

## Globalization and the American Metropolis

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### 1. The World Economy and Cities

Researchers studying the rise of globalization and global cities point out that the world economy has changed significantly in the last 25 years. In particular, since World War II, we have seen a major increase in the “proportion of the world’s economy that is transnational in scope.”<sup>1)</sup> Professor Paul Knox explains.

By 1970, almost 75 percent of U.S. imports were transactions between the domestic and foreign subsidiaries of transnational conglomerates. By the end of the 1970s, overseas profits accounted for a third or more of the overall profits of the 100 largest trans-national corporations. By the early 1980s, 40 percent of all world trade was in the form of intra-firm trade (that is, between different branches and companies of the same transnational conglomerate).

Between 1990 and 1995, U.S. overseas investment in manufacturing grew at twice the rate of exports of U.S.-manufactured goods. By the mid-1990s, there were nearly 40,000 transnational corporations in the world, 90 percent of which were headquartered in the United States, Japan, or European Union. Between them, these corporations control about 180,000 foreign subsidiaries and account for over \$6 trillion in worldwide sales.

Globalization of industry was accompanied by a globalization of finance and the rise of global or world cities. According to Professor Saskia Sassen, author of *The Global City: New York, London, and Tokyo*,<sup>2)</sup> the world economy is now “spatially dispersed, yet globally integrated.” That is, there has been a “decentralization of economic activity” around the world. This can be seen in the decentralization of manufacturing operations and office work. At the same time, there is greater concentration of “central control and management” of that world economy in corporate headquarter offices, especially in a few major cities such as New York, London, and Tokyo. These global cities were always “centers for international trade and banking,” but now they have gained new functions as the command points for the new world economy. What distinguishes global cities from other non-global cities is the management and control function that they play in the world economy (see Fig. 1).

Professor Sassen finds global cities share certain features. First, the employment base of the cities shifted from manufacturing goods to producing services. Global cities produce the “specialized services” such as advertising, accounting, business law, consulting and financial products

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<p><b>First tier:</b> the key command and control centers for the global economy:  <b>London, New York, Tokyo</b></p> <p><b>Second tier:</b> "cities with influence over large regions of the world economy":  <b>Brussels, Chicago, Frankfurt, Los Angeles, Paris, Singapore, Washington, D.C., Zurich</b></p> <p><b>Third tier:</b> "more limited or more specialized international functions":  <b>Amsterdam, Houston, Madrid, Mexico City, Miami, San Francisco, Seoul, Sydney, Toronto, Vancouver</b></p> <p><b>Fourth tier:</b> "cities of national importance and with some transnational functions":  <b>Boston, Barcelona, Dallas, Manchester, Montreal, Munich, Melbourne, Philadelphia</b></p> <p><b>Fifth tier:</b> "places where an imaginative and aggressive local leadership has sought to carve out distinctive niches in the global marketplace":  <b>Atlanta, Rochester, Columbus, Charlotte</b></p> <p>Source: Paul Knox, "Globalization and Urban Economic Change," <i>Annals of the American Academy of Political and Social Science</i> 551 (May 1997)p. 23.</p>
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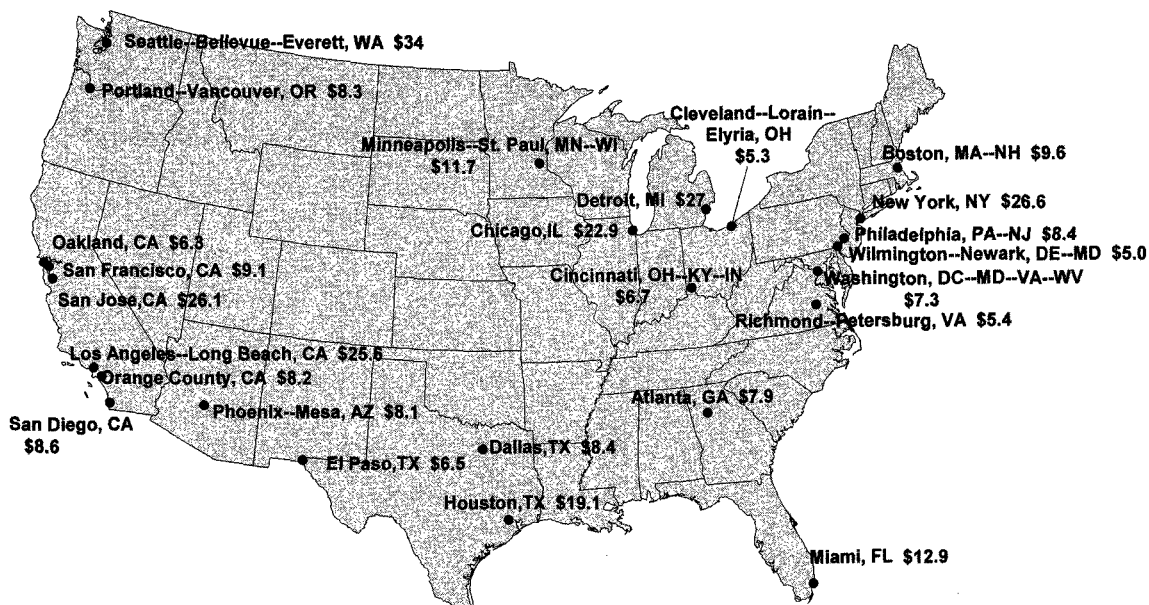
Fig. 1 The New International Hierarchy of Cities in the Global Economy

needed by global corporations. This concentration of command and control functions changed the system of cities or hierarchy of cities within nations. Some cities lost their economic role and declined as a result. For example, Detroit, Liverpool, Manchester, Nagoya, Osaka have been slipping in importance.

Second, these global cities experienced a change in the spatial organization with increased business concentration in the central business districts which crowded out other functions, especially residential. Finally, the social structure of the city was altered as the kinds of jobs and who lives in the cities changed. The middle class were squeezed out. At the same time, there was an increase in lower income and immigrant populations who accept low wage jobs thus providing the services desired by the extremely affluent residents (e.g., restaurants, domestics, hotel workers).

There has recently been some debate among scholars concerning whether the global cities thesis is overly deterministic and whether all so called "global cities" are actually experiencing the same phenomenon. For example, manufacturing is still a significant part of the employment base in Tokyo and Tokyo has not experienced greater income disparity or immigration like New York and London. The question arises as to whether it is globalization of the economy or distinct local factors which are shaping spatial organization of so-called global cities<sup>3</sup>.

The focus given to global cities like New York, London, and Tokyo may deflect attention from the effects of globalization on all cities which are linked in some way to the world economy. The shift from manufacturing to services may have been most pronounced and occurred earlier in the "global" cities but similar processes occur in most "post-industrial" cities of the advanced developed nations. The important point is to consider how globalization, in particular, economic restructuring, is affecting these cities and not overly focus on the "global" cities. International trade, for example, has become increasingly important for American cities. In 1998, exports from the 253 metropolitan areas in the U.S. totaled \$541 billion and 93 of these metropolises exported more than \$1 billion (see Fig.2). Overall, exports from American metropolises rose 46 percent between 1993 and 1998. The top five export metropolitan areas were Seattle (\$34 billion), Detroit (\$27 billion), New York (26.6 billion), San Jose (26.1 billion), and Los Angeles (25.6 billion)<sup>4</sup>.



Source: Exporter Location Series, U.S. Census Bureau.  
 Prepared by International Trade Administration, U.S. Department of Commerce  
[www.ita.doc.gov/td/industry/otea.metro](http://www.ita.doc.gov/td/industry/otea.metro)  
 Layout by Powers Mountain Graphics

Fig. 2 Export Sales of U.S. Metropolitan Areas 1998 Value (in billions of dollars)

## 2. Impact of Globalization on American Cities

Globalization has greatly affected cities in the United States. Globalization was a major factor behind urban decline in American cities from 1970 to 1990. Global competition led to deindustrialization in the United States. In some instances, companies closed their factories entirely. In other cases, companies became more efficient in production by building new factories in the suburbs, the sunbelt, or the developing world where land, labor and taxes were cheaper. In addition, companies adopted new technologies such as robotics to reduce their reliance on labor.

The transformation from an industrial to a service economy has been revolutionary. "In 1959, services constituted less than 40 percent of the Gross Domestic Product (GDP), while goods production constituted roughly half. In 1994, services were almost 65 percent of GDP while goods production was approximately 37 percent."<sup>5)</sup> The effect on cities was dramatic. In 1960, about one-fourth of city workers in the largest cities were employed in manufacturing. By 1990, this had declined to about 14 percent of the city employment. Comparing the wage levels of service and manufacturing jobs illustrates why this is so critical for cities. Average manufacturing wages in 1997 were \$550 per week compared to just \$241 in retail sales<sup>6)</sup>.

While global competition led to more efficient production in the U.S., a major consequence was urban decline in the northeast and midwest where industry had been most heavily concentrat-

ed. For example, between 1970 and 1980, the population of New York City declined by 10.4 percent, Chicago by 10.8 percent, Detroit by 20.5 percent, and St. Louis by 27.2 percent. Cities in the south and west, often referred to as the sunbelt, have been struggling to absorb rapid population growth and strains on infrastructure and services. For example, between 1970 and 1980, Houston grew by 29.3 percent, San Diego by 25.6 percent, and Phoenix by 35.2 percent<sup>7</sup>.

In Table 1, we see a number of ways that globalization is affecting American cities. Some aspects of globalization are positive in creating new high paying jobs and contributing to urban revitalization. Other aspects of globalization are harmful including international drug trafficking and associated problems of crime and decline in the quality of urban life<sup>8</sup>. Many are now concerned that globalization is reducing local culture and uniqueness<sup>9</sup>. Globalization also reveals that state and local revenue systems were designed for an industrial era. The current exemption of electronic internet sales from state and local government sales taxes threatens future revenue streams. In addition, most services are exempt from state and local sales taxes<sup>10</sup>.

A new threat to local autonomy is posed by new international trade agreements which may limit the ability of cities to regulate trade and development that may undermine local communities. For example, it is common for American cities to favor local companies in their bidding processes. Under the World Trade Agreement a foreign company could challenge this local preference as unfairly restricting free trade. Thus, the will of local communities operating democratically may be thwarted by international organizations serving the interests of global capital<sup>11</sup>.

So far, the emphasis has been on the challenges globalization poses to cities and the potential reduction in local and municipal autonomy. However, in the long run, it is the nation-state which is in danger of becoming obsolete. A world-wide economy and global communications network means that relations among and between city-regions takes on greater importance. The U.S. is not a single national economy but an aggregation of metropolitan economies<sup>12</sup>. City-regions are better situated to adapt to global changes rapidly. American metropolises are noted for their fragmented structures and the absence of any overarching general-purpose metropolitan governments. The challenge is for city-regions to become city-states and capture their share of the rewards of the global economy to ensure a good quality of life for their citizens. In the long run, globalization should lead to greater decentralization and enhanced local autonomy<sup>13</sup>. But this requires the development of an effective system of metropolitan governance<sup>14</sup>.

### 3. Local Responses to Globalization

A recent study for the National League of Cities surveyed municipal officials concerning their "activities and attitudes" towards the global economy (see Table 2)<sup>15</sup>. The effects of globalization were viewed as beneficial with regard to increased "social and cultural" ties, international tourism, a more "competitive global economy," and "foreign direct investment." Negative impacts were associated with illegal immigrants and the illegal drug trade. Interestingly, officials from larger cities were more positive about globalization effects and also regarded NAFTA and GATT/WTO agreements as positive for their cities<sup>16</sup>.

Table 1 Effects of Globalization on Cities in the United States

Globalization trend	Effect on Cities
Integration of the global economy	Difficult to regulate businesses
Deindustrialization	Loss of high paying jobs for low skilled workers; urban decline and need for redevelopment and economic development programs and dependent population needs high level of social services
Rise of Service Economy	Manhattanization of city center from new office building construction and commercial development projects  Increased income inequality as wages of highly trained and educated white collar workers soar while wages of workers in personal services lag (e.g., retail, restaurant workers)
Increased competition among cities for development	Cities pursue economic development policies to create jobs.  Cities may pay too much for development.  Rise of public-private partnerships but may undermine local democracy because citizens may not have access to information and businesses gain favored status
Central City Decline	Middle class exodus to suburbs as cities declined  Reduced city revenues and contributing to sprawl
"Technification of production and communications"	Fewer jobs; backroom facilities move to suburban or exurban areas contributing to sprawl
"Internationalization of crime"	Drug trafficking--\$500 billion per year –devastating effect on city residents and quality of life; potential effect on international finance and undermines "integrity of governments"
New international migration flows	Cities housing increased number of foreign residents. In NYC for example, 563,000 immigrants came between 1990 and 1994.  Helps stabilize city population; emergence of ethnic enclave economies (e.g., garment trade in LA) but also adds to social burden; increased racial and ethnic tension and conflict
Decline of local culture and Disneyfication of cities	Homogenization of products and culture. For example, every mall has same retailers and carries same products. Local places losing their unique characteristics.
Electronic sales over internet	Loss of sales tax revenues since internet sales are exempt
International trade agreements (World Trade Agreement, GATT)	Reduced local autonomy by allowing international organizations and U.S. government to supercede local regulations and practices currently permitted (e.g., favoring local contractors in bidding processes; local zoning to preserve community)

Source: Margaret E. Crahan and Alberto Vourvoulias-Bush, Editors, *The City and the World: New York's Global Future* (New York: Council on Foreign Relations, 1997); John Harrigan and Ronald K. Vogel, *Political Change in the Metropolis* (sixth edition) (New York: Longman, 2000), Thomas W. Bonnott, *Is the New Global Economy Leaving State-Local Tax Structures Behind?* (Washington, DC: National League of Cities, National Conference of State Legislatures, National Governors' Association, 1998).

Table 2 Attitudes of Municipal officials in the United States on Globalization

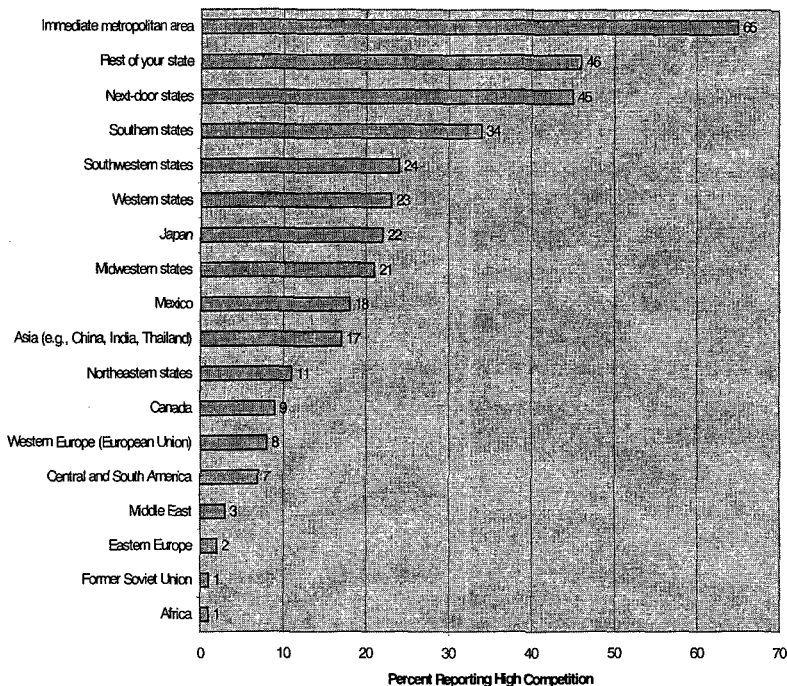
Issue	Percent Municipal Officials Reporting Positive Impact on Their City
Social and Cultural Contacts With Foreign Cities	70% (26% neutral; 2% negative)
Foreign Tourists	62% (32% neutral; 4% negative)
Rise of a More Competitive Global Economy	59% (31% neutral; 8% negative)
Foreign Direct Investment in Cities	50% (41% neutral; 7% negative)
Legal Immigrants Coming to the United States	47% (43.5% neutral; 8% negative)
Approval of the North American Free Trade Agreement in 1993	40% (45% neutral; 12% negative)
Approval of the Uruguay Round of General Agreement on Tariffs and Trade Creating the World Trade Organization in 1994	29% (55% neutral; 11% negative)
Illegal Immigrants Coming to the United States	3% (34% neutral; 60% negative)
International Drug Trafficking	1% (17% neutral; 79% negative)

Source: John Kincaid, *American Cities in the Global Economy: A Survey of Municipalities on Activities and Attitudes* (Washington, DC: National League of Cities, 1997), pp. 55-58.

Perhaps one reason American municipal officials are so positive in their assessment of the effects of globalization on their cities is that they view their primary economic competition from within their own or neighboring metropolises and not from overseas (see Fig. 3). Surprisingly, awareness of the importance of the global economy has not necessarily translated into activities to affect their cities' position in the world economy. Of all city officials responding to the survey, fewer than 50 percent reported engaging even in Sister City activities. However, larger cities (over 500,000) are much more aggressive reporting that their cities have been "Working with business partners" (100 percent), "Attracting foreign investment" (94.5 percent), "Promoting exports of local products," (88.9 percent), pursuing "Sister-city relations" (83.4 percent), "Cultural exchanges" (77.8 percent), "Idea and technical exchanges" (77.7 percent), "Recruiting protocol person" (72.2 percent), and "Working with civic groups" (72.2 percent)<sup>17</sup>.

Larger cities have also been more aggressive in taking positions on international trade agreements. Only 16 percent of the city officials reported taking a position to support NAFTA but 61 percent of the large city officials reported their city "urged support" of NAFTA<sup>18</sup>. Only 39 percent of the large city officials reported urging support for GATT/WTO. This may indicate less awareness of this issue. Finally, 10 percent of the cities reported taking a position on one of 13 foreign policy issues. Resolutions condemning apartheid in South Africa passed in 10.7 percent of the cities overall with 50 percent of the larger cities passing such a resolution<sup>19</sup>.

The level of city action in foreign and international trade policy would be expected to increase if cities perceive less positive benefits from globalization or if citizens express greater objection to the globalization processes. The protests in Seattle during the most recent round of WTO talks in November 1999 suggests these issues are becoming more contentious. A large number of groups including environmentalists are questioning whether extension of free trade policies will undermine environmental efforts<sup>20</sup>. In the long run, we may expect cities to take a greater interest in these policies.



Source: Reproduced from: John Kincaid, *American Cities in the Global Economy: A Survey of Municipalities on Activities and Attitudes* (Washington, DC: National League of Cities, 1997), p. 30.

Fig. 3 Perceptions of Cities' Major Competitors

#### 4. Conclusion

As we have seen, globalization of the economy is having an increasing affect on American cities. Globalization contributed to decentralization of the metropolis, economic restructuring, and inner city decline. On the other hand, globalization is associated with the rise of the new service economy and the rebuilding of American urban cores. However, city officials have not been mere recipients of global forces. They have sought to adapt their cities to the new economies and restructure their societies to benefit from new opportunities in the global system. Some American cities are better situated to take advantage of the global economy while others may experience continued population loss and urban decline. On the one hand, globalization poses a major threat to local autonomy as cities struggle to deal with economic forces beyond their control. On the other hand, globalization may lead to enhanced local autonomy as nation-states are by-passed by direct relations among and between subnational governments ranging from sister city relations to international trade agreements.

Globalization of the economy has revealed a real weakness in the structure of American local government. That is, the absence of metropolitan governments. Cities no longer constitute the major share of their urban regions. Yet, no general purpose government exists to fashion metropolitan strategies to compete in the global economy. The real challenge for American cities at the start of the 21st century is to develop effective systems of metropolitan governance so that they

may compete in the globally economy while resisting the more intrusive effects of global capital on the local community. There is evidence that they are moving in this direction.

## Notes

- 1) Paul Knox, "Globalization and Urban Economic Change," *Annals of the American Academy of Political and Social Science* 551, pp.18-19, May 1997.
- 2) Princeton, NJ: Princeton University Press, Quotes taken from pp.3-4, 1991.
- 3) James W. White, "Old Wine, Cracked Bottle?: Tokyo, Paris, and the Global City Hypothesis," *Urban Affairs Review* vol.33, pp.451-478, March 1998.
- 4) "Export Sales of U.S. Metropolitan Areas, 1993-1998," reported International Trade Administration; see <http://www.ita.doc.gov/td/industry/otea/metro/Summary.htm>.
- 5) Thomas W. Bonnott, *Is the New Global Economy Leaving State-Local Tax Structures Behind?* Washington, DC: National League of Cities, National Conference of State Legislatures, National Governors' Association, p.6, 1998.
- 6) John Harrigan and Ronald K. Vogel, *Political Change in the Metropolis* (sixth edition), New York: Longman, p.175, 460, 2000.
- 7) *Ibid.*, p.39.
- 8) Margaret E. Crahan and Alberto Vourvoulias-Bush, Editors, *The City and the World: New York's Global Future*, New York: Council on Foreign Relations, 1997.
- 9) Richard Barnet and John Cavanagh, "Homogenization of Global Culture," in Jerry Mander and Edward Goldsmith, eds., *The Case Against the Global Economy and For a Turn Toward the Local*, San Francisco: Sierra Club, James Defilippis, "From a Public Recreation to Private Recreation: The Transformation of Public Space in South," *Journal of Urban Affairs*, Vol.19, No.4, pp.405-418, 1997.
- 10) Thomas W. Bonnott, *Is the New Global Economy Leaving State-Local Tax Structures Behind?*, Washington, DC: National League of Cities, National Conference of State Legislatures, National Governors' Association, 1998.
- 11) Ralph Nader and Lori Wallach, "GATT, NAFTA, and the Subversion of the Democratic Process," in Richard Barnet and John Cavanagh, "Homogenization of Global Culture," in Jerry Mander and Edward Goldsmith, eds., *The Case Against the Global Economy and For a Turn Toward the Local*, San Francisco: Sierra Club.
- 12) William R. Barnes and Larry C. Ledebur, *The New Regional Economies: The U.S. Common Market and the Global Economy*, Thousand Oaks, CA: Sage, 1998.
- 13) Jong S. Jun and Deil S. Wright, eds., *Globalization and Decentralization: Institutional Contexts, Policy Issues, and Intergovernmental Relations in Japan and the United States*, Washington, DC: Georgetown University Press, 1996.
- 14) H.V. Savitch and Ronald K. Vogel, eds., *Regional Politics: America in a Post-city Age*, Thousand Oaks, CA: Sage: 1996.
- 15) John Kincaid, *American Cities in the Global Economy: A Survey of Municipalities on Activities and Attitudes*, Washington, DC: National League of Cities, 1997.
- 16) Larger cities are those over 500,000. In larger cities, positive scores were 96% for "Social and cultural contacts," 90% for "Foreign tourists," 89% for "Competitive global economy," 83% for "Foreign direct investment," 61% for "Legal immigrants," 90% for NAFTA, and 83% for GATT/WTO. *Ibid.*, p.15.
- 17) *Ibid.*, p.43.
- 18) *Ibid.*, pp.45-46.
- 19) *Ibid.*, pp.47-49.
- 20) Jerry Mander and Edward Goldsmith, eds., *The Case Against the Global Economy and For a Turn Toward the Local*, San Francisco: Sierra Club.