

## Unlike Detroit, Chicago's diversified industrial base has helped it to successfully switch from a material to a knowledge economy.

*In recent decades, some cities with a strong history of manufacturing have been able to make the switch to a strong knowledge economy, and thus have maintained a relative level of economic prosperity in the current economic climate. In the wake of the city of Detroit's filing for bankruptcy, **Saskia Sassen** looks at how a city that was once economically very similar – Chicago – has made that successful transition. She argues that the gearing of Chicago's agro-industrial economy, and its associated financial and legal support services, towards international markets have allowed it to succeed in its transition to a knowledge economy. Detroit, on the other hand, has been historically dominated by the automotive industry, and has not been able to redeploy its knowledge and practices in the same way.*



Chicago and Detroit share a heavy manufacturing past. So why did Chicago rise as a specialized financial and advanced corporate service economy while the former 'Motor City' has recently applied for bankruptcy? Looking at the two cities raises a question about how a city or a region becomes a knowledge economy. Chicago helps illustrate a particular case: an economy based on heavy manufacturing, industrial scale agriculture, and continental level transport capacity.

It is common to see Chicago as a latecomer to the knowledge economy (and thus to global city status). Why did it happen so late – almost fifteen years later than in New York and London? Typically the answer is that Chicago had to *overcome* its agro-industrial past, that its economic history put it at a disadvantage compared to old trading and financial centers such as New York and London.

But in my research I found that its past was not a disadvantage. In fact, it was one key source of its competitive advantage. The particular specialized corporate services that had to be developed to handle the needs of its agro-industrial regional economy gave Chicago a key component of its current specialized advantage in the global economy. While this is most visible and familiar in the fact of its pre-eminence as a futures market built on pork bellies, so to speak, it also underlies other highly specialized components in its global city functions. Let me add promptly, that becoming a global city is not necessarily good for all its residents, as I show in my research on the subject –there are social costs.

### Extracting Knowledge from an Industrial Economy

When I arrived at the University of Chicago in the Fall of 1998, the mood downtown was that of a sense of loss –corporations and banks were leaving, and the general sense was that Chicago's past as a heavy manufacturing center was to blame. But in fact, once one left the corporate heights it was clear that there was a lively economic and cultural scene of small enterprises, networked economies, old lofts transformed into beautiful restaurants catering to a whole new type of high-income worker—hip, excited, alive. Yes, there was a new vibrant economy of small specialized firms, software developers and experimental cultural spaces. The center of the city was gaining population even as the city at large was losing population (the best source for readable data on the population and economy of the city, is Chicago Crain's long-term contributor **Craig Hinz**).

I knew I had a new research project.

The complexity, scale and international character of Chicago's historical agro-industrial complex required

highly specialized financial, accounting, and legal expertise, quite different from the expertise required to handle the sectors New York specialized in –service exports, finance on trade, and finance on finance. Today there are other sectors that are, clearly, also critical to Chicago’s advanced service economy, notably the conventions and entertainment sector and cultural industries. But the point here is that Chicago’s past as a massive agro-industrial complex gave the city some of its core and distinctive knowledge economy components. Over the last decade Chicago has been ranked in the top ten of all major worldwide comparisons of global cities.

However, for this specialized advantage to materialize, it is necessary for that past knowledge to be repositioned in a different set of economic circuits. It entails, then, dis-embedding that expertise from an agro-industrial economy and re-embedding it into a “knowledge” economy –that is to say, an economy where expertise can increasingly be commodified, function as a key input, and, thereby constitute a new type of intermediate economy.

Having a past as a major agro-industrial complex makes that switch more difficult than a past as a trading and financial center. This explains

partly Chicago’s “lateness” in bringing that switch about. But that switch is not simply a matter of overcoming that past. It requires a new organizing logic, one that I have discussed [elsewhere](#), that can revalue the capabilities developed in an earlier era. It took *making* to execute the switch.

### Switching takes making

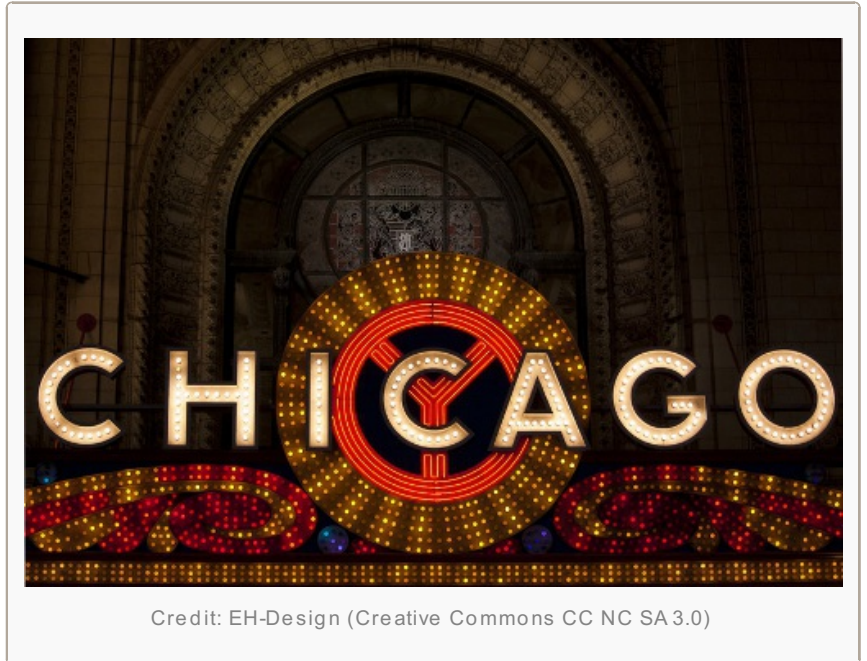
Through its particular type of past, Chicago illuminates aspects of the formation and the specifics of knowledge economies that are far less legible in cities such as New York and London. The latter were dominated by trading and banking. A first issue then is that Chicago’s emergence as a major global city shows us that it is a mistake to assume that it is only trading and banking centers that can evolve into today’s global cities. In other words, New York and London are but one kind of prototype.

A second issue raised by the Chicago case is why do some cities with heavy manufacturing origins make the switch and others not. Chicago, Sao Paulo, Tokyo, Seoul, and Shanghai are among today’s major global city regions with particularly strong histories in heavy manufacturing.

But most once important manufacturing cities, notably Detroit and the English manufacturing cities, have not undergone that type of switch. What the available evidence shows is that they were mostly dominated by a single or a few industries and shaped up more like mono-cultures. This points to the importance of diversity in a region’s manufacturing past. Chicago secured the components of a knowledge economy because it had a highly diversified industrial base—from steel and the production of machines to industrial scale agriculture and continental-scale transport logistics.

Detroit also had a diverse manufacturing base—making a car takes many different types of manufacturing. A car is one of the most complex manufacturing products. In my current project on “Urbanizing Technology”, supported by AUDI, my starting point is that both the car and the city are complex assemblages of highly diverse components; it in that enormous diversity that lies their capacity to survive massive transformations in a way that so many other products of modern history have not.

If it is not the product with its diverse components, what is it that happened in Detroit? The weak point was



that all the diversity of components were mostly manufactured via subcontracts from the corporate car companies. The latter dominated and dictated. This made Detroit more akin to a plantation economy, no matter how complex a coffee bean it produced.

Chicago, in contrast, had multiple organizing logics. It was, in some sense, more networked, as we might say today. The knowledge embedded in those very diverse industrial sectors was eventually extracted and transformed/commodified into specialized servicing capabilities. It took work to dislodge that knowledge from certain types of organizational logic (heavy manufacturing, industrial agriculture, and continental level transport logistics) and insert it into a different type of organizational logic: that of today's so-called knowledge economy.

### **Chicago's specialized difference**

By the late 1990s Chicago had secured a specialized global advantage in producing certain types of financial, legal and accounting instruments. Partly this was a development that originated in a domestic stage: financial, legal, and accounting experts in Chicago had to address in good part the needs of the agro-industrial complex; they had to deal with steel and with cattle produced for regional, national and international markets. From being mostly national it evolved to become international.

It is this kind of specialized knowledge that matters for Chicago's competitive situation in the global market. Thus when Boeing, the airplane manufacturer, decided to enter the global knowledge economy, it did not even consider locating in New York: its top choices were Chicago, Austin, and the industrial triangle in North Carolina. It chose Chicago. Chicago, Sao Paulo, Shanghai, Tokyo, and Seoul, are now among the leading producers of these types of corporate services specialized in heavy manufacturing and large-scale agriculture. And they are so not in spite of their economic past as major heavy industry centers, but because of it.

This type of analysis also shows that it never is "the" national economy that articulates a country within the international division of functions. It is specialized regions and cities. Today this pattern is even stronger because the global economy consists of a vast number of particular circuits connecting particular components of cities and regions across borders. It is at this level of disaggregation that it is best to understand how cities and regions are globally articulated.

### **What if Detroit's economic history before car-making was rich in diverse forms of manufacturing?**

The economic trajectory and switching illustrated by the Chicago case contests the common thesis that today's advanced economic sectors are all the same across the world; incidentally, this is also a thesis that leads many to argue that all cities are competing with each other.

The Chicago case shows that becoming part of a knowledge economy is not simply a question of dropping a manufacturing and agro-industrial past, and then proceeding to converge/homogenize on the headquarters-services-cultural sector axis. A critical component is the extracting of knowledge embedded in those material practices and its reinsertion into a far greater diversity of service economies.

The deep economic history of a place matters far more than the currently dominant discussion of knowledge economies allows us to see. As someone who has worked on Chicago but not on Detroit, my question is what knowledge was embedded in Detroit's deep economic history before the large car manufacturers sucked it up for their purposes? It might well be the case that the car manufacturers exerted a sort of gravitational pull that neutralized the diversity of Detroit's histories of knowledge making. What if before that car phase, Detroit had a diversity of knowledges that could today contribute to a diversified economic base, ranging from specialized machine crafting to the making of materials?

*This article is based on the author's research; see for example "Cities in Today's Global Age" SAIS Review (2009) Special Issue on "Cities", SAIS Review, 29(1); "Cities Today: A New Frontier for Major Developments" In Special Issue on "The Shape of the New American City", The Annals of the American Academy of Political and Social Science, 626(1); more generally see [Cities in a World Economy](#) (4<sup>th</sup> fully updated edition) Thousand*

Oaks, CA: Sage/Pine Forge 2012).

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