
The Economy of Cities

Jane Jacobs's Overlooked Economic Classic

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More than a decade after her death in 2006, there is still no urbanist better known today than Jane Jacobs. Her forceful, penetrating critique of midcentury urban planning in the United States has had a profound and lasting impact globally. No surprise, then, that urbanists around the world in 2011 celebrated the fiftieth anniversary of the publication of her book *The Death and Life of Great American Cities*, lauded by some as among the one hundred most influential books of the twentieth century.¹ And in 2016 on the one hundredth anniversary of Jacobs's birth, there were books, biographies, symposia, lectures, special journal issues, and documentary films honoring her life and work.

The year 2019 marked another Jacobs milestone: the fiftieth anniversary of the publication of what Jacobs considered her favorite book among those she wrote, *The Economy of Cities*.² But it is a book that few of even her most devoted followers have studied or even read, perhaps because it is more “technical” (as discussed later) than *Death and Life* and more explicitly concerned with economics. Indeed, as she related to me in conversation, she believed her main intellectual contribution to be in the field of

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1. See “The Non-fiction 100” 1999; “The 100 Best Non-fiction Books of the Century” 2009–19; “*Time* Magazine’s All-TIME 100 Best Non-Fiction Books” n.d.

2. “Indeed, her own favorite book was her first significant foray into the field [of development economics], *The Economy of Cities*” (Desrochers and Szurmak 2017, 3).

economic theory. *The Economy of Cities*, Jacobs announced in the book, is “my effort to develop a theory of city economic growth” (1969a, 3).

Unlike typical contributions to this area by more conventional economists, her exposition in *The Economy of Cities* contains no mathematical models, although there are a few schematic “equations” and several useful diagrams. It is full of relevant anecdotes and examples but has none of what most economists today would call “data.” Nevertheless, I believe her ideas and insights remain fresh and relevant. They are fresh where they depart from the mainstream economist’s focus on efficiency and equilibrium, and they are relevant for thinking about economic development based on innovation. Indeed, her ideas caught the attention of the Nobel Laureate in economics Robert Lucas, who wrote:

Or, putting the question in a better way: Is $g = 0.4$ [where $g > 0$ implies externalities of human capital exist] consistent with other evidence? But *what* other evidence? I do not know the answer to this question, but it is so central that I want to spend some time thinking about where the answer may be found. In doing so, I will be following very closely the lead of Jane Jacobs, whose remarkable book *The Economy of Cities* (1969) seems to me mainly and convincingly concerned (though she does not use this terminology) with the external effects of human capital. (1988, 37, emphasis original)

“Considerations such as these,” Lucas commented, “do not easily lend themselves to quantification. Here again I find Jacobs’s work highly suggestive. Her emphasis on the role of cities in economic growth stems from the observation that a city, economically, is like the nucleus of an atom: If we postulate only the usual list of economic forces, cities should fly apart. The theory of production contains nothing to hold a city together” (Lucas 1988, 38).

In the same year that *The Economy of Cities* was published, her article “Strategies for Helping Cities” (1969b), which was essentially a précis of the book, appeared in *American Economic Review*, one of the leading journals in economics. With the exception of Edward Glaeser,³ however, I am unaware of any other leading economist who has seriously followed up on her article or on Lucas’s observations about her, at least as far as cities are concerned.

Where *The Death and Life of Great American Cities* essentially concerns the nature and significance of living cities and why appreciating these things demands a radical reorientation and reform of urban planning, *The Economy of Cities* concerns the nature and mechanics of city-based innovation and economic development, in which the dynamic processes of exporting and importing constitute “two interlocking reciprocating systems” (Jacobs 1969a, 234).

3. See, for example, Glaeser et al. 1992.

The final chapter of *Death and Life*, “The Kind of Problem a City Is,” naturally segues into the first chapter of *The Economy of Cities*, “Cities First, Rural Development Later.” The former is an explicit characterization of cities as a problem of “organized complexity,” by which Jacobs means a problem in which a number of variables interact with one another to generate an orderly but unpredictable pattern and that involves “dealing simultaneously with a sizable number of factors which are interrelated into an organic whole” (1961, 432). The final chapter of *Death and Life* articulates and justifies her approach to studying and understanding living cities as complex systems.

The Economy of Cities, Chapter 1: “Cities First, Rural Development Later”

The first chapter of *The Economy of Cities* illustrates the book’s essential lesson—how organized complexity emerges, including both the city itself and the processes that arise within it—which the rest of the book generalizes to explain all urban-based economic development. In contradiction to received archaeological history, the chapter hypothesizes that large, complex settlements, not farming villages, must have been the origin of agriculture. But more important than this hypothesis, which may be right or wrong, are the two narratives the chapter contains that explain how organized complexity spontaneously emerges as the unintended consequence of purposeful, self-interested activity by resourceful traders, merchants, and entrepreneurs. Jacobs argues that long-term and economically sustainable development takes place through innovation, or what she terms “new work,” and that the conditions found in large, complex, and diverse urban settlements (which is another connection to *Death and Life*) are needed for that “new work” to take place.

In my opinion, from the perspective of social theory, chapter 22 in *Death and Life* and chapter 1 in *The Economy of Cities* are among the most important chapters she has written.

First, chapter 1 argues that the first true cities—Jacobs defines a true city as “[a] settlement that consistently generates its economic growth from its own local economy” (1969a, 262)—originated in Neolithic times as a consequence of resourceful hunter-gatherers with different endowments finding ways and places to engage in trade. To illustrate her thesis, Jacobs hypothesizes that a fictitious settlement, New Obsidian (inspired by the real ancient settlement Çatal Hüyük in southern Turkey), emerges when hunter-gatherers from various locations with different resource endowments congregate to trade raw obsidian, goats, grains, and in time the crafts (such as leather pouches and jewelry) that accompany this trade. The peaceful clustering and eventual settlement of geographically and socially distant persons with diverse backgrounds offer unprecedented gains from trade and other forms of peaceful association, which in time attract still more people and increase the size, density, and diversity of New Obsidian. Those who have settled there generate new exports based on the increasingly complex

division of labor (DOL) in New Obsidian, enabling them to buy more and novel imports. Producer and consumer goods that support exports (such as leather pouches) are well placed to become exports themselves, which, if they overcompensate for old exports that are lost in competition with other settlements, will increase exports overall. This increase in exports in turn allows a greater volume of imports, including more novel imports, which local entrepreneurs (although Jacobs does not use this term) may in time replace.

Jacobs details these processes in subsequent chapters of *The Economy of Cities*. The point here is that even though each person involved in this dynamic may deliberately plan with greater or lesser care every stage of his or her activities, the initial establishment and later growth of the city (in population, population diversity and density, and economic wealth) is not the result of an overall design.

Second, Jacobs explains in chapter 1 how the conditions created by density and diversity of a large settlement create an ideal environment for innovation. In one of her illustrations, some of the hunter-gatherers in New Obsidian find it more profitable to become “goat stewards” instead of continuing to rely on the catching of wild goats to meet the demand for fresh meat. Driven by self-interest, these stewards winnow out the more rambunctious goats and breed the more docile ones, which over time results in the domestication of goats as an unintended consequence. Jacobs argues that the same might have happened with different varieties of wild grain, stored in warehouses maintained by the new work of “grain steward.” Such innovations are logically tied to previous work but could not have been predicted beforehand.

I interpret Jacobs as arguing that for innovation to take place on a consistent basis and on a large scale, you have to solve two problems. First, the conditions have to facilitate ordinary people to make important, incremental discoveries and to implement them. This is difficult to do in villages or towns, which tend to be more tradition bound and where contact with outsiders is rare, but it is much easier in large settlements, whether New Obsidian or a city today, where people encounter novel knowledge, skills, and tastes on a regular basis. In small settlements, failure, a necessary and messy component of experimentation, is historically extremely costly. Second, once a discovery is made, it needs to be diffused among a great many people in order to have a chance to become widely known and practiced. Again, such diffusion is relatively difficult in small settlements, where change is relatively costly and where social networks tend to be more exclusive, thus hampering the spread of new knowledge.

In this way, a large city is much more likely than a village or town to solve the problems of discovery and diffusion. As a consequence, in addition to agriculture and animal husbandry, other social institutions will probably emerge in an urban setting, such as property law, new religions, numeracy, and literacy. Jacobs argues that these creative tendencies exist in great cities to this day. Thus, she denies that cities evolved through a progression from village to town to city and argues that in many cases the process was exactly the opposite.

On this point, she stresses that “cities are also primary economic organs” (1969a, 6). “The most thoroughly rural countries exhibit the most unproductive agriculture. The most thoroughly urbanized countries, on the other hand, are precisely those that produce food most abundantly” (7).

It follows from this thesis that rural productivity is built upon a foundation of city productivity, not the other way around.

Chapter 2: “How New Work Begins”

In basic terms, Jacobs argues that economic development takes place by “adding new kinds of work to other kinds of older work” (1969a, 51). In particular, changes occur via “break away” work (what today we might call a “spinoff”) that arises when some new activity or new work is added to part of an existing DOL, either within a firm or across several firms. The new work arises not in competition with the old but in a sense orthogonally (my word) to it.

Examples include how 3M Company, which originally supplied industrial sand, gradually evolved through trial and error to provide products from adhesive tape to reflective sheeting, all of which were logically (but unpredictably) derived from some aspect of the production of industrial sand, and how bicycles were first manufactured in Japan by local entrepreneurs who assembled parts from local suppliers of replacement parts for bicycles imported from America. Thus, expanding complementarities of production (my terminology) in some but not all areas of a local economy multiply the complexity of the DOL.

Jacobs uses the following schematic to summarize these relations: $D + A \rightarrow nD$. That is, to the preexisting DOL in an economy (D) is added a new activity (A) engaged in new exports or replacing some imports with local production, which generates new work in some new branch of the DOL (nD). In later chapters of *The Economy of Cities*, she extends this formulation, but this schematic is the essence of the underlying process of local development.

In the flux of economic development, an economy expands when the rate at which a new DOL grows exceeds the rate at which the old DOL recedes. Although in retrospect the new goods and services created at some margins of production are logically traceable to the older work, these new goods and services are unpredictable: you can see how adhesive tape evolved from the process of polishing sand, but you couldn't have foreseen that happening. Existing aspects of the current DOL inspire new DOLs, and the more extended the DOL, the more opportunities there are to inspire further new work and new DOLs.

Nor does Jacobs limit this process to physical production: “Appropriate retailing is another common form of parent work for imitative manufacturing” (1969a, 66).

She criticizes Adam Smith—a bit unfairly, for who could blame him for not adequately laying the foundation for development theory?—for placing too much

emphasis on the efficiency of the DOL (e.g., his famous example of the pin factory) over the manner in which the DOL becomes more complex. For Jacobs, the Smithian edict “the division of labor is limited by the scope of the market” takes on added significance as the extended DOL itself can stimulate the creation of new markets over time. Jacobs praises the DOL for the foundation it provides for more dynamic processes: “It is ironic that division of labor gets no credit for its genuinely bountiful effect. It prepares the way, it provides the special footholds, for adding new goods and services into economic life” (1969a, 83–84).

Theories of economic development do not typically operate at this level of detail. Although quite abstract, Jacobs’s analysis is also more fine grained than most theories in that it suggests the locus of innovation at the margins of the DOL and the relation of those innovations to their parent production activities.

Chapter 3: “The Valuable Inefficiencies and Impracticalities of Cities”

If cities and the divisions of labor they contain are to expand and grow, it is necessary for the people in them to be allowed to experiment and fail repeatedly and to use valuable resources in doing so. The experimentation is necessary because, as modern economists might put it, buyers and sellers are not fully informed about underlying tastes, technology, and resources, and so they need to discover the relevant information. Living cities, however, fit the bill for economic development because of their diversity (of knowledge, skills, and tastes) and size, which aid in the discovery and diffusion (again, my terminology, not Jacobs’s) of knowledge.

Cities are indeed inefficient and impractical compared with towns; and among cities themselves, the largest and most rapidly growing at any given time are apt to be the least efficient. But I propose to argue that these grave and real deficiencies are necessary to economic development and thus are exactly what make cities uniquely valuable to economic life. *By this, I do not mean that cities are economically valuable in spite of their inefficiency and impracticality but rather because they are inefficient and impractical.* (1969a, 85–86, emphasis added)

And she asks, “Is it not possible for the economy of a city to be highly efficient, and for the city also to excel at the development of new goods and services? No, it seems not. The conditions that promote development and the conditions that promote efficient production and distribution of already existing goods and services are not only different, in most ways they are diametrically opposed” (1969a, 96–97).

A specialized, “efficient” city based on economies of large scale cramps innovation in part because the entities that constitute the bulk of this process tend to be the smaller

ones that “break away” from the larger DOLs of more established companies. So although established companies may be able to take advantage of economies of scale, smaller ones do most of the innovating. And economies of scale leave little or no space for trial and error.

By the same token, a city that becomes highly diverse and of great size performs less efficiently. “A city that is large for its time is always an impractical settlement because size greatly intensifies whatever serious practical problems exist in an economy at a given time” (Jacobs 1969a, 103). One might say that a city is innovative not only because it *solves* complex problems but also because it *creates* complex problems. Thus, Jacobs argues that attempts to limit city size retard innovation and are indeed “profoundly reactionary” (1969a, 104, 118).

To be sure, from a modern economist’s perspective Jacobs errs in some places, as, for example, when she does not always distinguish economic efficiency from technical efficiency (1969a, 89–90) or is not always clear about what units of value she is using (i.e., “work” or “dollar value” or “subjective value”?). But she does in the end say that she is concerned with economic efficiency and that her notion of “work” is connected with the creation of economic value (1969a, 94).

In chapter 3 of *The Economy of Cities*, Jacobs speculates about waste recycling as a business of the future: profitably and competitively mining and harvesting a city for rare metals and other raw materials (1969a, 110, 114), which, alas, has not come to pass outside of certain industries. She also observes that when it comes to environmental degradation and stagnating economies, cities that do not innovate are more destructive to nature than growing cities are (1969a, 117–18), which recent measures of the declining per capita carbon footprint of urban versus rural dwellers seem to support. For Jacobs, the attempt to halt economic development or to institute a policy of birth control (1969a, 120) is, like the attempt to limit the size of cities, again profoundly reactionary.

Thus, looking for the causes of poverty in overdevelopment or in overpopulation is futile. Jacobs boldly asserts: “To seek ‘causes’ of poverty in this way is to enter an intellectual dead end because *poverty has no causes. Only prosperity has causes*” (1969a, 120–21, emphasis added). Her goal, then, is to explain the causes of such prosperity.

What gets the ball rolling?

Chapters 4 and 5: “How Cities Start Growing” and “Explosive City Growth”

The urban-development ball gets rolling in new settlements when people begin to export goods and services. These exports allow residents to buy imports they are not able to produce domestically. (Note that Jacobs recognizes that exports are what pay for imports, which is a simple but oft neglected truth.) If there is sufficient diversity in activities within the DOL, especially in those industries that supply inputs for

exporting industries, over time it becomes profitable to replace some imports with domestic production. Jacobs calls this process “import replacement.” She describes the processes of import replacement and exporting of new goods as reciprocating systems.

I should contrast Jacobs’s concept of import replacement with the fundamentally different and flawed notion of “import substitution.” Many commentators, including some with excellent scholarly credentials, consistently confuse Jacobs’s import replacement with import substitution, which aims to reduce the importation of finished products by erecting trade barriers in order to stimulate local development. Unlike import substitution, however, import replacement does not rely on tariffs, quotas, or subsidies, and neither replacing imports with locally produced goods and services nor increasing exports is for her an end in itself. Exports and import replacement are instead interdependent aspects of the ordinary process of economic development. This is the sense in which they are “reciprocating systems” that play off of and reinforce each other. Jacobs makes clear that the point of replacing imports, insofar as economic development is concerned, is to enable people to buy more and new kinds of imports. As the local economy develops, resourceful people may replace some imports with local production (and not by government edict), and eventually some of these new imports may be replaced as long as there is sufficient diversity in the DOL to make it economically feasible. Thus, to read *The Economy of Cities* as arguing for government policies to promote “buy localism” and protectionism is to profoundly misunderstand Jacobs’s argument: imports, even expanding imports (as exports are expanding), are an indispensable element in robust economic development.

Exports and import replacement, when it is working, result in “explosive growth” because of what Jacobs terms import and export “multipliers.” For exports, the activities supplying export industries are a seedbed for future products to be exported, and at some point the amount of local, export-supporting activity and the DOL that builds around it reach a critical mass from which some of these goods and services can blossom into new exports to other cities (1969a, 161). For imports, as we have seen, import replacement can suddenly take off (as in the case of Japanese bicycles [1969a, 145–46]) when the diversity in and the extent of the DOL has increased enough (1969a, 159). This process takes place even if the value of exports and imports remains constant relative to total economic activity because the make-up of exports and imports is constantly renewing and shifting. However, a growing economy does typically increase the real value of exports and imports over time, of both producer and consumer goods, which for Jacobs further enhances the potency of new exports and import replacement (1969a, 166).

Cities depend on trade with other cities to thrive. The economic development of a new city depends on trade with larger, older cities (1969a, 169–79). Once the process gets going, some of the diversity of work, goods, and services that the import-replacement and export processes generate tends to be physically transplanted

farther from the city center—that is, in more rural areas—when urban-based industries become too large and expensive to remain in the city.

Chapter 6: “How Large Cities Generate Exports”

Although Jacobs is far from averse to importation, she does argue that a city's exports stimulate its subsequent economic development.

The difference between a very large city and a smaller city (but still a city in Jacobs's sense⁴) is that the very large city can draw upon a more robust environment for experimentation and innovation (and messiness). Creating something new to export is much easier when you can draw on the vastly greater resources of a very large city and its complex local divisions of labor: “The larger a city's local economy grows, the more it contains that is immediately or potentially exportable” (Jacobs 1969a, 193). Nor does Jacobs ignore the importance of a diversity of *demand* on the customer side (1969a, 196), which is the ultimate end of production after all. The size and diversity of local DOLs mean a large city offers exporters potential options for production absent in smaller cities and towns: “heavy dependence on other people's local work when one tries to become an exporter de novo reduces the amount of capital required” (1969a, 185). Again, this goes for exports in both goods and services. As in the other chapters of *The Economy of Cities*, in chapter 6 Jacobs offers several examples of this large city versus small city differential. Two of them are the Rockefellers' failure to establish production of plastic intrauterine loops in rural India for want of local supply and maintenance support (1969a, 186) and the failure of Mao's Great Leap Forward to foster rural industry. In both projects, “[n]o single problem seems to have been horrendous. Instead, endless small difficulties arose” (1969a, 186), all of which floundered on the lack of support for breakdowns, missing parts, and other kinds of critical know-how.

Although a city might short-cut the process by importing already established businesses from elsewhere, which is a strategy many cities pursue, for Jacobs this importation is no substitute for local import replacement. “Locally originated production of former imports is often a slower way for a city to acquire new exports from the replacement work itself, but it is potentially productive of greater and more various export work” (1969a, 201). A city that is a recipient of an activity transplanted from another city where the activity originated may benefit from getting “more jobs,” but this result is a far cry from the local creation of new work and generating a more complex DOL via import replacement. Gaining jobs through such transplants will not in general make a city an engine of creative development any more than acquiring a Rembrandt will make the person who buys it an artist.

4. In appendix 6 of *The Economy of Cities*, Jacobs defines a city as follows: “City—A settlement that consistently generates its economic growth from its own local economy” (1969a, 262).

Chapter 7: “Capital for City Economic Development”

According to Jacobs, funding for economic development naturally emerges in healthy, diversifying cities. In her treatment, the provision of financial capital is simply another product of exports and import replacement. She expresses concern that the provision of capital is often misdirected: “Almost anyone who is trying to invent or develop a new product or service, of any kind for any purpose, invests the work with tremendous importance, an attitude that may be necessary for innovators. But it is rare to find a corresponding respect for the importance of the work on the part of those whom one must depend upon for capital” (1969a, 218).

Indeed, Jacobs offers a fairly long exposition on how governments in particular tend to misuse capital (she does not discuss the means by which governments acquire capital), although she doesn’t seem to see any inherent reason why governments should do this.

One problem is that governments more than private entities are prone to be imitative:

Why governments should be so imitative, rather than innovative, in their work of dispensing capital I do not know. Perhaps it is because people who run government activities, the world over, tend to seek sweeping answers to problems; that is, answers capable of being applied wholesale the instant they are adopted. People in government work . . . do not seem to bring their minds to bear on a particular and often seemingly small problem in one particular place. And yet that is how innovations of any sort are apt to begin, including financial ones. . . .

Capital is not used this way by most agencies of government, especially those presiding over services for “the general welfare.” Those agencies tend to use capital, for the most part, as if money itself were capable of solving problems and promoting the general good. (1969a, 209–10, 216)

Jacobs recognizes how it may appear that war stimulates economic development, “[b]ut war is plainly not the ‘secret’ of economic development” (1969a, 212). That is, where war may stimulate development by pouring capital into already existing DOLs in a diversifying, import-replacing economy, government spending does not itself generate the diverse DOLs needed to do so. “War depends on ‘peace work,’ directly and literally” because it is generally the case that “[t]o use capital purposefully and knowledgeably for development is impossible unless small sums have first gone—most likely for quite different purposes—into a multiplicity of small new departures” (1969a, 215).

And in place of direct subsidies to developing countries, the failures of which the noted development economist William Easterly (2006) has documented, Jacobs suggests the following: “The relevant assistance that a highly developed and prospering country can extend to an underdeveloped country is to buy from it: give its embryonic or stagnated cities an opportunity to serve expanding export work, earn imports, and

replace imports" (1969a, 219–20). In other words, solve the problem of poverty in developing countries through trade.

Chapter 8: "Some Patterns of Future Development"

Using her framework of analysis, Jacobs offers some predictions of likely patterns of economic development. Making these kinds of predictions is risky for any theorist, but most economists find it hard to resist doing so. Jacobs is no exception.

Her general insight in 1969 was that the American economy would develop from mass-production manufacturing toward what she terms "differentiated production" (1969a, 237), which she describes as production somewhere between small-scale craft production and industrial mass-production. This insight appears to be related to the standard economic concept of "product differentiation" but applies to industries rather than to individual firms. Examples include the evolution from expensive custom-made apparel to cheaper off-the-rack but differentiated everyday clothing, the evolution from mass-produced daily newspapers to more-specialized newspapers, and the emergence of varieties of smooth-water travel, including hydrofoils. The first two appear to have come to pass but, alas, not yet the last. In any case, technical innovation and economic advance have enabled entrepreneurs to target emerging segments of a growing, wealthier economy. "Cities will manufacture even more goods than they do today, but these will be almost wholly differentiated production goods, made in relatively small, or very small, organizations" (1969a, 245). Jacobs did not foresee the rise of firms such as Apple or Amazon, although the latter could be seen as mostly a sales platform for a growing and hugely diverse number of smaller suppliers.

She observes that an exception to this trend toward finer-grained production, not surprisingly given the target of her criticisms in *Death and Life*, is construction related to urban design and planning. "Now construction seems to be arrested in the mass-production stage" (1969a, 243), blocked by entrenched interests because "economic development, no matter when or where it occurs, is profoundly subversive of the status quo" (248).

Which brings her to the subject of "economic conflict": "The primary economic conflict, I think, is between people whose interests are with already well-established economic activities, and those whose interests are with the emergence of new economic activities. . . . The only possible way to keep open the economic opportunities for new activities is for a 'third force' to protect their weak and still incipient interests" (1969a, 249–50).

Somewhat uncomfortably for libertarians, however, Jacobs asserts that "[o]nly governments can play this economic role. And sometimes, for pitifully brief intervals, they do" (1969a, 249–50). But like so much of Jacobs's writings, here she walks a fine line between opposing ideological views. So those seeing support for activist government in her work find it undercut in her next breath: "But because development

subverts the status quo, the status quo soon subverts governments” (250). This is one of the few times in *The Economy of Cities*, by the way, that she acknowledges interest-group dynamics à la public choice.

She concludes: “The cities will not be smaller, simpler or more specialized than cities of today. Rather, they will be more intricate, comprehensive, diversified, and larger than today’s, and will have even more complicated jumbles of old and new things than ours do” (1969a, 250).

This last prediction has surely come to pass, at least with respect to today’s largest cities.

Summing Up

Although in *The Economy of Cities* Jacobs is concerned with how cities create value, she is more focused on the social matrix necessary for the creation of value in the future via innovation.

Compared to her earlier and more famous book, *The Death and Life of Great American Cities*, *The Economy of Cities* is more abstract (and shorter by almost two hundred pages), but compared to a typical introductory textbook in microeconomics, it is less abstract. It is more aggregative than *Death and Life* (e.g., dealing with imports and exports as a whole), but far less aggregative than introductory macroeconomics. I should add that like these two books almost all of Jacobs’s major writings after *The Economy of Cities* have to do directly with economic theory (e.g., *Cities and the Wealth of Nations* [1984] and *The Nature of Economies* [2002]) or have arguments that rely on economic concepts (e.g., *Systems of Survival* [1992] and *Dark Age Ahead* [2007]). As Robert Lucas noticed, at least some of Jacobs’s contributions to economics are worth following up, despite her lack of academic credentials in this field.

This might be the place to mention weakness in Jacobs’s analysis. I have already pointed out a fuzziness in how her use of the phrase *new work* can suggest a labor theory of value rather than a modern, subjective one and that although she seems finally to settle on a more conventional notion of economic value, it is not entirely clear that she is talking about an economic value based on subjective marginal utility. Her later works don’t really clarify the matter either.

In *The Economy of Cities*, she discusses the nature and importance of financial capital to economic development, but she fails to mention interest rates or even market prices, although in *The Nature of Economies* she finally does recognize the feedback role of market prices. And while I have mentioned that Jacobs briefly cites the stifling effect of interest-group capture à la public choice, in *The Economy of Cities*, as in most of her other books, she devotes little space to the political economy of economic development, but she does believe government has an important role in facilitating economic development if only it can get out of its own way. (In *The Nature of Economies*, she criticizes both subsidies and price regulation for interfering with price feedback.) This

focusing on economic forces alone may be by methodological design or a result of naïveté, which for a savvy public intellectual such as Jacobs is hard to believe. Given her objective, however, she may have seen it as appropriate to put those political considerations to one side.

I see her major insights into economics as including the following:

- That innovation takes place through trial and error in the context of the division of labor.
- That innovation is the essence of economic development.
- That the city, unlike the nation-state, is a natural unit of economic analysis.
- That poverty has no causes but that prosperity does, in the form of innovation.
- That in the process of economic development efficiency is relatively unimportant (and often a hindrance), and that inefficiency owing to experimentation is not only to be tolerated but welcomed.
- That there are specific factors that promote or stifle economic development by fostering or hindering the processes of experimentation and trade.

Again, for Jacobs, innovation takes place at specific but unpredictable branches of a system's division of labor. Innovation is an incremental process but typically results in explosive economic growth. Innovations are the result of individual plans at some margin of the DOL, but they are spontaneous and unplanned at the level of the urban system. And this description brings us again to what I consider to be Jacobs's most important insight, not just for economics but for social theory in general, which is introduced in the final chapter of *The Death and Life of Great American Cities* and carried over into the first chapter of *The Economy of Cities*: the living city is an emergent order that results from the unintended consequences of the activities of purposeful individuals. That is, the kind of social order that generates a living city, the basis for innovation and economic development, is an unplanned, spontaneous order (Desrochers and Szurmak 2017).

Aside from Robert Lucas (1988), Edward Glaeser (Glaeser et al. 1992), and perhaps Richard Florida (2003), economists have largely ignored Jacobs's economics. Strictly speaking, then, the question regarding whether *The Economy of Cities* remains relevant is difficult to answer because it was largely ignored by the profession when it was written. But in terms of its explanatory power, it remains highly relevant to anyone looking for fresh insights into the process of economic development. There is obviously much more detail in this book than I have given here, and my object is not to offer a substitute for reading it. But if my appraisal is correct, reading *The Economy of Cities* is something those who wish to enrich their understanding of economic development and the policies that promote or retard it should do.

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Acknowledgments: This article was made possible in part by a grant from the Charles Koch Foundation.

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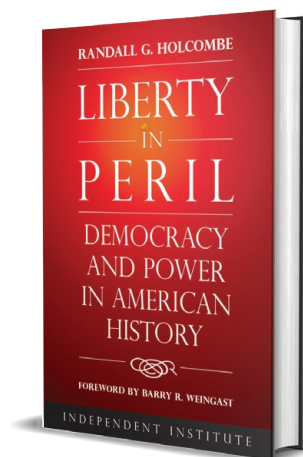
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