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How cities work: a policy agenda for the grounded city

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Planners, architects of city design and those they have led along with them in their beliefs are not consciously disdainful of the importance of knowing how things work. On the contrary they have gone to great pains to learn what the saints and sages of modern orthodox planning have said about how cities ought to work and what ought to be good for people and businesses in them. They take this with such devotion that when contradictory reality intrudes, threatening to shatter their dearly won learning, they must shrug reality aside.

(Jane Jacobs, *Death and Life of Great American Cities*. 1961, p.8)

It is always difficult to recognise what we would now call corollary and unrecognised realities as they intrude on the city as conceived by the architects of orthodox urban policy. This is because cities are sites of staged invisibility and ambiguous causality, as Engels argued so perceptively in his description of Manchester as the 'classic type of a modern manufacturing town' (Engels 1993[1844]). Staged invisibility was the principle of 'the hypocritical plan' of ecological segregation with shops lining the main roads and concealing working class squalor from bourgeois commuters; or of the tours of model factories like Quarry Bank which were offered to those interested in the condition of workers. As for ambiguous causes, Engels argued the bourgeoisie was knowingly responsible for the conditions of the proletariat, but notes bourgeois writers blame the city as a demoralising environment. In different kinds of city, the same principles of staged invisibility and causal ambiguity have operated to protect the modernist architects and town planners of the 1960s, or the 2010s new urban economists like Glaeser and Florida in the US and Overman in the UK. This latter group have privileged various kinds of agglomeration effect and insistence on infrastructure and other generic fixes for post-industrial city ills.

These new urban economists have been sharply criticised, especially by radical geographers viscerally opposed to neo-liberalism and the construction of the social through the lens of mainstream economics. The line runs from Massey's (2007) questioning of 'trickle down economics' through Long (2010) to the recent deconstruction of new urban economics by Peck (2015). The radicals argue that new urban economics ideologically identifies the city with a wealth-producing machine in order to deflect attention from its losers and as such ultimately legitimates capitalist interests (Peck 2005; 2015). But outside academia the story of urban success through

agglomeration is seldom questioned by the political classes and mostly endorsed by the media; the policy line of making markets work better fits with conventional understanding and cities everywhere choose from the new urban economist policy menu as they invest in infrastructure, prioritise schooling and compete to attract creatives. Thus, radical academic critics have not convinced policy makers at city level, partly because while they have piled up multiple reasons why new urban economics will not work there is no intelligible alternative concept of city dynamic to replace agglomeration. Moreover, critics typically favour a more equal social democratic past or a more sustainable green future but have no alternative agenda of policies which here and now would make cities work better. Against this background, it is hardly surprising that other academics have been partially co-opted into new urban economist ways of seeing: thus, Scott and Storper (2015) add complexity to neoliberal urbanism but still see internal agglomeration as the key mechanism in their urban theorizing.

Hence, the rather different critical strategy of this article which aims to come up with an alternative concept of city dynamic which opens a new agenda of policies that could make a difference. Our starting point is the observation that new urban economics is a distinct conceptualization of the urban with its own ontology about cities carried by strong causal assumptions reinforced by metaphors. So that the city for new urban economists is something that exists within imagined walls and is metaphorically like the firm because it engages in competition with other cities or city regions where the result is determined by internal organisational characteristics like agglomeration, an idea which brackets (market related) ideas about density and extent. This new urban economist ontology is not only distinctive but also highly contestable for two reasons.

First, the new urban economics rejects ideas about internal multiplicity and differentiation within cities which have been routine in culturally sensitive social science for the past thirty years. For example, inside his pluralist conception of justice, Michael Walzer, presents a different concept of the city when he argues 'the market is a zone of the city, not the whole of the city' which implies a multilayered conceptualization of the urban as a layered cake, a mille feuille (Walzer 1983: 109). Contrast the stolid new urban economist concept of the city as a discrete, unitary object within limits which can be understood in terms of one internal principle like agglomeration. This idea is also one that can be easily translated into city-level economic plans: thus Overman has noted that one of his achievements is persuading Manchester planners to stop thinking in terms of sectoral differentiation in their response to the Manchester Independent Economic Review (which reflected the arguments of agglomeration economics) (MIER 2009a and b). Second and even more strikingly, the new urban economists largely

ignore (though some do refer to) almost one hundred years of historiography on city rise and fall where the basis of city success is (for the individual city) complex, precarious and contingent on extra urban factors (Pirenne 1925; Hohenberg & Lees 1995; Bairoch & Braider 1991; Clark 2009). The new urban economists do not engage with any of the three main contentions from historiography on cities: first, that the history of cities is not singular but plural because there are different kinds of cities; second, that the trajectory of all great cities is of growth, decline, abandonment and recycling; and, third, that cities are strongly dependent on their political and economic hinterlands which are usually beyond the control of city politicians.

Later in this article we draw on the work of two historians, Braudel and Tilly, who provide an alternative ontology of the city where growth and decline in the aggregate of output and employment is determined externally by the city's changing relation to its hinterland outside the city walls. Prosperity is then unequally divided by internal processes related to the accumulation of wealth and the provision of necessities. This intellectual alternative is politically important because it radically challenges new urban economist preconceptions about what is controllable and manageable through policy at city level: specifically, on the long view, the governors of city growth and decline are usually in the changing hinterland and beyond the control of city policy makers. However, this conclusion does not license pessimism and defeatism if we take the argument one step further and observe that cities may be externally governed but have their own internal accelerators and stabilisers. This opens up a new policy agenda as the implication is that city policy makers could and should refocus policy on the internally controllable and specifically on the unequal division of prosperity within both growing and declining cities. We argue they can most effectively do this by taxing the social increment in land values and attending to the supply of foundational goods and services like housing, health and adult care. Our new policy agenda is to build a grounded city that is economically and politically resilient and sustainable instead of pursuing the new urban chimera of a competitive city.

The paper that develops these arguments is organised in a relatively straight forward way. The first section contrasts the current new urban economist problematic with earlier historical work by Braudel and others, where the relationship of urban centres to different 'hinterlands' explains urban growth and/ or decline in a way that is (from within the city) contingent, complex and precarious. The second section draws specifically on Tilly's work to formulate the concept of *external governors* of city success which are largely beyond city control (1990). The third and fourth sections focus on internal processes which are important because these internal processes are what city

policy makers can control. The third section argues that consolidation of revenues (political and/ or economic) from a hinterland feeds *internal accelerators* through Myrdal's process of cumulative causation (1951); the focus here is specifically on rising land values and real estate prices, where urban development allows value consolidation and extraction in processes which are both unstably cyclical and very lightly taxed. The fourth section then contrasts this barely controllable accelerator with the *internal stabilizer*, provided by a sizeable foundational economy providing (usually non-tradeable) basic goods and services like housing and health care for all citizens within the city walls. The fifth section draws out the implications of the governor/accelerator/stabilizer account of how cities work and explains how it sets a new agenda for policy on what matters and is controllable: that involves taking seriously the Braudelian/ Walzerian notion that there is more to the city than competition through markets. The issue is how to make cities more economically and politically robust, including by taxing the unearned increment in land value and focusing policy on providing foundational goods and services which secure welfare for the mass of the city population.

One word of caution before we commence: this paper should not be read as a full-blown comparative study, based on in-depth case studies, with all that entails in terms of expectations about empirical completeness and internal and external validity. Instead, the arguments are developed by drawing on a range of illustrative evidence from different cities (from Amsterdam, Paris, New York and London to Detroit, Manchester, Wuppertal and Liverpool) to paint a composite picture. This suggests how urban success and failure can be reframed in ways which open up new possibilities of policy intervention.

1. The new urban economists vs the historians: recognising the hinterland

The new urban economists have argued that agglomeration and density of (all or part of) the urban space is the dynamic which explains city growth and decline. This implies a city-centric view of the world where advantage (reflected in output and employment growth) is decided inside the city walls or within the city region and is independent of the wider political-economic context so that long-distance relations are effects not causes. As Florida (2004, pp.49-50) argues 'In the creative economy, regional advantage comes to places that can quickly mobilize the talent, resources, and capabilities required to turn innovations into new business ideas and commercial products'. By way of contrast, the historians tend to see long distance relations as dynamic causes of city rise

and fall, with change at a distance as a disruptive force that cannot be directly controlled by city policy makers. Tilly (1990), for example, highlights two different paths of urban development: in one the relation is of trade with, and production for, a hinterland and in the other, the relation is of political authority over the hinterland.

Within the new urban economist frame, there are various positions on the nature of the internal dynamic and therefore differences about the appropriate policy fix, with Glaeser taking an austere position about making markets work and Florida an altogether more relaxed line on attracting creatives. For Glaeser, density itself is the driver because 'ideas spread more easily in denser places' (2011); whereas for Florida a cadre of creatives is the basis for success (2004). As for public policy, Glaeser in true ordoliberal fashion stresses the delivery of public order through schools and police to ensure that urban markets can deliver their benefits; by way of contrast, Florida emphasizes bike lanes, WiFi, social liberalism on drugs and life styles as the attractors of creatives and hence policy levers for municipalities. In practice, new urban economics offers a menu of policies and in practice often reinforces the privileging of training and infrastructure which are the generally established ways of spending state money to make labour markets work better. Thus in the North of England, agglomeration is used to justify an emphasis on urban tramway extension within cities and improvement of links between cities to create a Northern Powerhouse from 'a collection of Northern Cities- sufficiently close to each other that combined they can take on the world' (Osborne 2014).

Regardless of position, within the new urban economist frame, the unit of competition is no longer the nation but the city or city region. In a world of variegated capitalism (Brenner *et al.* 2009), the new urban economics is thus a way of rationalizing the undeniable fact that high income countries are now regionally unequal using standard Gross Value Added (GVA) measures. For examples, the UK includes left behind post-industrial regions as well as the global city of London, where GVA per capita is more than twice that in Wales or the North-East. This difference is understood in new urban economics as a matter of competitive and uncompetitive cities. There is then a line of division between new urban economist optimists and pessimists about whether all can 'succeed' or 'perform'; and a shared assumption that cities are engaged in a competition of all against all, which justifies devices like the Centre for Cities' annual Cities Outlook tables on the 'best performing' and 'worst performing' of British cities.⁵

The optimistic new urban economist line is that all can succeed with the right leadership, embodied in Michael Bloomberg as the entrepreneurial mayor of the 'big

⁵ See for example Centre for Cities (2016)

apple' (Brash 2011). Hence, Benjamin Barber's (2013) book *If Mayors Should Rule the World* whose promise is that a federation of well-ruled cities could provide citizens with the resources needed to realize their conceptions of the good life if only national politics would get out of the way. The pessimist line is articulated by Glaeser who is tough minded about how competition means losers and that government should do the ordoliberal thing, that is 'oversee the market as an impartial umpire' (and leave the losers to fend for themselves).

Competition among local governments for people and firms is healthy. Competition drives cities to deliver better services and keep down costs. The national government does no good by favoring particular places, just as it does no good by propping up particular firms or industries ... [T]hrowing resources at troubled firms or troubled cities is usually a terribly inefficient means of taking care of troubled people (Glaeser 2011: 250).

This quotation brings out the important point that new urban economics relies heavily on metaphorical identifications which are highly contestable. A city or city region is literally not like a firm engaged in an industry of firms using similar processes to produce goods and services for a competitive market. Moreover, even on its own terms the correlation between urban performance and agglomeration and connectivity is weak to say the least. Pain *et al.* (2015) have shown that neither in Europe nor in the US is there a robust link between city size and employment growth and/ or GVA per capita, raising serious questions about the claims made by the new urban economists. But, if we want to go beyond questioning new urban economics and begin to reframe our understanding of cities we can usefully turn to the historical understanding of cities and specifically to another discourse and the work of two historians, Fernand Braudel and Charles Tilly. They present a different ontology where long distance relations of economic exchange and political authority are primary governors of city growth and decline.

Braudel's great monument is his three volume history of *Capitalism and Civilization* (1981, 1982, 1984). We have elsewhere emphasised the importance of Braudel's first volume history of early modern 'structures of everyday life' (outside the market economy) and his insistence that 'there were not one but several economies' (1981, p.23). That layer cake perception resonates, allowing us to develop an analysis of a partly non-market foundational economy producing welfare-critical goods and services like housing, healthcare and utility supply necessary for all citizens in the twenty first century (Bentham *et al.* 2013). We will return to this theme later in the article, to argue that the foundational economy is the neglected stabiliser in both successful and

unsuccessful cities. But, if we wish to set the difference between the new urban economist's 'successful' and 'unsuccessful' cities in long perspective, we must turn to Braudel's third volume 'perspective of the world' which is partly about the rise and fall of dominant cities: Venice, Antwerp, Genoa, Amsterdam, London and New York (Braudel 1984). The history of these cities is one of rise and fall through displacement within successive regional 'world- economies' which typically have a dominant city and an organising state. The model is imperial insofar as there is always a relatively small central, metropolitan site of accumulation and development and a large provincial periphery which is unequal in terms of prosperity and authority.

In understanding the mechanics of city rise and fall, we can turn to Tilly's (1990) analysis of the relation of great cities to their hinterland. The underlying assumption is that cities (and city regions) are built on their capacity to consolidate revenue from a much larger hinterland. For Tilly, there are two paths of city growth which are in effect two different relations to the political and economic hinterland (see chapters 1 and 2). The first, political 'coercion intensive' path gives us the capitals of political empires and regional centres within federal systems which are built on tax revenues. There is a second, economic or the capital intensive path, which gives us industrial cities like Manchester and Turin exporting tradeable products from their region and nation; or trading cities like Amsterdam and Singapore living off commerce and finance.

The political and economic relations between city and hinterland are of course not mutually exclusive. As Friedrich Engels indicated in *The Condition of the Working Class in England* (1844), Manchester and Lancashire's success was politically sustained and driven because its cotton factories depended crucially on British imposition of free trade on India and other long distance markets where factory goods displaced indigenous handloom weavers. British navy-secured trading routes more generally underpinned the role of London, which was for Engels the 'commercial capital of the world'. The same is true for the global production networks of today, designed to minimize costs and maximize revenues by wage cost, regulatory and tax arbitrage; the revenues of these networks are consolidated in and controlled from what are now considered as 'global cities' (Sassen 2001) or 'world cities' (Friedmann 1986). Their trade in goods and services depends on taxes, legal prerogatives, material and immaterial infrastructures including international treaties and law. In short, trade and commerce-based cities live economically in the 'shadow of hierarchy' (Scharpf 1997) and hence depend crucially on political sponsorship and protection ultimately backed by the state's monopoly of violence. Pax Americana now keeps the containers safe and sustains globalisation (D'Eramo 2015; Levinson 2006).

2. Beyond the city walls: external governors of urban growth and decline

This section aims to clear the way for a grounded city concept by establishing the basic proposition that city growth and decline (of output and employment) are usually determined by the relation of the city with the hinterland from which it consolidates revenue. Through a Tillyan lense we identify two ‘active governors’ of this process, political status and economic role which are conceptually distinct but practically usually hybridised. Our alternative to new economic urbanism is a hinterland theory of the city and, we would argue that, one way or another, politics has the leading role because it defines the hinterland.

The first governor is explicitly political, in the most traditional sense of the word, because cities have status as imperial, national, provincial capitals or as second cities or regional centres. Their status brings functions and tax revenues to sustain ministries, media, courts, company headquarters, all backed by coercion through the rule of law and ultimately state monopoly of violence. This is what Charles Tilly (1990) calls the coercion-intensive path of urban growth and its obvious metric is the extent of public sector employment in the urban economy, which is always high in the absence of other more economic drivers. In The Hague, for example, public employment captures almost half (48%) of total employment because this third largest Dutch city is the seat of national government and a provincial capital; it is also seat of the Dutch supreme court and host to more than 100 international organisations, including the International Court of Justice. More mundanely, the regional Welsh political capital of Cardiff has the highest proportion of public employment in Wales; while the regional administration of Sicily employs some 17,000 directly (with an additional 3,000 outsourced roles), accounting for 23% of public employees in all (20) Italian regions.

The second governor is an apparently economic one: much urban revenue is consolidated through the market by export of tradeable goods and services or as a result of the entrepôt location on ‘natural’ breaks in trade routes. Amsterdam, strategically located at the mouth of the Amstel, thrived by taking a clip on trade (and increasingly the financing of trade in the early modern Dutch Golden Age (Cassis 2007); it remains Holland’s largest city, with a significant commercial role including headquarters for ING and Philips. In such cases, primitive accumulation provides capital

for trade or industry and puts the city on a trajectory of growth. The process is dynamic, so that in a contemporary inflection, global cities like London prosper as command and control centres of global financial and production networks which have wiped out the older centres of industry such as Manchester or Wuppertal. This process has provided extraordinary opportunities for enrichment of elites whose wealth may have been made in one place and held or enjoyed in another, either in tax havens or in London's high-end real estate market (Atkinson 2015; Massey 2013).

In Tilly's account, location is critical because each city's degree of its integration with its hinterland (weak or strong) and its position within a Christaller-like market hierarchy (high or low) jointly determine whether a city follows a coercion-intensive or a capital-intensive trajectory. Against this, we maintain there is a general process of hybridisation of the governors where politics is usually primary because the state sets the rules of market competition and delimits the sphere of competition within territorial boundaries. The city is a politico-social construct, rather as Timothy Mitchell has argued for national economies (2002; 2007), whose size and scope are politically determined. The difference is that the Keynesian moment that Mitchell describes was sustained by the idea that national actors could manage national output and employment; whereas the central point about cities is that city actors cannot politically control a large hinterland where metropolitan city centres are often regarded as extractive and parasitic, or disregarded as part of larger calculations. Viable contemporary city states, like Monaco, Singapore or Vatican City, are exceptions defined by their control of a small dependent territory and reliance on the steady goodwill of a larger host state.

Elsewhere, individual cities are beneficiaries of, or suffer collateral damage from, state or supra national decisions and processes; such decisions are taken elsewhere for reasons of state and are often completely disconnected from city welfare. City growth is thus a precarious bricolage around default hinterland access to possibilities that arise from decisions taken outside. In our own time, what stands out is two-fold: first, the benefits of double action when political and economic governors work positively to reinforce each other, as in the case of high wage and high status employment in London as national capital and international financial centre; and, second, the vulnerability of industrial cities in high wage countries, as in the case of Detroit with its loss of blue collar employment. Detroit lost out productively through low wage global competition and had no political status to cushion these effects because Lansing is the (relocated) capital of Michigan, Ann Arbor has the state's research university and Chicago is the capital of the mid-West. These contrasting cities, London and Detroit, are considered in more detail below.

London started with a political advantage as national capital in a medium sized country which has long been unusually politically centralised around one large city. It is the centre of UK sovereign political power, concentrating public and private governance, with their ancillary services. It houses the machinery of central government and administration including 75,000 central civil servants, as well as the courts; from the private sector it has half of the FTSE 100 corporate headquarters, as well as legal and accounting services, the media and advertising and every other professional service. But the 1980s deregulation of finance in high income countries opened new opportunities, as did subsequent EU liberalisation of financial services (creating a point of uncontrollable vulnerability in the event of a Brexit vote). Meanwhile, London is the financial capital of the European time zone (GMT and CET) and ranked first on the global financial centres index (Z/Yen). It functions as a huge entrepôt market in money trade with \$1,900 bn traded daily and a similar sum of overseas assets managed from London. It houses the largest international insurance market, the largest derivative market; and it is the European capital for hedge funds and so on. Overall, financial and professional services currently employ 240,000 people in the old City of London, 74,000 in Canary Wharf and 352,000 in the rest of London (Ertürk *et al.* 2011).

Detroit is a different story. Like other industrial cities and districts in high income countries, Detroit has been wrecked post-1979 by deindustrialization. This was a result of national government-supported free trade in manufactures with low wage areas which was in the interests of their consumers (and against national producer interests and blue collar workforce). Detroit in the 1950s and 1960s prospered by consolidating revenues from the sale of cars within the USA, subject only to weak competition from European producers. But, from the 1970s, Pacific free trade agreements favoured Californian consumers of Toyotas over Detroit producers of Chevies. The big three Detroit firms and their component suppliers have lost output in a way that mechanically undermines US employment; from the mid-1980s, the proportion of the automotive sector value added accounted for by imports was above 20%, rising to around 35% after 1990. The Japanese advantage however was not build hours, as the myth of lean production suggests (Roos *et al.* 2000), but lower wage costs which in dollar terms at prevailing exchange rates were half US wage costs until the Plaza Accord engineered yen appreciation in the late 1980s (Williams *et al.*, 1992) (see Exhibit 1).

Because imported cars were highly visible, high value imports there was some debate and partial compensation in the US at the national level through the development of transplant auto production after the Plaza Accord. But the benefits of transplant

production for Detroit were negligible for political reasons: the US government was unwilling to maintain a national labour settlement and so transplant production located in the anti-union, lower wage sun belt, while domestic manufacturers were free to relocate to Mexico. As a result, Michigan lost 100,000 jobs whereas Alabama, Indiana and Kentucky each gained 30,000 jobs (see exhibit 2).

Exhibit 1. Build hours and labour costs in the motor manufacturing sector, US and Japan.

	Build hours per vehicle	
	US	Japan
1970	189	254
1975	174	176
1980	202	139
1985	155	139
1989	170	132
	Employee labour costs per hour in the motor manufacturing sectors, in US \$	
	US	Japan
1980	12.67	7.40
1985	22.65	11.15
1990	20.22	18.03
1991	21.24	21.24

Source: Williams *et al.* (1994).

Note: build hours per vehicle are calculated as annual vehicle production divided by sectoral hours (no. of employees multiplied by hours worked).

Exhibit 2. Japanese auto assembly plants in the US, 1982-1990

Table 2: Japanese auto assembly plants in the US, 1982-1990

	Location	Start date	1990 production level Units	Capacity (1990) Units	Unionised
Honda	Maryville, and East Liberty, Ohio	1982	435,437	360,000	No
Nissan	Smyrna, Tennessee	1983	235,248	265,000	No
NUMMI (JV -GM and Toyota)	Fremont, California	1984	205,287	240,000	Yes
Mazda (JV with Ford)	Flat Rock, Michigan	1987	184,428	240,000	Yes
Diamond Star (JV - Chrysler and Mitsubishi)	Normal, Illinois	1988	148,379	240,000	Yes
Toyota	Georgetown, Kentucky	1988	218,155	200,000	No
Subaru-Isuzu	Lafayette, Indiana	1989	66,950	120,000	No
TOTAL			1,493,884	1,665,000	
of which unionised			538,094	720,000	
			36.0%	43.2%	
Source: Monthly Labor Review, Feb 1992, Bureau of Labor Statistics http://www.bls.gov/mlr/1992/02/art2full.pdf					

The conceptual (and practical) implications of such developments are potentially large: we summarise these in three key points. First, the new urban economist disparagement of cities like Detroit (Glaeser 2011, Ch 2) as uncompetitive and unentrepreneurial is an exercise in blaming the victim, because it is wrong to suppose that all cities can be successful if they only apply the right local interventions under the right municipal leadership. Second, and more important, there is no one immanent, internal principle like agglomeration with competition which explains urban growth and decline. History is not an accident and it would be wrong to say that city growth and decline is a matter of luck. But the process is contingent insofar as the most important governors are external and usually depend on politics in an uncontrollable hinterland. From this point of view, the historical accounts of the fall of Italian city states may be more relevant in the present day than heroic stories about mayors. Because city trajectories are not internally controllable, it is difficult to predict and plan for changes in localities within a city. This is underlined by an interesting micro study by the Hayekian economist William Easterly into the economic use and reuse of a block in South Manhattan (NYC) over almost two centuries (Easterly *et al.* 2015): most recently, the arrival of artists in the 1970s is followed by gentrification.

Third, if cities are a kind of historical bricolage, precarity is inescapable because all cities are vulnerable in their own way, and past successes are no guarantee for future success. This is so even for places like London and New York, whose continuing success as financial centres to date reflects massive capital injections by tax payers, followed by

Comment [1]:

(or, more recently, south-Italian ex-capital cities, such as Naples and Palermo)

even larger (but unsustainable) liquidity injections by central banks. Distinctive combinations of governors put cities onto specific trajectories but secondary effects from internal accelerators and stabilisers ensure that the identity of winners and losers, successful and failed cities becomes blurred. Success or decline are not straightforwardly and exogenously determined: both growing and declining cities have their problems and opportunities. These accelerators and stabilisers, which originate inside the city, are explored in the next two sections.

3. Inside the city walls: the accelerator of property values

If urban growth and decline depends on external governors, that does not imply that what happens inside the city walls is irrelevant. In understanding these processes, we revert to the idea of 'cumulative causation' which allows us to conceptualize what happens outside and inside and their interaction effect. Gunnar Myrdal famously described 'cumulative causation' as follows:

The system is by itself not moving towards any kind of balance, but is constantly on the move away from such a situation. In the normal case a change does not call forth countervailing changes but, instead, supporting changes which move the system in the same direction as the first change but much further. Because of such *circular causation* as a social process tends to become *cumulative* and often gathers speed at an *accelerating rate* (1957, pp. 12-13 [our emphasis]).

In systems theory language, 'cumulative causation' is about positive and negative feedback loops between inside and outside, which create distinct causal pathways, referred to by Myrdal as 'backwash effects'.

When applied to cities, cumulative causation suggests that revenues from the hinterland are consolidated within cities before getting circulated internally so as to generate internal GVA growth as well as asset appreciation, particularly land value and real estate prices. The accelerator works through circular flow with multiplier effects in successive rounds when revenue circulates several times inside the city walls as it meets demand at the level at which it becomes valorised. Thus, the success of great cities is manifest in high-end restaurants, retail and flagship stores, while failed cities are given away by discount stores, cheap fast food and pawn shops. Cumulative causation means winners take socially exclusive and desirable activity while loser cities are positioned down market.

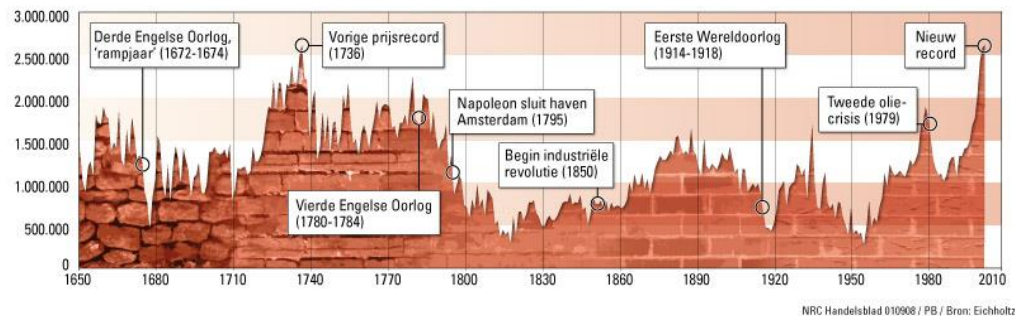
On the capital side, therefore, we have the unearned accelerator from the process of urban development which attracts high income investors as well as developers or speculators. This boosts land and property values and rents which create new rental income sources and income withdrawal possibilities, which both boost private consumption. Where cities can capture some of this activity through local tax revenues (and philanthropy) this provides a reinforcing effect through creation and/ or maintenance of the public realm and civic amenities, including open spaces and cultural facilities, which poorer cities cannot afford.

What Crouch (2009) describes at the national level as property-based ‘privatized Keynesianism’ is (without derivatives) the story of every city. Large scale development creates an internal property-based fund of value which is usually not taxed effectively and is generally a source of *longue duree* cycles of boom and bust, triggered by external shocks, especially political events. Exhibit 3 shows the real estate values (in real – inflation-adjusted – terms) of a block of houses constructed along one of the canals of Amsterdam in the 17th century. The graph strikingly highlights how the ups and downs are caused by external events, creating ‘undeserved’ losses in between periods of ‘windfall’ gains.

Exhibit 3 Property values in Amsterdam, 1650-2010

Hoogste huizenprijzen in bijna drie eeuwen

Prijsontwikkeling woning aan de Herengracht die nu 2,6 miljoen euro kost, teruggerekend tot 1650, gecorrigeerd voor inflatie



Note: the data comes from historic data on real estate transactions along the Herengracht canal in Amsterdam, allowing the creation of a long run house price index. See Eichholtz (1997) and Ambrose *et al.* (2012) for more details.

In this way, propulsion from internal sources becomes the principle of life for cities that can benefit from the accelerator of primary revenue flows from external sources. In this respect, what we call city economies move rather like those species of sharks (great white, mako and whale) which die from lack of oxygen if they stop swimming. As long as primary revenue flows keep entering the city, then secondary accelerators through property will work predictably; but if that primary circuit fails then things quickly turn bad because it is then difficult to prevent reversal into deceleration. Just as rising land values and over spilling development are a driver of city growth (as we see in London), one major effect of decline is derelict buildings and wasted open space (as evident in the deserted neighbourhoods in the former Motor City, Detroit).

This explains why private developer-led urban regeneration is so popular today. If the governor is external, the only way municipalities in an age of austerity can keep the flywheel of internal revenue acceleration going is through real estate development, dependent on private capital to drive up land values and real estate prices. City councils in the age of austerity post-crisis are generally short of resources to deliver services but can grant planning permissions to rebuild their city centre so that it earns more revenue and brings in newcomers of a socially desirable sort. Post-1980s, deregulated cheap credit makes commercial projects fundable and profitable; and after the crisis cheap credit and liquidity from central banks (QE) countered any slowdown. The process is (up to a Minskian point of over borrowing) self-validating because central city property is a usually reliable source of increasing rentals. The process also provides opportunities for unearned gains by anybody with property, creating significant pressure on politics and regulators to keep credit cheap; this also explains the political willingness to accommodate bankers' complaints about capital ratios which constrain lending (Aalbers & Engelen 2015).

In the 1960s Jane Jacobs famously criticized municipally-led modernist planning for its failure to heed the economic and social 'needs of cities for a dense, intricate and close grained diversity of uses' and cautioned 'that we expect too much of new buildings and too little of ourselves' (1961). In a twist on Jacobs, private developer-led regeneration now plays the same role in delivering private new towns in central city districts. The elements are always the same because FLOR, or flats, leisure, offices and retail, usually generates the highest return. And city centres look increasingly alike because the modernist failure of imagination is reproduced in a new register, the modernist towers are now ironic; faux vernacular pitched roofs top steel framed waterfront buildings and every mean flat has a balcony. The only variability is in the social formatting, which always excludes poor, native city residents but changes according to the status of the

city and the new town population it can attract. (Central) London is as Burrows *et al.* (2016) describes it, the plutocratic city with Thames-view high-end flats for the global rich with several homes. Manchester is a more of a junior white collar city with private developers redeveloping derelict brown field directly adjacent to city centre for buy-to-let one or two bedroom flats priced at £150,000 or below. Amsterdam is in the middle when the city council has recently granted permission to private developers to build 50,000 new units in ten years within the beltway.

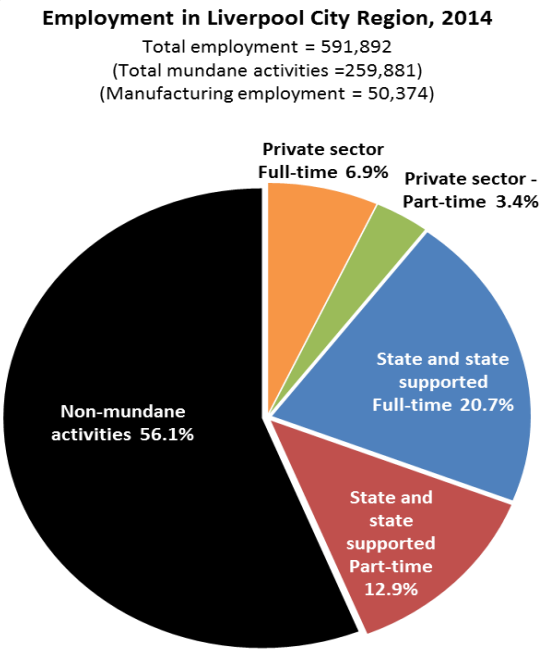
In all large cities, high-end residential districts and overcrowded slums have coexisted with ecological segregation and gradations in between as classically mapped by Booth in *Life and Labour of the People of London* (1903). Property developer-led regeneration reworks this internal segregation and creates new forms of spatially-articulated socio-economic polarization (Dorling 2014). This also reinforces intra and inter-regional variegation because property developers largely avoid the peripheral suburbs of major cities and sites of de-industrialisation, as in secondary Northern English towns like Bolton, with more than 100 textile mills constructed pre-1920, with a total of 1.4 million square metres (Bolton Council 2007). Many of these are under-used (occupancy is estimated at 53%) and few are being converted into flats. Even where FLOR-based regeneration works for the developer and property owner it tends to be conjunctural and precarious: economically because property prices are likely to crash if interest rates eventually rise from their post-2008 low levels; and socially because rising property prices are meanwhile making cities like London and New York increasingly unaffordable for the ordinary middle classes. Hence the importance of internal stabilisers.

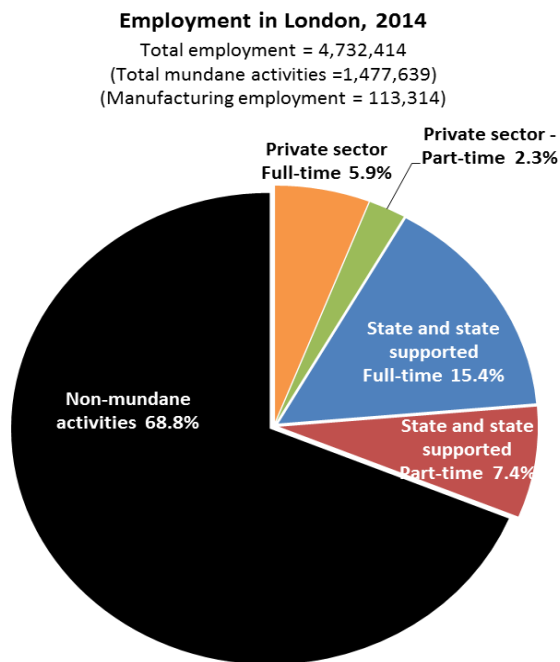
4. Inside the city walls II: the foundational economy as stabiliser

In all cities an infrastructure of networks and branches distributes foundational goods and services consumed by the whole population and necessary to the welfare of rich and poor alike. In a high income country, these will include education, health and adult care, pipe and cable utilities, food and retail banking (see Bentham *et al.* 2013). The focus on competitiveness has encouraged a preoccupation with what is tradeable and glamorous and a neglect of these foundational activities which are both sheltered and mundane. But they are important in themselves because the welfare of the city population always depends on reasonably priced access to goods like decent housing and utility supply. They also act as an important buffer and stabiliser of the city economy because the foundational is a significant and steady element in many kinds of

city throughout history. In current times, in deindustrialised cities, foundational activities sustain a core of employment after tradeable goods production has collapsed; as for growing high income cities, they may tap external revenues but cannot do without their foundational goods and services; while cities in developing countries will be working round problems of foundational access and charging issues when many citizens do not have utility supply and health care. In high income countries, foundational activities account for approximately 30 to 50% of every city's output and employment. Exhibit 4 presents an illustration for the British declining city-region of Liverpool, where mundane foundational activities make up 44% of total employment; even in the capital city, London, which is the embodiment of growth and a magnet for the world's rich, foundational activities still account for 32% of employment.

Exhibit 4 The significance of foundational economy employment in Liverpool and London, 2014





It is paradoxical that foundational activities and their important role are largely invisible for the new urban economists for whom cities are quasi-natural modes of human habitation, just as the market is the natural mode of exchange for economists. The new urban economists define the city as agglomeration where connection is a key process: for Scott & Storper, cities are 'dense agglomerations of people and economic activities' (2015: 4); and, for Glaeser, cities are 'a mass of connected humanity' (2011: 43). But, within the new urban economist framing, the connective elements are considered very narrowly and economically as what makes the (labour) market work better: in the prosaic version, this is schools and rail transit systems or in the herbivore version bike lanes and a gay night life. Welfare critical social infrastructure, like the 400,000 beds in UK residential homes for the elderly, is quite invisible and much of the heavy infrastructure like sewer systems and household waste processing is taken for granted.

Against this background, we would advance our alternative definition of a city as a space where the welfare of the whole population depends critically on complex and often capital-intensive foundational delivery systems. The village needs only a tarmac access road, a bakery and a butcher with some basic amenities for each dwelling; the city needs a networked rapid transit system of electric trains and trams with timetabled services at low prices and a logistically complicated chain that brings foodstuff to its citizens and collects and manages its waste. The functions are the same but the city

involves a quantum leap in terms of technical and logistic complexity where the engineering of systems is mixed up with pricing decisions, tax subsidies and larger political decisions about whether to provide services like health and education as public goods which are free at the point of use.

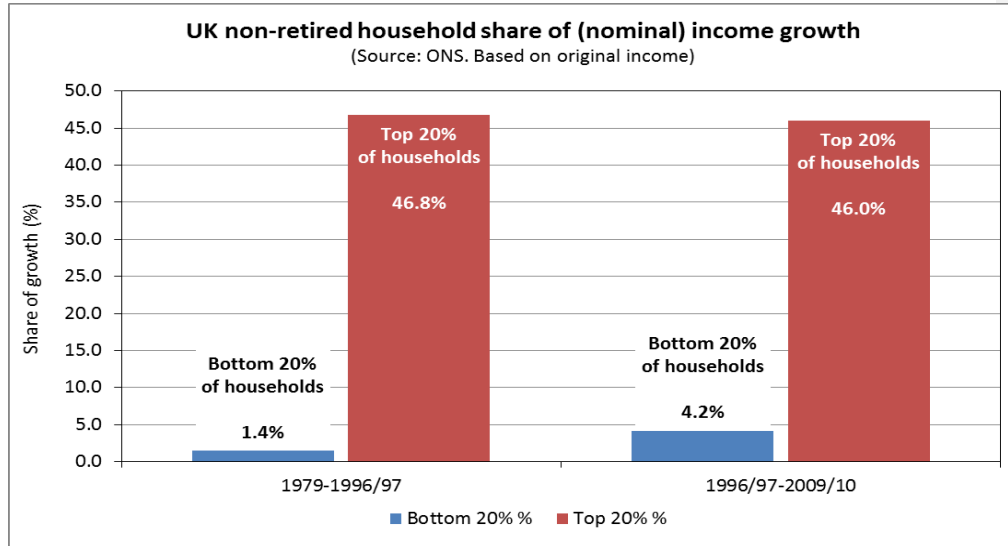
On the basis of this alternative definition we can see that foundational provision matters practically because many cities have not solved their diverse foundational problems. Welfare of citizens depends on a broad distribution of affordable foundational necessities of decent quality, but both successful and unsuccessful cities have difficulty in making this provision. The form of the foundational problems varies from city to city depending on land prices (high or low), the availability of land (large or small), political organization (centralized or decentralized), available urban tax revenues (high or low) and the arrangements for provision of social services (local or national).

- Growing and successful cities often generate unequal access to foundational goods, instead of providing every resident with a minimum standard that is good enough. Income from employment is unequally distributed and rising incomes do not in themselves solve the problem of access to housing, adult care, childcare and education, which require public planning and provision and social innovation. This can be seen in the case in London where schools have been improved but the average price of a house is £500,000, social housing is being sold off and expenditure on adult care has been cut back.
- Failing cities have difficulty in funding the foundational because of a collapsing tax base due to declining income and increasing expenses in the form of unemployment benefits and social support. The point is that city managers cannot postpone delivery of foundational services like adult care, education, housing, police and fire service, waste collection and management; while physical rationing, means-testing or residual public provision are problematic when services are needed across the city and on an ongoing basis. As a result, unsuccessful cities like Greater Manchester are dependent on tax transfers from the national treasurer, receiving more in national government expenditure than they receive in local taxes.
- Moreover, in many cities foundational services have been privatised or outsourced to financialised providers in ways that complicate matters. In the UK, the utilities could be privatised because they had paying customers; while waste management, adult care, child care and much else were outsourced to private

providers who were funded by tax revenues (Bowman *et al.* 2015). As argued by Burns *et al.* (2016), in adult care the result is opacity and tax avoidance as public service revenue is clipped by financial engineers who seek returns on capital of 12% in what should be a low risk, low return activity: and a co-dependent state loses sight of the basic issues about accessibility, innovation and quality of service provision.

The city's perennial and changing problem is about mass access to welfare and the distribution of welfare amongst the city population. These issues are obscured by current metrics and, specifically, the adoption of aggregate activity measures (not distribution measures) as the yardstick of city and city region success and failure. Standard activity measures include GVA (per capita), employment growth, population size, new business formation and inward investment. Hence, the UK Centre for Cities' widely-reported league table, which ranks 64 UK urban areas by four activity indicators - population growth, net job creation, number of new businesses and housing starts - with just a nod to distributive issues and fairness through some attention to affordability (Centre for Cities 2015). Within Europe, the super-ordinate activity measure is regional GVA which is a legal requirement of Eurostat, the European Union's statistical agency (ONS 2015). GVA per capita is an output measure whose rise can conceal a skewed distribution of income from employment which structures market demand and supply-side failure of provision of social housing and the many other foundational goods and services which require planned provision. In countries with deregulated labour markets and downward pressure on wages at the low end of the wage scale where there is significant immigration of workers, very little of the city's success actually ends up in the wage packet of the bottom quintile of households. As Exhibit 5 indicates for the UK, almost half of the income gains between the mid-1990s and 2010 ended up in the wallets of the top 20% of households, with the bottom 20% gaining a mere 4.2% share.

Exhibit 5 Beneficiaries of UK income growth, 1979 - 1996/97 and 1996/97 - 2009/10



It is entirely possible to change to metrics that included a dashboard of tangible welfare indicators (like social housing new builds and housing waiting lists) and in that case we would see that success and failure as defined by GVA is much less important to urban residents than policy makers assume. In this case, we need a policy reset and a new language for thinking about good cities, which invokes values like security, robustness, protection and inclusion. This is explored in the final section of the paper.

5. What to do? From competitive cities to well-grounded cities

The argument so far has implications for a shift in the policy agenda. The new urban economists provide intellectual cover for the current orthodox city and city region policies of supporting skills training, infrastructure projects and inward investment, whose neo-mercantilist aim is the competitive city. Our alternative hinterland analysis starts by accepting that external governors cannot be controlled at city level and that policy should therefore focus on the stabilizers and accelerators. Specifically, city policy should aim for a more robust city by providing foundational goods and services for the mass of the population and taxing the unearned increment in land value. The shift is away from a focus on city vs city competition to capture mobile resources and towards a different focus on mass welfare through using immobile and internal city resources.

At present, cities and city regions in Europe and North America pursue fairly standard policy mixes of disclosed and undisclosed policies. The explicit public policy is to boost skills through education and invest in infrastructure to extend the area of agglomeration. Thus, in its 2014 program the Welsh Government for instance stated as its goal the construction of 'a skills system in Wales that supports our future competitiveness' (Welsh Government 2014, p.4); and the Cardiff city region gets a metro project to put Treherbert – a former coal mining community at the head of the Rhondda Valley, some 42km from the Welsh capital - within 30 minutes of Cardiff.

This common focus on improving skills and infrastructure is backed by a supplicant posture towards foreign firms and investors bringing inward investment. A case in point is the Amsterdam Economic Board, a private-public partnership whose membership consists of local political and economic elites. City marketing is the name of the game for the Board which sells the city to foreign investors as a 'gateway to Europe'.

In parallel there are the undeclared city and regional planning policies which privilege private developers of FLOR – flats, leisure, offices and retail - through planning permissions, land deals and financial sweeteners, with no questions asked about tax avoidance, financial engineering or long term sustainability.

The national context is also relevant because post-crisis austerity cuts put pressure on national settlements that used to redistribute from successful cities and localities (the south-east in the UK, the 'Randstad' in the Netherlands, the Po Valley in Italy); this is reinforced by the way in which cities like London, Paris and Amsterdam have claimed national champion status.

This neo-mercantilist vision is coherent but almost certainly not realisable through its preferred policy fixes. Better education and connectivity through infrastructural investment are desirable goals in themselves, and will be welcomed by private business, but these policies are not powerful levers for raising GVA in laggard cities and regions. There is no evidence that improving education attracts mobile firms; there is considerable evidence that tax and other sweeteners do, but these have to get larger and larger to remain effective. As for infrastructure improvement, that is usually justified by the middle class standard of journey time saved, not the more relevant standard of fare affordability. The Thalys shaves 90 minutes off the trip from Amsterdam to Brussels at a premium of €40 for a one-way ticket; fine for a Brussels-based lobbyist, but too much for an average commuter. Similarly, Oldham to

Manchester city centre takes around 30 minutes by tram but costs £5.40 for a return ticket which takes the first hour's wage for precarious workers (the new 'servant class') who in retail and hospitality often work short, irregular shifts on zero hour contracts.

Moreover, neo-mercantilist policies are generic so that everybody pulls the same levers hoping for the same effects, which must mean that many efforts at city self-improvement either cancel each other out or result in a race to the bottom with financial sweeteners to attract inward investment. The failure to conceptualize the dependence of cities on external governors and decisions taken outside the city walls may also be counterproductive because it encourages hubris and complacency based on a false sense of security while specific foundational problems remain unaddressed. All this raises the question of whether the competitiveness framing and neo-mercantilist policies are a way of changing the world through reducing inter-city inequalities, or are instead a way of rationalising the multi-faceted, growing inequalities within high income countries (Piketty 2014; OECD 2015). The sub-text message of standard policy is that the successful are enjoying the 'well earned' rewards of the right kind of density and agglomeration and the unsuccessful have been told what they need to do.

Hence we propose a practical alternative under the heading of the 'well-grounded city', which we define as a city which manages the mundane, sheltered activities of the 'foundational economy' for the benefit of all citizens to ensure their material well-being, security and cultural participation. There is scope here to turn the city stabiliser into a real lever for welfare improvement: the welfare of every city population depends very directly on the provision of an adequate quantum of foundational goods and services that are priced (or fully de-commodified) so that they are accessible to everyone. As we indicated above, every city has foundational problems because economic development and rising income transform rather than abolish these problems. Brazilian favelas or African shanty towns have issues about lack of sanitation and paying for electricity, while London and Paris lack reasonably-priced family housing for lower income workers with jobs in the central city. The solution is not growth, jobs and a pious hope for redistribution of income, but practical reorganisation for material security in a grounded city.

Practical reorganisation has to start by engaging city specifics and delivering locally-relevant betterment because each city has a bundle of very particular needs, resources and opportunities. Different topographies and histories, different levels of income and inequality, different means of delivering (and financing) foundational goods and services, and different existing infrastructures all mean that London is not Amsterdam,

Wuppertal is not Manchester, and Liverpool is not Johannesburg. Foundational policies thus have to start from some measurement of local foundational deficiencies and how best to serve the basic needs of all and tie rich and poor alike into a new city-level social contract. This means the priority could be lowering transport fares in one city, providing de-commodified childcare in another, and good social housing for all in the next. Instead of the ostentation of iconic buildings and grand projects everywhere, grounded cities would invest un-showily in locally-relevant ways, for example, in modest but energy-efficient family houses in unremarkable urban districts with attractive and safe public spaces and services. Grounded cities would balance a concern with high-tech like broadband with improvements in what we usually take for granted, like the buses everywhere used by the poor or 19th century underground drainage systems. Recall Richard Titmuss' principle of 'anti-discrimination', based on the insight that services for the poor always end up being poor services (1976). This means decent housing along the lines of 'red' Vienna anno 1920/1930 (Novy 1982), not Parisian second rate housing for the poor in the banlieus since the 1970s.

The grounded city focus would replace the fixation on technical innovation for productivity gain along with GVA or GDP as the measures of city achievement. Technical innovation was the fetish of the 20th century industrial city with suburbs built around private cars and electricity distribution from fossil fuels. Productivity gain and income increase was relevant when steady gains were broadly distributed; but as Piketty (2014) and Gordon (2016) have shown, those twin assumptions can no longer be taken for granted in the twenty first century. *Social* innovation which meets basic need is the motto of the grounded city. The grounded city presses social innovation, for example, by tackling problems of adult care in an era of weakening family ties and ageing populations. To our knowledge, no 'world city' has model arrangements for care of the elderly; that is certainly a challenge to our ingenuity and a litmus test of our civilization, like the quality of public school meals or childcare. If the foundational in the well-grounded city is specific and local, it can be relatively easily scaled up towards a more encompassing national and international vision of a society that is fairer to all, along the lines suggested by Roberto Unger (2015). And this leads towards a new dashboard of measures to determine policy success, drawing inspiration from the work of Amartya Sen and Martha Nussbaum on a plurality of basic capabilities which have 'reiterative universalist' characteristics in that they are needed by all while their quantity differs over space and time (Nussbaum & Sen 1993).

A policy shift from competitiveness to strengthening the foundational has quite specific economic and political conditions of possibility. Above all in the sphere of taxation,

because mass welfare requires a large tax base intelligently spent on public goods and services. Here it is essential to break with 'race to the bottom' tax cuts and instead find new ways of raising tax, especially taxing land values in growing cities, and defending national settlements around declining cities. The starting point has to be a break with the competitive city strategy of cutting tax rates and handing financial sweeteners in the hope of attracting and retaining mobile big business. Instead, the political line in the grounded city should be that all businesses draw benefits from the city's social overhead expenditures on everything from education through law and order to roads; and businesses should in return pay a fair share of their costs. From this point of view, the most valuable private businesses are those like utilities and supermarkets whose networks and branches root them in the city so they can be subject to social license (Bowman *et al.* 2014).

More positively, our accelerator analysis shows how and why grounded cities need different approaches to taxation, including land value tax. This basis for taxation has been discussed since re-modern times and was popularised by writers as diverse as Adam Smith (1776) and (particularly) Henry George (1879) whose argument that rents on natural resources should be captured for the benefit of society became known as *Georgism*. However, despite much interest in principle – indeed Arnott and Stiglitz (1979) argued that optimal city size could be determined based on land value tax- this has led to only limited and generally isolated experiments in practice. The general argument for taxing land rests on the idea that, for owners, increases in the price of land and property are an unearned increment and windfall arising from urban development and the specific investments of others, especially public bodies, in infrastructure like roads and railway stations. A land value tax allows for part of this gain to be taxed away to provide a social return for the city which generated the increment. No one form of taxation provides a simple answer to complex problems; there are limits to stand alone city policies because some declining places, like Detroit, Liverpool or Wuppertal, face problems that cannot be solved from limited local fiscal sources, whatever the tax base of the city council. Nested levels of government, subsidiarity and institutionalized forms of solidarity on the basis of shared identities become more not less important in the era of the well-grounded city. Glaeser sees such transfers as a waste of resources but we see them as a buffer which allows the foundational to keep functioning so that the city and its inhabitants can survive another contingent cycle of boom, bust and, perhaps, boom again (Engelen & Musterd 2010).

All this implies a shift from framing the private sector as the sole source of enterprise and dynamism and instead recognising that privatisation, outsourcing and business-

friendly regulation have given big business rights without responsibilities; while financial engineering applied to taxpayer-funded cash flows encourages rent seeking and high returns at the expense of the taxpayer. Instead we should strive to re-communalize or remutualise utilities and the foundational more broadly, along the lines of the municipal socialism of the 1920s. And cities like Vienna (for housing) and Hamburg (for utilities) provide us with interesting templates of how to do this (Novy 2011; Hall 2012; Provost and Kennard 2014). More generally, within a new politics the public and third sectors are a source of experiment and legitimacy; only cities and city-regions possess the financial resources, the local knowledge and the democratic legitimacy to demand and sensibly lead large scale social change which takes us towards the grounded city.

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