Chapter 11

The Economic Base of Contemporary Cities

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We now find that capital is no longer concerned about cities. Capital needs fewer workers and much of it can move all over the world, deserting problematic places and populations at will.

Harvey 1997: 20

Getting things economically right in our cities is the path towards economic change and economic development, even to economic growth. To treat the cities as the secondary feature of this whole dynamic is essentially wrong.

Harvey 1997: 26

Introduction

These two citations from the same article by David Harvey illustrate our ambivalence about the economic role of contemporary cities. It seems that cities do and do not matter in economic life. The second citation implies that the assets of cities are central for economic competitiveness and economic dynamism in general, while the first implies that the release of capital from the constraints of time and space is reducing its commitment to, and need for, the properties of place.

Certainly a historical glance at the changing economic role of Western cities over the last 100 years might lead to the view that cities have become less important. There can be little doubt that these cities were the workshops and forcing houses of industrial capitalism and imperialist expansion. First London, Manchester, Liverpool, and Rotterdam; then Turin, Düsseldorf, Detroit, and Coventry, sustained the large factories, mass workforces, know-how, social and physical infrastructure, and capital that facilitated industrial modernization and expansion from the late nineteenth century. The Western city was the factory and the center of commercial life, in short, the engine of capital accumulation, with its industrial smog and endless hustle and bustle acting as testimony. The city became the source of "immobile" resources and agglomeration economies for competitive advantage, as Bailly, Jensen-Butler, and Leontidou (1996: 165) explain: "In the Fordist era, competitive advantage was based upon the existence of natural advantage, presence of certain labour qualifications and existence of specific types of capital, all of which has some degree of immobility."

Nowadays, however, we are less certain about the distinctive economic role of cities, possibly because of lack of clarity about their comparative advantage in a world of increasing factor mobility and possibly because they are no longer the powerhouse of the industrial economy. For well over two decades large scale manufacturing has been disappearing from the Western metropolis. This has been due to a number of factors, including the rise of the postindustrial service-based economy, the decentralization of production to peripheral regions and the developing world, and the emergence of smaller factories owing to the availability of labor-saving and space-saving new technologies. As a result of this process of deindustrialization – marked by the many derelict industrial zones or converted factories to be seen in cities – we no longer think of factory life as the economic motor of cities, and, in turn, we think less of the city as the motor of the contemporary economy.

Instead, the urban economy appears to have become a mixed bag of activities. Perhaps the most decisive shift has been the growth of services as the core of urban economic activity. Today's urban hustle and bustle seems to be associated with servicing the needs of consumers and residents through such activities as shopping, leisure, and tourism, supporting the productive economy with business services such as banking, insurance, and accountancy, facilitating social reproduction through welfare services such as education, health care, sanitation, and transport and providing activities related to local and national public administration and governance. The urban economy, increasingly, is associated with the production, exchange, and consumption of services of one sort or another.

Beyond this postindustrial role, however, lie at least three other enduring economic activities which are hard to avoid when thinking about any city. One is of course the continuing millennial role of cities as trading places, that is, their historical role as a marketplace and commercial center for the distribution of goods and services around the world and the rest of the local and national territory. Cities are quintessential places of exchange. Another activity is the enduring presence of manufacturing, notwithstanding large-scale deindustrialization. Cities continue to house sweatshops and small firms which operate for long hours to produce traditional consumer goods such as clothing, furniture, and food. Their revamped inner-city sites attract the location of knowledge or innovation-intensive sectors and activities, while the headquarters and research divisions of international corporations are drawn to central business districts which provide access to specialized expertise and services. Finally, and perhaps the major source of economic support for the growing army of poor, underpaid, unemployed, and marginalized people in cities all over the world, is the informal economy. For a very long time, the back-streets and homes of inner and outer areas of cities have throbbed with precarious and often illegal activities from domestic outworking and fly-by-night contracting to petty crime and trade in illicit ventures of one sort or another (Castells 1996).

Perhaps it is such variegation that makes us less sure about what remains the economic base of the city, especially in terms of its competitive advantage. Indeed, for some observers, processes such as urban deindustrialization and international capital mobility, together with escalating urban poverty and social conflict, confirm that cities are a symbol of economic decline and an impediment to economic dynamism. The critics (see Amin and Graham 1997) stress that the high cost of urban premises as well as the problems of urban congestion – from traffic jams to housing shortages and large class sizes in schools – have become an economic burden on firms, employees, and urban dwellers. They also argue that the threat of crime and other urban disorders such as begging and street peddling are a powerful deterrent on investment, as firms escape to protect their assets, employees, and clients. They describe parts of the city which house the unemployed and other economically inactive groups as sinks in which welfare and other expenditure is poured down without any productive returns. The list of urban disorders is endless.

Without denying the importance of these diseconomies and patterns of urban variegation, is it still possible to see the city as a source of economic vitality, as David Harvey implies in the second caption above? In this chapter, I wish to claim the continued economic salience of the city. The city continues to provide vital assets for economic competitiveness, but as we shall see, these are quite different from those which marked the city as factory. Then, urban density played a vital role in providing the labor, capital, infrastructure and markets to satisfy the voracious appetite of mass industrialization, to make location in the city a source of competitive advantage owing to the offer of externalities and economies of agglomeration associated with all of these factor inputs. Now, the advantages of urban proximity appear quite different, and, on the surface, less narrowly economistic.

The first section of the chapter summarizes three views which stress the city as a source of new "fixed" assets in the contemporary knowledge-intensive and globalizing economy. These assets range from clustering as a source of competitive advantage, to cities as sources of fixity, proximity, and strategic resources in the global information economy. The second section offers an alternative account of city economic assets, by stressing the relational and non-traded aspects of local economic networks, notably the benefits of loose ties and reflexivity. The third section loosens the understanding of the "economic" even further, to discuss the merits of considering "social capital," and the "social economy" as an economic asset of contemporary cities.

Fixed Assets

In the urban literature, more positive economic appraisals of cities seem to draw on three lines of argument. The first is that the net advantages of urban agglomeration outweigh the diseconomies in national economic competitiveness. The second is that city environments offer the core resources of the emerging information age. The third is that cities are the forcing houses or basing points of a globalizing economy characterized by the incessant flow of factors between places as well as the commanding influence of institutions articulated at the transnational level. These three perspectives are discussed in turn below.

Clusters of competitive advantage

In an article that attained cult status almost immediately after its publication, business guru Michael Porter (1995) rejects the dominant view in the US of cities as a drain on economic resources. Focusing his attention on run-down inner-city areas, he argues that they continue to display four unique advantages, which, with remedial policy action, could help not only to revitalize the urban economy, but also to sustain national competitive advantage.

The first is strategic location, associated with the proximity of inner-city areas to central business districts, companies, and the entertainment and tourist centers of cities. The second is an ever-buoyant demand: "At a time when most other markets are saturated, inner city markets remain poorly served – especially in retailing, financial services, and personal services (1995: 58). The third is the scope for integration with regional clusters of competitive advantage, through the supply of upstream products and services to the clusters of interrelated industries and firms and through the downstream delivery of products and services to local markets. The fourth is the mobilization of unique local human resources, notably the entrepreneurial skills of ethnic minorities, and the cost advantages of an abundant supply of semiskilled labor.

Porter is firmly of the view that inner-city revitalization, through the mobilization of latent resources such as those listed above, is possible as long as some of their historic disadvantages are tackled head on. The list of disadvantages which Porter claims can be tackled through appropriate public policy actions includes unusable land and property; high building costs; high cost of utilities, welfare services and insurance; fear of crime; traffic congestion; poor employee and management skills; poor access to capital; and antibusiness attitudes.

Porter's positive spin on the inner city has become symptomatic of a gradual shift in opinion that cities provide vital resources for competitive advantage – from proximity to markets and various factor inputs to economies of agglomeration (Cisneros 1993; Kanter 1995). There is a growing conviction on the part of urban policymakers that firms and networks of firms can draw upon these externalities to underwrite their specialist strengths, while an enriched local supply base might help to spawn further entrepreneurship and economic spin-off. This sense of the city as a growth machine is increasingly endorsed by city leaders and planners across the world, ready to be advised that the city managed as a business can become the competitive city (Thrift 1998) if its agglomeration assets can be mobilized.

Centre of the information age

If there is any truth in the claim that Fordism, based on the routines of mass manufacture and mass consumption, is giving way to the information age, based on the economic centrality of information, knowledge, and innovation as markets become increasingly uncertain, discerning, and contested, then cities are set to return to center stage (Castells 1989). Bailly, Jensen-Butler, and Leontidou (1996) identify at least four shifts associated with this transition which seem to privilege cities. First, the service industries, notably the advanced services such as business, professional, and legal services, are seen to prefer urban locations owing to the access they provide to markets and customers as well as specialized factor inputs such as professional expertise. Second, and as a consequence, the new professional and managerial class is seen to prefer to live in "attractive" cities such as Paris and Amsterdam because they best sustain the consumption, lifestyle, and work patterns of this class (e.g. rapid communications, cultural, and recreational variety). Third, the rising importance of creativity and innovation as a factor of competitive advantage is regarded to privilege the urban milieu owing to its ability to sustain both through its sheer density of educational and research institutions, governance activities, media, and cultural industries, and highly qualified or creative people in the labor market.

In the information age, as Michael Parkinson (1994: 19) puts it, businesses are attracted to cities since:

> they depend on good quality higher education institutions to provide the skilled labour and the technological innovation that can feed into local economies. They seek out urban areas with a good quality of life – in residential, cultural and environmental terms – which attract and retain skilled and potentially mobile workers and provide a magnet to visitors. They require good access to communications facilities such as advanced telecommunications, international airports, high speed trains and efficient motorway networks.

The economic base of the city in the information age, thus, seems to be reconstituted in rather novel ways, as the knowledge industries and the professional and business service sectors gradually dominate the urban economy (Mellor 1997). The new competition finds its sources of information and knowledge in the elements of a city's knowledge fabric linking headquarter functions, media, cultural, and arts industries, education and information organizations, and research, science, and technology institutions. In turn, metropolitan life offers rich transactional opportunities and advantages of interpersonal proximity, to facilitate adjustment in volatile and design-conscious markets. Finally, the cultural assets of cities (from their media, entertainment, sport, and leisure industries, their theaters, restaurants, and cinemas, and their pull upon the creative professions) are re-emerging as an important source of urban economic renewal. The renewal is anticipated not only from the ever-increasing demand for cultural consumption, but also from the potential for economic innovation offered by the city's creative people.

Powers of proximity in a world of flows

Perhaps the best known economic role that has been claimed for contemporary cities relates to the salience of their central business districts as centers of command and control within global industrial and corporate networks, financial markets, producer services industries, and other associated service industries (Sassen 1994; Castells 1989; Friedman 1995). In the emerging information age, characterized by the intense international flow of people, commodities, and information, together with organization of business and institutional networks on a global scale, such districts act as forcing houses and centers of coordination and management. In this context, as Saskia Sassen (1991: 4) explains, major 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...; third, as sites of production, including the production of innovation...; and fourth, as markets for the products and the innovations produced."

Manuel Castells (1996: 384–5) explains why the global "space of flows" in the new "network society" requires a "space of places" in which cities act as "nodes" of strategic importance and "hubs" of information exchange and communication within the global networks, helping also to sustain the cosmopolitan elites who run these networks:

> These cities, or rather, their business districts, are information-based, value production complexes, where corporate headquarters and advanced financial firms can find both the suppliers and the highly skilled specialized labor they require. They constitute indeed networks... whose flexibility needs not to internalize workers and suppliers, but to be able to access them when it fits, and in the time and quantities that are required in each particular instance.... Other factors seem also to contribute to strengthen concentration of high-level activities in a few nodes: once they are constituted, heavy investments in valuable real estate by corporations explains their reluctance to move... also, face-to-face contacts are still necessary in the age of widespread eavesdropping.... And finally, major metropolitan centres still offer the greatest opportunities for the personal enhancement, social status, and individual self-gratification of the much-needed upper-level professionals, from good schools for their children to symbolic membership at the heights of conspicuous consumption, including art and entertainment.

In the informational city, despite predictions otherwise, the face-to-face work environment, the personal relations between corporate leaders, the satisfaction of elite groups, the access to specialized inputs and the struggle to improve access to changing know-how, innovations, and industry standards, are all crucial for maintaining competitive advantage. These seem to be the new advantages of fixity and proximity in the information age. While Sassen (1991) tends to stress the powers of fixity, that is the places which house command-and-control functions, and Castells (1996) tends to stress the qualities of hubs and nodes within global business networks (Allen 1998), both seem to agree that certain cities succeed in exercising both place-based and network power.

To summarize, there appears little evidence to support the claim that cities are becoming less important in an economy marked by increasing geographical dispersal. All three lines of argument above reassert, in one way or another, the powers of agglomeration, proximity, and density, now perhaps less significant for the production of mass manufactures than for the production of knowledge, information, and innovation, as well as specialized inputs.

It is clear, however, that this positive reading cannot be generalized to all cities, but is based upon the experience of the central business districts of a small number of usually global cities. It does not describe the city of poverty, hardship, informal economic activity, and hand-to-mouth survival, nor the sprawling outer areas of the global cities themselves, struggling for an economic identity and lacking the powers of geographic density and proximity. Indeed, and perhaps this is the central paradox, it is also clear that the dynamism of the central business districts themselves derives in part from their proximity to the "other" city. We can see this, for example, from the dependence of the superstressed professionals and business elites upon the labor, commodities, and cultural products on offer from low-income, displaced, and ethnic minority groups. Nevertheless, in terms of the territorial base of the economy, there can be no question that the city remains the economic motor of postindustrial society also.

Relational Assets

Michael Storper (1997) has criticized interpretations such as the three above for generating a machine-like account of the economic assets of cities. He rejects the distinction between cities as fixed assets and the world as a space of flows, as he does any functionalist account that looks to ascribe agency to isolated aspects of cities. Thus for him the city is not a "mere basing point for globalized, placeless economic forces," a "mere subassembly in the global machine" (1997: 222), but a rich source of untraded interdependencies, notably relational or reflexive assets forged out of ties of proximity and interpersonal contact. He explains (1997: 223): "...when global firms locate in big cities, they do so in part to tap into their distinctiveness, for two reasons. They attempt, on the one hand, to gain access to the local conventionally and relationally distinctive society in order to service it and earn profits there. They try, on the other hand, to gain access to the specific forms of reflexivity that reside there." Defining reflexivity as the deliberate and strategic shaping of the environment by knowledgeable individuals and organizations, Storper argues that the proximity and intensity of concentration of actors and institutions that the city represents – its urbanness in other words – produces particular forms of reflexivity and conventions, based on daily ties, face-to-face contact, and informality. These are the attributes which generate spillovers and feedbacks of a virtuous or negative kind for a city. Positive feedbacks might draw upon the power of the "reflexive classes" to forge or make sense of industrial standards and conventions, or communities of urban consumers and citizens generating local demand and investment through their unique local vernaculars, identities, and spectacles. Negative feedbacks of proximate ties, serving to hinder investment or direct it in often covert directions, might draw on conventions of action and behavior and knowledge networks built around "cultures of criminality, underclass patterns, certain forms of persistent poverty and exclusion" (1997: 254).

Storper's argument seems to be that the economic assets of cities are related to the quality of local relational ties and reflexive capabilities, which serve as the real catalyst for action, rather than to features of presence or absence, such as the density of the professional and managerial class, the location of headquarter and research activities, or the quality of local amenities to support the needs of knowledge workers. These are the factors which help to mobilize local specificity and to shape or make sense of opportunity.

Ties

Regarding relational ties, for example, it could be argued, drawing on Mark Granovetter's work (1985), that contexts dominated by weak ties between economic agents might be economically more innovative than those dominated by strong ties (e.g. enforced loyalty in Mafia networks) or easy escape from ties (e.g. rugged individualism in market-driven relationships). While weak ties offer agents (and networks) the benefits of cooperation and a varied selection environment for new learning, strong ties, such as many crime networks, pose the threat of both lock-in and closure of selection and self-reliance poses very high search costs. We might speculate, therefore, that cities dominated by overlapping networks of loose ties – in the workplace, among firms, between institutions, among households and communities – are likely to exhibit a higher disposition towards search, exploration, and experimentation, as agents are able to draw upon existing collective resources to innovate.

This kind of sensibility is beginning to appear in economic analysis of the city. Speculating on the "good city," Will Hutton (1996) has argued that part of the story of urbanization relates to the need of economic agents for relationships of trust and mutual commitment as a basis for coping with the endemic problem in markets about unequal power relationships, uncertainty, and information asymmetry. He asserts that "where market economies actually work very well you have committed owners, you have long-term relationships, you have heavy penalties for people who cheat on bargains" (1996: 93). He explains that the city, through its physical structures and proximate links, facilitates face-to-face contact in order to build trust: "I like to think of the city, and the growth of urbanization, as . . . a place where actually one sees through physical proximity the construction of relationships of commitments. Or in a good city that's certainly what takes place" (1996: 93).

Trust-based links, mediated by face-to-face contact in the context of the city, is what makes markets work. This is a bold claim, and open to all kinds of challenge, not least its rosy assumption that ties in general are of a virtuous nature (what of shady ties?) and its view that the city promotes face-to-face contact (walls can hide – see Marcuse, chapter 23 – which is why physical proximity should not be equated with relational proximity). It is a claim that also comes perilously close to uncritical rediscoveries of the virtues of trust which fail to acknowledge the negative aspects, such as complacency, blindness, and closure, associated with networks of excessive loyalty, and indeed even the rather tenuous link between trust and economic success (Coleman 1990; Fukuyama 1995). In any discussion of the city, omissions of this sort are risky because no straightforward link is to be found between its multiple networks of varying degrees of trust and their economic performance. Criticisms apart, however, Hutton does seem to be right in incorporating the nature of ties in their urban context into the frame of discussion on the economic assets of cities.

Reflexivity

The same kind of guarded defense can be made of urban reflexivity as an economic asset. Reflexivity is a notoriously difficult concept to define accurately, but there seems to be some consensus that it includes the reliance of contemporary society on non-instrumentalist forms of knowledge (i.e. those without a direct, usually utilitarian, goal) to negotiate an increasingly complex and uncertain socioeconomic environment, which itself has become knowledge-intensive and expertise-based in its daily workings (Beck, Giddens, and Lash 1994). In this regard, the acquisition of knowledge and expertise, together with the potential for learning and adaptation, are premium assets for economic competitiveness and innovation. In addition, actors and networks need to pay considerable attention to interpreting, translating, and operationalizing information, scripts, know-how, and knowledge. This is required not only for economic imitation and innovation, but as a basic condition of survival in an increasingly complex, changing and imperfectly knowable economic environment.

What might constitute reflexivity as an urban economic asset? Clearly, the concentration in cities of research establishments, specialist schools, and universities, skilled and creative people, services, media, and communication organizations, headquarter and strategic activities, and so on, makes them the forcing houses of formal and codified knowledge and learning. All three interpretations above of the city's "fixed" assets can be reinterpreted in this light. But, all else does not automatically follow.

First, as the literature on economic learning reminds us (Lundvall 1992; Storper 1997; Cooke and Morgan 1998; Maskell et al. 1998) it is the combination of formal knowledge with tacit knowledge that really matters for economic dynamism and evolution. Thus, for example, the economic dynamism of a firm is a reflection of how applications of scientific knowledge and scripted information combine with the overall cognitive and behavioral culture, influenced by such factors as employee know-how, managerial routines, corporate norms, and so on. It could be speculated – and no more – that potentially the city is a rich source of tacit knowledge, locked into its varied and dense business networks, cultural sites, diverse knowledge environments, media organizations, social and cultural heterogeneity, and varied connections with the outside world. In this regard, the city can be seen as a large reservoir of different forms of know-how for economic agents to dip into, activate, and mobilize.

Reflexivity, however, involves more than the combination of tacit and formal knowledge. It is also a cognitive attribute that shapes perception and action, and the rationalities it invokes play a vital role in determining the kinds of possible outcome. For example, an instrumentalist rationality is likely to favor reactive responses to problems, based on a largely rule-bound logic (minimum reflexivity). In contrast, a procedural rationality, in which agents actively seek to adapt to the environment, draws upon perceptive powers and generally more complex cognitive arrangements for problem solving. While the latter two rationalities tend to assume an invariant environment (therefore largely problem solving), a recursive rationality is more problem seeking and tends to assume that the environment can be anticipated and to a degree manipulated, through such procedures as strategic monitoring, experimental games, group learning, and so on (maximum reflexivity).

How might the urban environment connect with the cognitive foundations of economic behavior? It would not be accurate to claim that cities privilege a superior rationality, such as recursive, problem-seeking, economic behavior among its firms and institutions. There is no evidence to suggest that cities offer economic actors a supply of inputs which favor strategic, innovation-oriented decision making and action. The knowledge-base of the city is the sum of rule-guided, procedural and recursive behavior, with each appropriate for different economic needs and trajectories (e.g. cost-seeking actions requiring instrumentalist behavior, or incremental innovations requiring procedural behavior, versus path-shaping innovations requiring strategic, recursive behavior). But, perhaps it is this very variety of cognitive settings that is significant, offering as it does, a wide range of economic rationalities and outcomes – a broad pool of options. In this regard, it may be better to claim plural rationalities as an economic strength of the city, rather than a particular, reflexive, order.

Social Capital, Social Economy

Variety in the cognitive options located in a city presupposes variety in the types of economic activity within it. Yet, only too often, discussion of the economic assets of cities has been based on dominant sectors and corporations in the formal economy (from business and professional services to transnational corporations and banks). Much of the earlier discussion on "fixed assets," and to a lesser degree the discussion of "relational assets," presupposes the economic cutting edge. Consequently, the urban foundations of small-scale manufacturing or commercial activities serving local markets, the informal economy, or voluntary and third-sector activities, remain largely ignored, or when discussed, undervalued as economic assets. In most cities, they constitute a very substantial proportion of the entrepreneurial, employment, and income base. Indeed, in the context of the retreat of the formal market economy as a source of full employment (owing to technological substitution, intensified international competition, and globalized production), informal activities are becoming the staple source of employment in many cities.

In part, the disregard of anything other than the economic cutting edge in discussions of the economic base of cities, follows from a tacit assumption that small-scale entrepreneurship, the informal economy, or nonprofit activity, are not sources of economic dynamism and innovation, and market efficiency or aggression. This assumption, however, is open to question from at least two perspectives, which are discussed below: first, that participation in informal and voluntary activity helps to generate the "social capital" necessary for economic efficiency; and second, that experiments in the "social economy" help to generate economic creativity.

Social capital

Until recently, welfare economists have stressed the importance of investment in "human capital," covering such aspects as training, education, skill-formation, and know-how, as a key economic resource. Now, pioneering research by US sociologist James Coleman (1990) and US political scientist Robert Putnam (1993) claims a central economic place for social capital, defined as the productive resource mobilized by interpersonal networks of cooperation and coordination for mutual benefit. These might include informal arrangements such as family support networks, friendship and trust-based networks, and participation in spontaneous mutual help and voluntary activities, as they might include more formally constituted forms of social cooperation such as codes within interlocking business communities (Fukuyama 1995) or various civic associations.

The ideas of Robert Putnam in particular have become enormously influential not only in the academic community, but also in the development of policy community (e.g. World Bank, see Rose 1997). They are based on his research in Italy on societal influences on democracy and economic efficiency. He observes that old republican city-states such as Tuscany and Emilia-Romagna are characterized by efficient, nonbureaucratic, and accountable local government, and a very successful and dynamic local economic system. In contrast, old monarchical or hierarchical regions in southern Italy are dominated by inefficient and corrupt elites, and their economies languish in poverty and state dependence.

His argument, put simply, is that the difference between the two types of region can be explained in large measure by the presence or absence of social capital. The northern regions, which he describes as "civic" regions, are replete with social capital, as can be seen through such indicators as high turnout at elections, participation in popular campaigns and public events, newspaper readership, and, above all, active participation in voluntary activity and civic associations (cultural, leisure, political, etc.) and a generally developed third sector. In these regions, grassroots civic democracy and participation is said to ensure state efficiency and accountability, while their culture of social autonomy and civic responsibility, linked to their disposition towards cooperation and mutuality, is said to allow full exploitation of the economics of association and trust (from long-term commitments within and between businesses, to pooling of resources, and cost advantages of cooperation). In contrast, in "uncivic" regions the culture of self-interest and "amoral familism" allows the state to become inefficient and authoritarian, while the economy comes to be dominated by apathy and free-rider tendencies, resource domination or hoarding, ruthless market control, and other power-based manipulations of economic opportunity. In short, there is no social audit or societal involvement.

Putnam's ideas are not that distant from Machiavelli's Renaissance comparisons in *Discourses*, between the virtues of republican city-states and the vices of principalities. They have immediate relevance to the discussion here on the economic assets of contemporary cities. It could be speculated that "civic" cities (strangely, the classical definition of cities) which are rich with associational life and civic engagement show a greater potential for economic dynamism and prosperity. I am not convinced, however, that a straightforward positive link exists between social capital and economic performance. The negative link is easier to envisage: an absence of social capital – resulting in powerful tendencies to exit from the formal economy, social breakdown and anomie, self-preservation and rugged individualism, rising crime and public insecurity – is a clear deterrent on investment, business confidence, socioeconomic participation, and public scrutiny of the commons, as it is a cost and resource burden for whoever has to cope with the casualties of crime and social breakdown.

But, the positive link is harder to envisage, because social capital need not be mobilized as an economic asset, but can remain a largely civic virtue and source of active citizenship. A typical example is a prosperous city dominated by corporations which draw on their global networks of relational ties, a multitude of small firms scattered around the city in low-cost locations and benefiting from cheap migrant labor, and high-tech businesses which prosper through their in-house access to sophisticated R&D and specialized skills recruited internationally. The same city might possess an intensively active civic life, with relatively well-off individuals and communities given to charitable and public activity, as well as involvement in cultural and recreational associations. At the extreme, the social activity is additional to, or an escape from, everyday economic concerns, and while this city's economic elite and employees may benefit from the public and civic amenities on offer, their economic performance is not dependent upon the trust, cooperation, and other economies of association characteristic of the civic city.

Social economy

The concept "social economy," in contrast, seems to offer a more fruitful way of exploring, above all, the emergent properties of a generally underrecognized economic asset of cities. The social economy refers to "not-for-profit" activities which create jobs and community-owned assets through the delivery of social and welfare services by and for local people. Commonly, it is referred to as the "third sector" as distinct from the market and the public sector, to recognize the activities of co-operatives, charities, nonprofit organizations, voluntary groups, community organizations, religious bodies, trusts, and so on.

Traditionally the third sector has tended to be seen as a "mop up," parallel activity to market and state provision. More recently, usage of the term "social economy" has become more frequent, to stress the potential for social and economic regeneration at the local level in response to market and state failure. The basic argument is that within local communities there exists a substantial latent demand for social and welfare services which are currently not provided by the state because they are considered too specific or too small (and therefore too costly) nor by the market because they offer too low a return. In the context of increasing fiscal stress on the welfare state and the retreat of the formal economy as a source of full and stable employment, it is considered that the fulfillment of such demand could be a vital source of new employment and entrepreneurship. Indeed, a number of recent studies have identified examples of community-based third sector initiatives that are able to deliver cost-effective services directly in response to local need, and in doing so, to create jobs and tackle wider problems of social exclusion and economic marginalization (European Commission 1998; Allen, Cars, and Madani-Pour 1998; West 1996).

It is interesting to note that while the American (and British) debate on economic renewal has turned to the powers of social capital for the formal economy, and in public policy, on compulsive welfare-to-work programs, thus preserving the traditional dualist choice between market and state in the economy, the European debate has begun to recognize the powers of welfare as work (Amin, Cameron, and Hudson 1998), that is, to recognize the considerable scope for a third, independent sphere of economic activity, largely in the hands of the third sector, based on providing socially useful services. This second debate has roots in the community politics of the 1970s' grass-roots attempts to revitalize the economic and social fabric of communities through local empowerment.

The European literature on economic alternatives has identified a number of sources of local renewal through the social economy: environmental improvements – employment created through the improvement of built and natural spaces (Altvater 1993; Lipietz 1995); intermediate labor market policies and new forms of training through "apprenticeship," both geared toward skills, capacity, and confidence building for social economy ventures (Esping-Andersen 1996); the provision of social services beyond the state – such as care for children and the elderly; and the creation of microcredit schemes or nonmonetized metrics of exchange such as LETS (Local Employment and Trade System) and "time dollars, in order to decouple access to cash from access to services (Lee 1996; Leyshon and Thrift 1997). Central to all these suggestions is the idea that the purpose of the initiatives is not to mirror the market or state in providing the socially useful services, but to further the principles of empowerment and capacity building, by employing socially excluded groups (from the unemployed to the disabled and ethnic minorities), experimenting with new forms of democratic participation and involvement in decision making, and helping participants to secure a broad range of skills and capacities for future employment or entrepreneurship (Mayer 1998; Lipietz 1996).

What is the link between the social economy and cities? Most obviously, the mobilization of undermet welfare needs requires action not at the national or regional scale, but at the level of neighborhoods, communities, and localities, with specific service needs and specific capacities. This question of spatial scale of appropriate action is of clear relevance to cities. But, there are also more concrete reasons for considering the social economy as a powerful source of urban economic regeneration. Commencing with the rather obvious point that cities are people, buildings, and services, Alain Lipietz (1996: 89–90) goes on to argue:

> Clearly a policy of the third sector answers a lot of the problems involved in regenerating cities. First, it gives employment to many people. [...] when you can reduce . . . from 10 per cent . . . to say, 5 or 3 per cent unemployment by the development of a third sector, you change life in a city completely. Second, I said that the city was buildings, and services. Regenerating buildings . . . could be done by the third sector. Most of the services – urban services – could be provided by the third sector. [...] the third sector should do what the two others don't do. You know, services for people who can't pay – so it is substitutes for moonlighting, or in large proportion, substitutes for what women don't accept doing any more in the patriarchal relation. . . . People who are unemployed in the city take charge of a city, maintain the city.

In the same vein, Nigel Thrift writes (1998) of the potential of the alternative economy in cities, based on networks of cooperation and association among those deprived of cash and credit. He refers to the rise, in many cities, of exchange networks (LETS schemes) in which participants exchange products or labor calculated in a local currency that never actually changes hands. He also refers to the rise in cities of economic hardship, of microcredit networks, in particular community development banks and community development loan funds, which direct money from socially minded investors to fund housing rehabilitation, nonprofit housing development, and small businesses. Similarly, George Monbiot (1996: 100) refers to the city as a source of "community intelligence," drawing together local residents, activists, architects, and planners, to launch sustainable, people-centered redevelopment projects in the derelict and other spaces of cities momentarily abandoned by the official development industry.

Through these accounts of the third sector in the city, it is the transformative and creative potential of the social economy that must be stressed. The emphasis falls not only on the ability of the social economy to meet social needs, but also on its potential for economic regeneration. This potential is traced to the necessity and legitimacy of the alternative economy in its own right in cities riddled with state and market failure, and also, more importantly, to the scope that social empowerment and social citizenship offer for economic creativity by unleashing the capabilities and capacities of people in networks of common fate. Thus, one of the key economic assets of cities surely must be the scope they offer for building collective capabilities and social voice.

Conclusion

Returning to the urban paradox noted by David Harvey at the start of this chapter, it is clear that the city continues to play a central role in the post-mass production economy of increasing global flows of resources. But, it is also clear that an orthodox, "land, labor, capital" interpretation of the economic assets of cities has little analytical purchase (has it ever been different?). The literature reviewed in this chapter suggests that the contemporary city finds its realized or potential strengths in new advantages of agglomeration and proximity serving clusters of interrelated industries, strategic resources of the information economy, and "node" and "hub" functions in networks of global flow. While this literature still tends to view economic assets as a fixed and static set of resources, another literature, rooted in evolutionary economics and economic sociology, offers a relational interpretation which stresses the learning and risk-minimization advantages of daily cooperation in networks of reciprocity. Finally, a third reading of the city stresses the civic aspects of cities, both as a check on the formal economy and as a source of new forms of economic activity.

Which perspective we choose rather depends on the kind of economics we find convincing. The strength of the "fixed assets" perspective is that it offers a tangible grasp of the new urban assets, while the relational perspective is more vague in comparison, with its emphasis on the properties of ties. On the other hand, the relational perspective decisively illustrates the social foundations of economic action, by revealing the cognitive, interpersonal, habitual and conventional, civic and communal sources of economic behavior, innovation, and evolution. Perhaps, given the extraordinarily diverse and fluid nature of a city's economic circuits, all three perspectives are in some way relevant. What does seem interesting is that a common thread binding all of them is an emphasis on the powers of density, agglomeration, and proximity in explaining the particularities of the city as an economic place. These powers have always marked the city, but in different forms and with different outcomes (Amin and Graham 1999).

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