the boundaries between the classical domains reserved for specific disciplines. New disciplines arise, which cannot be unequivocally classified or categorised. To take an example, regional science, initiated by Walter Isard over 50 years ago, goes beyond narrowly understood economy. In the context of Poland, spatial economy, which has been recognised as a course leading to MA degree only recently, is a discipline merging different areas of study: economy, social studies, law and administration, political science, geography, including physical geography (nature protection and conservation). The city – in many of its aspects referred to above – is an

object of study in such 'border' disciplines, among which economy is one of the more dedicated fields of science.

For the reasons outlined above, in our considerations we will move beyond 'pure' economy, and will also cover broadly understood regional studies and regional science.

## 2. City-system as an object of economic research

The city is a dynamic socio-economic system which undergoes a process of development, duration, and sometimes collapse. It is a self-governing entity, which has its own budget and also makes its own fiscal, investment and operational decisions. At the same time, it represents a space with specific features, parts of which are either owned and/or used by businesses, public services institutions and households – which interact with one another economically, socially and spatially. All these issues constitute objects of study in economic research.

One of the main general trends in research is seeking to find **city development factors**. These have changed along with changes in the development paradigm: from the city–centre for trade in surplus agricultural produce (which became possible as Toffler's First Wave came around and social division of work became a reality – see for example: Diamond 1997; Soja 2000[1]) through the city–producer to the city–service provider and 'administrator'. This is very well rendered by the following quotation:

*The city is a cradle of ancient civilisations, the origin of culture and science, source of industrial development, hub of every information and communication system, and a source of decisions shaping the modern network society. Being all that, the city is also a source of many social evils (overcrowding, deprivation, social inequalities)* (Capello, Nijkamp 2004:3).

Various accidental factors were responsible for the emergence of the city. Sometimes chance was aided by Nature because some locations proved better than others, such as for example agricultural hinterland, river or river mouth, natural protective barriers, mineral deposits. Sometimes the city would develop despite the lack of any specific or favourable natural conditions, its location and specialisation being dependent on an arbitrary decision of the powers that be or, for that matter, industrialists (the example of Łódź comes very handy here[2]). Further development would progress through continuation (path dependency) – until the moment the overall development paradigm changed and the factors of specialisation existing until then proved to be not assets but liabilities, for instance as a result of reduced demand, technological change, emergence of a stronger and more efficient competitor ('old industrial districts' can be seen

[1] Contrary hypotheses are also put forward, which stipulate that cities preceded the development of agriculture, which was able to develop due to trade in plants and animals, which was mosty handled by cities (Jacobs 1970).

[2] See for example: http://www.astral.lodz.pl/bimar/rodowod%20Lodzi.htm.

as a contemporary example of the failure of the traditionally known trends). Frequently, such a breakdown came as a consequence of internal problems (over-concentration – 'overgrowing', excessive costs, undue specialisation, etc.). It is the capacity for adaptation that determines dialectic relationships pertaining to development – duration/survival – collapse, as well as the ability to develop those sectors of the economy which offer the highest dynamics for growth in a given development paradigm.[3] According to John Montgomery, the development of cities depends on maintaining desirable proportions between 'trade', culture' and 'developed land', in combination with management and technology, as they create a framework for these three crucial factors underpinning city development (Montgomery 2007:5).

Literature abounds in thousands of descriptions of industrial cities, and we shall not dwell on them in our analysis. Let us only say that this trend was especially well visible in studies of real-socialism cities, in which the thesis on the urban-forming role of industry had for several decades been a veritable practical and theoretical tenet). Instead, let us focus on one of the major factors fostering the development of contemporary cities, that is, the 'culture industry'. This area of economy flourishes best in cities with the greatest degree of adaptability, and is also one of the popular trends of urban research in economic studies (Scott 2000, also Montgomery 2007). Film and movie production, multimedia, production of stylish furniture and top quality clothing and jewellery are specialisations developed by many of the world's cities. Analysis offered by Allen J. Scott indicates that these particular sectors are growing particularly fast when such companies are located at a close distance from one another – for example in one city district (which is the case in Paris, see Fig. 1, or Los Angeles), when they establish mutual cooperation and when public authorities extend the necessary assistance – that is, when the conditions are fulfilled for the creation of Michael Porter's clusters. In addition to that, protecting the interests of a given group of producers by a guild or an association, such as the Writers' Guild of America or the Screen Actors' Guild, is also an important consideration. Just as in the case of high-tech industries, the role of the leading universities, with strong faculties offering specialised education for the specific areas of cultural activity is also emphasised.

[3] An interesting thesis was put forward by Peter Drucker (1999), who wrote that the role of London as a global financial centre was increased in the wake of two events which took place outside London itself: firstly, due to the tension caused by the Cuban crisis in 1962, the Soviet Union withdrew its deposits in US dollars from the US and took them to London (which in effect was the origin of Eurodollars), and, secondly, the US levied high taxes on the profits of foreign nationals from treasury bonds, as a result of which they were moved to London and led to the creation of Eurobonds. Drucker stressed that London's financial sector made a very efficient use of these external opportunities, which in effect allowed London to regain the role it had had in the nineteenth century.

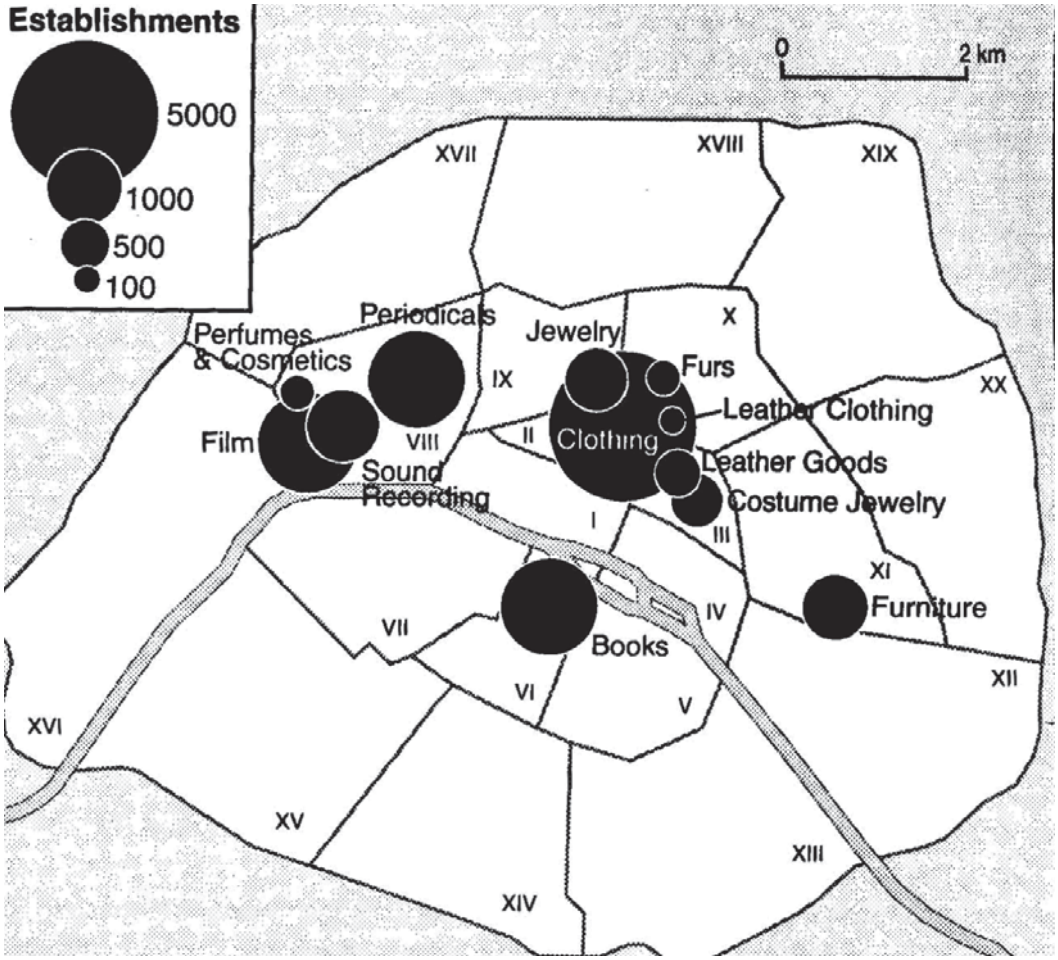



Figure 1. Clusters of companies from the sector of culture in Paris. Size of the circle proportional to the companies' logarithm.

Source: Scott 2000.

What conditions should a city fulfil in order to secure for itself a competitive advantage in the culture production sector? What can be done by the public authorities in order to ensure that the required conditions are present at a given time and in a given place? Below is Allen J. Scott's answer to those questions (2000:183–185):

1. High technological level and top quality design. Contemporary art commonly uses computers and digital technologies, hence the need to combine artistic activity with information technology, which calls for state-of-the-art technology in a given area.
2. Highly competitive artistic activity requires adequately trained personnel, hence the growing role of the educational potential – from general education in culture and art to specialised talent development centres.
3. Just as in other segments of contemporary economy having to resist the growing competition pressure, it is important that companies which are involved in 'competitive cooperation' extend mutual assistance to one another – hence the great role of social capital and mutual trust.

4. Sources of financing are also important – be it banks, loans or insurance – which can facilitate the operations of SMEs (and it is SMEs that are important players in cultural production) and foster their development and expansion. Similarly, supporting such companies in collecting information, in promotion, organisation of fairs and shows, is a major factor in the development of the culture sector, thereby stimulating the development of cities.
5. Finally, strategic thinking and designing both city and regional development can – and should – take into account their chance of success in the very competitive global market for culture products.

Traditional development factors – industry and trade – are losing in importance in the face of the emerging new sectors of the economy. A 'product of culture' is becoming one of the determinants of metropolitan growth. Cultural economy is unquestionably the newest trend in urban development, sometimes referred to as the 'fifth' wave (Montgomery 2007) – which makes the sector a fast developing area of economic studies on factors encouraging urban development.

Analysis of social disparities existing in cities (including social and ethnic segregation) has traditionally represented an important trend in urban studies. Of particular significance are studies on processes of economic marginalisation and exclusion of individual social and socio-professional groups, and on poverty (see for example Atkinson et al. 2005).

Scott emphasised the role of the city's public authorities in generating its competitive advantage. This is related to another important research trend – **urban management**, which involves management of its budget (see for example the classic work by Clark 1983), financial and investment policies, spatial planning, etc. This trend is generally referred to as 'city economics'. In the Polish literature, the scholarly output of the Łódź research centre in this sphere is particularly significant (cf. e.g. Regulski 1982; Markowski 1999; Makieła, Marszał 2005; Markowski 2005). Other works on city management, such as for example by Kowalewski (1990) and Jałowiecki (2002), should also be mentioned here.

In this context, the (probably) sole Polish theory on urban development which has met with substantial interest across the world – the so-called threshold theory formulated by Bolesław Malisz (Malisz, Żurkowski 1971),[4] should be brought up in our considerations. This theory suggests that, in its development, the city encounters specific barriers, mainly related to infrastructure, which need substantial investments in order to be overcome. As a result of such investments, the city acquires new opportunities for growth, which are not always made a full

[4] Andrzej Jędraszko wrote: "…the threshold theory of Bolesław Malisz, which became a part of the methodical development planning processes in many Western European countries, with which Polish urban and spatial planners are still unfamiliar, just as with other domestic methodological tools: the Warsaw optimisation or zone balancing of work and residence locations. Professor Malisz looked at his concept more modestly, referring to it as the threshold analysis. It was elevated to the rank of theory in the works undertaken in Britain, largely owing to our colleague Jerzy M. Kozłowski", http://www.urbanista.pl/arch/5505.php.

use of once the investments in question are finalised and provide significant reserves. However, over time such reserves are depleted, and when a new barrier needs to be overcome, new investments will be necessary.

Many analyses concerning urban development have aimed to determine the theoretical foundations for defining a city's 'optimum size'. Contemporarily, this is replaced by a search for 'an optimum size in terms of effectiveness'. Economies of scale only apply to certain city sizes: a city which is too large manifests too many dysfunctions which tend to reduce scale effects. Structural transformations are needed in order to restore the economic effectiveness in cities which have been overgrown (and overpriced) for specific types of activity (e.g. the processing sector), and whose characteristics as well as features prove to be particularly useful for new activities, for example metropolitan functions. In addition to that, due to new environmental protection conditions, big cities can become ecological. The new approach to studies in desirable modes of city development is encapsulated in the statement: 'more realism, less dogmatism' (Capello, Nijkamp 2004).

According to Capello and Nijkamp (2004), the main interest of urban economics lies in studying **human behaviours in space**. In this approach, the city becomes a space that determines the relationships of distance within which independent entities make location decisions. Among these decisions, choice of the place of residence is particularly important as it determines the directions for urban development (and thereby future investment programmes for public transport and municipal infrastructure networks), as well as real property prices (it must be borne in mind that in countries with the council (cadastral) tax, changes in property prices significantly affect household incomes and indirectly also influence capital markets, vide the current subprime crisis in the US). Behaviours are analysed using such tools as for example modelling of the place of residence relative to the place of work and available means of transport. The results of such analyses can be used – to some extent – in planning, although conclusions drawn on their basis are not regarded as strong scientific evidence. For instance, in 1996 in Toronto, only in childless families it could be indicated that the wife's income weighs more on choosing the place of residence, while no such correlation could be found in the case of families with children (Mok 2007); a similar study in Hong Kong revealed that spatial planning indicators such as the share of planning permissions which actually led to completed construction process, size of apartments and greenery belts affect property prices (Yiu, Tam 2007). Such approaches and analyses, employing sophisticated statistical and mathematical methodologies and leading to rather fragmented results, are typical of regional science and – unfortunately – are increasingly gaining in importance in regional studies. Sometimes they are even dubbed as *New Urban Economics* or *Analytical Urban Economics,* and their level of complexity is increasing considerably as new variables are added to the exercise, such as preferences or idiosyncrasies concerning individual locations, tax rates and territorial differences between them, construction laws, etc. This tempts one to

pose a (rhetorical) question whether a set of such fragmented results obtained from a very detailed analysis focusing on narrow – and dissimilar – parts of space can lead to any valuable generalisations concerning actual mechanisms shaping residential space.

Location theories have reached crossroads. On the one hand, the methodological progress and availability of statistical data encourages the development of modelling techniques to be employed in seeking optimum locations or explaining the existing spatial distributions of economic activity and places of residence. On the other hand, however, the range of qualitative location criteria which are difficult or even impossible to measure is expanding – such as those related to quality of life, valorisation of landscape and space, factors of innovation in the socio-economic environment, its multidimensional cultural character, permissiveness of the social climate (Florida 2004). Richard Florida's well-known tenet holds that it is not people that follow economy but – conversely – investments follow people, especially those from the 'creative class', who have specific and well-defined location preferences. It can therefore be justifiably asked how to measure the whole set of diverse factors describing those preferences, which are often expressed as short-lived ideas, results of changing fashions or individualised aspirations? It seems however that this 'race' between increasingly complicated methodological approaches and the constantly expanding spectrum of location factors will be lost by the quantitative approaches, the results of which we can observe in the form of banal and fragmentary 'revelations'.

At the same time, in view of the changing spatial relationships from material and energy ones to information and decision ones, and a rapid progress in transport, it is necessary to expand Walter Christaller and August Lösch's theory by removing subsequent assumptions that simplify their models, e.g. about the homogeneity of space and uniformity of transport. The model of hierarchical central places has been complemented by the **city network** model (Camagni 1993).

With it, we move into an entirely new area of the economic study of cities – analysis of the relationships between the city and its more and more broadly understood surroundings.

## 2. The city as a component of a system

Unquestionably, the first economic work which placed **the city in its surroundings** was the pioneering study by Johann Heinrich von Thünen from 1826 (which, interestingly, was not translated into English until 1966). By pointing to the influence of the dependence of demand for a given area on the distance between a given plot from the market, on the location of different types of economic activity (agricultural, in von Thünen's study) depending on the income which can potentially be earned from one unit of such area, he opened up a wider trend of research in land rent and its role in the shaping of urban space. Quite surprisingly, in Christaller's theory just as in the regularities described by von

Thünen – which were formulated in an era of resource-intensive economy – are also largely true in an era of information economy.

Despite the stable influence of the land rent, the city's relations with its direct surroundings change on a par with the development model transformations. Empirical studies conducted in three large Polish cities – Warsaw, Tricity (*Trójmiasto*) and Poznań indicate that the regional surroundings do not play any major part in metropolitan development processes, being neither substantial supply nor sales markets, even though the regional environment offers a demographic potential that is equivalent to that of the city (Gorzelak, Smętkowski 2005). This is because a big city needs 'high quality inputs', while its less developed surroundings may only supply simple resources: less-processed products, less-qualified labour or services that do no require specialised personnel, and not new, but generally accessible information about innovations. As a rule, municipalities located in the metropolitan region are not attractive locations for either the headquarters or branch offices of corporations, which is due to the hierarchy of location criteria; this is confirmed by the fact that, as a rule, metropolitan expansion processes do not reach beyond the city's limits. At the same time, the metropolis 'drains' its regional surroundings of their resources,[5] as a result of which the disparities in the level of economic growth between the centre and the region's periphery remain significant.[6] More importantly, the ring of municipalities within a radius of 30–90 km around the surveyed metropolises (with the exception of municipalities situated within main transport corridors) was found out to be among the country's poorest. Another lasting phenomenon was a persistently low development level in the peripheral municipalities of the metropolitan regions.

These observations made in Poland are also corroborated in other countries. Cities, especially big ones, are constantly strengthening their foothold in the socio-economic system. For instance, Paul Krugman wrote that:

*Locations which are successful, that is those which have attracted many activities from the manufacturing sector, create an 'agglomeration shadow', which hides their direct surroundings; cities which compete with them can be effective if they are located at a sufficient distance from them* (Krugman 1999:63).

As we can see, it is hypothesised that there exist considerable differences in the level and structure of development between large cities and the areas sur-

[5] Surveys of Polish municipalities carried out in 2007 point to a hierarchised outflow of youth from smaller to larger towns, and indicate that the better and more ambitious the students, the larger the city they will choose to continue their education at the secondary and/or teriary level. Further, university graduates very seldom will go back to their home towns, and only those who 'didn't make it' in the big city (Gorzelak 2008).

[6] Analyses of the findings from the surveys conducted by CBOS (Public Opinion Research Centre) indicate that the inhabitants of large cities are better furnished with the municipal infrastructure and have higher incomes; on the other hand, they have a weaker sense of security, greater difficulties in access to health care services, and are more critical of the local government authorities.

rounding them, caused by the 'shadow' or, as Gunnar Myrdal put it, the 'backwash effect' whereby the regional surroundings are depleted of their assets by the central city. In a similar vein, Manuel Castells indicates that big cities (or 'megacities', using the term he coined):

*Are externally connected with the global networks or cities in their own countries, and internally are separated from the local communities which, for them, are either functionally superfluous or even societally harmful* (Castells 1998:406).

We can venture a thesis that these processes occur the faster, the faster a given, resource-intensive model of development is replaced by its contemporary, innovation-intensive paradigm. That is why territorial polarisation processes, fostered by the 'separation' of metropolitan systems from the remaining parts of the country – which is observable in post-socialist countries – are as distinct, and much deeper than similar processes in more developed European countries.

The **national scale** is one of the spatial dimensions in which cities (particularly the largest ones) are analysed. In spatial and regional policies, these cities are quite rightly treated as growth centres and hubs which interconnect the national economy with its broader environment. Metropolitan development processes are also indirectly tackled in documents prepared by the European Commission. The most recent, Fourth Cohesion Report (European Commission 2007) devotes a lot of attention to the problems of large cities and their role in the development of individual countries, however without making any reference to the very notion of the metropolis and metropolisation (which can be viewed as a proof of the Commission's rather conservative attitude). The Report notes that:

*In all of these countries, especially in the new Member States, a large part of the divergence in regional prosperity was a result of high concentration of economic activity and growth in and around the capital city. Moreover, even in the countries in which disparities remained much the same or where they narrowed, GDP per head in the capital region grew faster than in other parts of the country.* (…) *Between 1995 and 2004, all capital city regions, with the exception of Berlin, increased or at least maintained their share of national GDP. The increase was particularly marked in Warsaw, Prague, Budapest, Sofia and Bucharest.* (p. 11)

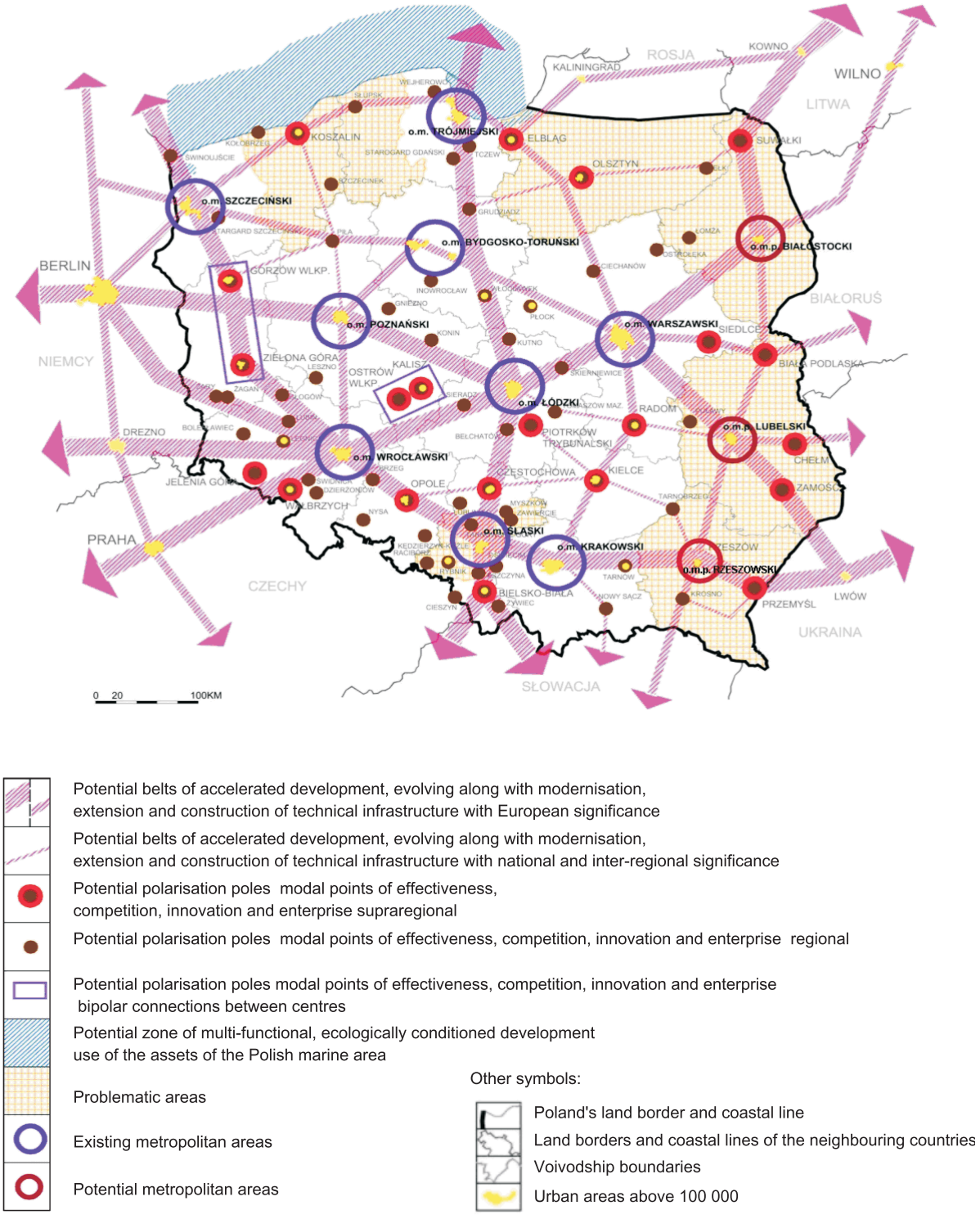
In some countries, not only the capital city plays a major development role but there are more cities with a nationwide significance, which can even compete with the capital. To take an example, this would be Barcelona in Spain which, along with its region (NTS-3 level) generates 14% of Spain's GDP (as compared to 18% of Madrid with a similar population). In Italy, Milan accounted for 10% of the national GDP, a similar level to Rome's. There are many growth poles in Germany, which include the regions around the four largest cities along with

Berlin, which have a 5% share in the national GDP, whereas three of these regions (Munich, Frankfurt am Main and Hamburg) were developing at a faster rate than Berlin.

In view of the above, Poland can be seen as a country in a particularly favourable situation. Research indicates that the urban system has a high degree of polycentricity (at least by European standards), with several cities having distinctly developed metropolitan features (cf. e.g. Jałowiecki 1999). In the planning and policy documents based on multi-discipline studies (including economic analyses), Poland's largest cities – the 'national' cities – are justifiably regarded as the basic hubs of the spatial and functional structure of the country (cf. Fig. 2).

Spatial polarisation, resulting from a concentration of functions and significance only in certain cities, is leading to the emergence of **world cities**. According to Peter Hall, the notion of a 'world city' was first used by Patrick Geddes in his book, *Cities in Evolution*, as early as 1915. However, it was Hall (1966) who incorporated this term into wider academic discourse. In his view, world cities refer both to industrial or harbour cities and to big cities with strong service and trade sectors. This can be attributed to the time when Hall described these cities – an era before the information revolution, that is a world dominated by flows of goods, and not information. Therefore, among Hall's world cities there was the Ruhr conurbation alongside London, Paris, Moscow, New York, Randstadt Holland and Tokyo. Strikingly, Hall analysed those cities in separation and did not point out that they formed a global system, a network of interconnected hubs in the flow of information, including decisions. According to him, a big world city is an isolated system incorporating many sectors of the economy, a complicated residential system broken down into the city proper and its numerous suburbs, and a complex management system. In many of the cases that he analysed, Hall manifested concern for financial crises that faced the cities he was describing. Subsequent works (e.g. Gugler 2004) could be viewed as new additions to the list of world cities – that is cities situated at the peripheries of the developed world. It is worth noting that the notion was also used by Fernand Braudel who pointed out that a central city is a 'world city' for the environment that it serves and over which it dominates (after: Taylor 2004).

How did world cities come into being, according to John Friedmann (Friedmann, Wolf 1982; Friedmann 1986)? In his view, it is capital that assigns specific functions to individual cities, thus creating definite 'business centres' in selected locations of global space. These functions include finance, banking, transport and communication on an international scale as well as mass-media and opinion-forming activity, which make it possible to shape ideological views and also to exercise control over them. Both the type and intensity of these functions inform the hierarchy of the global system of world cities. Friedmann and Wolf also claim – contrarily to Saskia Sassen – that this role is also played by the regional hinterlands of the largest cities. Perhaps this belief is fuelled by conducting analyses in highly developed countries, where not only metropolises




Potential belts of accelerated development, evolving along with modernisation, extension and construction of technical infrastructure with European significance

Potential belts of accelerated development, evolving along with modernisation, extension and construction of technical infrastructure with national and inter-regional significance

Potential polarisation poles modal points of effectiveness, competition, innovation and enterprise supraregional

Potential polarisation poles modal points of effectiveness, competition, innovation and enterprise regional

Potential polarisation poles modal points of effectiveness, competition, innovation and enterprise bipolar connections between centres

Potential zone of multi-functional, ecologically conditioned development use of the assets of the Polish marine area

Problematic areas

Existing metropolitan areas

Potential metropolitan areas

Other symbols:

Poland's land border and coastal line

Land borders and coastal lines of the neighbouring countries

Voivodship boundaries

Urban areas above 100 000

Figure 2. Dynamic balancing of development – a synthesis of the Updated Spatial Development Perspective for Poland.

Cf. *Regional and Local Studies*, Special Issue 2007.

but also 'technopolises' (cf. Castells, Hall 1994), situated within the zones of impact of world cities (e.g. Route 128 near Boston, Silicon Valley, Cambridgeshire, Bavaria) play an important part in the segment of global economy which generates ground-breaking technologies and cutting-edge innovations.

Sassen's work (2000) manifests a different approach. In her classical publication on the development of world cities, she described transformations which took place in the urban system in the 1990s. Following a period of speedy development in peripheral cities (between 1960 and 1980), the urban system became polarised as the largest cities accelerated their growth, becoming centres of new and rapidly expanding sectors of the economy – scientific research, specialised management functions, finance and banking, consultancy. As economic restructuring became a reality, the situation of industrial and harbour cities began to deteriorate, and their role in the system of European cities was weakened. A new global hierarchy of cities emerged, with the largest of them concentrating the bulk of the global capital, which strengthens the role they play in the global economy. Three of them – New York, Tokyo and London – occupy the highest position in this hierarchy as they control financial flows as well as management and policy decisions. According to Sassen, the role of the regional hinterland is practically nonexistent in this context as it is not a likely or actual location for functions that are important in terms of the role that global hierarchy cities play.

In this way, we can look at the city as an **element of a global network** (Taylor 2004). Since they first came into being as a result of an increasing social division of work, cities – as centres bringing together both producers and consumers – have always been interlinked with one another in a variety of ways. Trade relations represented the earliest network of linkages which required an expansion of trade routes and led to the establishment of economic and social contacts, as well as political and organisational ones, as an identification of shared interests and development of institutions to champion and defend such interests. The Hansa, as recalled by Peter J. Taylor, was probably the first supranational manifestation of city integration, which can be regarded as the antecedent of what we contemporarily experience as European integration.

According to Friedmann, world cities make up a global system (Fig. 3). This system is an outcome of the 'spatial organisation of a new international division of work' which goes across state borders and is concentrated in the major cities.

Another step in the analysis of the global system of world cities is Castells' differentiation between space of places and space of flows; world cities represent the most important hubs in the latter. Two types of flows seem to be of greatest significance: flow of information and flow of persons – representatives of the global class. These two are closely interconnected because there are two types of information which are of cardinal importance: decisions and knowledge. Information conveying decisions are generated in world cities where the majority of global corporations are headquartered. A specific category of decisions are those which launch financial flows. In this case, cities which are the headquarters of the major financial institutions are hubs (in most cases these are the same cities). Hence, studying the locations of the headquarters of global corporations is one of the most interesting methods of investigating link-

ages in the global network of cities and determining the network's major hubs (*Globalisation and World Cities* of the Loughborough University), as well as monitoring of the flows of top qualified personnel – the so-called metropolitan class or the world class (here, an interesting approach was proposed by Taylor [2004], who examined vacancies for top management jobs published in *The Economist*).

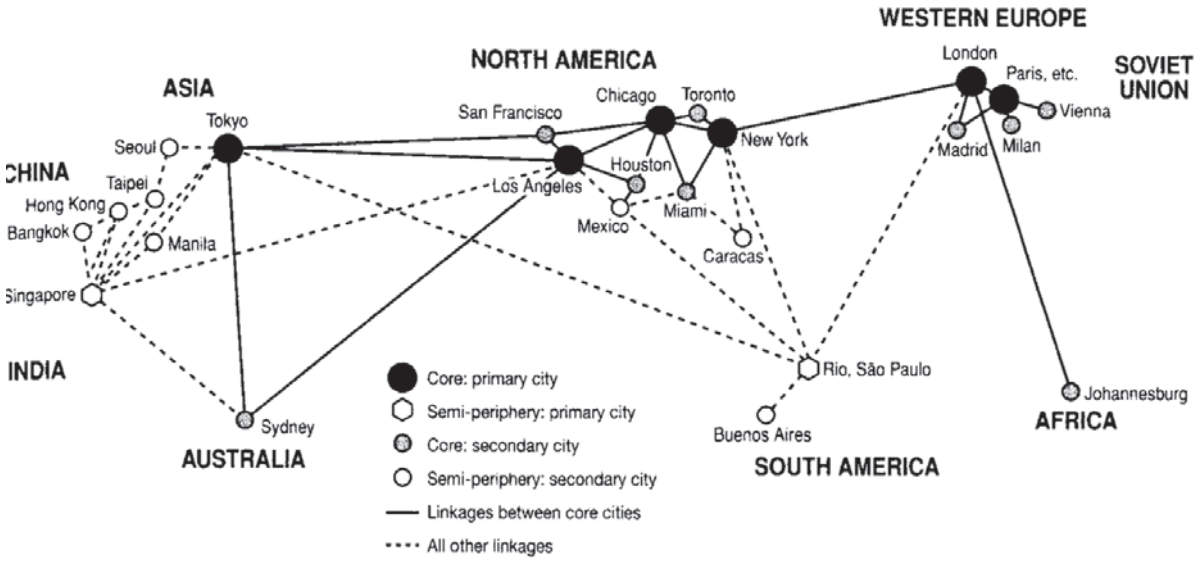



Figure 3. Hierarchy of world cities.

Source: Friedmann, 1986

It is worth noting at this point how slowly well-established theoretical concepts become transposed from the academic discourse to practice, especially practice dependent on decisions made in the public sector. Until now, the dominant approaches in regional policies have been shaped by the traditional policy doctrines formulated during the Great Depression and further reinforced in the 1950s and 1960s, that is a period of boom in industry and a marked role of the intervening state. Only sporadically – and Poland can be seen as one of the commendable exceptions, at least at the level of what is declared – has regional policy been informed by this transition from the space of places to the space of flows, and the emergence of great cities as the key hubs of the latter space. As a result of the political backlash against the relinquishing of the doctrine aimed to equalise disparities, regions – viewed as zonal regions – and not city networks or transport and communication corridors connecting them – are becoming policy targets. Even specialised European programmes such as URBAN are addressed to individual cities and do not take into account their mutual ties or the specific role they play in the international division of labour. In consequence, these policies are largely ineffective, and their position is threatened in view of the frequently justified criticism of such ineffectiveness (cf. Bachtler, Gorzelak 2007).

## 4. Summary – the city in development theories

Since the social division of work first appeared, cities have played a crucial role in development. This is a result of a natural tendency for concentration in places offering best living conditions and highest productivity. Cities are drivers of development and progress (Jacobs 1970, 1984). Jane Jacobs even claimed that development was generated only in cities (and in regions surrounding them, formed only by some cities), that directing regional policies mostly to rural areas can only have a social and not developmental function (a similar line of argument is becoming more and more visible, albeit so far without visible effects, in the ongoing debate about the EU Cohesion Policy).

These economic disciplines which study the distribution of human activity in space have focused on the analysis and explanation of a mutual interplay in the tendency for **concentration and deconcentration**. We could ask why concentration prevails over deconcentration and what factors underpin the increasing significance of the largest cities?

The neoclassical theory maintains that in their drive for maximising profits, entrepreneurs seek cheaper locations and move their operations from more expensive – that is, better developed – locations to cheaper, less developed ones, in this way fostering their development. Drawing on Porter's concept (1990), we can say that entrepreneurs are guided by their wish to make use of **comparative advantage**. As a result, there occurs a 'natural' equalising of the development level in territorial systems, that is – its spatial deconcentration.

A whole gamut of theoretical approaches offers contrary hypotheses, indicating the prevalence of the tendency for concentration over that for deconcentration, which is primarily manifested by the rise and growth of cities, and – contemporarily – of metropolises and world cities. Still, does it mean that there is no drive towards a comparative advantage? Naturally, this presumption is false because such a movement is easily visible in the flows of investment capital from more expensive locations (better developed countries) to cheaper ones (lesser developed countries), which in the academic and political discourse (with a tangibly pejorative ring to it) is referred to as 'delocation'. Delocation is a consequence of the fact that the correlation between productivity and production costs is visibly more favourable in a lesser developed country because productivity mainly depends on the technologies applied, and therefore does not necessarily have to be lower in the target country than in the mother country (to take an example of car assembly plants), whereas the cost of production is directly derived from the development level and GDP per capita. It has to be borne in mind, however, that the target country must represent a development level of both material and institutional infrastructure, and of technological and organisational advancement, that is acceptable to potential investors.

It is not true, therefore, that only a tendency for concentration can be observed in the global economy. However, deconcentration is taking place mainly in the international system, because within individual countries the tendency

for concentration definitely prevails. Cities and urban regions are the main areas attracting inward capital because, in a given state system, the relationship between productivity and cost is more favourable in a city than in an underdeveloped peripheral region, frequently with a predominance of farming. This leads to interregional polarisation and 'separation' of the largest cities from their less developed regional hinterland. Inside a given country, there is a drive to gain a **competitive advantage**, won owing to the use of qualitative location criteria.

The first indication concerning the sources of competitive advantage came from Alfred Marshall, who described the so-called industrial districts, the prototypes of Porterian 'clusters' (cf. McCann 2004). The city ensures specific external advantages which offset the disadvantages caused by more expensive factors of production. Such advantages include: access to information which cannot be obtained elsewhere, economies of scale and availability of skilled labour. Therefore, we could formulate the agglomeration principle as follows: spatial proximity activates a whole gamut of factors fostering development. By adding the theory of François Perroux on the leading and accompanying industries, and its spatial concretisation in the work of Jacques R. Boudeville, we can easily explain the practically uncontrolled development of industrial cities, which concentrated the bulk of specialised branches and sectors of industry, making use of the **location advantage**.

However – as Jacobs (1984) observed – it was not the specialisation but diversity of economic activity that was the source of competitive advantages. Here, we deal with **urbanisation advantages**, which include smaller intersectoral location advantages (the aforementioned example of the culture sector in Paris is a good contemporary illustration of this concept). Urbanisation advantages can only be encountered in large cities, hence their growing role in the economy of 'diversity and novelty', as we could summarise the modern development paradigm.

The role of diversity is emphasised in most recent theoretical developments, notably the 'new economic geography' (Fujita, Krugman, Venables 1999), which emphasises that the concentration tendency is further reinforced by the falling **transaction costs**, as a result of a relative decline in transport costs (the unit of the product weight has an increasing value – the unit of the product value weighs less and less) and reduced barriers in international trade. In effect, the advantages of the agglomeration (location and urbanisation) relatively prevail over the disadvantages related to the distance of the place of production from the market because these disadvantages are becoming relatively smaller, which in turn generates more impulses for the concentration of economic activity in areas already enjoying a high level of investment – that is, in cities.

Will there be no end to the development of cities? From the perspective of the economic disciplines, there are no premises which would disprove this thesis. Even though globalisation is in fact 'deterritorialisation' (Scholte, 2006), cities – particularly world cities – remain the crucial nodes in this 'despatialised' network, which the contemporary economy and the contemporary society have become.

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