

The City of Business: the Functional, the Relational-Cognitive and the Hierarchical- Distributive Approach

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ABSTRACT

Purpose: The main purpose of the paper is to highlight some limits of the traditional theoretical interpretation of the relationships between the city and economic activities. This interpretation usually makes reference to two elements: agglomeration economies, cumulatively generating gains in efficiency and consequently in competitiveness and attractiveness and external connectivity, linked to multiple networks of both physical and immaterial nature. This approach, mainly functional and geographical, nowadays looks quite reductionist and overlooks crucial aspects of the urban realm that explain urban economic success. The first aspect concerns the social and cultural nature of the main interpersonal and inter-institutional relationships taking place inside the city, conducive to crucial processes of cooperation, collective learning, creativity and innovation. In addition to this, the growing concentration on (mainly large) cities of command and control functions which not only witnesses the presence of their political power – underlined by a growing literature in geography and political science – but also widely determines income distribution in space, at the local, national and global scale. The functional interpretation of the city should be complemented by a relational-cognitive and hierarchical-distributive approach. The latter one is particularly interesting for the interpretation of the development of ‘monopolistic’ cities which operate on economic functions in which they can benefit from a captive market: capital cities and art cities in particular.

Methodology/Approach: While the first part of the paper is mainly theoretical, it presents also an empirical side in the second issue, namely the destiny of medium-sized cities. The last section of the paper concerns a logical turnaround: ‘cities as businesses’ where high surpluses are generated in the real estate field,

taking advantage of the economic success of the cities themselves and appropriating a consistent share of the generated profits in the form of land rents.

Findings: The traditional view is that medium-sized cities cannot take full advantage of agglomeration economies and therefore will necessarily show lower growth rates in the long term. This paper argues against this view, on both theoretical and empirical grounds, looking at the evidence of European cities in the last twenty years. In many countries, this process should be more appropriately taxed in order to allow sustainable and socially equilibrated development: a fairer sharing of these surplus-values between private and public parties is justified by the collective nature of urban externalities.

Originality/Value of paper: The implications of the arguments presented here are relevant on both the interpretative and policy ground. The sources of urban economic success are not linked only to functional or efficiency elements but also to cultural-psychological and to power elements. The former ones require subtler policy strategies and the latter more appropriate policy tools oriented towards the widely ignored challenge of income distribution in space.

Category: Research paper

Keywords: interpretation of cities; agglomeration economies; urban competitiveness; income distribution in space; large vs. medium cities

1 INTRODUCTION

From the beginning of history and civilization there have been cities where the organization of human activities were not linked to primary or natural resources, in strict relationship with the complementary spaces, the ‘countryside’. Cities “were born from the most ancient and the most revolutionary division of labour: countryside and agriculture on the one side and the so-called urban activities on the other” (Braudel, 1979, p. 547; author’s translation). He goes on to say that “cities are kinds of electrical transformers: they emphasize tensions, accelerate exchanges, continuously stir human lives” (ibid.). Between these two archetypal spaces, profound relationships were established. While cities provided the knowledge and tools, the countryside provided the food for the survival of cities. This was produced in addition to the necessities of rural people (Jacobs, 1969). These relationships were never just functional ones as they implied a mutual dependency. There was the subsistence on one side and productivity-enhancing inputs of an institutional, economic and cognitive nature on the other. These were easily exploited by the stronger partner in terms of control and income distribution (Camagni, 1992).

Business, viewed in the widest sense as the production and exchange of goods and services, and cities have always been inseparable. The urban context has supplied the necessary preconditions for economic success. In other words, the internal labour and goods markets, long-distance and nowadays global

accessibility, fast information circulation, density of knowledge-intensive services and last but not least, the presence of power élites.

The aim of this paper is to highlight this natural linkage between business and the city today. It intends to highlight the relevant natures and roles of cities and therefore the theoretical conceptualizations that are more appropriate in interpreting this mutual attraction.

On the economic front, although not including the last 60 years of regional science, economists were traditionally reluctant to include space (and cities) as a relevant dimension of the economic process. Rather, they favoured the dimension of time. Even in the case where the urban context was examined – for example in the “new urban economics” of the 1970s and 1980s - it was mainly examined through the application of the economist’s method and tools to the city. This was done in preference to an analysis of the ‘urban’ as an original organizational model of economic and social activities and an interpretative paradigm of reality (Camagni, 1992). For a long time, the analysis of the economic advantages of the urban context relied upon functional interpretations in terms of agglomeration economies and external network linkages. It has only been recently that this reductionist approach has been overcome and replaced by the inclusion of the relational, cognitive and hierarchical dimensions of the urban “milieu” (Crevoisier and Camagni, 2000; Camagni, 2001; Cusinato, 2016a). This is called here the cognitive and cultural paradigm. These dimensions, going beyond the purely functional ones, have enabled the consideration and interpretation of such processes such as innovation and creativity, territorial control, spatial division of labour between the city and countryside as well as the social and also spatial divide likely to emerge as a consequence of the development of the new cognitive and cultural paradigm.

However, it has not only been the economists that have overlooked the original role of the urban context and denied the possibility of a generalization of the ‘urban’ as a socio-economic nexus. Geographers and scholars who are tied to the idea of a multiplicity and differentiation of cities (Abrams, 1978) argue that no relevant Marshallian and ‘milieu’ effects come from agglomerations (Amin and Robin, 1991; Amin and Thrift, 2002). On the other hand, other geographers and scholars have argued that “agglomeration as process and outcome goes far beyond the question of the technical foundations of economic geography, for it is a quasi-universal feature of human existence” (Scott and Storper, 2015, p. 6). In short, this group argues that agglomeration is too persistent a phenomenon in history to be just a casual outcome of spatially diverse forces. As Braudel says, “a city is always a city, wherever located, in both time and space. (...) Cities speak necessarily the same fundamental language: their continuous dialogue with the countryside, the first requirement for daily life; the provision of people (...); their self-respect and willingness to distinguish from other cities; their necessary position at the centre of short and long-distance networks; their relationships with suburbs and other cities” (Braudel, 1979, p. 548, author’s translation).

Those of Marxian heritage deny theoretical autonomy to the urban context and downgrade it to the mere stage on which history, capitalism and class struggles act. In fact, the extraction of surplus-values from labour and money circulation have little to ask from the spatial dimension. A Lacanian psychologist and a sociologist spoke about the city as a “hollow form beneath which history develops”, recognizing that “we too did not escape this contempt and spoke about the ‘city’ to mean social production relationships, productive forces, capital and even State” (Fourquet and Murard, 1973, p. 36, author’s translation). The Marxist literature focused on the late Marx of *Das Kapital* would have naturally ended with this same conclusion. However, a much more interesting inspiration would have come from the consideration of the young Marx of the *Economic and Philosophic Manuscripts of 1844* and more particularly of the *German Ideology* where the “contradiction” between the city and countryside is presented: “The greatest division of material and mental labour is the separation of town and country. This antagonism begins with the transition from barbarism to civilization (...) and runs through the whole history of civilization to the present day” (Marx and Engels, 1970, p. 49).

Within the Marxist tradition, it is also possible to find signs of self-criticism about overlooking the relevance of space and the urban milieu. As David Harvey wrote, “urbanisation has always been about the mobilization, production, appropriation and absorption of economic surpluses. To the degree that capitalism is but a special version of that, we can reasonably argue that the urban process has more universal meaning than the specific analysis of any particular mode of production” (Harvey, 1989, p. 53).

This paper deals with the interpretation of the economic role of the city and the nature of its relationship with business at large. The recent evolution in the interpretation of cities will be examined first in section 2. This will show how a purely functional and geographic approach would be a reductionist one. Rather, it should be complemented by a relational-cognitive approach, emphasizing collective learning and cooperation processes and by a hierarchical-distributive approach, underlining command and command functions and their influence on income distribution between the two spatial archetypes; the city and the countryside. A second, related issue answers the questions; which city-sizes are we speaking about? Can we agree that mainly large, extra-large and mega cities are the drivers of economic development today? Can we accept that agglomeration economies mean not just a superior efficiency of large cities but also a superior potential for growth? Are there different elements, beyond pure size, that can drive urban development? These will be addressed in section 3. In section 4, monopolistic cities are examined. These are those cities that, by history, nature or human decision, host some specific and rare assets and functions. They benefit from a captive market but also suffer from lower incentives to ameliorate and innovate. In section 5, a different perspective is proposed; the city as a business. This analyses the flow of real estate surplus-values which follow from urban transformations and which turn continuing

changing urban externalities into land rents (in many cases hardly hit by local taxation). Some conclusions, both theoretical and policy-oriented, follow in section 6.

2 THE ROLE OF CITIES: THE FUNCTIONAL-GEOGRAPHICAL, THE RELATIONAL-COGNITIVE AND THE HIERARCHICAL-DISTRIBUTIVE APPROACH

Which characteristics of the urban environment attract business, and in particular modern industry and advanced service activities? Which roles may be specifically assigned to the city and what particular form do they assume in present times? The widely-accepted answer to this question points out the following two elements: “one of the central features of urbanization has always been its efficiency-generating qualities via agglomeration” and the fact that “cities have always functioned as nodes in systems of long-distance trade” (Scott and Storper, 2015, p. 5). Agglomeration economies account for the possibility of exploiting scale economies in production and local public services, numerous positive externalities linked to the development of a large and diversified pool of specialized labour, easy inter-personal communication and pecuniary externalities due to the presence of diversified ancillary industries and subcontractors, urbanization economies coming from the presence of public spaces, services and infrastructure. The presence of efficient external transport and communication networks allow accessibility and global connectivity. Most of these advantages are likely to counterbalance and overcome the diseconomies coming from congestion, emissions, social conflict and higher land prices of the larger cities. In a previous paper, this author labelled this view as the result of a functional approach, considering the double geographical dimension of places and networks (or stocks and flows) (Camagni, 2001).

This functional-geographical approach is by no means sufficient to account for the profound nature of cities. In fact, it should be complemented by two other approaches that could be indicated as the relational-cognitive and hierarchical-distributive approach. The first approach refers to the city as a ‘milieu’. In other words, a system of actors and activities characterized by the high density of relationships; the sharing of languages, behavioural and cognitive codes, values, representations and a sense of belonging. All these characteristics facilitate cooperation, synergies, ex-ante coordination and collective action for the private supply of commons, reduction of uncertainty through socialized transcoding of information and last but not least, processes of collective learning (Camagni, 1991a and 2001). Emile Durkheim’s concept of ‘dynamic density’ was applied to the urban milieu to explain its potential for the creation and valorization of knowledge through the transmission of formalized information coupled by the access to informal and undetermined information whose pertinent content is unknown ex-ante (Rémy, 1999). The process that follows is one of ‘exploration’ and possibly of innovation, when “the city becomes a place of non-intentional

convergence among a plurality of individual and collective trajectories ending up in a solidarity of effects” (Rémy, 2000, p.41).

More recently, the symbolic aspects of the urban milieu have been inspected through a hermeneutic approach. This highlights the relevance of public physical spaces symbolically recognized and appropriated by a local community in an identitarian way. It generates emotion, atmosphere and even affection and, through this, reflexive forms of learning, creativity and knowledge creation (Cusinato, 2016b; Camagni, 2016a). Along similar lines, Ron Martin has sketched the cultural bases of the competitive city. He started from the presence of cultural infrastructure, facilities and assets on one side and of social networks and shared values on the other. The cumulative cycle of the attraction of the creative and knowledge classes is triggered and ends in the development of a new cultural economy of creative, symbolic and knowledge-intensive industries (Martin, 2006).

Interestingly enough, in a dialectical and evolutionary sense, these ‘virtuous’ outcomes might end up in a new likely and already partially visible divide in social and also spatial terms. The new cultural and cognitive economic paradigm which is emerging nowadays might generate a new social polarization between a class of workers endowed with intellectual and creative skills, operating on symbols and codes and a class of low-waged manual and service workers. From a spatial perspective, this social polarisation may result in the striking confrontation of new rehabilitated and glamour neighbourhoods and clusters, hosting creative production activities as well as residential, cultural and leisure activities mainly located in the inner city. Next to this, would be the displaced peripheries left in squalor conditions, hosting the lower and impoverished lower-middle classes (Scott, 2015).

The second approach complementing the functional one in the interpretation of the economic roles of the city may be called the hierarchical-distributive one. It has to do with the issues of territorial power relations, the selective location of activities in the city and the non-city and the spatial distribution of income. In the words of the historian Marcel Roncayolo, the city is not only, in functional-geographical terms, “the topographic and social device that guarantees the highest effectiveness to exchange among men” but, in economic and hierarchical terms, “presents itself, in different degrees, as the place from which territorial control is established” (Roncayolo, 1990, p. 27 and 29; author’s translation).

In Plato’s Republic it was possible to find the intuition of the imperialistic role of the city on the countryside in purely economic terms. As long as the city remained attached to its primary needs, an equilibrated specialization and exchange with the countryside took place. When, in the course of time, it became “feverish” and turned to its secondary needs and developed a full array of service activities from health to justice, arts and leisure, it needed a wider hinterland to feed its citizens and consequently it “went to war” (Plato, 1990, p. 62-3). In Marxian terms, the city-countryside relationship turns into a “contradiction”

(Friedman, 1969) and the economic space becomes a ‘relational space’ of both functional and hierarchical interactions (Camagni, 1980). In pure economic terms, the privileged condition of the city appears in three different ways. Firstly, as a location of specific, selected and high-ranking industries (the top ones referring to high-tech research and production, specialized producer services and finance) and functions (corporate headquarter and command-and-control ones), giving rise to a new, worldwide hierarchy of globalized cities (Sassen, 1991; Castells, 1992; Scott, 2001; Taylor et al., 2007). Secondly, as a control-space on the social division of labour and thirdly, as the ruling space on income distribution through the determination of the relative prices of urban vs. rural productions (terms-of-trade) (Camagni, 1992, Introduction¹).

Among the specifically urban activities, complementary to the rural ones against which they are at least partially traded, top directional activities according to Adam Smith can be found concerning government, order, security and liberty, but also technology, administration and infrastructure management. The public share of these activities is financed through taxation, i.e. through power relationships. The private share - encompassing services addressed at the upgrading of rural productivity (or nowadays, of the productivity of decentralized industrial activities), namely technological, organizational, financial and commercial services - finds the rationale for an urban location in its information-intensive and knowledge-intensive nature. This is priced through the market², a market of which is particularly sensitive to the scarcity of supply and to monopolistic conditions.

¹ Once again, the functional and locational aspects of activities and functions were widely analyzed, but much research work “has tended toward the impressionistic” (Alderson and Beckfield, 2004, p. 812). This has collected rankings of cities in terms of population size, high-tech employment, and counts of top corporate headquarters, turnover or employment, passenger traffic in airports. More interesting developments are reached through network analysis, using a relational space approach, still applied on the geographical distribution of large companies’ subsidiaries, controlled or hosted by cities. This allows approaching a picture where power and control are present with the “hierarchical division of labour between geographical regions corresponding to the vertical division of labour within the firm” (Hymer, 1972, p. 114). Urban power and prestige can be calculated through network algorithms (Alderson and Beckfield, 2004), but their socio-economic effects along the (world) urban hierarchy are still widely unknown.

² In Adam Smith’s *Wealth of Nations*, a perfect description can be found of the unbalanced fixation of relative prices between city and countryside, taken from the medieval and renaissance times. “The government of towns corporate was altogether in the hands of traders and artificers, and it was the manifest interest of every particular class of them to prevent the market from being overstocked, (...) which is in reality to keep it always understocked. Each class was eager to establish regulations proper for this purpose, and was willing to consent that every other class should do the same. In consequence of such regulations, indeed, each class was obliged to buy the goods they had occasion for from every other within the town, somewhat dearer than they otherwise might had done. (...) So that in the dealings of the different classes within the town with one another, none of them were losers by these regulations. *But in their dealing with the country they were all great gainers; and in these latter dealings consists the whole trade which supports and enriches every town*” (Smith, 1976, p. 102, emphasis added). “The inhabitants of a town, being collected into one place, can easily combine together (...). The inhabitants of the country, dispersed in distant places, cannot easily combine together.” (Smith, 1976, p. 103-4)

This structural representation of the city-countryside unbalanced relationship can have a dynamic and evolutionary version. One can claim that the city has changed through time, always hosting the crucial and strategic functions of each development stage. Power, religion and astronomy in ancient times; security, market and hydraulic public works in medieval times; handicraft and industrial activities in modern times; tertiary activities in the twentieth century; information-intensive and knowledge-intensive activities nowadays. In all cases, the monopoly of these activities represented the main ‘business’ of cities and the source of their wealth. Braudel has called this the “growing tyranny of cities” (Braudel, 1977, p. 16) and John Friedmann (1986) has referred to the present world cities as the “major contradiction” of globalised capitalism, namely “spatial and class polarization” and rising “social costs at rates that tend to exceed the fiscal capacity of the state” (p. 76-77).

Can we forecast any sort of “vengeance of the countryside” as a consequence of the pervasive, non-space-sensitive effects of information technologies and the internet? I personally have doubts on this; the use-capability of information is still very space-selective and the evolving process sketched here is destined to be continuously replicated both in space (new forms of the north-south divide) and time (the ongoing revolution of creativity and knowledge-intensive activities) (Aydalot and Camagni, 1986).

3 WHICH CITY-SIZE ARE WE SPEAKING ABOUT?

So far, the paper has focused on the concept and the main conceptualizations of the city. But if we come to the real world, a relevant question emerges; what typologies of cities do these abstract interpretations fit better? And in particular, which city-size are we mainly speaking about? By and large, the answer is that all typologies and all sizes, as the archetypal, interpretative description of cities refer to some structural denominator fitting all geographical manifestations albeit to different degrees. But in principle, agglomeration economies present a continuous expansion, at increasing or decreasing speed along with city size. The quality of activities hosted, according to the main models of urban hierarchy, also presents an ever increasing pace passing from lower to higher urban ranks. Urban land rents in the centres of cities of different size are proportional to the size itself, and the differential of urban land rents at the urban border with respect to rural rents, the expression of an ‘absolute’ land rent, is once again proportional to city size and the consequent agglomeration economies.

If we agree with this view, the large and extra-large cities appear as the best performing and the most successful representatives of the category. Indeed, empirical evidence concerning GDP per capita and level of salaries confirm this result (Nijkamp and Kourtit, 2013). But the present debate on cities and their role in economic development goes much beyond this statement. Large cities are presented as also the most dynamic spatial contexts and the ones on which one

should bet in policy terms if the main goal is boosting economic growth (World Bank, 2009; Glaeser, 2011).

Yet, it is difficult to agree to this last view. The claim that per capita productivity levels, thanks to agglomeration economies, are higher in large cities than in smaller ones is totally acceptable and accepted. However, saying that because of that, large cities are due to develop faster than the others implies an unacceptable logical shortcut. The mistake lies in the fact that a size-derivative (of productivity with respect to urban size) is a static relationship and should not be read as a time-derivative (of productivity with respect to time) (Camagni et al., 2016). As Henderson (2010) puts it, the “association between urbanization and development (...) is an equilibrium not causal relation” (p. 518) and “urbanization per se does not cause development” (p. 515).

A possible theoretical justification of the link between urban size, agglomeration economies and growth was given years ago by Paul Krugman (1991). Krugman suggested that higher urban productivity means higher attractiveness of both economic activities and households which will be conducive to higher growth. However, a counter argument could be that firms considering a large city for a potential location do not look at its gross per capita productivity but rather at net per capita productivity, discounting locational costs from production advantages. This latter indicator is much more homogeneous along city sizes than the gross indicator as a large city implies higher costs for both individuals and firms.

Recent empirical evidence in Europe has confirmed our view (Camagni and Capello, 2015). Recent Eurostat data on GDP in European metro areas has shown that medium and small ones developed more than larger ones in the period 1995-2009, and only with the advent of a crisis, in the most recent period, large cities show, on average, a slightly higher resilience (Fig. 1 and 2).

An interesting econometric analysis was run on the same sample of metro cities, in search of the determinants of urban performance in both a static and a dynamic setting (Camagni et al., 2016). The level of net urban benefits – measured by unit land prices - depend on urban size, as expected, but also on what was called “borrowed size”, i.e. the demographic size of the wider spatial context (Meijers et al., 2016), supplying a wider labour and goods markets to single cities; on the quality of the economic activities hosted, measured by the share of top functions hosted, both in the single metro areas and in the wider spatial context (that we called “borrowed functions”); and, last but not least, on the capability of joining large cooperation networks, measured by the presence of local business in EU Framework Programmes of applied research.

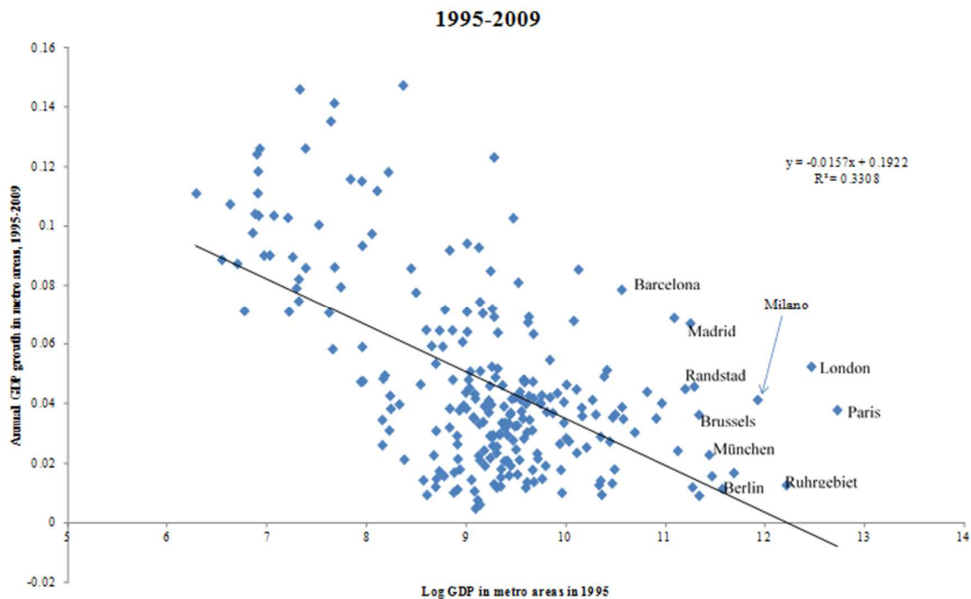


Figure 1 – Average Annual GDP growth – Eurostat Metro Areas, 1995-2009

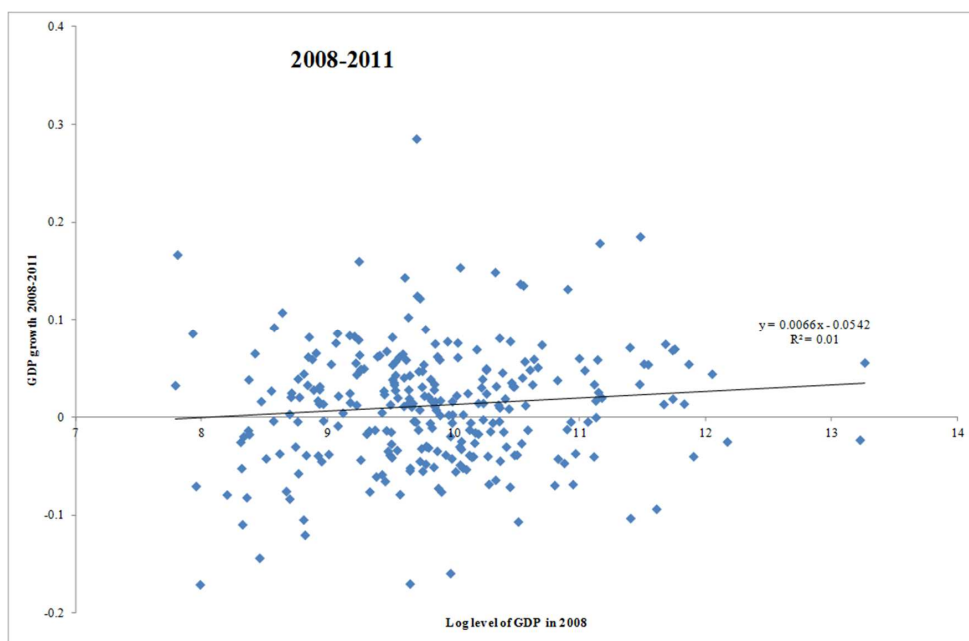


Figure 2 – Average Annual GDP growth – Eurostat Metro Areas, 2008-2011

More interestingly, on the dynamic side, the growth of net urban benefits on a time span of 15 years was not found to be statistically associated at all to the initial size of the metro areas. This was in contrast with some expectations from the literature but in line with our expectations. Rather, it depended on the growth

of the share of the top functions hosted in the single metro areas and in the wider urban context; on the growth of demographic “borrowed” size and on the density of international cooperation networks. In the evidence, at least in the spatial and time segment considered, the true driving forces of development reside in the dynamism of the city-system in which the single metro areas are included and in the quality and innovation capability of this system, rather than in the static agglomeration economies generated by the mere initial urban size.

Therefore, medium and smaller cities may count on many levers in order to boost their economic development, overcoming their deficit in demographic size, and on other specific tools and strategies like engaging in strategic and participatory planning or following a strategy of focusing on one or a few specialization fields. This justifies the continuous interest of business for these classes of cities.

4 THE MONOPOLISTIC CITIES: ART CITIES AND CAPITAL CITIES

The multiple theoretical approaches to the nature of cities illustrated in section 2 of this paper convey an important conceptual message; the different dimensions under which cities can be interpreted define different roles which are strictly interwoven, reinforcing each other and singularly necessary. The relational and cognitive nature of cities cannot blossom unless proximity and agglomeration elements are present. Their hierarchical power does not find its roots in power relations or imperium decisions (as perhaps could have happened in the past or in socialist regimes) but rather in functional elements defining urban excellence in top-ranking activities. The natural advantages of global accessibility can be highly reinforced by the presence of the ruling classes well positioned inside strategic decision making processes.

Moreover, the urban leadership condition in advanced sectors and functions is constantly challenged by technological progress pushing towards spatial diffusion and pervasiveness. The capability of imposing monopoly prices and advantageous terms-of-trade for its services, traded with the external spaces, is continuously compressed by the intense competition among cities themselves. Therefore, the general control position of the single cities, present at different degrees along the urban hierarchy, must be constantly defended, renewed and conquered through effective intentional efforts. It cannot be exploited in order to retain structural monopoly rents.

There are notable exceptions, however. There are cases in which monopoly conditions and consequent monopoly rents are manifest. This is in the case of art cities which present unique and astonishing cultural assets and heritage. It is also in the case of capital cities which exercise the government functions in conditions of institutional monopoly. In these cases, monopoly conditions in captive markets give rise to huge monopoly rents. This brings wide advantages to

the related filières of activities and lobbies and to real estate operators and owners.

In the former case, of art and tourist cities, monopoly rents spread pervasively inside the economic fabric, but also some relevant costs do: the negative externalities of the presence of tourists, generating increasing costs of living for residents and congestion costs; the cost of suffering as a result of the priority given to tourism activities over inhabitants needs by local administrations. And finally, the generalized reduction of incentives towards urban innovation and urban efficiency which is perhaps the greatest cost.

The case of capital cities is slightly different. They are generally rich and expensive with an attractive labour market and dense international interactions. However, given their large relative size, they often witness the coexistence of top services and advanced infrastructure on one side with poor neighbourhoods and social deprivation on the other. Moreover, the presence of power and power élites may degenerate in widespread corruption. The risk of lower incentives for structural change and innovation is lower than in the preceding case, as status pride, attention to power symbols and prestige by politicians and availability of public resources can keep the spectrum of decline away.

5 THE CITY AS BUSINESS: THE REAL ESTATE CITY

At this stage it is difficult to resist the temptation of a totally different interpretation of the city. By this, as the object (and not the subject) of private (but also of compliant public) decisions. The city as a business itself, in the field of real estate and construction. This subject would require a full article or even a series of books but some relevant reflections linked to the previous theses can be proposed in short.

Cities, and in this case mainly large cities, have been and still are a Mecca for the real estate business. In fact, as a consequence of a virtuous interplay of the different roles played – as agglomerations and network nodes, as relational spaces and milieus, as places of territorial control – conducive to economic and demographic success, cities have provided a steady growing demand for residential and office spaces in the entire post-war period. This has generated a continuous rise in building prices well beyond pure construction costs (at least up to the recent crisis), consequent profits, capital gains and huge transformation rents coming from land-use changes.

The main message that emerges is that it is a collective and cumulative development process. These interacting processes of urbanization of people, of wide public investments and pervasive public services and of private investments in economic activities determine an increase of purely private values, namely land and floor-space values with two relevant income distribution effects:

- an enormous increase in incomes (rents) and capital gains in the hands of real estate owners and developers. This is especially in the case of physical urban transformation, of changes in land uses and of provision of new internal and external public transport infrastructure. It is worth being reminded that land rents were considered as ‘un-earned incomes’ by all classical economists (and by the neoclassical economist Alfred Marshall) (Camagni, 1992, ch. 9)³;
- the reduction of profits on production activities as a consequence of the rise of rent costs, as in a prey-predator dynamic model where rents are the predator and profits are the preys (Camagni, 2016b). The production activities on whose economic success the city previously based its development are continuously jeopardized by the increase in land rents eroding the fruit of the success itself.

The logical consequence in policy terms is the necessity of recapturing, to the public domain or sharing between the private and the public, the surpluses gained in urban transformations. These are the surpluses through taxation and/or planning negotiations. In the case where the new tax revenues were reinvested in urban services and infrastructure, a sort of win-win condition could emerge where all stakeholders might gain. By this, the citizens in terms of urban welfare, builders in terms of public works and infrastructure expenditure, developers and estate owners in terms of value increase of the housing stock thanks to improvement of urban quality and economic actors as taxation could reduce overbuilding and land value bubbles. This strategy could be summarized in the slogan - very popular in Italy twenty years ago, but never really accepted in operational planning – ‘building the public city through a fair distribution of surplus values originated by the transformation of the private city’.

This suggestion is shared by UN Habitat (2015, 134-137)⁴ particularly as a means to reduce corruption in real estate deals; the message was recently completed in the UN Habitat document *The city we need 2.0* (UN-Habitat, 2016) with the plea to avoid “poorly regulated real estate markets that create speculative bubbles and financial crises”.

³ Interestingly enough, the level of land rents can be utilized as an indicator of the economic effects of the power and control functions exercised by large cities, as part of the surplus values extracted in the relationships with the external world. These surpluses generate urban growth, cumulative agglomeration economies and the possibility of paying for benefitting from these urban externalities.

⁴ See the Recommendation D3b of the Vancouver Declaration: “The unearned increment resulting from the rise in land values resulting from change in use of land, from public investment or decision, or due to general growth of the community must be subject to appropriate recapture by public bodies (the community), unless the situation calls for other additional measures such as new patterns of ownership, the general acquisition of land by public bodies” (UN-HABITAT, 1976).

6 CONCLUSIONS

This paper analyses the direct and natural relation between business – intended widely as the production and exchange of goods and services – and cities, through the lenses of the spatial division of labour between two archetypal worlds. These are the city and the ‘countryside’ dear to classical economists and to the Marxian tradition.

The role of cities is traditionally inspected in regional science through a functional approach, underlining the specificity of their specialization and relying on the concepts of agglomeration economies and network externalities in order to understand their competitive advantage. Superior efficiency and global connectivity explain why cities have always been the driving forces of development and trade and the gateways for the internationalisation of entire national territories.

But the other two approaches to the interpretation of the nature of cities add new significant dimensions. While still crucial in economic terms, the relational-cognitive approach and the hierarchical-distributive approaches respectively highlight innovation and creativity processes on the one side and wealth and territorial control on the other. The first approach goes back to the evolutionary interpretations of such relational spaces such as specialized local systems and innovative ‘milieus’ developed in the early 1990s. It is easily transposed to the urban milieu ten years after, based on collective learning processes and socialized reduction of uncertainty. More recently this approach has been accompanied by a host of thorough analyses on the spatially selective processes of creativity development and knowledge creation.

The second approach analyses - or better should analyse in more depth given the relevance of the issue – the way in which the relative prices (the terms-of-trade) between productions of the city and the countryside are determined and the wider problem of spatial distribution of wealth and power. The international literature on globalization processes and world cities is approaching a similar problem at the world scale. It emphasizes the command and control functions of large cities and the potential for determining new forms of spatial and class polarization. A monopoly element is always present in the sectors (hi-tech and advanced services) and functions (top-management, financial, strategy and research functions) that the city attracts and develops. This is not necessarily as a consequence of mere power relationships but rather of their rarity, newness and their interaction-intensive and knowledge-intensity nature.

In some cases, a pure monopolist condition may also appear which is linked to historical or institutional factors. It is the case of art and tourist cities and of capital cities that, thanks to the presence of a captive market, receive large advantages in terms of employment, income and wealth. These advantages are at least partially counterbalanced by disadvantages coming from negative externalities of excessive tourism and lower incentives to innovation and urban efficiency.

A final glance is given to a last dimension, empirically relevant, that of the city itself intended as a business, and in particular a real estate business. Huge rents, and related corruption practices, are appropriated privately by land owners and developers. This exploits the economic (and consequently demographic) success of cities which derives from ‘the general development of society’ – as classical economists put it – and more directly from collective, public-private processes, interactions and investments. Rents as costs are paid by households and by companies. Thus, they should be adequately taxed and given back to the urban community in terms of enhanced public services and public goods.

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