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Karima Kourtit, Peter Nijkamp, & Roger Stough
(Eds.), *The Rise of the City: Spatial Dynamics in the Urban Century*. Edward Elgar Publishing, 2015, 367 pp.
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Abstract. Innovations and innovators who bring new products to market are heralded as change agents and are the heroes of modern business. However, a subtle dimension in social science research has emerged which promises a similar relationship with human interaction and economic development: urban living and the rise of megacities. For a time, new innovations in telecommunication and transportation suggested the demise of cities that would make rural living preferable to life in urban areas. However, rather than these developments leading to the demise of cities, urban areas are now considered as the hub of economic growth and innovation, which is attributed to the international proliferation of urban living. Cities are increasingly seen as reducing the costs of communication, create access to culture, knowledge, and medicine and are recognized as centers of innovation and productivity. It is against this backdrop that Karima Kourtit, Peter Nijkamp, and Roger Stough have edited the volume *The Rise of the City: Spatial Dynamics in the Urban Century*, which synthesizes leading topics in urban economics..

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Book Review

Three microeconomic principles are used throughout the book to explain the productivity and rise of cities: economies of scale, marginal analysis, and externalities. Economies of scale occur when average costs decrease as market size or production increases; economies of scale also exist when marginal costs are less than average costs. A cost structure that exhibits economies of scale is also conducive to market concentration. Marginal analysis is related to maximizing or minimizing an objective function, with the corollary of optimal allocation rules. It also yields the important result of determining the optimal size of an activity. Externalities are costs or benefits that accrue to economic agents not involved in a transaction, and because there are significant spill-over effects that are due to physical proximity, externalities are an important microeconomic tool to understand, explain, and propose policy recommendations for urban development and urban planning. *The Rise of the City* uses each of these tools to explain and expand on three areas in urban economics: urban creativity and growth; cities,

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innovation, and productivity; and urban systems, infrastructure, and sustainable development.

A market's size reflects population size and the technologies used in production. Four chapters are devoted to the spatial relationship between clustering, creativity, and knowledge available in urban areas. A positive externality occurs when a benefit accrues to agents not involved in a transaction, and its urban economics application is agglomeration, which are the benefits that firms receive by being in close proximity with similar enterprises. Investment in basic research and new product development are key factors in various types of industrial developments, and the public nature of basic research demonstrates that firms are not able to capture all of the benefits devoted to its investment. The result is that firms have too little incentive to conduct high-value added basic research. Increases in product complexity, improvements in communication technology, and the application of biomedicine in high-tech products require greater cooperation between basic science and interdisciplinary research, which is produced in universities. These spill-over effects are most common in cities. The policy implications are clear. Government should subsidize high value-added basic research created in universities that have industrial applications. This agglomeration shapes local labor and housing markets through wages and quality of life. Urban planning and smart cities are associated with these agglomerations and digital technologies pervasive in smart cities have an influence on urban human behavior. So, rather than the academic and popular notions of the death of cities, large urban agglomerations are part of the increasing benefits to city living. Moreover, modern smart cities are yet to fully materialize, and open cyber-places may well strengthen trends toward urbanization. As these smart cities evolve, they will draw on various field of economics, sociology, demography, statistics and big data, and geography.

Key aspects of the smart city are sustainable and inclusive economic growth. Caragliu and Del Bo empirically demonstrate there is a positive and significant relationship between smart city initiatives and regional smart city strategies. An important application of economies of scale made by George Stigler's studies in industrial organization is minimum efficient scale (MES) and the survivorship principle, which states that in competitive markets, only those firms that adopt the efficient plant size and technologies prevail. Giving MES an urban economics application, Camagni, Capello, and Caragliu address efficient city size. It is unlikely that there is a single optimal city size for all times and places, but a few corollaries are noteworthy. Decreasing returns in city size can affect both large and small cities. However, agglomeration diseconomies can be reversed by reorganizing urban production toward high value-added economic production and networking in urban areas as that have complimentary resources in production.

With agglomeration benefits, cities should be more innovative and productive, and population trends indicate that the world's populations should reach a maximum of nine billion people around 2050. Much of this increase will occur in cities. As populations enlarge and urban life becomes more prominent, intra and inter population externalities are likely to be related to knowledge creation and dissemination. Population change, combined with the digital revolution, will require that labor markets be more flexible and that energy and environmental policy change proactively to accommodate urban life. Many of these agglomeration benefits depend on agents' objectives. For example, Kourtit, Mazurencu, and Nijkamp illustrate that managers benefit from close proximity to firms in the same or similar industries. Researchers benefit from close proximity to other researchers and livability. People in the arts benefit more from livability and cultural integration. Visitors to urban cities benefit from livability and cultural

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integration but also benefit by proximity to research and development available in urban areas. As cities grow and become more prominent, assessing the limits and responsibilities between the private and public sectors determines how production should be allocated between these two sectors.

Olsson, Westland, and Larsson consider the role of “entrepreneurial governance” that develops in new ways and new forms that allow governing institutions to remain relevant as cities grow. Like the private sector, there are entrepreneurial agencies within the institutions of government that develop because of economies of scale, and most of these new institutions are created for government specific projects and studies. These innovative governing institutions find that municipal development initiatives are frequently productive and can be described as a form of entrepreneurialism, whereupon they seize unexploited opportunities to reach social objectives by creating new institutions. Successful institutions are those that change and adjust to economic and political conditions. Moreover, these institutions must also be entrepreneurial within government to adjust and justify their existence because they are dependent on and compete with alternative community government institutions for public resources.

Marina van Greenhuizen and Quing Ye consider the relationship between agglomeration and innovation. Cities are the seedbeds of responsible innovation due to proximity to other enterprises in like-minded pursuits. Such proximity includes nearness to national regulatory authorities, access to capital markets, and a greater willingness on the part of public authorities to support pilot projects that require public funds. These public amenities lead to innovative firm networks, which enhance growth and benefit from advantages of location that incubate new product development and create environments for start-up firm creation. This proximity is especially pronounced in urban areas having universities that create new knowledge and develop new products. However, such agglomerations and physical proximity positive externalities coexist with negative urban externalities, such as pollution, crowding, and disease, which call for public policies to implement a dynamic, sustainable social and economic environment. Urban agglomeration and urban labor markets also have greater access to age and ethnic diversities conducive to urban creativity and productivity.

Because urban transportation creates positive and negative externalities, urban expansion and increased population densities require public infrastructure investments. Economic and social systems benefit from large-scale public infrastructure development, and economic and environmental systems are damaged from negative spillover effects caused by urbanization and industrialization when polluters do not bear the full costs of their actions. When there are economic and social benefits from installing public infrastructure that reduce pollution, large-scale public intervention is justified. Chen and Haynes show that production in the US Northeastern corridor has more of a causal impact on the region’s aggregate surface transportation but not the opposite, indicating that surface public investment transportation policies implemented by the federal, state, and local governments are influenced by regional economic conditions. These public transportation expenditures have important consequences on employment and occupational opportunities. Vieira and Haddad use São Paulo data to show that access to urban areas with automobiles is greater for wealthy individuals within urban centers, whereas access to public transportation for poorer households, who live in the urban periphery and commute to urban employment centers, creates opportunity among lower socioeconomic groups.

While there is mild reference to North American cities, a more diverse geographic representation would have added to the study. Other important areas in urban studies, such as pollution, health, and epidemiology, would have been

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effective. The volume also could have more completely explored the relationship between the environment and urban living. For example, as cities and urban populations proliferate, environmental damage is inescapable. However, the alternative to urban is rural living, which is much more damaging to the environment. As cities become more prominent, one possible interpretation is that it comes at the expense of the environment. However, as populations continue to expand—especially in developing countries—urban living is central to protecting the environment and avoiding the Malthusian trap.



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