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CITIES AND THE WEALTH OF NATIONS

PRINCIPLES OF ECONOMIC LIFE

VIKING

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Back to Reality

When a technological enterprise like the design of a machine or a building runs into trouble, the appropriate response can be "Back to the drawing board," meaning the thing is basically sound in conception but needs to be worked out more carefully. This has also been the response of economists and governments as their economic expectations have crumbled. They have gone over and over and over what they think they already know, trying to use their tools with greater sophistication, shuffling the same old conceptions into new combinations and permutations to run through the computers or the legislatures. However, in the face of so many nasty surprises, arising in so many different circumstances and under so many differing regimes, we must be suspicious that some basic assumption or other is in error, most likely an assumption so much taken for granted that it escapes identification and skepticism.

Macro-economic theory does contain such an assumption. It is the idea that national economies are useful and salient entities for understanding how economic life works and what its structure may be: that national economies and not some other entity provide the fundamental data for macro-economic analysis. The assumption is about four centuries old, coming down to us from the early mercantilist economists who happened to be preoccupied with the rivalries of European powers for trade and treasure during the period when Portuguese, Spanish, French, English and

Dutch were exploring and conquering the New World and the lands and seas that lay along the trade routes around Africa to the Indies and beyond. These early mercantilists assumed that the national rivalries unfolding before them were the very keys to understanding what wealth itself is and how it arises, how it is maintained, how lost. According to the theory they propounded, wealth consists of gold, and gold is amassed as a nation manages to sell more goods than it buys (hence the designation "mercantilist" for this thinking), in the process piling up national treasure. Of course if wealth is defined in this way, national economies automatically become the salient units of economic life; that idea is merely a tautology, the repetition of another idea, in this case the idea of national treasure. Cantillon's thinking was an early attempt to transcend the simplistic equation of wealth with gold, but we can see the connection to mercantilist thought in the passage I quoted earlier, "If the increase of actual money grows from mines of gold or silver in the State . . ."

In due course Adam Smith, in his great work of 1776, *An Inquiry into the Nature and Causes of the Wealth of Nations,* redefined wealth as production (supply) for purposes of consumption (demand) and sought its sources not in mines of gold or silver but in capital and labor, and in domestic trade as well as in foreign or imperial trade. Smith questioned and discarded many ideas previously accepted, and in each of the subjects he considered, whether he was discarding, accepting, or breaking new ground, he painstakingly pilots us through his observations and reasoning.

But Smith failed to question everything that came to him ready-made. For example, he accepted without comment the mercantilist tautology that nations are the salient entities for understanding the structure of economic life. As far as one can tell from his writings, he gave that point no thought but took it so much for granted that he used it as his point of departure. This is explicit not only in the title of his work, but in its first sentence:

> The annual labor of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it

> annually consumes, and which consist always either in the immediate produce of that labor or in what is purchased with that produce from other nations.

In short, Smith began with what we have come to know as the gross national product and proceeded on from there.

In the two centuries since Smith published, most of what he wrote has been questioned and much has been amplified, elaborated and modified. But the one thing not questioned has been the same idea Smith himself failed to question: the old mercantilist tautology that nations are the salient entities for understanding the structure of economic life. Ever since, that same notion has continued to be taken for granted. How strange; surely no other body of scholars or scientists in the modern world has remained as credulous as economists, for so long a time, about the merit of their subject matter's most formative and venerable assumption.

To be sure, Marx based his economic analysis upon class structure rather than nations, and anticipated that when class was set to rights, the State would wither away. But in practice, Marxist economics has been assimilated into the prevailing assumption. Nobody places more faith in the nation as the suitable entity for analyzing economic life and its prospects than the rulers of Communist and socialist countries, nor more faith in the State as the salient instrument for shaping economies. Anarchists, of course, deny the validity of the State; but that is no help as far as economic analysis is concerned because anarchists (like pure or abstract Marxist theoreticians) have been preoccupied with their conceptions of how economic life ought to work and dismiss how it actually does work, which is in ways they reject out of hand, as it were.

Nations are political and military entities, and so are blocs of nations. But it doesn't necessarily follow from this that they are also the basic, salient entities of economic life or that they are particularly useful for probing the mysteries of economic structure, the reasons for rise and decline of wealth. Indeed, the failure of national governments and blocs of nations to force economic life to do their bidding suggests some sort of essential irrelevance. It also affronts common sense, if nothing else, to think of units as disparate as, say, Singapore and the United States, or Ecuador and the Soviet Union, or the Netherlands and Canada, as economic common denominators. All they really have in common is the political fact of sovereignty.

Once we remove the blinders of the mercantilist tautology and try looking at the real economic world in its own right rather than as a dependent artifact of politics, we can't avoid seeing that most nations are composed of collections or grab bags of very different economies, rich regions and poor ones within the same nation.

We can't avoid seeing, too, that among all the various types of economies, cities are unique in their abilities to shape and reshape the economies of other settlements, including those far removed from them geographically. To take a simple and small example, consider the twists and turns to be found in the economy of a single hamlet, in this case a little cluster of stone houses perched high in the Cevennes Mountains in south-central France, one of the poorest parts of that country. The hamlet, Bardou, found its way into my Toronto morning paper because it is so charming, having become a kind of Shangri-la for writers, musicians, artists and craftsmen fleeing the cities of Europe, the United States and Canada in search of beauty and a cheap, quiet place in which to work.

Bardou has a long past about which something is known. Some two thousand years ago, when Gaul became a province of Rome, the site was linked into the imperial economy by roads terminating in a collection of iron mines nearby. The iron found there was not shaped at the site into swords, lances, chisels, hinges, plows, wheel rims, cauldrons or the many other items for which iron was useful at the time, and where it went for manufacturing is now unknown. A logical guess would be forges in Nîmes, an extremely ancient city which had already become a metropolis of this part of Gaul in pre-Roman times; or it might have been carried to Lugdunum, now Lyons, which has traditionally been a center of metalworking and was the hub of the Roman road system in Gaul. Wherever the market was, the iron was in sufficient demand to justify mine roads so well engineered and solidly built that they still serve admirably as hikers' trails, though they have gone largely untended and unrepaired for some fifteen centuries or more. Both the mines and roads were abandoned when economic life in this part of Gaul disintegrated, probably in the fourth century.

The area then reverted to wilderness, unpopulated as far as has been discovered, until the sixteenth century when squatters—probably landless peasants pushed up from the valley and slopes below—built themselves the stone houses of the present-day hamlet. They scratched out little garden plots among the rocks, gathered chestnuts and no doubt caught game in the surrounding forests, and on their poor and rocky soil pursued as well as they could the subsistence arts they had inherited from economies of the distant past more creative than their own. Lifetime after lifetime, nothing changed in this subsistence economy. We may infer that life was not only hard but also boring and mean because tradition has it that people were accustomed to stealing one another's garden produce by shifting boundary markers in the night, then interminably quarreled over the thefts. Such were the excitements for about three and a half centuries.

Then abruptly in the 1870s a radical change began. Word somehow penetrated that a more desirable life was to be found far away. Perhaps the information percolated back from army recruits who were stationed in Paris or passed through there in the aftermath of the Franco-Prussian War; perhaps word came from migrants who had left villages on the mountains' lower slopes. Paris had been drawing in rural French migrants for untold generations; the word was very late in reaching Bardou but once a few venturesome souls from the hamlet left, a slow and almost total exodus followed. By 1900, half the population had departed. During the following forty years everybody left except for three families.

In 1966, when two hikers, a German and an American, happened by on the old Roman roads, the ruins sheltered only one aged man. The hikers bought the hamlet from him and from such descendants of former inhabitants as they and their lawyers could trace, and when legal title had been established, the new owners moved in and invited kindred spirits to join them and help pay expenses. In this incarnation, Bardou has a rotating core of year-round residents who live on their savings or by selling their works to publishers and other city customers. Holiday renters and campers are welcomed, along with the income they bring. Residents and vacationers alike live chiefly on imported food of course, and they import nearly all their other necessities, but they make a virtue of getting along without such amenities and conveniences as electricity, telephones and hot water. A piped cold-water system was financed when a motion picture company rented the hamlet briefly to make location shots and paid well for the privilege.

Bardou's history is unique but only in the sense that every place, like every person and every snowflake, is unique. Otherwise, the same kinds of changes and events to be found in Bardou's story are duplicated in principle in many other places, and on much larger scale. Bardou is an example, in microcosm, of what I am going to call passive economies, meaning economies that do not create economic change themselves but instead respond to forces unloosed in distant cities. Time and again, like a toy on a string, Bardou has been jerked by some *external* economic energy or other. In ancient times the site was exploited for its iron, then abandoned. In modern times it was depopulated when distant city jobs attracted its people, then repopulated by city people. The jerks were not gentle. But when cities and city people let Bardou alone, had no uses for it, the place either had no economy whatever, as when it was a wilderness, or else a subsistence economy that remained unchanging.

We could beat our brains out trying to explain Bardou's economic history in terms of its own attributes, right down to compiling statistics on the probable average yield of chestnuts, the tools used there, the amount and quality of iron taken out and that remaining, the man-hours required to build a house, the nature of the soil, the annual rainfall, and so on—and none of this would enlighten us at all as to why and how Bardou's economy took the twists and turns it actually did. On that subject, the local clues stand mute, for the clues that in reality explain Bardou's twists and turns are to be found in distant city markets, jobs, city work transplanted, city technology (the new water system, the old roads), city capital. To understand both the changes that occurred in Bardou and why there were periods when nothing changed, we must look to clues that do not define Bardou in any way *except as they have acted upon Bardou.*

At first thought it may seem like hairsplitting to differentiate between jerks administered to Bardou by various cities, and jerks administered by something we can choose to call, instead, by such names as the Roman Empire, France, the European Economic Community or the international economy. But it is not hairsplitting. In the first place, the reality—and we must always pay close attention to reality or we shall be lost in fogs of our own making—is that those jerks to Bardou were administered from particular cities, and in this case always distant cities. All around Bardou lies something called "the French national economy" but that has not been what put Bardou through its economic twists and turns. Why be fuzzy about these things if we can be specific? Rome, perhaps Nîmes or Lyons, Paris, and the various cities from which its current population of artists, writers and vacationers (and the motion picture company) have come—these cities are the salient economic entities that have shaped and reshaped Bardou.

Distinctions between city economies and the potpourris we call national economies are important not only for getting a grip on realities; they are of the essence where practical attempts to reshape economic life are concerned. For example, failures to make such distinctions are directly responsible for many wildly expensive economic debacles in backward countries, debacles which have resulted from the failure to observe that the all-important function of import-replacing or import-substitution is in real life specifically a city function, rather than something a "national economy" can be made to do. I shall be writing a good deal in this book about how cities grow and become economically versatile by replacing goods that they once imported with goods that they make themselves, for blindness to this common, ordinary reality is the source of much confusion in how we think of economics in general, as well as the source of much nonsense, waste and lost opportunity for development.

People have long observed that poor regions or nations typically import more than they can afford or else are terribly deprived because they fail to produce wide ranges of things for themselves. A poignant description of the shortcoming was contained in a speech made in 1889 by a Southerner to a gathering of industrialists and bankers in Boston, and then repeated to a similar gathering in New York. Henry Grady, an essayist and the editor of the leading newspaper in Atlanta, Georgia, told of a funeral he said he had attended a few years previously in Pickens County, some eighty miles north of Atlanta.

> The grave was dug through solid marble, but the marble headstone came from Vermont. It was in a pine wilderness but the pine coffin came from Cincinnati. An iron mountain over-shadowed it but the coffin nails and the screws and the shovel came from Pittsburgh. With hard wood and metal abounding, the corpse was hauled on a wagon from South Bend, Indiana. A hickory grove grew near by, but the pick and shovel handles came from New York. The cotton shirt on the dead man came from Cincinnati, the coat and breeches from Chicago, the shoes from Boston; the folded hands were encased in white gloves from New York, and round the poor neck, which had worn all its living days the bondage of lost opportunity, was twisted a cheap cravat from Philadelphia. That country, so rich in undeveloped resources, furnished nothing for the funeral except the corpse and the hole in the ground and would probably have imported both of those if it could have done so. And as the poor fellow was lowered to his rest, on coffin bands from Lowell, he carried nothing into the next world as a reminder of his home in this, save the halted blood in his veins, the chilled marrow in his bones, and the echo of the dull clods that fell on his coffin lid.

Of the fourteen items in Grady's litany, eleven came from big cities of his time: the coffin and shirt from Cincinnati, the nails, screws and shovel from Pittsburgh, the tool handles and white gloves from New York, the coat and breeches from Chicago, the shoes from Boston, the cravat from Philadelphia; while another, the wagon from South Bend, came from a small city. Only the marble from rural Vermont and the coffin bands from Lowell—a textile town whose work had been received as a transplant from the Boston economy—did not come from cities.

What Grady might have asked himself was why none of Pickens County's imports came from his own city, Atlanta. But he didn't because it didn't occur to him that cities were germane to the problem concerning him: the problem of poor economies that do not produce amply and diversely for their own people. Thinking instead in terms of large, amorphous regional economies only, he himself apparently didn't hear what he was saying. His object in making the speech was to obtain for the southern United States transplanted industries from the northern United States to achieve something he called the New South. He was a forerunner of the hosts of "development" officials who today work so hard to attract industries into moribund economies which for seemingly mysterious reasons are too passive to generate industries of their own, and who therefore scramble and compete for the insufficient supplies of such enterprises cast up from an insufficient supply of active and creative city economies.

The items Grady mentioned, although this did not occur to him either, were themselves products of import-replacing. None of those items had been invented in the cities that sent them to Pickens County. Most were old and familiar in Western culture before cities in America had so much as formed. But enterprises in some of the first colonial American cities, especially Boston and Philadelphia, had taken to making such things (and many others) for consumers and for other producers in their own cities instead of interminably importing them from London or other English cities, and had then taken to exporting the items not only to their own environs and to each other, but also to still younger cities farther west as they formed. In turn, as cities like Chicago, Pittsburgh and Cincinnati grew, and in the process laid a foundation for versatility at producing, they also replaced with their own production wide ranges of the imports they were receiving from eastern cities—and in their turns exported some of those same items as well. That is the trail by which a shirt from Cincinnati and a shovel from Pittsburgh reached Pickens County.

Doubtless the imported items for the funeral passed through Atlanta, for Atlanta was the transportation hub of the South; and Atlanta itself consumed far greater volumes of city-made imported goods, and many more kinds of them, than Pickens County did. But Atlanta, for reasons I shall discuss later in this book, was not an import-replacing city, nor were any other cities in the South at the time. That is why Pickens County's city-made imports came from such distances.

Behind the items Grady was thinking about, behind the finished goods, were many, many other items to which he gave no thought as far as one can tell: things like carpenters' planes and T squares, lathes, punches, knives, dye vats, brass-smelting cauldrons, ladles, printing presses, bookkeeping ledgers, button stampers, lights so that work could continue on dark days, tongs, sewing machines, telegraph keys, freight-car axles . . .

Cities that replace imports significantly replace not only finished goods but, concurrently, many, many items of producers' goods and services. They do it in swiftly emerging, logical chains. For example, first comes the local processing of fruit preserves that were formerly imported, then the production of jars or wrappings formerly imported for which there was no local market of producers until the first step had been taken. Or first comes the assembly of formerly imported pumps for which, once the assembly step has been taken, parts are imported; then the making of parts for which metal is imported; then possibly even the smelting of metal for these and other import-replacements. The process pays for itself as it goes along. When Tokyo went into the bicycle business, first came repair work cannibalizing imported bicycles, then manufacture of some of the parts most in demand for repair work, then manufacture of still more parts, finally assembly of whole, Tokyo-made bicycles. And almost as soon as Tokyo began exporting bicycles to other Japanese cities, there arose in some of those customer cities much the same process of replacing bicycles imported from Tokyo, rather than from abroad, as had happened with many items sent from city to city in the United States.

A city's current production of goods for export—the work that pays for the imports—helps feed the city import-replacing process. For example, an enterprise that electroplates tableware for export can also be capable of electroplating metal chair and table legs, and thus can play a part in replacing with local production furniture which formerly had been imported. Or better yet, workers can break away from the parent plant and set up a second plant based upon this initial work, but this time they will be working not for a tableware company but in a furniture-replacing enterprise. I say "better yet" because now there are two establishments, not one, to help feed or carry out the import-replacing process.

Import-replacing is now, as it was in Grady's time and always has been, a *city* process for good practical reasons. In the first place, the replacement of former imports is impossible to achieve economically, skillfully and flexibly—meaning in ways suitable to the time and place—except in a settlement that is already versatile enough at production to possess the necessary foundation for the new and added production work. Cities can build up that kind of versatility, often very rapidly, in part as a result of their already existing export work (if it is reasonably diversified), in part as a result of their previous simpler achievements in import-replacing, and in part through the complex symbiotic relationships formed among their various producers. In the second place, city markets—whether of consumers or producers—are at once diverse and concentrated. These two qualities of the local market make production of many kinds of goods and services economically feasible that would not be feasible in rural places, company towns or little market towns, and most especially so at the time production of former imports is just starting up and getting a first foothold in its markets.

Economic life develops by grace of innovating; it expands by grace of import-replacing. These two master economic processes are closely related, both being functions of city economies. Furthermore, successful import-replacing often entails adaptations in design, materials or methods of production, and these require innovating and improvising, especially of producers' goods and services.

Describing in 1982 an extraordinary proliferation of "innumerable small firms" during the previous decade in a great cluster of small industrial cities between Bologna and Venice in northeastern Italy, Charles F. Sabel, a social scientist at the Massachusetts Institute of Technology, illustrates the kinds of improvisations and innovations that occur as an everyday matter. A small shop producing tractor transmissions for a large manufacturer modifies the design of the transmission to suit the need of a small manufacturer of high-quality seeders. In another little shop "a conventional automatic packing machine is redesigned to fit the available space in a particular assembly line. A machine that injects one type of plastic into molds is modified to inject another, cheaper plastic. A membrane pump used in automobiles is modified to suit agricultural machinery. A standard loom or cloth-cutting machine is adjusted to work efficiently with particularly fine threads."

Sabel was amazed at the small size of these innovative and highly successful firms, most of which "employ from 5 to 50 workers, a few as many as 100, and a very few 250 or more," in the aggregate "specializing in virtually every phase of the production of textiles, automatic machines, machine tools, automobiles, buses and agricultural equipment," and was impressed by the sophistication and quality of the work being done in production of ceramics, shoes, plastic furniture, motorcycles, woodcutting machinery, metal-cutting machinery, ceramics machinery. He reports the ease with which new enterprises have formed through breakaway of workers from older enterprises, and the amazing economies of scale that are obtained not, as has been conventionally assumed, within the framework of huge organizations but rather through large symbiotic collections of little enterprises.

"The innovative capacity of this type of firm," Sabel goes on, "depends on its flexible use of technology; its close relations with other, similarly innovative firms in the same and adjacent sectors; and above all on the close collaboration of workers with different kinds of expertise. These firms practice boldly and spontaneously the fusion of conception and execution, abstract and practical knowledge, that only a few exceptional giant firms . . . have so far been able to achieve on a grand scale."

It all suggests, he says, "radically new ways of organizing industrial society" in line with the first signs (such as the reindustrialization debate in the United States) "of an epochal redefinition of markets, technologies and industrial hierarchies."

The strengths and wonders that Sabel observed in these tight-packed bunches of symbiotic enterprises, and that suggest to him epochal changes, have always been the strengths and wonders of creative cities, for there is nothing new in this way "of organizing industrial society." The realities Sabel observed—the huge collections of little firms, the symbiosis, the ease of breakaways, the flexibility, the economies, efficiencies and adaptiveness—are precisely the realities that, among other things, have always made successful and significant import-replacing a process realizable only in cities and their nearby hinterlands.

For obvious reasons, most city replacements of former imports consist of city-made goods and services, but not all. Some of the most momentous instances of city import-replacing involve former rural goods. A few examples from the past are replacements of natural ice with the city-originated work of manufacturing mechanical refrigeration equipment; replacements of cotton, flax, silk and furs with artificial, city-devised fibers; replacements of ivory and tortoise shell with plastics. No doubt in such cities as continue to be creative at replacing imports in the future, there will be many other such instances, like city-devised replacements for fossil fuels which already have a head start in Japanese cities, where hundreds of thousands of dwellings are now successfully using solar heaters. But for the most part, city import-replacing is not all that economically glamorous. The replacements are usually small initially, frequently involve items that in themselves are frivolous, and in many cases are absolutely imitative—but nevertheless, in the aggregate, they add up to momentous economic forces, the very force that the MIT scholar found "epochal."

Any settlement that becomes good at import-replacing *becomes* a city. And any city that repeatedly experiences, from time to time, explosive episodes of import-replacing keeps its economy up-to-date and helps keep itself capable of casting forth streams of innovative export work. Why "explosive" and why "episodes"? In real life, whenever import-replacing occurs significantly at all, it occurs in explosive episodes because it works as a chain reaction. The process feeds itself, and once well under way, does not die down in a given city until all the imports that are economically feasible to replace at that time and in that place have been replaced. In an earlier book, *The Economy of Cities,* I described in some detail how and why these chain reactions operate, and why they are triggered off. To summarize briefly, once replacements start, they stimulate more replacements. When such an episode is over, a city must build up new funds of potentially replaceable imports, mostly the products of other cities, if it is to experience another chain reaction. The process vastly enlarges city economies as well as diversifying them, and causes cities to grow in spurts, not evenly and gradually. The growth is by no means all net growth, however. Much import-replacing, especially in already large cities, merely compensates for losses of older work. Cities are forever losing older work; some because former customer cities take to replacing imports themselves and even become competitive producers of the items they formerly imported; some because well-established enterprises, after having first developed in the symbiotic city nest, transplant their operations to distant places like Pickens County; some because old work and many old enterprises, too, grow obsolete.

Whenever a city replaces imports with its own production, other settlements, mostly other cities, lose sales accordingly. However, these other settlements—either the same ones which have lost export sales or different ones—gain an equivalent value of *new* export work. This is because an import-replacing city does not, upon replacing former imports, import less than it otherwise would, but shifts to other purchases in lieu of what it no longer needs from outside. Economic life as a whole has expanded to the extent that the import-replacing city has everything it formerly had, *plus* its complement of new and different imports. Indeed, as far as I can see, city import-replacing is in this way at the root of all economic expansion.

It is important, if we are to understand the rise and decline of wealth, for us not to be fuzzy about an abstraction like "expansion" but to be concrete and specific about how expansion occurs and of what it consists. The expansion that derives from city import-replacing consists specifically of these five forms of growth: abruptly enlarged city markets for new and different imports consisting largely of rural goods and of innovations being produced in other cities; abruptly increased numbers and kinds of jobs in the import-replacing city; increased transplants of city work into non-urban locations as older enterprises are crowded out; new uses for technology, particularly to increase rural production and productivity; and growth of city capital.

These five great forces exert far-reaching effects outside of import-replacing cities as well as within them, ultimately rippling out even to the remotest places, like Bardou.

Henry Grady, almost a century ago, saw that the great deficiency of poverty-stricken and backward economies is that they do not produce amply and diversely for themselves, depending to a ridiculous degree on imports instead. But he made no connection between this fact and the fact that cities grow by replacing imports. The development experts of this century, for all their statistics and sophisticated, plausible-sounding schemes, have advanced not one whit beyond Henry Grady's intellectual limits. Where Grady thought in terms of regional economies, they think in terms of national economies and suffer many misconceptions.

For example, thinking in terms of national economies, they naturally think of import-replacing or import substitution as a process involving only foreign imports, blinded to the fact that replacements of domestic imports are quite as important to the expansion and development of economic life, and often more so. A city economy which does not or cannot replace domestic imports with its own production is feeble at best, and helpless at worst, when it comes to replacing foreign imports. So little is this acknowledged, although the realities are there for all to see, that we do not even have a word meaning "both the domestic and foreign purchases alike" of a city or of any other settlement. Too bad, because in the workings of a city's economy it makes no inherent difference which of its imports or how many originate within its own country and which in others, and the same is true of the destinations of its exports. Whatever the source of its imports, the consequence of replacing many kinds is improved versatility at producing and the process releases the same five great forces of economic expansion. Indeed, as we shall see later while examining why backward cities need one another, in some cases replacements of domestic imports are the only practical means of building the kind of versatility that can lead to feasible replacements of foreign imports as well.

Another unfortunate consequence of preoccupation with national economies is that development experts, like Grady in his day, do not think of import-replacing as the city process it is.

Thinking of it instead as a national process, they often advocate that already completely developed factories (producing foreign imports of course) be set down arbitrarily any place—in little towns, in the countryside, usually wherever jobs are badly needed. All this, although it goes under the name of import-replacing or import substitution, is remote from the realities of where and how the feat of replacing imports is successfully pulled off in the real world; so remote from the realities that such schemes can, and indeed have, bankrupted countries instead of helping them to prosper. Such are the practical penalties—that fall indirectly upon us all—when well-intentioned and learned people commit such a mild little sin as taking for granted old and unexamined assumptions like the mercantilist tautology that nations are salient entities for understanding the structure of economic life.

In the chapter that follows I am going to describe how the five great forces unleashed by import-replacing cities—markets, jobs, transplants, technology, capital—transform cities' own immediate hinterlands, their own regions. Then I shall describe the entirely different ways in which those same forces of cities shape regions lacking cities of their own. Later I will discuss how clusters or teams of import-replacing cities spring into being, and also why clusters or teams of formerly creative cities stagnate, with disastrous effects upon their nations. None of this can we comprehend at all by dwelling on theories about abstracted supply and demand chasing themselves around in the amorphous blurs known as national economies.