Universe Scientific Publishing

Why Cities Appear to Fail under Economic Globalization? Taking Detroit as an Example

Yifan Cai[1]

1. Zhou Enlai School of Government, Nankai University, Tianjin 300350, China.

Abstract: In the era of economic globalization, cities across the globe show very different economic development profiles. While a number of cities have enjoyed the benefits of global economic connections, Detroit's economy shrunk sharply. Why would that happen? First, this article investigates how industrial re-orientation under global change impacts Detroit's economic development. Next, this article focuses on the diversity of industries and how it influences Detroit's urban growth through mechanisms of agglomeration economy. Then, this article points out the importance of human capital and how place-based strategy instead of people-based strategy influence Detroit negatively. Finally, this article explores further about social environment in Detroit that harms its economic performance. In conclusion, this article asserts that urban re-orientation in the global production network, diversity of industries, human capitals, social environment, and politically radical actions constitute Detroit's failure, with human capitals as the most prominent factor.

Keywords: International Political Economy; Development Strategy; Detroit

1. Background

Economic globalization has grown at a fast pace ever since the beginning of the 21st century, bringing about the second round dynamics in urban growth, where individual industry matures and products are diversified (Storper, 2010). As a result, new locational opportunities have been created, requiring cities to respond to the shocks and position to support industry preferences (Storper, 2013). Nevertheless, the resulting economic performance varies from city to city to a large extent. For instance, Boston performs strongly with an overall increase of real GCP and a manifest decline of the unemployment rate in the 21st century (Boston Planning & Development Agency, 2020) while Detroit faces great challenges of urban decline, including labor shortage, investment loss, and unitary industrial structure, which in fact led to its bankruptcy in 2013 (Nathan, B. and John, G., 2013). Since Detroit had its glory times, it's imperative to analyze what factors constitute such sharp divergence and draw lessons from them. Therefore, this article conducts a case study of Detroit from the four dimensions listed below.

2. Re-Orientation under Global Change: Failed to Upgrade Industries

Storper (2010) argues that cities grow only when "structures" (skills bases, sectoral compositions, and institutions) are reformed to adapt to the "shocks" (economic globalization,etc.). Cities need to re-orientate themselves by strategic coupling with the global production networks (Yeung, 2009) and make good use of the external interactions, including firm investment, migration, and knowledge flows (Huggins, 2016).

Under economic globalization, Detroit still lays major emphasis on motor industries, exemplified by the establishment of two automobile factories in Coleman Young's term (Nathan, B. and John, G., 2013), which, however, doesn't correspond to the global change. Detroit's industries used to take advantage of its transport locations while closer distance to transport hub becomes insignificant today (Glaeser, 2012, p.46). From 1890 to the current era, the real costs of railway transport per ton per mile have plummeted from 20 cents to 2 cents (ibid). The decrease in transport costs also makes it easier for European and Japanese companies to enter American market, undermining Detroit's competitiveness through innovative products like fuel-efficient small vehicles (Nathan, B. and John, G., 2013). Besides, the Organization of the Petroleum Exporting Countries' (OPEC) rise that sharply increased the gasoline prices, the more accessible conditions for motor industries to construct factories in the third world nations with cheaper labors, have deteriorated the environment of motor industry growth. In short, Detroit's strategy couldn't meet the demands of the global production network, hence the negative impact of external interactions leads to Detroit's failure.

3. Urbanization Economy or Localization Economy? Specialized Industries in Wrong Direction

Urbanization economy refers to the agglomeration of companies in diverse industries while localization economy indicates the agglomeration of companies in a specific industry (Glaeser, 2012, p.39). Both of them influence urban economy through mechanisms of agglomeration economy, including learning, sharing and matching (Puga and Duranton, 2003). Duranton and Puga (2001) argue that nursery cities with diverse industries help individual industry discover the optimal production process, after which the specialized cities appear to be more cost-effective. But the question is, what if a city is specialized in the wrong way?

A major cause for Detroit's failure lies in its outdated one-fold industrial structure developed in wrong ways under global change. Three vertically integrated automobile factories have dominated Detroit's economy, a result of closed production line created by Henry Ford (Glaeser, 2012, p.44). This technology, however, has damaged Detroit's economy in the long run by eliminating demands for knowledge and creativity, vital factors in today's economy (ibid) and further left Detroit with abundant poorly skilled labors (Glaeser, 2012, p.45). Under globalization, Detroit's closed industrial structure has generated a poor labor pool which dragged labor matching mechanism down and engendered the loss of knowledge flows and firm investment. With such structure, Detroit was unable to overcome economic crisis and ended up with bankruptcy in 2013 (Nathan, B. and John, G., 2013).

Also, the overly large scale of local factories damages Detroit's economy. Firstly, this has stifled the existence of other small firms (Koven et al., 2018), which are more promising for the changing economy since they can expand when primary industry falls (Glaeser, 2003, p.16). The less number of companies decreased the dynamics of learning and sharing, as well as competitions that are the essential merit of cities (Glaeser, 2012, p.45). Secondly, this has generated a terrible performance of Detroit employment with high unemployment rates of 9.3% in 2016, much higher than the national average of 4.4% (Koven et al., 2018, p.33). A rule concerning cities in 1977- 2000 claims that when the ratio of the number of company to labor increased by 10%, the growth of employment accelerated by 9% (Glaeser, 2012, p.54). Thirdly, factories gradually moved to suburbs to reduce cost in the twentieth century due to its large scale, thus decreasing the urban density and agglomeration mechanisms (Glaeser, 2012). Therefore, the scale of Detroit's factories has limited economic growth.

4. People-Based Strategy or Place-Based Strategy? Ignored Human Capitals

Infrastructure, housing and human capital are all vital factors for economic growth. Among them, the divergent economic performance of successful cities and Detroit is mainly derived from human capital (Glaeser, 2012). The study of Wolman et al. (2008) shows that the increase of 1 percent in population with college degree engendered 0.6% growth in employment from 1990-2000.

Detroit has focused on infrastructure instead of human capitals. In terms of U.S. Census, only 14.2% of Detroit's residents possessed a bachelor's degree or higher in 2015, around 50% of the rate in Michigan, rendering Detroit less competitive in the knowledge economy era (Koven et al., 2018). The focus of infrastructure, however, didn't revive Detroit's economy. Although infrastructure itself is beneficial in mitigating agglomeration diseconomies (Gibbons, 2017) and helping economy run smoothly (Melo et al., 2013), the paramount solution to Detroit's decline is not related to infrastructure.

Firstly, mass infrastructure projects wasted Detroit's finance (Glaeser, 2012, p.60), exemplified by the traffic project

People Mover. The mechanism of traffic infrastructure benefiting economy is through reducing congestion and closely linking workers and companies (Gibbons, 2017). However, Detroit's bus system was already enough for citizens' demands and congestion hardly occurred (Nathan and John, 2013). The real passengers in People Mover were far less than the anticipated number while $8.5 million per year and $0.2 billion in 1987 have been invested in that project (Glaeser, 2012, p.58).

Secondly, the trade-off between downtown/riverfront building-based development and neighborhood development has harmed Detroit. Detroit spent more than 87% of its economic development funding on high-end projects in core urban area at the expense of neighborhood interests from 1983-1985 (Koven et al., 2018, p.50). For instance, the construction of Poletown Plant led to the demolition of 1400 houses, 2 schools and 114 small businesses (Glaeser, 2012, p.59; Koven et al., 2018, p.49). However, instead of increasing 6000 jobs as anticipated, Poletown only employed 1600 workers in 2016 (Koven et al., 2018, p.49). In essence, the target of place-based strategy is to strengthen agglomeration economy, attracting external investment and reaching Pareto improvement (Scott and Storper, 2015). Nevertheless, Detroit's placed-based strategy was a zero-sum game that benefited big business who crowded out neighborhoods and small businesses, and refused to aid outlying neighborhoods as Boston did, resulting in the continuing decline of Detroit (Koven et al., 2018).

5. Consumer City or Productive City? Politically Radical Actions Harmed Talents

Productive cities grow due to the investment of firms who believe the economic returns are higher, while consumer cities prosper simply because people want to live there (Glaeser, 2003, p.17). People in productive cities may leave when the asset bringing high economic returns loses its value, while those in consumer cities would strive to innovate and make cities thrive again (ibid). Therefore, it's vital for cities to foster a pleasant social environment to attract people beyond wages.

Like many other successful cities, Detroit used to be a productive city relying on certain asset (Glaeser, 2003, p.14) while in new era, Detroit failed to foster a favorable environment for consumers as others did. More specifically, the failure of constructing consumer cities isn't simply an economic issue, but is also derived from radical actions with political intentions (Glaeser, 2012, p.55).

The politically radical actions conducted by government damaged Detroit's economy through ethnicity segregation and expulsion of wealthy citizens and companies (Glaeser, 2012, p.56). Mayor Coleman Young was a radical racist speaking for the black race, with policies that drove the white people out, from 55.5% of the total population in 1970 to 11.1% in 2008 (ibid). Besides, the income tax law aiming at increasing equity of redistribution expelled the rich citizens and companies with potentials to revive Detroit's economy (Nathan and John, 2013). The paramount issue faced by Detroit, however, should be the growth of total fortune and industrial reinvention based on firm investment and human capitals instead of the division of current wealth that drove people out (Glaeser, 2012).

6. Conclusion

By outlining explanations on the economic performance in Detroit, this article discovers that human capital is the most influencing factor. With the concentration on infrastructure instead of human capital, Detroit's economy has fallen because of the loss of smart people, the mass number of unnecessary infrastructure projects, the loss of small and dynamic companies, and the incapability of developing diverse industries that cater to the global change. Additionally, the failure of Detroit’s economy also originates from social environment and political actions, where politically radical actions in Detroit have driven abundant talents out.

References

[1] Boston Planning and Development Agency. 2020. Boston's Economy. [Online]. [Accessed 22, March 2021]. Available: http://www.bostonplans.org/research-publications.
[2] Duranton, G. and Puga, D. 2001. Nursery Cities: Urban Diversity, Process Innovation, and the Life Cycle of Products. The American economic review. 91(5), pp.1454-1477.
[3] Gibbons, S. 2017. Planes, Trains and Automobiles: The Economic Impact of Transport Infrastructure. SERC Policy Paper 13.
[4] Glaeser, E. L. 2003. Mother of Reinvention. [Accessed 22 March 2021]. [Online].Available:https://economyleague.org/uploads/files/122997552711640827-mother-of-reinvention-how-boston-s-economy-has-bounced-back-from-decline-time-and-aga in.pdf.
[5] Glaeser, E. L. 2012. Triumph of the city. London: Pan.
[6] Helsley, R. and Strange, W. 1990. Matching and Agglomeration Economics in a Sytem of Cities. Regional Science and Urban Economics. 20, pp.223-248.
[7] Huggins, R. 2016. Capital, institutions and urban growth systems. Cambridge Journal of Regions. Economy and Society. 9(2), pp.443-463.
[8]Koven, S. G., Koven, A. C., Taylor and Francis, G. 2018. Growth, decline, and regeneration in large cities: a case study approach. New York: Routledge.
[9] Melo. P.C., Graham, D.J. and Brage-Ardao, R. 2013. The productivity of transport infrastructure investment: A meta-analysis of empirical evidence. Regional Science and Urban Economics. 43(5), pp.695-706.
[10] Nathan, B. and John, G. 2013. How Detroit went broke: The answers may surprise you — and don't blame Coleman Young. [Online]. Detroit Free Press. [Accessed 22 March 2021].Available:https://www.freep.com/story/news/local/michigan/detroit/2013/09/15/how-detroit-went-broke-the-answers-may-su rprise-you-and/77152028/
[11] Puga, D. and Duranton, G. 2003. Micro-foundations of Urban Agglomeration Economies. NBER Working Paper 9931.
[12] Scott, A. J. and Storper, M. 2015. The Nature of Cities: The Scope and Limits of Urban Theory. International journal of urban and regional research. 39(1), pp.1-15.
[13] Storper, M. 2010. Why Does a City Grow? Specialisation, Human Capital or Institutions?. Urban Studies. 47(10), pp.2027–2050.
[14] Storper, M. 2013. Keys to the City: how economics, institutions, social interactions,and politics shape development. Princeton University Press, Princeton. Chapter 1.
[15] Retooling for Growth: Building a 21st Century Economy in America's Older Industrial Areas. Washington DC: Brookings.
[16] Yeung, H. 2009. Transnational Corporations, Global Production Networks, and Urban and Regional Development: A Geographer's Perspective on Multinational Enterprises and the Global Economy. Growth and Change. 40(2), pp.197-226.