SASKIA SASSEN

"Place and Production in the Global Economy"

from *Cities in a World Economy* (1994)

Editors' introduction One of the most important phenomena of the last decades of the twentieth century is the rise of an integrated world economy. Local economies are increasingly integrated into a single world economic system. Capital flows freely across national borders. Distance has been neutralized through telecommunications and computer technologies that allow for instantaneous transmission of information.

The emergence of a truly global economy has tremendous implications for firms and national economies, immigration, the nature of work and the whole social and economic fabric of society. As was pointed out in the reading by Saskia Sassen, "A New Geography of Centers and Margins" (p. 70), the new global economy also has profound implications for cities. In the following selection Sassen elaborates on place and production in the global economy.

Some people in some cities benefit tremendously from the emerging economic order. Some Third-World cities are experiencing a boom in manufacturing – bringing jobs, higher wages for some workers, and wealth and power to middle- and upper-class property owners reminiscent of the boom for Manchester's bourgeoisie during the Industrial Revolution 150 years earlier (p. 47). Managerial elites – experts in banking, finance, accounting, law, and other specialties in New York, London, Tokyo, and other global cities – are becoming wealthier and more powerful. But global economic changes are creating new problems for many people in many cities.

Just as the Industrial Revolution did in the nineteenth century, the emergence of an information-based global economy in the twentieth century is producing extremes of inequality. Sassen extends her argument about central and peripheral areas of the world economy and rich and poor cities. She argues that large concentrations of very-low-income Third-World immigrants now live only blocks away from the offices of wealthy business elites in global cities like New York and London. These extreme social divisions also exist in Third-World cities. There are wealthy bankers and lawyers in São Paolo, Brazil, within a stone's throw from the teeming favelas of the urban poor.

As high-powered command and information functions grow, Saskia Sassen argues that the very poor population of cities does not shrink: the new global economy requires more low-paid janitors and food service workers. Women in particular are entering the low-paid labor force of global cities in large numbers in roles such as maids, waitresses, domestics, and electronics assembly workers.

Immigrants in large cities in the developed world often participate in informal economies similar to the economies of their countries of origin. In some inner-city ethnic neighborhoods goods are bought and sold on the street, work may be performed below minimum wage, income is not reported to tax or other authorities, and there is little heed to occupational health and safety, environmental, consumer, or other laws.

Note the similarity between Engels's description of the juxtaposition of extremes of wealth and poverty in the emerging industrial city of Manchester in the mid-nineteenth century (p. 47) and Sassen's description of inequality in the emerging global cities of today.

Compare Sassen's findings to Manuel Castells and Peter Hall's work on technopoles (p. 476). Contrast Castells's view on the future role of place-boundedness in the global information economy (p. 494) with Sassen's theories.

In addition to Sassen's other writings cited in the introduction to "A New Geography of Centers and Margins" in Part 1 (p. 70), other books on global economic restructuring and cities include Jeff Henderson and Manuel Castells (eds.), *Global Restructuring and Territorial Development* (London: Sage, 1987), R. V. Knight and G. Gappert (eds.), *Cities in a Global Society*, vol. 35, *Urban Affairs Annual Reviews* (Newbury Park, Calif.: Sage, 1989), Ann Markusen, Amy Glasmeir, and Peter Hall, *High Tech America: The What, How, Where and Why of the Sunrise Industries* (London and Boston: Allen & Unwin, 1986), Robert Reich, *The Work of Nations: Preparing Ourselves for Twenty-first Century Capitalism* (New York: Knopf, 1989), and Hank Savitch, *Post-industrial Cities* (Princeton, N.J.: Princeton University Press, 1988).

For a study of the dual-city phenomenon see Manuel Castells and John Mollenkopf, *Dual City: Restructuring New York* (New York: Russell Sage Foundation, 1991). On the informal economy see Alejandro Portes, Manuel Castells, and L. Benton (eds.), *The Informal Economy: Studies in Advanced and Less Developed Countries* (Baltimore: Johns Hopkins University Press, 1989).

SASKIA SASSEN, "Place and Production in the Global Economy"

from ***Cities in a World Economy*** **(1994)**

As the end of the twentieth century approaches, massive developments in telecommunications and the ascendance of information industries have led analysts and politicians to proclaim the end of cities. Cities, they tell us, should now be obsolete as economic entities. With large-scale relocations of offices and factories to less congested and lower cost areas than central cities, the computerized workplace can be located anywhere: in a clerical "factory" in the Bahamas or in a home in the suburbs. The growth of information industries has made it possible for outputs to be transmitted around the globe instantaneously. And the globalization of economic activity suggests that place – particularly the type of place represented by cities – no longer matters.

This is but a partial account, however. These trends are indeed all taking place, but they represent only half of what is happening. Alongside the well-documented spatial dispersal of economic activities, new forms of territorial centralization of top-level management and control operations have appeared. National and global markets, as well as globally integrated operations, require central places where the work of globalization gets done. Furthermore, information industries require a vast physical infrastructure containing strategic nodes with a hyperconcentration of facilities. Finally, even the most advanced information industries have a production process.

Once this process is brought into the analysis, funny things happen; secretaries are part of it, and so are the cleaners of the buildings where the professionals do their work. An economic configuration very different from that suggested by the concept of *information economy* emerges, whereby we recover the material conditions, production sites, and placeboundedness that are also part of globalization and the information economy. A detailed examination

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of the activities, firms, markets, and physical infrastructure that are involved in globalization and concentrated in cities allows us to see the actual role played by cities in a global economy. Thus when telecommunications were introduced on a large scale in all advanced industries in the 1980s, we saw the central business districts of the leading cities and international business centers of the world – New York, Los Angeles, London, Tokyo, Frankfurt, São Paulo, Hong Kong, and Sydney, among others – reach their highest densities ever. This explosion in the numbers of firms locating in the downtowns of major cities during that decade goes against what should have been expected according to models emphasizing territorial dispersal; this is especially true given the high cost of locating in a major downtown area.

If telecommunications has not made cities obsolete, has it at least altered the economic function of cities in a global economy? And if this is so, what does it tell us about the importance of place, of the locale, in an era dominated by the imagery and the language of economic globalization and information flows? Is there a new and strategic role for major cities, a role linked to the formation of a truly global economic system, a role not sufficiently recognized by analysts and policymakers? And could it be that the reason this new and strategic role has not been sufficiently recognized is that economic globalization – what it actually takes to implement global markets and processes – is misunderstood?

The notion of a global economy has become deeply entrenched in political and media circles all over the world. Yet its dominant images – the instantaneous transmission of money around the globe, the information economy, the neutralization of distance through *telematics* – are partial and hence profoundly inadequate representations of what globalization and the rise of information economies actually entail for cities. Missing from this abstract model are the actual material processes, activities, and infrastructures that are central to the implementation of globalization. Both overlooking the spatial dimension of economic globalization and overemphasizing the information dimensions have served to distort the role played by major cities in the current phase of economic globalization.

The last 20 years have seen pronounced changes in the geography, composition, and institutional framework of economic globalization. A world economy has been in existence for several centuries, but it has been reconstituted repeatedly over time. A key starting point ... is the fact that, in each historical period, the world economy has consisted of a distinct combination of geographic areas, industries, and institutional arrangements. One of the important changes over the last 20 years has been the increase in the mobility of capital at both the national and especially the transnational level. The transnational mobility of capital brings about specific forms of articulation among different geographic areas and transformations in the role played by these areas in the world economy. This trend in turn produces several types of locations for international transactions, the most familiar of which are *export processing zones* and *offshore banking centers*. One question for us, then, is the extent to which major cities are yet another type of location for international transactions, though clearly one at a very high level of complexity.

Increased capital mobility does not only bring about changes in the geographic organization of manufacturing production and in the network of financial markets. Increased capital mobility also generates a demand for types of production needed to ensure the management, control, and servicing of this new organization of manufacturing and finance. These new types of production range from the development of telecommunications to specialized services that are key inputs for the management of a global network of factories, offices, and financial markets. The mobility of capital also includes the production of a broad array of innovations in these sectors. These types of production have their own locational patterns; they tend toward high levels of agglomeration. We will want to ask whether a focus on the *production* of these service inputs illuminates the question of place in processes of economic globalization, particularly the kind of place represented by cities.

Specialized services for firms and financial transactions, as well as the complex markets both entail, are a layer of activity that has been central to the organization of major global processes in the 1980s. To what extent is it useful to think in terms of the broader category of cities as key locations for such activities – in addition to the more narrowly defined locations represented by headquarters of transnational corporations or offshore banking centers – to further our understanding of major aspects of the organization and management of the world economy?

Much of the scholarly literature on cities has focused on internal aspects of the urban social, economic, and political systems, and it has considered cities to be part of national urban systems. International aspects typically have been considered the preserve of nation-states, not of cities. The literature on international economic activities, moreover, has traditionally focused on the activities of multinational corporations and banks and has seen the key to globalization in the power of multinational firms. Again, this conceptualization has the effect of leaving no room for a possible role by cities.

Including cities in the analysis adds two important dimensions to the internationalization. First, it breaks down the nation-state into a variety of components that may be significant in understanding international economic activity. Second, it displaces the focus from the power of large corporations over governments and economies to the range of activities and organizational implementation and maintenance of a global network of factories, service operations, and markets: these are all processes only partly encompassed by the activities of transnational corporations and banks. Third, it contributes to a focus on place and on the urban social and political order associated with these activities. Processes of economic globalization are thereby reconstituted as concrete production complexes situated in specific places containing a multiplicity of activities and interests, many unconnected to global processes. Focusing on cities allows us to specify a geography of strategic places on a global scale, as well as the microgeographies and politics unfolding within these places.

A central thesis organizing this book [*Cities in a World Economy*] is that the transformation during the last two decades in the composition of the world economy accompanying the shift to services and finance brings about a renewed importance of major cities as sites for certain types of activities and functions. In the current phase of the world economy, it is precisely the combination of the global dispersal of economic activities *and* global integration – under conditions of continued concentration of economic ownership and control – that has contributed to a strategic role for certain major cities that I call *global cities*. Some have been centers for world trade and banking for centuries, but beyond these long-standing functions, today's global cities are (1) command points in the organization of the world economy; (2) key locations and marketplaces for the leading industries of the current period, which are finance and specialized services for firms; and (3) major sites of production for these industries, including the production of innovations. Several cities also fulfill equivalent functions on the smaller geographic scales of both trans- and subnational regions.

Alongside these new global and regional hierarchies of cities is a vast territory that has become increasingly peripheral, increasingly excluded from the major economic processes that fuel economic growth in the new global economy. A multiplicity of formerly important manufacturing centers and port cities have lost functions and are in decline, not only in the less developed countries but also in the most advanced economies. This is yet another meaning of economic globalization. We can think of these developments as constituting new geographies of centrality (that cut across the old divide of poor/rich countries) and of marginality that have become increasingly evident in the less developed world and in highly developed countries as well.

The most powerful of these new geographies of centrality binds the major international financial and business centers: New York, London, Tokyo, Paris, Frankfurt, Zurich, Amsterdam, Sydney, Hong Kong, among others. But this geography now also includes cities such as São Paulo and Mexico City. The intensity of transactions among these cities, particularly through the financial markets, flows of services,

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and investment have increased sharply, and so have the orders of magnitude involved. At the same time, there has been a sharpening inequality in the concentration of strategic resources and activities between each of these cities and others in the same country. For instance, Paris now concentrates a larger share of leading economic sectors and wealth in France than it did 20 years ago, whereas Marseilles, once a major economic center, has lost its share and is suffering severe decline. Some national capitals, for example, have lost central economic functions and power to the new global cities, which have taken over some of the coordination functions, markets, and production processes once concentrated in national capitals or in major regional centers. São Paulo has gained immense strength as a business and financial center in Brazil over Rio de Janeiro – once the capital and most important city in the country – and over the once powerful axis represented by Rio and Brasilia, the current capital. This is one of the meanings, or consequences, of the formation of a globally integrated economic system.

What is the impact of this type of economic growth on the broader social and economic order of these cities? A vast literature on the impact of a dynamic, high-growth manufacturing sector in highly developed countries shows that it raises wages, reduces economic inequality, and contributes to the formation of a middle class. There is much less literature on the impact on the service economy, especially the rapidly growing specialized services.

Specialized services, which have become a key component of all developed economies, are not usually analyzed in terms of a production or work process. Such services are usually seen as a type of output – that is, high-level technical expertise. Thus insufficient attention has been paid to the actual array of jobs, from high paying to low paying, involved in the production of these services. A focus on production displaces the emphasis from expertise to work. Services need to be produced, and the buildings that hold the workers need to be built and cleaned. The rapid growth of the financial industry and of highly specialized services generates not only high-level technical and administrative jobs but also low-wage unskilled jobs. Together with the new interurban inequalities mentioned above, we are also seeing new economic inequalities within cities, especially within global cities and their regional counterparts.

The new urban economy is in many ways highly problematical. This is perhaps particularly evident in global cities and their regional counterparts. The new growth sectors of specialized services and finance contain capabilities for profit making that are vastly superior to those of more traditional economic sectors. The latter are essential to the operation of the urban economy and the daily needs of residents, but their survival is threatened in a situation where finance and specialized services can earn superprofits. This sharp polarization in the profit-making capabilities of different sectors of the economy has always existed. But what we see happening today takes place on a higher order of magnitude, and it is engendering massive distortions in the operations of various markets, from housing to labor. We can see this effect, for example, in the unusually sharp increase in the beginning salaries of MBAs and in the precipitous fall in the wages of low-skilled manual workers and clerical workers.

We can see the same effect in the retreat of many real estate developers from the low- and medium-income housing market who are attracted to the rapidly expanding housing demand by the new highly paid professionals and the possibility for vast overpricing of this housing supply.

The rapid development of an international property market has made this disparity even worse. It means that real estate prices at the center of New York City are more connected to the overall real estate market in London or Frankfurt than to the overall real estate market in the city. Powerful institutional investors from Japan, for instance, find it profitable to buy and sell property in Manhattan or central London. They force prices up because of the competition and raise them even further to sell at a profit. How can a small commercial operation in New York compete with such investors and the prices they can command?

The high profit-making capability of the new growth sectors rests partly on speculative activity. The extent of this dependence on speculation can be seen in the crisis of the 1990s that followed the unusually high profits in finance and real estate in the 1980s. The real estate and financial crisis, however, seems to have left the basic dynamic of the sector untouched. The crisis can thus be seen as an adjustment to more reasonable (that is, less speculative) profit levels. The overall dynamic of polarization in profit levels in the urban economy remains in place, as do the distortions in many markets.

The typical informed view of the global economy, cities, and the new growth sectors does not incorporate these global dimensions. Elsewhere I have argued that we could think of the dominant narrative or mainstream account of economic globalization as a narrative of eviction. In the dominant account the key concepts of globalization, information economy, and telematics all suggest that place no longer matters and that the only type of worker that matters is the highly educated professional. This account favors the capability for global transmission over the concentrations of established infrastructure that make transmission possible; favors information outputs over the workers producing those outputs, from specialists to secretaries; and favors the new transnational corporate culture over the multiplicity of cultural environments, including reterritorialized immigrant cultures within which many of the "other" jobs of the global information economy take place. In brief, the dominant narrative concerns itself with the upper circuits of capital, not the lower ones.

This narrow focus has the effect of excluding from the account the place-boundedness of significant components of the global information economy; it thereby also excludes a whole array of activities and types of workers from the story of globalization that are as vital to it as international finance and global telecommunications are. By failing to include these activities and workers, it ignores the variety of cultural contexts within which they exist, a diversity as present in processes of globalization as is the new international corporate culture. When we focus on place and production, we can see that globalization is a process involving not only the corporate economy and the new transnational corporate culture but also, for example, the immigrant economies and work cultures evident in our large cities.

The new empirical trends and the new theoretical developments have made cities prominent once again in most of the social sciences. Cities have reemerged not only as objects of study but also as strategic sites for the theorization of a broad array of social, economic, and political processes central to the current era: economic globalization and international migration; the emergence of specialized services and finance as the leading growth sector in advanced economies; and new types of inequality. In this context, it is worth noting that we are also seeing the beginning of a repositioning of cities in policy arenas. Two instances in particular stand out. One is the recent programmatic effort at the World Bank to produce analyses that show how central urban economic productivity is to macroeconomic performance. The other is the explicit competition among major cities to gain access to increasingly global markets for resources and activities ranging from foreign investment, headquarters, and international institutions to tourism and conventions.

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