Essay

Micro-Enterprise Rules the Day

Jacobs's economics is based on the diversity of natural systems.

Mark Lovewell

Despite Jane Jacobs's evident reluctance to call herself an economist, she has dedicated a good part of her writing to economics, starting with sections of her classic work on urban planning, *The Death and Life of Great American Cities* (1961), and continuing with three subsequent books. Her interest, she says, was sparked by a desire to answer two closely related questions: "why some cities grow and why others stagnate and decay." For Jacobs, these questions underlie virtually all inquiry into human advancement.

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In the first of her books on economics, *The Economy of Cities* (1969), she even applies these questions to prehistory, with a portrait of a city called New Obsidian, which was her invented setting for the discovery of both crop-based farming and animal husbandry. "While the city is imaginary, I shall be strict and unfanciful in describing its economy," she notes, before envisioning the dynamics of trade and innovation that could produce an urban-based agricultural revolution. New Obsidian is not just a piece of historical whimsy; the framework of development Jacobs presumes for this mythical city is exactly the same one she has used in a host of other contexts to explain economic growth. It is a framework in which cities take centre stage, thanks to the multitude of micro-enterprises they contain.

Jacobs describes her framework of development with a set of ecologically based metaphors. Indeed, she can take credit for having helped pioneer the use of these metaphors in economics. With the aid of her perspective, economies can be seen as self-refuelling ecosystems in which individual micro-enterprises flourish or decay thanks to system-wide feedback messages as well as the operation of ever-changing networks of mutual interaction. The rationale behind such a view is laid out in the last of Jacobs's economics books, *The Nature of Economies*. Appearing in 2000, *Nature* finished a task of model building begun almost 40 years before, when she first introduced her approach in the closing pages of *Death and Life*.

Jacobs has also had a knack for presenting economic ideas in pithy, accessible prose—a feature not often associated with economists. "Cities are not ordained, they are wholly existential," she observes in one classic aphorism that aptly sums up her perspective. Similarly, "poverty has no causes. Only prosperity has causes." In practice, she sees individual creativity and market diversity driving cities' prosperity, through waves of import-replacing innovation. As local firms improvise ways of making items that were previously imported, the range of a city's economic output gradually increases. This diversification, and the improvements in production methods that go along with it, gradually result in new exports for the city as well. It is a view of economic growth fully applicable to the present day, when automated production and multiple outsourcing put an ever greater premium on business flexibility.

From a Canadian perspective, Jacobs's work has intriguing parallels with the theories of Harold Innis, whose studies in economic history focused on a series of staple resources (fish, fur, lumber and wheat) that shaped Canada's early development. Like Innis, Jacobs stresses the spatial dynamics of economic growth. While Innis highlighted the tension between imperial metropolises and distant colonial hinterlands, Jacobs concentrates instead on the symbiotic relationships among dynamic trading cities and outlying supply regions. Both thinkers are particularly interested in explaining the economic context of technological change. In so doing, Innis's feet are primarily planted in the pre-industrial era. Jacobs's framework, in contrast, is far more universal in its relevance. Using it, Jacobs can trace far-flung genealogies of economic influence from age to age and continent to continent, as new cities expand thanks to their embryonic trade with older ones. Toronto, for example, owes the origins of its current prosperity to 19th-century trade links with British cities such as London. London is similarly indebted to its medieval trade with Venice, which, in turn, is indebted to Constantinople, whose own economic origins can be traced back, with just a few more iterations, to the very earliest Ur-like cities of the Near East—their own development possibly paralleling that of Jacobs's fictional New Obsidian.

Such entertaining mental exercises show the wide applicability of Jacobs's economic model. But in undertaking them, one must be aware of the shortcomings in her reasoning. So great is Jacobs's desire to highlight the virtues of city-based small firms and market diversity, for example, that she typically overlooks the possible advantages of large firms, consolidated markets and standardization. Her monetary views, outlined in her second economics book, *Cities and the Wealth of Nations: Principles of Economic Life* (1984), are a classic illustration. To the extent that national economies are artificial concepts, says Jacobs, national monetary systems make no sense. Currencies should instead be local: "Individual city currencies indeed serve as elegant feedback controls," she notes, "because they trigger specifically appropriate corrections to specific responding mechanisms."

City currencies could indeed ease firms' adjustments to trade-related shocks. But few of these micro-currencies actually exist. The reason is straightforward: the benefits of localized adjustment are only one piece of the complicated puzzle needed to define the optimal size of currency areas. Businesses, large and small, are also concerned with minimizing the potential expense of exchange rate uncertainty. That is the primary reason why, if anything, the move today is in the opposite direction, toward transnational currencies such as the euro.

Such oversights have not stopped Jacobs's ideas from having a considerable impact in economics. Richard Florida and Edward Glaeser, for example, have adapted her ideas in their own models of city-based growth and economic development. Nobel laureate Robert Lucas, too, has publicly credited Jacobs in his work on what has become part of new growth theory. In her honour, he coined the term "Jane Jacobs externality" to refer to the positive productivity effects of urban clustering.

Jacobs has, in recent years, extended the thinking behind her economic framework to an entirely new setting. Again, parallels can be drawn with Harold Innis. Like Innis, she stepped outside economics mid career into a separate discipline. Yet, for both thinkers, these departures represented an identifiable extension of past interests. Just as Innis refitted the analytical tools he had used in economics to craft an innovative communications theory, so too was Jacobs able to recast her economic insights to create a new model of social ethics.

That new model falls somewhat outside the scope of this essay. All that need be said about it here is that it posits a sharp division in human civilization between guardian, or governmental, activities and trader, or commercial, ones. As outlined in her major work on this subject, *Systems of Survival: A Dialogue on the Moral Foundations of Commerce and Politics* (1992), the model works as long as the guardian and trader "syndromes," as she calls them, remain well separated. If they are allowed to commingle, "monstrous hybrids" result, which lead inevitably to ethical decay. Jacobs's account of these issues in this work is stunningly original, endlessly provocative and absolutely brutal in its decimation of an array of ideological shibboleths.

It is a version of the ethical decay outlined in *Systems of Survival* to which she returns in her most recent book. But there is a world of difference between *Dark Age Ahead* and most of her former work. Departing from her usual measured prose, *Dark Age* brims with dismay, and even occasional rage, at what Jacobs sees as

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present-day lapses of ethical judgement in North America, and to a lesser extent in Europe. Most strikingly, *Dark Age* also contains a doomsday prediction—one that Jacobs admits is more in the way of a cautionary possibility than a full certainty. In an era when the west enjoys unparalleled prosperity and global influence, she argues, our belief in the inevitability of progress is blinding us to signs of cultural decline all about us. If left unchecked, this decline could turn into social disintegration every bit as severe as the Dark Ages in Europe following the fall of the Roman Empire.

This astonishingly dire warning needs to be well buttressed with rational argument. But, ironically, the logical elements of the ethical framework that Jacobs devised in *Systems of Survival*, which might have helped to do so, are largely missing here. Instead, she first cites a set of historical comparisons. When, in the past, major cultures have lost their internal moorings, she contends, it has been due to an unwillingness to respond forthrightly to external shocks. These cultures, even on the brink of steep decline, have chosen to ignore internal rot in the hopes of keeping untouched various problematic cultural assumptions. For the late Roman Empire, a reluctance to fix a broken tax system caused army legions to take rule into their own hands. For 15th-century China, a new regime's xenophobic fear of outside trade led to self-imposed isolation and a turning back to the past. For 21st-century North America, a sterile view of efficiency is privileging a short-sighted corporate agenda over the broader needs of family and community, while moral integrity is dissipating within the professions and intelligentsia.

Jacobs's account of contemporary ethical decline starts with a discussion of the factors affecting the nuclear family. As always, she chooses to steer clear of arguments relating to personal morality, preferring instead to focus on wider issues—in this case, what she sees as growing economic inequities. The living standards of the average North American family, she asserts, are far worse than a generation ago. Apparent gains have been won only by a radical expansion in labour force participation, especially for women. At the same time, basic needs such as housing and transportation are less affordable than in the past. A price bubble in many urban real estate markets has put house purchases out of the reach of a large proportion of the population, at a time when government spending on subsidized housing has plummeted and rampant suburbanization has increased a costly dependency on the automobile. Jacobs predicts that, as families face these deepening challenges, new types of households will emerge, in which family bonds are replaced by more coercive hierarchies. She is conveniently vague on the particulars of this supposed trend, but hints that it might be connected with a resurgence in religious fundamentalism.

All of this is highly questionable. Higher labour force participation is not necessarily a sign of increased economic hardship, but rather could reflect changing gender roles and increasingly flexible labour markets. As for housing costs, today's price bubble will naturally be followed by a bust—a future turn of events to the distinct advantage of low-income buyers. Automobile use is often a function of consumer preference as well as of perceived need. Finally, it is far from clear that the only viable replacement for the nuclear family is some new form of restrictive religiosity. North American notions of family have shown tremendous adaptability in recent decades. Religious fundamentalism, if anything, is allied with the nuclear family, rather than being its rival.

Jacobs's comments on what she views as a moral decline in higher education amount to the charge that, in today's increasingly commercialized world, any semblance of education that caters to students' thirst for understanding has been replaced by credentialism and the sterile acquisition of human capital. These are common enough criticisms. Jacobs's version offers little that has not already been said by many others. Like most of these critics, she underestimates the extent to which the recent evolution in the curricula of universities and colleges has been driven by student demands for more career-focused education. And in her desire to uphold some past ideal of "real education," she chooses to ignore the crucial benefits flowing from the expanded socioeconomic reach of North America's post-secondary system in recent decades.

Her patchy comments on the uses and abuses of the scientific method are even more unsatisfying. Though she gives what she calls "a few illustrative instances" of how fundamental values are betrayed by today's scientific establishment, Jacobs's examples (predictions about road use made by North American traffic planners, or off-the-cuff comments by professional economists to explain monthly employment numbers) are not only minor and arbitrary, but they repeat, in strikingly inflammatory language, past criticisms she has made of what she interprets as conventional thinking.

On the problems of municipal tax systems, and the morally corrosive effect of these systems on governance, Jacobs has more substantial things to say, especially regarding her adopted home of Toronto. Again, however, there is little that has not been spoken about many times in recent years. She focuses on the fact that municipalities in Canada have no constitutional role, so that they are at the whim of provincial governments. Due to a spate of media attention, this is a topic now familiar to most urban Canadians, as are the growing fiscal woes of Toronto following funding changes by a former provincial government in Ontario. American readers will be misled if they presume a direct application of her comments to cities in the United States. But Jacobs is far too eager to generalize her locally based arguments to a wider setting, with passing references to New York City's financial problems as if they were generally representative of American conditions. Municipal taxation, especially from a continent-wide perspective, is a complicated topic; it cannot legitimately be treated through a mere extension of one city's recent experiences.

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Jacobs's final example of moral decay is the subversion of self-policing in North America's professions—particularly in accounting. This is one of the most substantive discussions in this book, updating her treatment in *Systems of Survival* of the rash of corporate mergers and acquisitions during the 1980s. In *Dark Age*, she argues that this mania had a significant impact in causing the well-publicized corporate debacles of the early 2000s. Jacobs is blunt in her criticisms of the large auditing companies, whose own penchant for mergers she partly blames for these debacles:

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> Auditors themselves embarked upon frenzied merging and consolidating… The result was five enormous multinational accounting firms… All five of the giants have now been mentioned in the press as alleged collaborators with corporations whose columns of figures couldn't support their houses of cards.

But Jacobs also discusses more general causes of the difficulties now faced by the accounting profession—particularly the increasingly amorphous definition of capital during a time when intangible capital such as knowledge is becoming ever more crucial. In the debates now occurring within the profession over substantive issues, as she readily admits, "this is not a matter of good guys versus bad guys."

But, for Jacobs, the signs of moral decay in our culture are nonetheless very real, and they are growing. If one agrees with her that this decay is already upon us, can it be stopped? Jacobs seems pessimistic about the chances of a solution—largely because of her belief that our society's capacity for nurturing individuals is fast shrinking. "Nurturing and instructing human beings in a complex culture demands redundancy of mentors and examples," she contends. "Redundancy is expensive, but indispensable."

Unfortunately, due to our obsession with narrow definitions of efficiency, she says, human redundancy is increasingly rare. The likely effects will be catastrophic: "When a culture is rich enough and inherently complex enough to afford redundancy of nurturers, but eliminates them as an extravagance or loses their cultural services through heedlessness of what is being lost, the consequence is self-inflicted cultural genocide."

Are the benefits of human redundancy as much in decline as Jacobs suggests? She provides no convincing support for this sweeping statement—one more piece of evidence of the lack of underlying argument in *Dark Age*'s major thesis, and one more reason why this book does not stand up against Jacobs's others. It is too idiosyncratic, too much a repetition of past refrains, too scattered in its arguments. Despite Jacobs's frequent references to Canadian conditions—and particularly those in Toronto—she now seems most concerned with America's political delusions and its social and economic discontents. Those who wish to emulate the U.S. achievements, she suggests, should reconsider. But her portrayal of American society is so one-sided, it is hard not to think that in giving this advice she overplays her hand.

Interestingly, Jacobs has incorrectly predicted American prospects before. In *The Economy of Cities*, she forecast impending economic stagnation for the United States, adding that new-found prosperity in the Sun Belt states was nothing more than the artificial product of misconceived public subsidies. Such predictions made some sense in the context of Jacobs's own economic theories, since large national entities should, by their very nature, be plagued by the inefficiencies that come with political centralization. The fact that the United States, including its major cities, continues to benefit from its huge internal market is a telling counter-example to her own thinking.

Now again, in this new book, Jacobs's even grimmer predictions of a crumbling American empire fail to account for the ongoing vitality of the U.S. Her dark scenario could, of course, by some chance come true: American vitality could be sapped by some shuddering environmental, geopolitical or economic crisis, or the country's overreaching imperial ambitions could backfire in some shattering loss of confidence. But there are few plausible signs to suggest that the United States is currently experiencing a self-imposed decline so steep that a new Dark Age looms on the near horizon. Indeed, based on current evidence, it would be just as easy to paint a grandly optimistic scenario for the United States and its future prospects. After all, there is no necessary reason to think that the American empire has yet reached its apex. Nor is it certain that the country's long-term growth in prosperity (and the positive impact of this growth on global living standards) is anywhere near its end, or that the ever-widening American lead in scientific and technological innovation is about to be erased.

In all likelihood, the future will lie somewhere between these two scenarios. One result will be that the importance of *Dark Age Ahead* within Jacobs's otherwise remarkable corpus will quickly wane. Despite the short-term attention that will be paid to her eye-catching talk of imminent cultural collapse, the sibyl-like prophecies in this book will not be seen as credible, given the lack of that trademark crisp logic so abundant in her previous works.