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Saskia Sassen

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Dispersal and New Forms of Centralization

DO CHANGES in the global flow of factors of production, commodities, and information amount to a new spatial expression of the logic of accumulation? Addressing this question entails a detailed examination of how that which we call the global economy is constituted. What are the geographic areas, industries, and institutional arrangements that are central to the current process of globalization, and how do they differ from those of earlier periods? Extracting theoretical insight from this empirical documentation requires elaborating the category of capital mobility to take it beyond the mere movement of capital across space. It must allow for the incorporation of not only the new forms of geographic dispersal, usually thought of as representing the mobility of capital, but also the new forms of centralization, which, I argue, are an integral part of the new forms of capital mobility. A theoretical elaboration of the concept of capital mobility that takes it beyond a locational dimension should also include the reorganization of sources of surplus value made possible by massive shifts of capital from one area of the world to another. Yet another aspect of the mobility of capital is the transnationalization in ownership, not only through foreign direct investment but also through mergers, acquisitions, and joint ventures, which raises anew the issue of the nationality of capital.

Key components of this process are the outflow of capital from old industrial centers (Bluestone and Harrison 1982; Massey 1982; AMPO 1987), the inflow of capital into newly industrializing countries (Fröbel, Heinrichs, and Kreye 1979), and the growth of transnational corporations (Vernon 1966; Herman 1982). These studies tend to posit the locational dimensions of capital mobility, or what Storper and Walker (1983) have termed the "locational capability" of capital. The most obvious and familiar image of the increased mobility of capital is the "runaway" shop, or the movement of manufacturing jobs from highly developed areas to less developed, low-wage areas. Perhaps as common an image is the instant transfer of money from one country to another.

But capital mobility, both as a process and as a theoretical category, incorporates a number of other components of importance to the analysis in this book. Capital mobility is constituted not only in locational terms but also in technical terms, both through the technologies that render

capital mobile and through the capability for maintaining control over a vastly decentralized global production system (Sassen 1988).

Such an elaboration of the notion of capital mobility brings to the fore important questions about the broader organization and control of the economy in the current phase of the world economy. Increased capital mobility does not only bring about changes in the geographic organization of production and the network of financial markets. It also generates a demand for types of production needed to ensure the management, control, and servicing of this new organization of production and finance. These new types of production range from the development of telecommunications to that of specialized services that are key inputs for the management of a global network of factories, offices, and financial markets. And it includes the production of a broad array of innovations in these sectors. These types of production have their own locational patterns; they tend toward high degrees of agglomeration. In addition, the increased mobility of capital has reorganized the employment relationship. This subject has received attention in some aspects: the labor market dynamics leading up to and resulting from deindustrialization, and the low-wage labor enclaves of export processing zones. But other aspects of the employment relation have not been examined in the light of the increased mobility of capital: key trends in international labor migrations, notably the new illegal Asian immigration to Japan, and the formation of a broad stratum of medium-level workers with a global orientation in a context where school, family, and community are typically not so oriented. Here we introduce these concepts, which we return to in later sections of the book.

Mobility and Agglomeration

The implementation of global production processes by large corporations requires a certain type of international regime. The last clearly formulated such regime was the one associated with the Bretton Woods treaty, when the United States was the leading exporter of investment capital, consumer goods, and capital goods and the leading economic and military power. We can think of the 1970s as already containing the beginning of a new transnational logic in the form of multinational firms. But these were largely U.S. firms; they clearly were dominant, especially in banking; the dollar continued to function as the leading currency; and, notwithstanding severe economic and political decline of the United States in the world, the United States was still the dominant power. By the mid-1980s the dominant banks and the leading manufacturing firms were Japanese. The examination of the specific forms assumed by capital mobility

in manufacturing, services, and finance in the 1970s and 1980s should allow us to *begin* addressing the question of how the world economy is organized.

The geographic dispersal of manufacturing is one of the more distinct traits in the current phase and one that has brought the issue of capital mobility to the fore.¹ There have been numerous plant closings in all major industrialized countries and transfers of production jobs to lower-wage domestic or foreign locations. There also have been overall declines in manufacturing employment in what were once established industrial centers, such as Detroit in the United States, or Manchester and Birmingham in the United Kingdom, and growing imports of components produced or assembled abroad and reimported for final product assembly.² Over the last few years there have been similar trends in Japan, including the shift of garment production to less developed domestic and foreign areas, as well as the shift of auto parts manufacturing to Thailand, South Korea, and Mexico. Evidence on direct foreign investment by the United States, the United Kingdom, and Japan describes shifts of manufacturing to foreign locations and the internationalization of manufacturing production in these three countries. More specifically, direct foreign investment in production for export is indicative of the existence of a global network of production sites set up by the firms of highly developed countries, insofar as this investment is geared toward production aimed not at the countries where the factories have been located but at the countries that provided the capital.³

¹ Plant closings in old industrial centers are probably the most dramatic instance. Disinvestment, shrinking, attrition, lack of maintenance—all these represent mechanisms for deindustrialization, which, while not as direct as plant closings, entail a severe erosion of the old industrial complex, both in the United States and in the United Kingdom (Bluestone and Harrison 1982; Massey 1984).

² Shutdowns are estimated to have eliminated 22 million jobs in the United States between 1969 and 1976 (Bluestone and Harrison 1982: 29). This trend continues. Plant shutdowns in 1982 alone resulted in 1.2 million jobs lost (Bureau of National Affairs 1982). In the United Kingdom, there was a 25% decline in manufacturing employment from 1978 to 1985. In Japan we are beginning to see a similar process. Mines, steel mills, and factories have been closed down over the last few years. In 1970 there were 250,000 miners; by 1985 there were 30,000. The steel industry will lose 100,000 jobs with the expected reduction of operations by the five leading companies. The auto and consumer electronics industries have shifted growing numbers of jobs to other Southeast Asian countries and now increasingly to the United States. During this same period direct foreign investment in low-wage countries rose strongly for all three countries, most of it for manufacturing and associated services.

³ A growing share of this investment is for production or assembly of components imported from the highly developed countries and exported back after processing. A partial indicator of this is the value of goods brought into the United States under Tariff Items 806.30 and 807, which had a threefold increase from 1966 to 1978 (U.S. Department of Commerce, International Trade Administration 1980b, 1980c). The value of products com-

The decentralization of manufacturing is constituted in technical and social terms. Different kinds of processes have fed this decentralization. On the one hand, the dismantling of the old industrial centers in highly developed countries, with their strong organized labor component, was an attempt to dismantle the capital-labor relation around which production had been organized, often referred to as Fordism. On the other hand, the decentralization of production in high-tech industries was a result of the introduction of new technologies designed to separate low-wage, routine tasks from highly skilled tasks therewith maximizing local options. Both, however, entail an organization of the capital-labor relation that tends to maximize the use of low-wage labor and to minimize the effectiveness of mechanisms that empower labor *vis-à-vis* capital. Thus, the term *dispersal*, while suggestive of a geographic aspect, clearly involves a complex political and technical reorganization of production as well. (For a full discussion see Sassen 1988.)

An important aspect of the mobility of capital not sufficiently developed in the literature is the transnationalization in the ownership and control of major corporations through foreign direct investment, mergers and acquisitions, and joint ventures. The United States has been one of the main objects of such investment and acquisitions. While the British and the Dutch have long been significant investors in the United States and continue to be so, the current phase has certain distinct traits. In the 1980s a range of investments and acquisitions took place that can be differentiated from traditional forms of investments and acquisitions, a subject I return to in Chapter Seven. One instance of this is the emergence of Southern California as the center for research and development, design, engineering, marketing, and management of the nine Japanese auto makers that now account for 30% of all cars sold in the United States. The actual manufacturing tends to be concentrated in the Midwest and in the South, and now also includes twin plants in northern Mexico. A second instance is extensive concentration of Japanese banks, securities houses, and other financial firms in New York City and, on a smaller scale, in Los Angeles. Japanese firms have created a large, complex, diversified base of operations in select locations of the United States. This is allowing increased and more direct participation in the economy, such as becoming lead managers in major real estate deals and producing cars here for export to Europe. There are many other examples. Japanese

ing from less developed countries represented only 6.3% of the total in 1966 but 44% by 1978. Most directly illustrative is the development of export processing zones, which began to be developed in the mid-1960s and represent an expansion of this strategy rather than its inception. How successful, or attractive, this strategy was is suggested by the fact that by the end of the 1970s there were about eighty such zones, mostly concentrated in Mexico, the Caribbean Basin, and Southeast Asia.

investors have bought up significant shares of major industrial firms, notably Firestone and the National Steel Corporation. The Tokyo-based NKK Corporation of Japan already owns half of the U.S. Steel Company and is expected to acquire another 40% of it, which would bring its ownership to 90% of what is the sixth-largest U.S. steel company. And major Arab investors are poised to acquire such legendary department stores as Harrod's in London and Saks Fifth Avenue in New York. These are huge acquisitions, with the Saks one estimated at \$1.5 billion.

The Japanese case calls for a somewhat more detailed discussion, as it is less familiar and more unexpected, given a different organization of the economy. Restructuring in Japan has involved the shifting of a growing range of manufacturing to offshore locations, for example, textiles and auto parts; a shift from heavy and chemical industry to high-tech and knowledge-intensive industries; and the creation of Japanese international financial institutions. There has been a sharp increase in the number of workers employed abroad by the major Japanese manufacturers, an indication of the extent of internationalization and offshore production in such firms. From 1981 to 1987, Hitachi, a major producer of consumer goods, increased its number of employees abroad fivefold; Toshiba, threefold; Fujitsu, tenfold; and so on for a number of firms. For the three large auto manufacturers, this is a very recent process, and there are no figures available. But by 1987 Toyota had 7,516 workers abroad; Nissan, over 22,000; and Honda, 6,700. These numbers represented a not insignificant share of all workers directly employed by these companies, especially in the case of auto manufacturers; Toyota's core workforce in Japan was about 28,000; Nissan's, about 70,000; and Honda's, about 34,000.

In the last few years, Japanese firms have moved many of these operations to Mexico. As Japanese manufacturers have set up operations in the United States in order to avoid protectionist barriers, they have developed twin plant operations⁴ with Mexico, especially to supply electronic and auto components (Echeverri-Carroll 1988).⁵ Japanese twin

⁴ The twin plant (or in-bond) program was designated through special provisions of both Mexican and U.S. law. Mexico allows duty-free imports of machinery and equipment for manufacturing as well as components for assembly under the provision that 80% of the plant's output be exported. Mexico allows complete foreign ownership of plants. The United States in turn charges import duties only on that portion of the value of a good that was added in the process of assembly or manufacturing in Mexico of U.S.-made components that are to be reimported into the United States.

⁵ By 1988 the Japanese had thirty-nine *maquilas* (twin plant operations) on the Mexican side of the border, of which about 70% had set up operations after 1982 (Echeverri-Carroll 1988). While the vast majority of twin plants in Mexico are U.S. owned, Japan now accounts for 3.5% of the total, having surpassed all other countries as a group, except for the United States. In 1980 electronics plants accounted for 36% of total in-bond employment in Mex-

plants range from small operations employing between 25 and 50 people to very large ones employing 2,000 on several shifts. Auto-related plants have raised their share of employment in all Japanese twin plants in Mexico from 7% in 1979 to over 40% by 1988; this reduced the share of electronics plants from 71% to 49%. Many of these Japanese firms used to use assembly operations in Korea and Taiwan, from where the components were sent to Japanese firms in the United States or back to Japan.

Though on a much smaller scale, parallel patterns are evident in the organization of office work. There is a growing dispersal of routine office work. It is most evident in the United States and slowly emerging in the United Kingdom. It assumes a variety of forms, including the shipping or transmission of routine tasks to offices located abroad; shipping or transmission to suburban homes in the region where the head office is located; setting up offices, which are often whole divisions, in cheaper locations than that of the head office and frequently at great distance from the latter; subcontracting office work out to other firms; setting up back office operations at a short distance from the head office because the latter's location is too congested or expensive. The evidence suggests that these various forms are all increasing (Appelbaum 1984; Baran and Teegarden 1983; Nelson 1984). Probably one of the most rapidly growing forms of office work decentralization in the United States is the use of women working out of suburban homes. There is a considerable supply of well-educated women in suburbs, where the absence of adequate child care facilities and the paucity of job choices may lead them to prefer taking work at home. Firms with large amounts of data processing, such as insurance companies, have seized on this labor market.⁶ The internationalization of this geographic dispersal of offices has been facilitated by the rather unrestricted flow and absence of tariffs on this type of data. Further, and auto-related twin plants accounted for only 8.5% of such employment. By 1987 auto-related plants accounted for 21%. Of the thirty-nine plants in operation in 1988, eighteen were on the Texas border and were mostly auto-related manufacturing; seventeen were on the California border and were largely in electronics components; and four were in the interior of Mexico. The auto-related plants provided various parts to Honda and Mazda plants in the United States, as well as to plants jointly owned with U.S. companies. Electronics still dominates, accounting for twenty of the thirty-nine twin plants in operation as of mid-1988; but auto parts manufacturing is the fastest growing twin plant industry, having gone from three such plants in 1985 to eleven in 1988. This growth is directly tied to the expansion of Japanese manufacturing in the United States, especially auto manufacturing in Kentucky, Ohio, Tennessee, and Michigan.

⁶ In their study on the insurance industry, Baran and Teegarden (1983) found that one company had relocated all its "personal lines" work to small towns in order to utilize the mostly white educated female labor force. The movement of semiskilled and skilled clerical work to small towns and suburbs appears to be increasingly common in the industry (Appelbaum 1984).

thermore, the international flow of such data fits into the expanding trade of services generally. The United States government has long sought to maximize the free trade of information and has put pressure on other countries to prevent the imposition of tariffs (U.S. Congress 1982).⁷

Transnational corporations are important in the international delivery of professional business services, in good part because they meet the need for continuous contact between the provider and the client (U.S. Congress, Office of Technology Assessment 1986). Business service firms serve foreign markets primarily through foreign affiliates. They do so in a range of ways—contractual arrangements, associated partnerships, equity participation. Statistics on large firms indicate that U.S. transnationals dominate the market for such professional services as accounting, advertising, management consulting, legal, and computer services. In some of these services, firms from France, Japan, and West Germany also have a significant share. Finally, a few less developed countries are gaining a place in the trade of certain professional services, notably computer software (UN Centre for Transnational Corporations 1989a).

A third area that has contributed to spatial dispersion under conditions of continued economic concentration is the entry of large corporations into the retailing of consumer services. It is the possibility of obtaining economies of scale on the delivery of such services and the expanding market for such services that have led large corporations to produce for the open market consumer services that used to be produced only by small, single-site firms. This has brought about what Levitt (1976) has called the "industrialization" of services. Elsewhere (Sassen 1988) I have discussed at greater length how standardization and economies of scale in service production and delivery are predicated upon the shifting of certain components away from the establishments where actual service delivery takes place and onto headquarters. These come to centralize planning, development, franchising, purchasing, and other such functions.⁸ The result has been a growth of large new firms, or divisions

⁷ There is great pressure from the United States to lift restrictions, long evident in Congressional debates about international trade in services (U.S. Congress 1982) and in CAIT (1989) negotiations aimed at ensuring and maximizing the free flow of services. Furthermore, as happened with manufacturing plants, governments of various countries are trying to draw firms to locate offshore office facilities. These governments are providing subsidies to draw investors, including the training of workers for the facilities (Sassen 1988). The insurance industry, for example, has argued that in order to stimulate U.S. trade and investment overseas, constraints and restrictions on the insurance delivery systems in foreign countries need to be reduced in many less developed countries, where the risks to multinational corporations are high (UN Centre on Transnational Corporations 1989a).

⁸ The globalization of markets and production together with product diversification demand the investment of greater resources in planning and marketing to reach the consumer. Advertising and consumer financing have become increasingly important compo-

within firms, engaged in service delivery via multiple retail outlets and centralization of specialized functions. This fragmentation of the work process, parallel to that in manufacturing, is evident in hotels, restaurants, various kinds of repair services, movie theaters, car rentals, photo development, retail outlets for a broad range of consumer goods, from food to flowers, and a vast array of other service activities, which used to be largely the domain of small, local, independent entrepreneurs.

The geographic dispersal of economic activity described by the three cases above can be conceived of as a redeployment of growth poles. Thus, the development of export processing zones represents a deployment of manufacturing capacity from highly developed to less developed countries and setting up back office operations or retail outlets outside the head office entails shifting jobs from central to more peripheral locations. Dispersal of growth sites could, in principle, pose obstacles to the incorporation of such dispersed growth into processes generating surplus for the sectors of capital that concentrate much of the ownership and control in the major economies. Conceivably, the geographic dispersion of manufacturing plants and of office work could have gone along with a decentralization in the structure of ownership and profit appropriation. The market would mediate to a much larger extent than it does today between production and accumulation; that is to say, the various institutional processes we call the market would replace many of the internal transfer mechanisms of large corporations.

But such a parallel decentralization of ownership has not taken place. The large size of firms has made it possible to internalize transaction and circulation costs, thereby reducing the barriers to capital circulation and raising capital's ability to equalize the profit rate. Continued centralization of ownership poses the task of operating a worldwide production system with plants, offices and service branches in a multiplicity of foreign and domestic locations. It has brought about new requirements for the control of the vast decentralized production system and labor force.

This entails implementation of a system for the provision of such inputs as planning, top-level management, and specialized business services. While such provision could conceivably be local, again, this has not happened. Firms with geographically dispersed plants, offices, and service outlets, as well as the firms that subsequently developed to service them, have tended to maintain considerable levels of centralized rather than localized provision of these types of inputs. As I will discuss at length in a later chapter, not only do the large industrial and trading corporations

in the final product or service. The rapidly growing franchising system puts a good share of the costs and risks on the delivery outlet (For a look from the bottom see pp. 371-400 in Light and Bonacich 1988). This is a form of vertical integration, I would argue, that is not in the Fordist mold.

have elaborate production and contracting networks, but the specialized producer services have also developed such networks. In both cases central headquarters management, planning, and control operations expand and require additional inputs. These may be produced in house or bought from other, specialized firms.

Several changes in the financial industry over the last decade are of significance to this discussion. Aggregate data on the industry mask the rather fundamental changes in its composition over the last two decades. In the 1970s there was a pattern of dispersal through the opening up of regional markets in many parts of the world as well as offshore banking to avoid the restrictive regulations in countries of origin. These developments were basically carried out under the aegis of the large transnational banks, the largest of which were from the United States. The form that capital mobility assumed in this industry at that time was similar to what had happened in manufacturing and services: a new, vastly expanded geography of economic activity that included a growing number of Third World locations along with the maintenance of economic control by large firms, mostly from the developed countries.

The onset of the so-called Third World debt crisis in 1982 continued to bring major changes to the industry, discussed at length later. For the purposes of this section what needs emphasizing is that its renewed concentration in and orientation toward major financial centers, beginning in the early 1980s, was not a mere geographic retrenchment but was in fact associated with new forms of capital mobility. These new forms were constituted basically through the development of a wide array of innovations, which had the effect of transforming more and more components of finance or financial assets into marketable instruments. We see an enormous increase in the liquidity of the industry and in the circulation of financial capital through the marketing of instruments rather than through lending. The central activity is now the buying and selling of instruments over and over again, thereby maximizing the circulation of financial capital. Deregulation and internationalization of major financial markets has raised the participation of investors and borrowers from all over the world. This poses the matter of control in the industry in a way parallel to that of the geographic dispersal of factories, though in a different form. Do deregulation and internationalization entail a decentralization in the ownership and control structure of the industry? I will argue that the fundamental axis for the circulation of this capital increasingly came to pass through New York, London, and Tokyo, rather than an expanding network of regional banking centers in the Third World, and that we see in this development of the financial industry yet another version of the new forms of agglomeration associated with the globalization of an industry.

Capital Mobility and Labor Market Formation

The increased mobility of capital has distinct effects on the formation of labor markets and the regulation of a global labor force. Increased capital mobility has brought about a homogenization of economic space, which conceivably could also have homogenized labor. On the one hand, there has been a worldwide standardization of consumer goods and decreasing differentiation among places in terms of the feasibility of producing a whole range of items for the world market, from apparel to electronic components. On the other hand, the dispersion of economic activity has contributed to the reproduction of structurally differentiated labor supplies and labor markets in this otherwise homogenized economic space.

The spatial and social reorganization of production associated with dispersion makes possible access to peripheralized labor markets, whether abroad or at home, without undermining that peripheral condition. Such labor markets remain peripheralized even when the jobs are in leading industries producing for the world market, for example, electronics production in Third World export processing zones. The historical tendency has been for workers employed in advanced sectors of the economy to acquire considerable economic power, that is, to become a "labor aristocracy." In different historical periods, this was the case in the auto, steel, and petrochemical industries. Under the organization of production prevalent today, even in a key industry such as electronics, labor needs can be met through a highly differentiated labor supply that corresponds to specific moments in the production process, that is—specific types of inputs. As a result, this high level of differentiation is not eroded by the incorporation of workers into an advanced sector of capital. Certain forms of the capital-labor relation can be maintained even in the most advanced and technically developed sectors of capital, such as sweatshops in the electronics industry. The geographic dispersal of economic activity can thus be seen as a tendency that ensures the reproduction of structurally differentiated labor supplies notwithstanding a context where global-sized firms have internalized the functions of the market and therewith homogenized their space of operation. Dispersion becomes a mechanism that operates against the tendency toward empowerment of workers in advanced sectors of capital and, at the limit, neutralizes the politico-economic consequences that Marx associated with the generalized increase in the capital intensity of production and that more recent analysts have associated with large, vertically integrated firms.⁹ In this sense, the form

⁹ At the same time, however, the greater spatial differentiation of labor can generate rigidities for capital. Storper and Walker (1983) note that neoclassic economists and location theorists have treated labor in the same terms as those for "true" commodity inputs and

of capital mobility entailed by the geographic dispersal of manufacturing is clearly yet another way in which the social compact represented by Fordism has been dismantled, even when assembly lines and mass production are retained at a transnational level.

There are also a number of economic activities that do not lend themselves to relocation. Notable among these are the large array of service jobs that need to be performed in situ: the staffing of hospitals and restaurants, the cleaning and maintenance of buildings, which cannot be moved—these need to be carried out where the offices, restaurants, and hospitals are located. Elsewhere (Sassen 1988) I have argued that the employment of immigrant workers, from highly trained personnel to unskilled laborers, may appear in this regard as a functional equivalent to the mobility of capital; but it is in fact a component of, rather than an alternative to, capital mobility insofar as (a) on the most general level, international capital mobility contributes to the formation of an international labor market and (b) more specifically, the economic restructuring associated with the current phase of capital mobility has generated a large supply of jobs and casual labor markets that facilitate the employment of disadvantaged foreign workers, and it has also generated a demand for specific high-level skills that can be met by workers from anywhere, as long as they have the required education.

The mobility of capital has contributed to new forms in the mobility of labor (Sassen 1988). The international circulation of capital has contributed to the formation of international labor markets. The major immigration flows to the United States, the United Kingdom, and now Japan are not haphazard in their origin. They are in good part rooted in the economic or political/military histories of their countries. The main countries sending immigrants to the United Kingdom were formerly part of the British Empire. The United Kingdom built "bridges" for the movement of capital, goods, and the military. But once the bridges are built, why would people not use them? Most immigrants to the United States come from countries where the United States has a strong economic or military presence. Finally, the recent formation of labor migration flows from several South Asian and Southeast Asian countries to Japan (discussed in Chapter Nine), would seem to confirm the model I developed in Sassen (1988). Through offshore production, foreign aid, investments and the spread of markets for Japanese consumer goods, Japan has built bridges with these countries. Furthermore, the internationalization of the economies of the United States, the United Kingdom, and now Japan, asso-

outputs and therefore have underestimated its importance in location decisions. Whether highly trained personnel or low-wage unskilled laborers, labor can become one of the key locational criteria.

ciated with the development of a strong economic or political/military presence in foreign countries, also contributes to the formation of the option to employ foreign workers—a subject discussed in Chapter Nine. Again, this is most evident in Japan today, a country that has never considered itself an immigration country and that has a strong ideology about the importance of racial homogeneity. It seems that the internationalization of the Japanese economy has brought with it the possibility of employing foreign workers in a country where this was inconceivable a few years ago. The formation of this kind of an international labor market can also be seen as contributing to the dismantling of the conditions that made Fordism possible.

Conclusion

In sum, central to my analysis of the mobility of capital is an elaboration that takes it beyond the notion of geographic locational capability. I seek to incorporate two additional elements. One is that the increased mobility of capital brings about new forms of locational concentration, which are as much a part of this mobility as is geographic dispersal. Furthermore, insofar as these new forms of agglomeration are associated with new forms of geographic dispersal, they do not simply represent a persistence of older forms of agglomeration, but respond to a new economic logic. This would mean that the question of why agglomeration persists in the face of global telecommunications capability is, in fact, the wrong question. This is not the persistence of old forms but the occurrence of new forms, precisely fed by the globalization and dispersal of economic activity that such telecommunications capability makes feasible. The question should rather be at what point the cost of this agglomeration will become so high that there will be strong inducements to develop forms of agglomeration of centralized functions that are not geographically determined.

The second element I seek to incorporate into the analysis of capital mobility has to do with the transformations in the capital/labor relation that such mobility entails. Hence, beyond a changed geography of economic activity there is a constitution of new relations among the various components of a particular location. Each type of location contains a specific form of these newly constituted relations. The locations of interest to this book are major cities, specifically New York, London and Tokyo, rather than for example, export-processing zones in Third World countries or back offices located in somewhat peripheral locations around major cities. In the case of major cities, I will argue in a later chapter that the casualization and informalization of a wide range of activities and the

formation of a highly paid new professional class, are processes that can be shown to be strongly associated with the globalization of production and finance under conditions of continued economic concentration.

For the purposes of empirical analysis what needs to be extracted from the discussion here is that geographic dispersal is important to the understanding of growth in major cities today only insofar as this process has occurred under conditions of continued economic concentration. Given such conditions, the dispersal of economic activity brings about new requirements for centralized management and control. This leads to a subsequent task for empirical analysis: an examination of the actual work involved in running a highly dispersed (domestically and internationally) set of plants and offices and of the locational patterns of such work. If agglomeration economies are high, will these activities tend to be geographically concentrated, and if so, where? Major cities are obvious locations for activities geared toward the international market and transnational firms; yet there are elements in this chain of analysis that need further elucidation. Future chapters attempt this. But for now, the next two chapters examine the facts that describe the main trends discussed here.

Three

New Patterns in Direct Foreign Investment

DIRECT FOREIGN INVESTMENT (DFI) is one of several indicators of the processes of capital relocation discussed in the preceding chapter. It is a useful indicator because much of the geographic dispersion of production and of the reorganization in the financial industry are international rather than domestic. The intent here is not an exhaustive description of stocks and flows, but an identification of key patterns, magnitudes, and countries involved. The evidence discussed in this and the next chapter points to a realignment in basic trends. The massive increases in direct foreign investment by all developed countries in the 1960s and especially the 1970s have been overtaken by even more massive international financial investments in the 1980s. Furthermore, the already high domination of investment by a limited number of countries has continued to increase. Finally, in the 1980s the flow of direct foreign investment in services has grown more rapidly than in manufacturing and extractive industries.

There has been a pronounced transformation in the composition of direct foreign investment. During the 1950s, direct foreign investment, measured in terms of stocks and flows, was largely concentrated in raw materials, other primary products, and resource-based manufacturing. In the 1980s, it was primarily in technology-intensive manufacturing and in services. By the mid-1980s, about 40% of the world's total direct foreign investment stock of about \$700 billion was in services, compared to about 25% in the early 1970s and less than 20% in the early 1950s. Moreover, direct foreign investment in services became the fastest-growing component of overall direct foreign investment flows. During the first half of the 1980s, more than half of all direct foreign investment flows (about \$50 billion annually) were in services, with about two-thirds of this in finance and trade-related activities (UN Centre on Transnational Corporations 1989d). The most recent available data as of this writing point to a continuation of this trend in the second half of the 1980s.

Major Patterns

The most commonly used definition of direct foreign investment is that of the International Monetary Fund. It provides international guidelines