

Reinventing Cities: What the Experience of Global Cities Tells Us

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The Central Paradox

Why is it that in an era in which transportation and communication costs have virtually vanished, cities have become more important than ever?

The story of the 19th century in the US was the construction of a transport network, by water and rail, that allowed access to the American hinterland. The story of the 20th century, on the other hand, was the story of the “death of distance” – when the automobile made cities oriented around public transport obsolete and the truck freed manufacturers from the need to cluster around ports and rail stations.

And yet urban resurgence is visible in high income levels, robust housing prices, and a concentration of innovation in urban areas. Why do people still cluster together in cities? Cities such as Boston and New York have left behind their manufacturing past and reinvented themselves successfully. What accounts for their success?

The Hypothesis

Globalisation, Professor Ed Glaeser argues, has greatly increased the returns to being smart. And people become smart by being around other smart people – proximity to other people increases access to new knowledge and new ideas. Cities today can be thought of as machines for producing new ideas, as the most important knowledge is still transmitted face-to-face. Apart from climate, human capital is one of the best predictors of a city's growth. Cities survive only by adapting their economies to new technologies, and it is human capital that enables cities to adapt successfully to change.

Experience of Global Cities

Boston has reinvented itself at least three times in its history. In the 19th century, Boston's comparative advantage was in human capital – it was the centre of a global shipping network providing shipping talent. However, when the importance of steam ships rose over sail ships, Boston lost its maritime dominance. Later in the century, Boston reinvented itself as a manufacturing center, with a large flow of poor immigrants as its labour base. The 20th century saw a decline of industries in cities, replaced higher density areas. People also moved to cities

with warmer climates, with advent of the air conditioner. Consequently, Boston lost a quarter of its population between 1950 and 2000.

Throughout these changes, Boston's retained its edge in literacy and education. As ideas and knowledge became more important, cities with skilled populations began to thrive. One innovation in Boston led to another; in turn creating a feedback on itself. In the last quarter of the 20th century, Boston transformed itself into a hub for information technology, finance and higher education.

New York is also well-known for its ability to transform itself over the years. Its current concentration in finance, where 40 percent of Manhattan's payroll came from finance and insurance sector in 2006, is the result of its last reinvention, which began in the 1970s. Before that, it had been an industrial town, as its port and railroads gave local factories an advantage on transportation costs. Sugar refining, publishing, and the garment industry were the city's dominant industries throughout the 19th century.

But over the course of the 20th century, New York's transportation-related advantages became irrelevant as transportation costs plummeted. By the 1970s, manufacturers found it more cost-effective to make goods in cheaper suburban factories, right-to-work states (where unions were weaker), and China. The city's economy declined, and this led to social and fiscal problems.

Eventually, New York did revive economically, carried on the back of a resurgent financial industry, which was itself another of the old port's progeny: long before 1792, when the Buttonwood Agreement established the New York Stock Exchange, downtown New York had financiers who insured and invested in shipping.

The more recent explosion of financial services in New York reflected a series of innovations made by smart people who learnt from one another's ideas. For example, Jack Treynor brought ideas about risk and return from academia to Wall Street. Michael Milken used those ideas to sell high-yield debt. Henry Kravis used high-yield debt to buy out companies. Lewis Ranieri's mortgage-backed securities could be sold worldwide because buyers at least thought that they understood how to think about risk and return. Michael Bloomberg sold computer terminals that helped people get the data needed to assess these new securities.

The Rise of Consumer City and Reflections on Singapore

While clusters of skilled people are rising in importance, they are no longer tied down by transport amenities like rivers and ports. Increasingly, cities have formed in places where people find it desirable to live. At the same time, more attractive older cities have become increasingly attractive to people who want to live in a dense environment. As a result, the competitiveness of a city depends

on its attractiveness to consumers. Therefore, cities must attract workers both on higher wages as well as on its quality of life attributes.

Hence, governments need to give focus to creating consumer cities, with desirable quality of life features such as safe and clean streets, as well as good public amenities. Such policies would help attract high-skilled talents.

In this aspect, Singapore has good provision of public goods such as quality schools, efficient transportation (congestion pricing and MRT) and safe streets, as well as higher-end consumer amenities such as good restaurants. These attributes coupled with Singapore's greening efforts will also contribute to a good quality of life. Furthermore, Singapore has the ability to innovate, as it is a well educated city with diverse cultural influences. Nevertheless, while Singapore has the ability to produce indigenous talent, it will need to continue to compete for and retain talent. As a result, it will need to continue to address issues of its limited land area, the expansion of public space, as well as climate change.