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Back to the City

Why New Economy Companies Are Seeking Urban Locations

*"...If you understand the world's cities, you understand where the world is moving,"
(Muoio, 2000)*

Businesses are all about finding people these days. They talk about the talent shortage or the war for talent. People are job-hopping like never before; two years is a long time to stay at a company in Silicon Valley. Hiring and recruiting costs are one of the highest business expenses for technology companies. And so, companies have realized that they need to go where the talent is: cities.

The talent-driven companies of the new economy require a large and diverse pool of talent, which is exactly what the city can supply. Cities have the advantages of size and diversity of people and services among their many benefits. They also have the advantage in terms of human interaction and ideas; the chance for interaction with these talented, diverse people—as customers, competitors, or collaborators—is high in the city. And this interaction is a catalyst for ideas and innovations, the currency of the new economy.

But if cities have (and have historically possessed) all of these assets, why do we see huge, sprawling cities today? I blame the trend of separating people and economic activity. Central cities have essentially been in decline for the last several decades with suburban migration of people and businesses. Decentralization was happening before WW2, but it was the use of and design for the automobile that really spread our cities out. However, in recent years, there has been a trend for more people and new economy companies to locate in the cities. I'd like to examine the corporate factors for the current popularity of the city.

Shape of the Early Industrial City

Prior to the automobile, the city was a compact device. In the nineteenth century, water and rail were the prevalent means of transportation, so the best location for industry, particularly firms involved in international trade, was close to canals, ports or rail terminals. Business concentration, in turn, required concentrated housing for the working population, as most employees traveled to work on foot throughout

most of the nineteenth century. (Unfortunately such concentrated housing often took the form of overcrowded and unsanitary tenements,) (Levy, 2000). This can be seen in the housing layout in various Pittsburgh neighborhoods—dense neighborhoods formed around steel mills and manufacturing plants; work and living arrangements were closely linked.

Industrialization also vastly increased the city population. Improvements in agricultural productivity drastically decreased the labor requirements on farms, freeing the people or “disrupting the rural economy”, depending on how one looks at it. But essentially, fewer and fewer people were needed to grow food in the countryside. The farm boys were not needed and increasing agricultural productivity meant that there was enough food to support their transition to other occupations (Levy, 2000).

This rural to urban migration, along with high US immigration, gave cities huge numbers of potential workers in the nineteenth century, fortuitously matching the labor-intensive conditions of early industrial production. Growth of manufacturing in the cities meant a wealth of low skilled jobs in machine tending and materials handling that required little formal education from employees (Levy, 2000). The right workers and the right type of work were in the same location—the cities.

Urban Architecture and Concentration

The shape of the early industrial city tended to be concentrated, but not tall like our modern cities. It was difficult to put up buildings much higher than 100 feet because they were supported by their walls. Past that height, the upper stories would be too heavy for the lower floors to bear (Kunstler, 1994). At the same time, buildings were still more than one floor. Urban factories relied on steam power, transferred through the building with shafts, pulleys and leather belts. These devices effectively limited the space the factory could inhabit and so favored multistory buildings (Levy, 2000).

The Office Building

The character of the city began to encompass the early office jobs near the end of the nineteenth century. Steel frame construction made skyscrapers architecturally possible and elevators made them commercially feasible. The end result was growth in office employment and the capacity to put huge numbers of jobs in a very small

space (Levy, 2000). Tall buildings increased real estate values in cities—it vastly increased the amount of space that could be rented—encouraging big companies to invest in their own buildings for the added rents of the extra floors (Kunstler, 1994). This further increased business concentration in cities.

Early Suburbs

While the working class was clustered in the city, those who could afford to live in the suburbs had several reasons for doing so. Industry was one reason: prior to the introduction of zoning in 1916, factories could locate anywhere and would turn the surrounding area into a slum. Furthermore, suburbs were romanticized as charming little hinterlands without economies- separate from work and workers (Kunstler, 1994).

Eventually, transportation improvements began to allow for more dispersed development on a wide scale. Streetcars began as unwieldy horse-drawn affairs in the mid 1800s. They were not much faster than walking, but they were cheap, “a boon to the masses”, and allowed lower density development along corridor avenues. Electric trolley technology became available in the mid 1880s and quickly replaced the old streetcar system. Streetcars expanded the “walking radius” of a city (Levy, 2000); surrounding areas were now feasible living locations for the working class, because they didn’t require an expensive carriage- they could just ride a streetcar. The commuting era was born.

It is important to point out that these early suburbs were very much people-centered. The railroad suburb had the majority of houses sited within easy walking distance of the railroad station; only the wealthy, who could afford horse and carriage, would locate further away than walking distance (Mumford, 1961). The suburbs were also a good spatial match between people and business locations as most people were an easy distance from their work.

There was some form of firm relocation as people moved farther out from the center of the city. Retailers followed their customers and industrial firms would leave the city for a variety of reasons. Cheap land was a factor, as was the convenience of having a facility located along the rail line, which decreased hauling costs. Factories may also have moved in order to escape the labor unions, which were strong in the

cities (Levy, 2000). Communication technologies also allowed for a wider spatial distribution of business activities, these were the telegraph (1844) and the telephone (1876). When added to the railroad, these technologies meant that many business activities could be conducted remotely. But despite these initial trends toward decentralization, the city still retained a fairly concentrated form.

The Great Automobile, WW2, and FHA mortgages

The early suburbs tended to co-exist with the city. As long as the railroad stop and walking distances controlled suburban growth, the suburb had a form. But the modern suburb has a decidedly anti-urban form. The car is the death of the suburb. As soon as the motorcar became common, the pedestrian scale of suburbs disappeared, and with it, most of its individuality and charm (Mumford, 1961).

Widespread use of the automobile changed the type of person who lived in suburbs and where they were located. Before WW2, the suburbs became accessible by car, but were generally out of the price range of the middle class. But after the hardships of the war and the depression, there was an idea in America that people deserved a nice little house with a picket fence. The government moved this idea forward with the FHA and VA mortgage programs, to the extent that people could practically “sleepwalk into ownership”. When combined with the mass production houses that lowered house-building costs, suburban houses became affordable for even the working class and young married couples. Monthly mortgage payments could even be lower than the cost of renting an apartment in the city or maintaining an older city house. With this and the tax deduction for mortgage interest, the suburban home was often the only economically rational choice (Kunstler, 1994). And if suburban housing developments were the cheapest living option, they effectively became the only housing option.

Firms deserted the cities as well. Corporations were often following their labor force to the suburbs. At first they found it hard to leave the web of face to face contacts that only the city location could provide, but the suburban business community grew, and sometimes surpassed the one remaining downtown (Levy, 2000). Changing production methods are another factor. Industrial plants no longer favor the multi-story shape of the older city. Cheap land in the suburbs and rural areas accommodates the sprawling one-story form. In addition, newer highway

infrastructure, (often built for firms in the region as a location incentive), accommodates easy road transport (Levy, 2000).

For a majority of America's cities, urban sprawl is rampant. Ironically, because of business location in the suburbs, many times more people commute between suburbs than into the city (Kunstler, 1994). Urban sprawl has many evils, but for the purposes of this paper, I'll focus on the spatial mismatch between people and economic activity. Lewis Mumford describes an ideal modern city that looks quite similar to the early industrial city: "The only effective cure for urban congestion is to so relate industrial and business zones to residential zones that a large part of their personnel can either walk or cycle to work, or use a public bus, or take a railroad train," (Mumford, 1961). And this is just what the pre-automobile city allowed. Some of what I consider to be America's best cities fit Mumford's suggestion quite well. New York is one, as is Seattle, a city that has a large quantity of housing close to downtown, one of the best bus systems in the nation, and plans to build a light rail system.

Enter the New Economy

While some people have always been sold on the city, there is hope that even suburbanites are finding it appealing once more. "People are streaming into urban centers in droves, making megacities more prevalent. Even retirees are moving back to cities," (Muio, 2000). Perhaps this popularity stems from the fact that city life optimizes the possibility of contact between people, especially different kinds of people, whereas suburban separation of people and activities eliminates human contact (Kunstler, 1994). Naturally, the city is more dynamic, and people are finding that they want this dynamism in their lives.

Companies require dynamism, particularly the innovation-driven companies of the new economy. But what is the new economy? It is built on high tech, but it also extends to a new work ethic, management style, and framework for thinking about goods and services. For example, Kodak is more than film; it seeks to encompass all aspects related to imaging. Another example is the free agent phenomenon, where an employee works on specific projects at various firms, but basically has little firm loyalty. More importantly for cities, high tech companies are economic winners with high salaries and the potential to grow the waning tax bases.

New economy companies have several important reasons for wanting to locate in the cities. I will describe three: innovation, talent and markets. All three factors are interrelated, and all three are components that help companies to thrive. Economic activity begins with markets, and it makes sense for firms to locate close to their markets. Talented individuals are the best way to ensure that a firm makes the best products to serve the consumers. Innovation is all-important because it allows firms to develop new and improved products to briefly capture a huge market share, to the tune of monopoly-high profits.

Cities As Markets

We begin with markets. City consumers are a demanding crowd, hard to please, which turns out to be an advantage for businesses trying to meet their needs. As Michael Porter's Diamond Model of competition points out, specialized demand is a component of firm competitiveness (quoted by Ruckman, 1998). The power of urban consumers extends far beyond the city limits; they're always looking for the next big thing (Muio, 2000).

Firms are forced to be innovative to meet the needs of these customers, and these innovations can prove profitable down the road, when the rest of the country catches up to the trends. Vigilante Advertising, a firm that concentrates on urban markets, calls cities "magnetic epicenters"; hot zones that influence flows to the social mainstream. They argue that by understanding urban markets, you can understand, capture, and create other markets. "Urban centers are home to a critical mass of consumers who live, think and act differently. They force you to recalibrate your approach to them," (quoted in Muio, 2000).

The other part of the urban equation is that big markets mean specialization. Historically, the growth of urban places and specialization of labor have gone hand in hand; having a large number of people in a place allows greater specialization and creates demand for these specialized services and products (Levy, 2000). The sheer numbers of people in a limited area means that businesses will have demand for specialized services, and when firms develop specialties, they may later be demanded outside the city.

Talent

There tend to be more talented individuals in urban areas, if only because of population density. What that means to the companies is that they will have a lot of different kinds of people to draw upon when they are located in the city, with lower costs for finding them than if they had to do a nationwide search (which, of course, they still do.)

Talent is all-important these days and it's moving fast. A recent article in the new economy magazine Fast Company had this to say: "...other than your brand and your relationship with customers, your only asset may be the smart people who work in your office. And these smart people are totally and completely able to adjust to a fundamentally different kind of business within a week... how long would it take your smartest and most-driven people to find a new job?" (Godin, 2000). The intense job-hopping of recent years means that it's important for companies to have a ready supply of potential workers to fill the gaps.

Why does talent reside in a city? As Richard Florida often points out in his classes, cities have the advantages of size and diversity among their many benefits. They offer dynamism, culture, amenities, entertainment, and people clustered in a small area, all factors that are a strong draw for the young techie. These days, employees are demanding a lot from their companies, and companies can't afford to provide all of the amenities that their employees want, making the city a good choice if they want to keep their people.

However, it's not always necessary to keep the people. The ranks of private and corporate consultants are swelling. Some of these are company breakaways, the people who learn all or part of the work of a company and leave to produce the work on their own (Jacobs, 1969), while other have realized that they prefer being their own boss. Consultants are the ultimate talent-on-demand. They charge a premium for their services, but they are (ideally) experts in their business and are not retained past the usefulness of their skills. Consultants and short-term employees may cost a bundle, but they ten dot save the company money in the long run because they are released when their skills are not needed.

Diversity is another factor in the talent equation. The power of urban spaces is that they are compact geographic environments that attract people from various cultures who have different attitudes and mind-sets. When people migrate to cities, they fuse with everyone else, adding their own cultures, their own nuances and attitudes. Urban life is in a constant state of flux. It's forever reinventing itself (Muoio, 2000). There is a greater chance of meeting people in the limited space of a city because it pushes people together. The crowding could lead to increased innovation and creativity because of the opportunities to interact with more and more diverse people.

"The very traits that have made the metropolis always seem at once alien and hostile to the folk in the hinterland are an essential part of the big city's function: it has brought together, within a relatively narrow compass, the diversity and variety of special cultures: at least in token quantities, all races and cultures can be found here, along with their languages, their customs, their costumes, their typical cuisines..."

(Mumford, 1961)

The Company With the Best Ideas Wins

When the different types of people in a city interact, the result is creative dynamism, which is exactly what innovation-driven companies need. The city is a network and marketplace for ideas (Kunstler, 1994). Companies look for the newest innovations, because being the first one to bring a new technology to market can gain them monopoly-level profits. Startups operate under a limited timeframe with which to prove themselves and either go public, get bought out, or go under.

Living in the city may stimulate the creative impulses of a firm's employees. According to Tony Hiss, the places where we spend our time affects the people we are and can become. Our day-to-day circumstances have an impact on our sense of self, our sense of safety, the kind of work we get done, and the ways we interact with other people (Hiss, 1991). Clearly, if interactions are the key to innovation, innovative companies want to maximize this. Tech companies want multidisciplinary interaction so much that teamwork is even the preferred method of office layout. The CEO of Forrester Research shares a typical story: "...People from different disciplines would sit around and share what was going on... [one day I moved into a pod and]... the new team lit the company on fire. It creates a much higher bandwidth of communication, and it helps people form relationships faster," (quoted in Schwartz, 2000).

Linking Cities to the New Economy

How can cities ensure that they are viable in the new economy? In essence, they already are, it's just that some haven't realized it yet. Some new economy companies think that the digitization of the economy in the 21st century promises to bring the kinds of economic benefits to Americans that mechanization brought in the 20th... (Progressive Policy Institute, 2000). However, I think it might also be the new management structure that emphasizes greater communication and innovation.

Cities play a key part in this process. They bring together diverse, talented people, resulting in creativity and innovation. They also provide a match between the location of people and jobs. My hope is that the talent needs of the new economy will shift the focus back to our cities and help us reexamine the ways we are living.

Lewis Mumford sums it up quite well:

"A civilization as complex and many sided as ours needs such a stable urban organization, capable of attracting and holding in close cooperation many millions of human beings, to carry on all its activities..."

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