Chapter 14

Ups and Downs in the Global City: London and New York at the Millennium

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The early 1980s marked the beginning of a new stage in the development of London and New York. While other economic sectors were dispersing geographically, certain advanced service industries centering around financial activities intensified their presence in the centers of these cities (Friedmann 1986; Friedmann and Wolff 1982; Sassen 1991). This intensification resulted primarily from the enlarged role of financial capital in coordinating the world economy and the extremely active deal-making that accompanied this role. The decade witnessed the birth of new financial markets for the exchange of arcane financial instruments and the raising of huge pools of credit to underwrite speculative activities in property development, mergers, and leveraged buy-outs, as firms themselves became negotiable assets. Physical proximity was needed to facilitate the face-to-face encounters among principals, bankers, brokers, accountants, attorneys, and other consultants necessary for the negotiation of financial packages. New office structures were required to house the activities of the heightened volume of securities trading and ancillary services, resulting in growth in the real-estate development industry. Other industries flourished as well: New York and London continued to be capitals of culture and information production in their respective countries and magnets for world tourism. Although manufacturing, wholesale and retail, and port functions were declining relatively or absolutely, they continued to employ substantial labor forces. The international flavor of the two cities resulted not just from their situation in the global economy but also from their role as receptors of recent immigrants. Their metropolitan areas remained the largest in population in their respective nations, and thus they also comprised the largest markets for consumer products.

Decline and Revival

By the 1970s both cities were widely regarded as being in decline. The simplest indicator of this was the loss of population due to selective out-migration, a process that was a long established trend in London and had recently taken off in New York. More significant were the collapse of large sections of manufacturing industry,

Figure 14.1 New York (© Steve Pile)

disinvestment in the built environment, the growth of the multi-faceted "inner city problem", and the failure of urban policies which attempted to reverse such trends or alleviate their consequences. The timing and detailed nature of the changes were not the same in the two cities. Unlike New York, London had no fiscal crisis, although the subsequent cuts in public services by the Thatcher government, together with its abolition of the Greater London Council, provided a functional equivalent. Likewise, the social and ethnic composition of those most severely affected by decline differed, as did the nature of their political representation. But while such differences affected the intensity and timing of decline, a recognizably similar process was underway.

By the mid-1980s, however, a striking improvement in aggregate economic performance began to take place. Changes in the nature, level, and location of economic activity and jobs, however, suggest that there was no simple revival of the previous urban space economy, as occurs after a downturn in the business cycle, but rather a more radical restructuring and reordering of this economy. The indicators of revival in the 1980s in the two cities had a good deal in common. First, there was the reversal, continuing through the nineties, of previously accelerating population loss. In New York, this gain resulted wholly from replacement of the out-migrating middle class by foreign-born residents. An equally significant change was the shift from employment decline to gain, in New York starting in 1977 and in London beginning in 1983. However, job growth did not fully compensate for previous losses; increases in the metropolitan areas outside the central cities surpassed that in the core; and the new jobs, in services rather than manufacturing and associated activities, were very different from those which they had partially replaced. In the early 1990s this growth was reversed: in the first two years of the decade New York City lost 200,000 jobs, half the total number that had been added during the previous boom (Malanga 1991). Only in 1999 did New York return to the total at the beginning of the decade. In the UK there was a sharp downturn in London and the South East in 1990, ahead of other regions. Between June 1990 and January 1992 over 250,000 jobs were lost in London (Cambridge Econometrics 1992); as in New York it took the rest of the decade to recover the jobs lost.

Changing labor markets

The restructuring of the labor market consisted of a move from what has been termed a "Fordist" (i.e. mass production) industrial organization to a much more "flexible" labor market. The new jobs that have been created in the two cities have many common features: for example, they tend to be occupied by women rather than men, they provide a significant number of well-paid jobs for the highly qualified and many more low-level jobs, but few intermediate-level jobs for skilled manual and supervisory staff. This results in increased inequality in the distribution of earnings. So there has been a change from the more "balanced" distribution of jobs and incomes that existed earlier.

There are, however, some important contrasts between the two cities. To a considerable extent these derive from New York's role as a center for immigrant workers; despite the increase in the immigrant population in the nineties as a result of refugee flows, London's labor force has a substantially larger proportion of native-born workers. In New York the spaces left in the city's labor markets by the out-migration of white workers have been filled by African-Americans and the new ethnic minorities. However, there has not been a balance between in-migration and the demand for replacement labor, leading to high levels of unemployment among the latter two groups. In London the racial and ethnic composition of the labor force has changed less, and the complex pattern of sectoral growth and decline has not led to such extensive and persistent unemployment as has occurred among certain racial and ethnic groups and within particular geographical areas of New York. Despite this, some groups have suffered from a lack of employment opportunities, notably school leavers lacking job qualifications. Another consequence of the immigrant labor phenomenon in New York may have been its declining wage rates in relation to the national average. This has stimulated some growth in lower-paid job categories. London's wage rates have remained high, adding to the cost pressures inducing manufacturing firms to decentralize.

A feature of both labor markets is the growth of much less stable employment conditions. Both cities have historically had quite high levels of labor turnover but the new jobs are often on a short-term or casual basis, employment protection for the worker tends to be far less than in the Fordist era, and in New York there is large-scale informal or unregulated employment. Especially at the bottom of the labor market the balance of advantage has shifted towards the employers, notably in declining sectors of manufacturing and the growing area of consumer services. Job losses in the public sector and the increased resort to contracting out the more routine public service jobs have intensified the situation. The more volatile and less secure employment conditions which affect most severely those at the bottom of the labor market are also experienced by highly paid workers (Ehrenreich 1989; Sennett 1998). Still, the competition which exists for those with relevant skills for the new industries – which has helped them to gain such large salary rises in the past decade – also ensures that the costs of job loss are likely to be less serious for them.

Urban reinvestment

One of the most visible consequences of economic restructuring is the reinvestment which has occurred in the built environment of the two cities. Large-scale projects such as the Docklands development in London and Battery Park City in New York City, and the high volume of investment elsewhere in new offices, retail facilities, entertainment, and leisure complexes and housing, together with the necessary (and largely publicly funded) infrastructure to support them, followed on a period of property disinvestment. This reinvestment was tied to the needs of the growth sectors in the two urban economies and the consumption demands generated by those employed in the better paid jobs. In contrast, little investment has gone into construction of nonluxury housing in the past 25 years.

New patterns of industrial organization and location

London and New York, as discussed above, resemble each other in both the economic and political forces affecting them and in the position they occupy within the international economic system. These in turn have shaped spatial form and social structure. To summarize the argument: London and New York have been affected by the internationalization of capital and the rise of new technologies that have caused the outflow of manufacturing from old urban centers to peripheral areas at home and abroad. They have at the same time profited from the increasing importance of financial and coordinating functions, as well as of tourism and cultural production, saving them from the fate of "rust belt" areas with no compensating economic role. Some theorists have asserted that the recent development of the two regions can be understood as resulting from the reconcentration of industry in a new form of agglomeration. Scott (1988, ch. 4) contends that there has been a change in the overall technology of production away from hierarchical to market forms of control. He argues that "the net effect will be an intricate labyrinth of externalized transactions linking different producers, many of whom will coalesce in geographical space to form clusters and subclusters of agglomerated economic activity" (Scott 1988: 54). The tight agglomeration of the old urban core was produced by the need to lower the costs of internal transactions; the looser connectedness of the new urban region, based on modern transportation and communication technologies, results from the same dynamic. Within both the London and New York regions the last decades of the century witnessed a simultaneous densification of the core and a rapid growth of commercial and industrial agglomerations in "edge cities" on the periphery.

Scott's analysis focuses on the needs of manufacturers rather than the financial, business service, and cultural industries that dominate the cores of the New York and London regions. Sassen, like Scott, argues that changing forms of economic control have produced new spatial patterns and applies this logic to the industries that dominate the London and New York core economies, claiming that global cities are sites for production as well as coordination: "They are sites for 1) the production of specialized services needed by complex organizations for running a spatially dispersed network of factories, offices, and service outlets; and 2) the production of financial innovations and the making of markets, both central to the internationalization and expansion of the financial industry" (Sassen 1991: 5).

Both the New York and London regions during the 1980s proved magnets for economic activity that arrayed itself throughout their territories at differing intensities of concentration. The metaphor has been used of milk in a bottle as representing the earlier mode of economic agglomeration and spilled milk, or perhaps more accurately spilled mercury, as denoting the new model. Fishman (1987) coins the term "technoburb" to capture peripheral zones within metropolitan areas that now contain the complete gamut of productive and reproductive functions and goes so far as to claim that these areas operate independently of the core city around which they have developed. To what extent was revival a consequence of global city status?

To put this question more bluntly, does location at the top of the global hierarchy make a metropolis a winner? To assess this question we need to specify more clearly what is meant by "global city status". We can identify six broad changes in the capitalist economic system which are of relevance. These are as follows:

1. The decline in manufacturing and the partial rise of flexible systems of production.
2. The disaggregation of the geography of production which this development, as well as changes in transport and communications, allows.
3. The rise of producer services (i.e. services such as accounting, management consulting, corporate law, etc. that are sold to businesses) highly concentrated in large cities such as London and New York.
4. The growth of international financial systems even more highly concentrated in the three "first division" global cities – London, New York, and Tokyo.
5. The use of public policy to stimulate private investment, especially through the mechanism of public–private partnerships.
6. The growth of more specialized consumer services to meet the needs of the high status, high income workers in the expanding sectors of the economy, plus the growing demand from international tourism.

Each of these changes has had an impact on New York and London but the extent to which they have only or mainly had an impact in these places varies considerably. Thus the decline in manufacturing (or more accurately the decline in the older manufacturing industries) has been felt across the two national economies and territories; likewise the shift to more flexible production systems. It is true that both cities were especially affected by manufacturing decline because they had high concentrations of some of the types of industry which were hardest hit. However, many other urban areas in both countries were completely devastated by deindustrialization. Again, the effects of the decentralizing geography of production have been especially acute in London and New York, but not uncommon elsewhere. To some extent such decentralization can be seen as a consequence of their far from unique status as very large, high-cost urban areas.

The third factor – the high level of producer services associated with the growth in the planning, controlling, and coordinating needs of geographically dispersed production – exceeds that of cities further down the urban hierarchy in each country. However, although the absolute levels of such services and their share of the urban economy in the two global cities are higher than elsewhere, their rate of growth (from smaller bases) is greater outside the urban cores and in some parts of other regions altogether. Moreover, there are some important differences between the two cities: London's economic primacy and other factors have resulted in its retaining a far higher proportion of major national (although probably not international) corporate headquarters than New York and, more generally, having a higher proportion of the nation's producer services than New York.

The fourth development – the growth of financial services – is the one which marks the two cities most strongly as the preeminent global cities (with Tokyo). Together with producer services, financial services are characterized by the importance of intensive linkages for the exchange of nonroutine information. Consequently, there are great economies of agglomeration in these industries, although the decentralization of routinized back office (i.e. routine processing) functions, aided by developments in transport, computing, and communications, is evident in both cities. Within their regions the old central cities still exert an enormous pull on their surrounding areas, and certain industries – entertainment, financial securities, and legal services – have not decentralized significantly. Nevertheless, even though financial and business services continue to show employment growth and the securities and law subsectors have maintained their position, the cities were outpaced by the rest of their countries in the overall category of finance, insurance, and business services (Schwartz 1989; Rosen and Murray 1997; Gordon 1997). Furthermore, the portions of the region outside the old core (that is, London outside the greenbelt and the New York metropolitan area minus New York City) conform to Fishman's (1987: 185) description of areas that "are often in more direct communication with one another – or with other techno-cities [i.e. metropolitan areas] across the country – than they are with the core." The London and New York regions as a whole therefore conform to a spatial patterning that characterizes expanding regions elsewhere and which some theorists envision as ultimately universal (Hall 1988). Their cores, however, maintain a unique importance that no longer pertains to the central business districts of most other metropolitan regions.

The fifth factor, the significant expansion of the role of the state in economic management, is, like some others noted above, not confined to New York and London, or even to other very large cities (see, inter alia, Squires 1989; Harloe et al. 1990). Nor is the history of especially high levels of public expenditure in these particular cities a purely recent development. What is most significant is the recent switch in the balance of growth-stimulating and welfare-providing state activity, away from the latter and towards the former.

The final trend, the expansion of higher order consumer services, is closely linked to the expansion of producer and financial services. Such services have always been concentrated in the two cities and in recent years they have grown rapidly – stimulated by the high concentration of well-paid employees in the expanding producer and financial services and booming international tourism.

There is, therefore, no simple division between these two global cities and other cities. All of the six aspects of global economic restructuring discussed exist elsewhere, although some, most notably the concentration of financial services, are far less significant in other places. What does, however, make the two cities unique (together perhaps with Tokyo, although see Fujita [1991], Machimura [1998], for some important ways in which Tokyo differs from other "world cities") is the scale of the six factors and their combination in a single urban and regional space economy. It is the extent to which both cities have been affected by all six sets of changes – and hence by the interactions between them as well – that really marks them off from other large cities and links their evolving urban and social structures most closely to changes in global economic organization and its consequences.

One of the most important of these interactions flows from the competition for, and the high price of, urban land. While such competition has always existed in these large cities, the growth of producer and financial services and of the high-income segments of the population which they employ, together with the more specialized consumer services which they require, has intensified the process. High land prices have forced other economic activities, less able to meet the high costs of urban location, to decentralize to the periphery of the two regions and beyond at a rapid rate. They have also caused large sections of the population to be priced out of the housing market or to accept higher housing costs, occupy less housing or endure longer commutes to work than in cities where the transition to the new economic regime has been less rapid and on a smaller scale. The loss of skilled manual and supervisory jobs – evident throughout both national economies – has been amplified by the peculiar conditions which apply in the two cities, leading to the development of the polarized distributions of incomes and life chances to which we have already referred. Evidently then, placement at the top of the world urban hierarchy does not necessarily result in a generally better quality of life for the populations of these cities.

The Social Consequences of Economic Change

Some commentators have sought to encapsulate the social structural changes that have occurred in the image of the "dual city" – the suggestion that London and New York each contained, in the same urban and regional space, two increasingly separate economies, inhabiting increasingly segregated neighborhoods and social systems. Features such as the juxtaposition of homogeneously low and high income areas, the occupation of the sidewalks of well-to-do districts by the homeless, and the simultaneous broadening of employment opportunities for some and their foreclosure for others have encouraged the use of this two-city metaphor. The contrast has perhaps been heightened by a rather selective perception of the inhabitants of these two worlds and a narrow geographic focus. From such a viewpoint the observer has seen, on the one hand, the expansive economy, environment and lifestyle of the "new service class" inhabiting a "reconquered," gentrified inner city, and, on the other hand, the misery of those at the margins of the labor market and outside it, living in close spatial proximity to this first group, but a world away in social and economic terms.

The continued existence of what Pahl has termed the "middle mass" of the population, predominately located in the suburbs and towards the periphery of the two city regions, has hardly rated a mention in such scenarios (see, e.g., Sassen 1991). Instead, the concern has been that a process of social and economic polarization is occurring, a shift away from what Pahl (1988) has described as a pyramidal social structure toward an hourglass pattern. In a pyramidal structure, in principle at least, economic and social mobility from the base to the apex is possible. However, in the polarizing cities of London and New York (and elsewhere) such mobility may be increasingly inconceivable for those trapped in marginal jobs or dependent on state benefits – cut off from the new opportunities opening up in the growth sectors of the urban economies.

Detailed studies of the distributional consequences of economic change lead us to a more complex conclusion than is implied by the dual city thesis. Above all, the changes have benefited the financial and producer services industries, associated higher level consumer services and the people who occupy the high-level positions in these parts of the economy. In addition, throughout the 1980s real-estate investors amassed large fortunes, although the slump in real-estate markets that ended the decade in both cities resulted in sudden financial crises and even bankruptcies in this sector. The late 1990s revival of the property markets resurrected the fortunes of development interests in both cities, although not at the level of the more speculative 1980s. For the middle mass, which constitutes a far larger section of the metropolitan population, the outcome is more ambiguous. It has shared a good deal of the prosperity generated by growth. Middle-income households, however, have difficulty in gaining access to desirable housing, and urban public services such as education and transport have deteriorated. Public safety, even in London but especially in New York, became a critical concern during the 1980s, although a sharp drop in New York's crime rate during the nineties has alleviated this problem.

By far the heaviest consequences of economic change have been experienced by those who are outside, on the margins of or at the bottom of the labor market. Of course, growth has resulted in an expansion of low-skilled and low-paid jobs, but in industries with a missing "middle," chances for upward occupational mobility are limited. One consequence of low-income employment, evident in both cities, is the rise in the average number of household members who are in full- or part-time work.

There has been a significant rise in the proportion of the population of both cities which is in poverty, to around a quarter in London and 30 percent in New York in 1997 (Garfinkel and Meyers 1999). The impact of poverty, however, differs within the cities as a consequence of the more extensive availability in London of state-provided services, especially medical care, which is of crucial importance to the working poor. The provision of public housing and rent subsidies on a large scale has been particularly important in London and is quite low by comparison in New York. Recently, however, there has been something of a shift, as in the late 1980s New York City embarked on a program of affordable housing provision, relying on nonprofit community development corporations and tax benefits for private developers to stimulate construction of units at below-market rents. Nevertheless, the city continued to show a net loss in housing units from 1980 to 1995 (Salins 1999: 56). London, in contrast, saw its stock of subsidized housing decrease as a consequence of the Thatcher government's "right to buy" program, allowing the purchase of council (i.e. public) housing by its occupants. New York's suburban ring, like London's, continues to offer little housing opportunity to low-income people. Moreover, changes in UK policies contributed by the late 1980s and through much of the nineties to a marked convergence between the two cities, or rather to a rate of growth in income inequality in London bringing it nearer to New York's pattern of income distribution. There are other, "softer" indicators showing similar types of deprivation in the two cities, notably large-scale begging and homelessness, formerly confined to people with severe social and personal problems, but now experienced by many more, such as the young and unskilled and families with children.

The economies and social structures of both cities are shaped and divided by class, race and gender. The consequential pattern or system of social stratification is highly complex and this complexity seems to increase as one moves down the system. Fairly clearly, the upper levels of the executive and professional strata have grown (Hamnett 1994). Despite gains by women and minorities, upper-level positions are predominantly filled by white males. Racial and gender discrimination – though eroding at the edges – still presents severe barriers to entry by other sectors of the population, even when they have the necessary skills and training.

At lower levels of the employment hierarchy, women and ethnic minorities have taken over many positions. However, the diversity of situations experienced by these subgroups of the population makes any simple and universally applicable description of their circumstances invalid (Mingione 1991). In both cities a combination of skills, predispositions, social networks, and group resources operates to differentially filter distinctive ethnic groups into a variety of employment niches. Outside the labor market different patterns of advantage and disadvantage also exist. For example, Asian homeowners in London derive some benefit from an appreciating housing asset in comparison with those Afro-Caribbeans concentrated in inner city public housing estates (note though the very different circumstances of Afro-Caribbeans in New York who have a high propensity to become home owners in comparison with other ethnic minorities). Public policies also contribute to varying and shifting patterns of disadvantage – for example, cuts in welfare benefits in both cities at differing times adversely affected, in New York, poor households with dependent children and, in London, young adults.

These and other factors should make us pause before accepting any simple notion of the "dual" city or any equally simple association of certain population groups with the lower end of the system of social stratification. Despite this qualification, however, we can identify a close link between economic change and intensified poverty and deprivation, alongside soaring incomes for limited sections of the population and a more ambiguous combination of costs and benefits for many more.

The Future

The recession of the early nineties called into question the permanence of 1980s revival. Subsequent turnaround indicated that the downturn was cyclical rather than structural. Even so, in the case of New York, "the 1990s expansion has been much weaker and less diverse than the expansion the City experienced in the 1980s" (Parrott 1998). In this context a key consideration must be the long-term prospects for further growth in the financial and producer services sectors, together with those other parts of the two urban economies which are essentially dependent on such growth. A second issue is whether financial and producer service growth will continue to center in London and New York.

The first point to note is the significance of changes in the regional space economy of which London and New York form a part. Much of the remaining manufacturing employment is now located in the outer areas of the two regions, beyond their respective city limits. Changes in the organization of production and the other factors which have encouraged decentralization have already resulted in a new form of regional structure, with a development of relatively self-contained agglomerations outside the two core cities. Although these core cities retain a unique importance no longer found in many other metropolitan regions, they nevertheless must rely on a narrower economic base than in the past. New York, which lacks London's governmental dominance, particularly suffers from a high level of specialization. Thus, Wall Street, which represented only 5 percent of city employment, accounted for 56 percent of the increase in aggregate real earnings in New York City between 1992 and 1997 (Office of the State Deputy Comptroller for the City of New York, 1998).

Continued economic restructuring may bring fewer benefits to the core areas of the London and New York regions than in the past. An important issue here concerns the future location of the existing financial and producer services industries and of possible future growth in them. On the one hand, the information-intensive activities have tended to concentrate in central London and New York City. On the other hand, the growth of these industries in the outer parts of the two regions is now far higher than in the cities themselves and there is a convergence in the proportional share of all economic activity taken by these industries in the inner and outer parts of both regions. So the new industries which provided the basis for the revival of London and New York in the 1980s are, like earlier established industries, now decentralizing (Markusen and Gwiasda 1994). Developments in transport, communications, and information technology aid this process and the cost pressures in the urban cores are also significant in bringing about decentralization. Until now, much of this out-migration has involved "back office" functions, leaving those activities which still require the advantages of agglomeration in the CBDs behind. It remains to be seen, however, whether, with further advances in information technology, some of the latter will also eventually decentralize.

If in the next decade the decentralization of the "new core" industries now located in London and New York does accelerate, both cities may enter another period of relative decline. Any further out-migration of population is likely to be selective, given the massive inflation which has occurred in regional house prices, the lack of public or other subsidized accommodation in the metropolitan fringe and beyond and, especially in New York, the discriminatory barriers which still exist to prevent the outmigration of nonwhite ethnic minorities.

The Effect of Globalization

Their positions as global cities have, as we noted earlier, differentiated London and New York from other cities only in certain limited respects. Nevertheless, this status has important consequences for these two cities. The clusters of industries with global ties have characteristics that produce important externalities: they create a stratum of very high earners, whose spending patterns then affect retail and housing markets; they attract a highly specialized labor force with a disproportionate number of very competitive and/or very creative individuals who spin off new businesses and give these cities their idiosyncratic character; they have strong speculative elements which reinforce cyclical tendencies in the economy; they need highly specialized and expensive kinds of working spaces and their demands for space skew property markets.

Global city theorists regard the impact of these externalities as so enormous as to create a qualitatively unique city form. Our position, however, is more moderate. First, changes in family structure common to every city have been profoundly influential at all levels of the social hierarchy. In both cities the poorest households are those that suffer either from labor force exclusion or meager earnings, most frequently as a consequence of having a single, usually female, wage earner. At the same time households with multiple earners do better even when individual wages are low, and when they have two high-wage earners, they move into the top of the income distribution. The situation of these households cannot be attributed to global city status, nor does it differ from that of similar households in other cities. Second, we find that other factors independent of both globalization and of the global sectors are at least as influential in affecting the economic base and social outcomes within our four cities. Thus, the same economic restructuring that has affected all cities in the developed world has been at the root of many of the changes in socioeconomic configurations in these cities. And while global competition, the potential to create globalized production systems, and global linkages have been among the stimuli to economic restructuring within the cities, that process is not simply attributable to globalization. For the middle mass, most of whom have seen some improvement in their status, primary determinants of their situation lie within the national economic and policy system, including the impact of public-sector and, more broadly, social-service employment.

Both cities are alike in containing a very wealthy segment of their nation's population and supporting the economic and cultural institutions that sustain this group. Their economic bases are similar but by no means identical, and the similarities are only partly a consequence of globalization. New York and London, while similar in economic composition differ in social composition, with New York having a far larger immigrant population and London retaining a larger middle- and upper-class population. Both cities have seen increasing income inequality, but polarization is not the most accurate description of this phenomenon in that, as a term, it fails to capture the improving position of a large proportion of the middle mass. In sum, New York and London share many characteristics with each other, but they also resemble other cities that are not homes to the most important financial institutions and multinational headquarters.[1]

NOTE

1. This chapter draws on the findings of a major research project on London and New York, a full account of which will be found in Susan Fainstein, Ian Gordon, and Michael Harloe (eds.) (1992) *Divided Cities: London and New York in the Contemporary World* (Oxford: Blackwell). This research was supported by the UK Economic and Social Research Council and the US Social Science Research Council.

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