The Dire State of Urban Sociology and Geography

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Abstract: The field of urban studies largely consists of sociological and geographical theories that use Marxist theories as their foundation. The result is an approach that often draws attention to interesting urban phenomena, but which explains these phenomena in superficial and misleading ways. Influential urban theorists such as David Harvey and Henri Lefebvre denounce not only capitalism but also liberal democracy, using the derogatory term "neoliberalism" to refer to an astounding range of phenomena, ranging from entrepreneurial innovation over residential segregation to the law-and-order policies of New Labour. Using gentrification processes as an example, this paper argues that a deeper understanding of urban economic processes implies a rejection of Marxist theories in favor of a theoretical approach that recognizes the heterogeneity of individuals and the key roles of entrepreneurship and institutions.

Keywords: urban studies, sociology, geography, Marxism, neoliberalism, gentrification

Introduction

The term "urban studies" evokes an image of an approach that draws on a great variety of theories and disciplines across the social sciences. The overview offered by Deborah Stevenson (2013) in *The City* shows that urban studies—if understood as primarily consisting of urban sociology and urban geography—has limited theoretical scope since it is built on a Marxist theoretical foundation. People are divided into classes and derivative concepts such as races and genders rather than into individuals. Production is assumed to become more monopolistic over time as inequalities between classes of people widen. The spatial manifestation is an increasingly divided urban landscape, juxtaposing urban slums and gentrified enclaves of the rich. Stevenson contends that

> the landscapes of capitalism are those of extremes, of division and inequality, wealth and poverty, consumption and production, degradation and spectacle. Marxism has informed studies of uneven urban development, the distribution of urban resources, and the role of the state in facilitating capitalism and its urban social relations. (Stevenson 2013: 170)

The key theorists in urban studies consequently consist of self-avowed Marxists such as David Harvey, Henri Lefebvre and Mike Davis. As observers of real-world cities, Marxist theorists contend that the spatial outcomes of both market processes and democratic political decision-making reflect the increasing power of capital in a world divided between classes with opposing interests. This applies to both suburbanization and inner-city gentrification; it applies to exclusionary-use as well as to mixed-use zoning. The villain in this drama is an ideology that they call "neoliberalism." This term permeates Marx-influenced writings on the contemporary city, and it is therefore to "neoliberalism" that I turn next.

Neoliberalism

"Neoliberalism" is an interesting term in that its use implies opposition to it. To wit, there are no self-described neoliberals. Another interesting facet of the term's use is its great scope. It can be used to refer to most of what we observe in contemporary liberal democracies. It can also refer to state-market interactions in more authoritarian societies such as China or Russia. Stevenson's (2013) examples of neoliberal spatial outcomes in cities range from land-use planning in Vancouver to China's economic system (although in China, "neoliberalism operates in tandem with centralization" (*ibid.*: 32)). Judging from Stevenson's spatially situated examples, neoliberal outcomes are the effects of political decisions taken by *all* governing political parties in the West. Such outcomes are also the effect of market processes operating autonomously. All non-Marxist political ideologies seem to be implicated in the spread of neoliberalism, ranging from anarcho-capitalism to contemporary social democracy.

Cities around the world consist of neighborhoods with different socio-economic traits. They can be predominantly rich or poor, Catholic or Jewish, white or black. This is the well-known phenomenon of spatial segregation. Neoliberalism is seen as responsible for increasing such segregation:

> Neoliberalism is … implicated in the increasing spatial division and fragmentation that is evident in cities around the world. Of significance is a deepening of the inequitable distribution of urban resources, which, although taking a number of forms, is perhaps most highly visible in spatial segregation. (Stevenson 2013: 26)

Neoliberalism also lurks behind the role of the city as the center of artistic creativity and entrepreneurial innovation. Urban sociologists and geographers are therefore critical of local policies that aim to attract artists, innovators and other members of the "creative class," such as those favored by the urban planner Richard Florida (2002). Stevenson (*ibid.*: 58) contends that Montgomery's (2008) view that "cities with strong economies are also culturally vibrant centres of creativity and innovation [is] consistent with neoliberal approaches."

Large profit-seeking firms, such as multinational corporations (Marxists call them "transnational") are not the only causes of neoliberal outcomes. The liberal democratic state is a willing accessory, providing such firms with the tools they need to extend their control over people's lives. The urban sociologist Roy Coleman (2004) has written extensively on this alleged aspect of neoliberalism. Stevenson writes that

> [f]or Coleman, CCTV [closed circuit television] is a social process that is linked inextricably to an alliance that has emerged within urban governance between the neoliberal local state and business interests. In his view, an understanding of the state and the material interests that shape it are pivotal if one is adequately to explain urban social control strategies such as CCTV. (Stevenson 2013, p. 87)

Unlike other approaches that seek to understand urban processes, the dominant streams in both urban sociology and urban geography adopt the assumption that profit-seeking firms *and* democratic governments at all levels constitute a sort of impersonal force that perpetuates the power relationships that are inherent in capitalism. Consequently, what they see in the early 21st century is a coherent capitalist system with a unified neoliberal superstructure, rather than a variety of mixed-economy outcomes that result from the interplay of individuals in their multiple roles as producers, consumers, voters, lobbyists, and politicians.

A theoretical approach that combines Marx-inspired economic reasoning and newer notions of a hegemonic neoliberal ideology underlies virtually every explanation of urban processes. Neighborhood gentrification is one illustrative example of how contemporary urban theorists attempt to show that a neoliberal capitalist power structure produces outcomes that are entirely undesirable.

Gentrification

There is some disagreement among scholars in urban studies as regards the ultimate cause of neighborhood gentrification. Stevenson (2013) writes that the geographer Neil Smith (1996) takes his theoretical cues from Harvey, especially his argument that the supply of capital causes gentrification:

> urban neighbourhoods become run down because of a withdrawal of investment capital, but, over time, this lack of investment combines with the urban decline that it creates to present the conditions for new investment opportunities and, as a result, capital soon returns to the area. Put differently, disinvestment leads to urban decline, but at a certain point undercapitalization causes the 'rent gap [to grow] sufficiently large' (Smith, 1996: 70) so as to make the neighbourhood ripe for redevelopment and hence reinvestment. (Stevenson 2013: 44)

In common with most other urban geographers, Smith treats capital as a single-minded super-personal force, rather than as a heterogeneous structure that reflects numerous and sometimes contradictory entrepreneurial judgments (for the latter view, see Lachmann [1956] 1978). In Harvey's and Smith's writings one often also gets the impression that capital is forthcoming when it is most disadvantageous to the original residents of the neighborhood; capitalists follow the dictates of capitalism by waiting until rents (profits) reach their maximum level. (Note that this conclusion seems to be incompatible with

Marxian economics, since Marx did not acknowledge land as an independent factor of production.)

Other geographers, such as David Ley (1980), disagree. Ley contends that it is the demand of consumers rather than the supply of capital that induces a gentrified neighborhood:

> Ley (1980) is one who emphasizes not the role of capital investment in the processes of gentrification, but patterns of consumption, post-industrialism and what he terms the 'liberal ideology' of a new middle or cultural class comprised of professional, administrative and technical workers. With reference to research conducted in the city of Vancouver, Ley argues that a fraction of the new middle class was successful in setting the urban development agenda in the city, which included mobilizing the discourse of the 'liveable city' to support the redevelopment and gentrification of a former inner-city industrial zone known as False Creek. (Stevenson 2013: 44)

In other words, here it is the liberal value structure of the bourgeoisie that transforms their consumer preferences so as to favor the accessibility and diversity of inner-city neighborhoods, giving rise to a greater willingness to pay for housing in such areas. Interestingly, the example of Vancouver is telling, since much of inner-city regeneration planning can be traced to the political agenda of the TEAM party, which formed a majority on Vancouver's city council in the late 1960s and in the 1970s (diZerega and Hardwick 2011). Their objectives included a mixed-use downtown area with a larger resident population, provision of low-income housing in revitalized neighborhoods, and a move away from top-down toward participatory urban planning (ibid.). This is a striking illustration of how urban sociologists and geographers not only reject traditional technocratic democracies, but even grassroots movements if they accept the general premises of a market-led liberal democracy.

In urban studies, there is no doubt of what the prevailing view on gentrification is; it is bad and it is a consequence of neoliberal capitalism. Anna Roschelle and Talmadge Wright claim that

> [u]rban policies that lead to rapid gentrification of the city have displaced the poor and working people for years. However, recent increases in disparities of wealth combined with a reduction in the social wage, adequate health care, and the decline of affordable housing have forced the poor and homeless out of desirable public space, isolating them in peripheral neighbourhoods and shelters. (Roschelle and Wright 2003: 149, quoted in Stevenson 2013: 47).

Statements such as this abound in the Marxist urban studies literature. What is especially noteworthy is that it is taken as uncontroversial that societies have become more unequal and that the provision of various social services has become less adequate, without much in the way of empirical evidence to back up such claims. To take one example, there is not a single quantitative illustration of widening inequality in the 177 pages of text that make up Stevenson's (*ibid.*) book.

Official OECD statistics reveal a slight increase in the Gini coefficient from 2000 onward in most member states. Still, the "neoliberal" OECD economies reveal a great deal of variability, ranging from a Gini coefficient of .249 in Norway to .466 in Mexico in 2010 (OECD 2013). Note that Norway is much more capitalist than Mexico; the "neoliberal" Fraser Institute (2013) ranks Norway as the 25th freest (most capitalist) economy, with Mexico in 91st place among 144 economies. If we instead look at the evolution of inequality over time in one of the oft-invoked basket cases of neoliberalism – the United Kingdom – the OECD reports that the Gini coefficient after welfare-state taxes and transfers was .355 in 1990, .352 in 2000 and .341 in 2010 (OECD, 2013). This represents a slight *decrease* in the inequality of household income over a 20-year period. The allegation of increasing economic polarization in the West seems to be taken as an article of faith rather than as the outcome of an empirical investigation of relevant facts.

But the empirical shortcomings of the dominant approach in the urban studies literature pale in comparison with its theoretical flaws. And the flaws are well-known among economists of almost all schools of thought. In their different ways, Stanley Jevons, Carl Menger and Leon Walras demonstrated the theoretical inadequacy of Marxian economics already in the 1870s.

Three Old Errors and a New One

Marxist analyses of social phenomena require the adoption of three assumptions. First, economic value derives exclusively from labor time and effort. This is often referred to as the "labor theory of value." Second, production processes exhibit ubiquitous scale economies. This is what lies behind the assertion that monopolies become dominant in "late capitalism." And individuals get all their salient characteristics from their membership in classes with contradictory class interests, although sociological and geographical treatises often complement class with questions of race and gender. This is to say that Marxist social thought is consistent in applying methodological collectivism rather than individualism. A newer development is the adoption of the notion of "neoliberalism," which is explicitly or implicitly treated as the inevitable ideological superstructure of late capitalism.

It is somewhat ironic that writers concerned with spatial phenomena base their analyses on a theory that excludes land as an original factor of production. Since all value is based on labor inputs in Marx's story, this means that they have to disregard the production factor that is the focus of spatial economics. Moreover, economic value stems from the amount of labor that is embodied in a good, rather than being the result of the interaction between consumer demand and the supply of land, labor, and capital. Together, this amounts to a rejection of all major schools of 20th century economics, including the influential contributions of economists as different as F.A. Hayek, John Maynard Keynes, Paul Samuelson, Gerard Debreu and Joseph Schumpeter.

Ubiquitous scale economies are necessary for the assertion that there is an increasing tendency towards organizing production in large monopolistic firms, which is the key assumption that allows Marxists to assume that inequalities widen as increasing economic power is concentrated in the hands of an ever-smaller class of capital owners. Unfortunately for Marxists, the field of industrial organization encompasses thousands of empirical studies that show that increasing, constant, and decreasing returns to scale are all common phenomena, and further that the relative prevalence of each can be very dissimilar in different industries.

The allocation of individuals into classes (or races or genders) is at loggerheads with methodological individualism, which is the starting point for both mainstream and heterodox microeconomic theory. The implication for Marxists is that it is class membership (or its derivatives) that determine both producer and consumer choices. There is either no room at all for autonomous consumer preferences, or they are so unimportant that they can be abstracted away.

Contemporary urban sociologists and geographers have added the nebulous concept of "neoliberalism" to these three classical Marxist assumptions. Neoliberalism is perhaps best viewed as a pejorative counterpart to the equally nebulous concept of "social justice," which Hayek (1979) claims is impossible to define and is therefore meaningless. What is clear, however, is that the market economy, really existing liberal democracies, and policies that aim to increase the economic competitiveness of a city, region or nation are all aspects of neoliberalism. It is thus a useless concept for distinguishing between different markets or between different policy proposals (as long as these accommodate markets and do not aim at a socialist transformation of society), or indeed for distinguishing between the actions of profit-seeking firms and vote-seeking governments in liberal democracies.

Rejecting the theoretical advances of late 19th and 20th century economics has deleterious consequences. Returning to the example of gentrification, an alternative analysis that *accepts* post-1870 economics deepens the analysis and leads to conclusions that are the *opposite* of the Marxist view.

Contrary to the Marxist view, capital is not an impersonal force. In a free market, entrepreneurs seek profit opportunities. They do so by making a subjective judgment based on expected revenues and costs (Foss *et al*. 2007). Costs reflect the perceived opportunity costs of market participants, which refer to the plans of others rather than to the as yet unrealized plans of the imaginative entrepreneur. An entrepreneur will invest in a new venture if she has access to sufficient capital *and* believes that revenues will more than offset her own opportunity costs. Since she is the residual claimant, she will earn profits if she is correct and incur losses if she is mistaken (*ibid*.).

The explicit price of a building or lot in a neighborhood reflects a number of consumption attributes that at least some consumers have a willingness to pay for (Rosen 1974). The attributes may include numerous structural, neighborhood and accessibility features. If property values in a neighborhood are declining in price relative to other neighborhoods (as in Smith's "urban decline") it means that the neighborhood is becoming less attractive to consumers in a relative sense. Common reasons, according to empirical analyses, include increasing crime, deteriorating schools, and lower income and education levels. It is *not* the case that a neighborhood property necessarily becomes a more attractive deal when prices decline; these declining prices are a reflection of a less attractive property as perceived by market participants. Think of an entrepreneur who wants to start a new type of restaurant. The cost of locating this in a deteriorating neighborhood is lower than if it were located in a prestigious one, but it is also likely that it will be easier to attract customers to a site that is embedded in a safe and prosperous built environment. So there is no reason to assume that there will be a systematic tendency for entrepreneurs to raise capital in order to transform blighted rather than prestigious neighborhoods.

Why then do some neighborhoods deteriorate over time? There are several possible causes. In some cases, decline may be the result of government policy, while in other cases it may be the result of non-governmental actions. Public housing policies sometimes makes it impossible to start new businesses in an area due to single-use zoning, while governmental housing allocation rules may favor those on low incomes and the unemployed. Taken together, these factors are associated with little local entrepreneurship, low achievement in education, and high levels of criminal behavior. Jane Jacobs (1961) gives examples of how public investments in isolated single-use housing projects perpetuate poverty and crime.

On the other hand, the informal institutions of neighborhood residents may be the main reason, as when a co-located group gives less priority to education and/or entrepreneurship (on average) than the city-wide norm. Thomas Sowell (1983) is a proponent of this view, as when he argues that it is discrepancies in average levels of human capital and achievement motivation among ethnicities that give rise to long-term disparities in economic outcomes.

Both hypotheses are interesting, and unlike most assertions of scholars in the field of Marxist urban studies, they are amenable to empirical testing. Jacobs' hypothesis implies that decentralized private real estate ownership, mixed land uses and few barriers to entrepreneurial experimentation should be associated with better long-term neighborhood outcomes than public ownership, single-use zoning and regulations that penalize new firms. Sowell's hypothesis implies that poor neighborhoods are more likely to see endogenous economic improvements if the dominant neighborhood culture encourages work, entrepreneurship and education. Culture, in this sense, is often associated with a specific ethnicity, but it may also be associated with a religion, ideology or other culture-relevant commonality.

So we see that neighborhood gentrification may arise endogenously, through hard work, accumulation of human capital and/or intra-neighborhood entrepreneurship. It may also come about through exogenous investments, as when the entrepreneurial investor is from somewhere else or when outsiders move to the area by buying or renting housing. The entrepreneurial investor will have to compare expected revenues with expected costs, taking due account of transaction costs, which are often substantial. Major ventures often require the purchase of several lots, and this may cause prohibitive contracting costs, since the entrepreneur may then be obliged to persuade several landowners to sell or rent out their land at a mutually agreeable price. Transaction costs tend to be more manageable for new residents, since this usually involves the purchase or rental of a single property.

Ley (1980) believes that the influx of rich people into relatively poor neighborhoods reflects the "liberal ideology" of professional, administrative, and technical workers. This is a questionable contention if "liberal" is to have more empirical content than supporters of liberal democracy, which would include the overwhelming majority of the population in the liberal democracy to which he refers (Canada). Empirical surveys of predominantly middle class populations show that there is substantial heterogeneity regarding their political values as well as their lifestyle preferences (World Values Survey 2013). It seems much more likely that individual preferences are becoming increasingly heterogeneous (Andersson 2011), and that some individuals consider the expected benefits of good accessibility (to the workplace and/or consumption opportunities) to outweigh the expected costs associated with unpopular socio-economic attributes or greater exposure to crime.

It is also important to remember that a neighborhood's susceptibility to gentrification depends on its location. In Stevenson's (2013) overview of the literature, it seems as if the poorest neighborhoods are centrally located and that they become objects of gentrification once they reach a sufficient level of destitution. But not all poor neighborhoods are in the city center. In cities such as Edinburgh, Paris or Stockholm, the poorest neighborhoods tend to be public housing projects in distant suburbs, while in cities in the Far East there is a statistically significant negative correlation between neighborhood income and distance to the city center (Andersson, Shyr and Lee 2012). Poor suburban neighborhoods tend not to become gentrified through exogenous investment, although there may of course be a great deal of neighborhood-generated or endogenous economic development if the conditions are favorable.

The location of a neighborhood is in fact the main influence on its long-term economic potential. Central locations have better accessibility, and thus they offer lower transport costs *and* greater opportunities for serendipitous discoveries than the urban periphery (Andersson forthcoming). If a poor neighborhood is sufficiently central, it is unsurprising that firms with high transport costs per square meter and/or high creative content will exhibit a higher willingness to pay than others. It is also unsurprising that artists and other low-income creative workers are disproportionately attracted to central run-down areas such as Kreuzberg in Berlin or the Downtown Eastside in Vancouver. Poverty and perhaps crime make such areas affordable, while a central location makes interaction opportunities superior to other affordable locations (ibid.). Note that nowhere do we observe artists moving into *suburban* enclaves of poverty and unemployment.

The reason why some neighborhoods gentrify and others do not is thus not a question of capital waiting for sufficient deprivation, nor is it a question of a liberal ideology that shapes a new middle class. An economic analysis that avoids the pitfalls of Marxism shows that other factors are much more central. These factors include entrepreneurship, formal as well as informal institutions, transaction costs and accessibility.

But we have still not addressed the normative component. Is gentrification good or bad? Urban sociologists and geographers deplore it. They are wrong.

Gentrification Is Good

Hayek (1945) provides a succinct summary of how prices provide a superior measure of the social value of economic action. He also shows that alternative methods of resource allocation are unable to provide economic actors with such information, since prices distill spatiotemporally specific knowledge into signals that do not overtax the cognitive capacity of humans. As a generic rule, anything that adds to the market value of a resource is socially desirable.

The market price of a piece of real estate reflects the best current estimate of the social value of the land itself and its improvements such as buildings, with the price of land not only being dependent on site-specific natural resources but also its location. The value of the location reflects positive externalities of its environment, such as accessibility to consumption opportunities, less the corresponding negative externalities, for example local crime or pollution. If we accept Hayek's argument (ibid.), it follows that an entrepreneurial action—including both new investments and new residential locations—that changes the use of land so that it commands a higher market price is socially beneficial (Webster and Lai 2003). Thus gentrification is good from a social point of view, provided that the gentrifying ventures are profitable. The only exception would be if an activity with non-spatial positive externalities is displaced to a location where such positive externalities are reduced by a sufficient amount (see Andersson, forthcoming, which discusses artistic creativity from this perspective).

The foregoing conclusion does not take distributional issues into account, which is a major concern in the urban studies literature. But surely indefinite tenure at fixed below-market rents—which would be the only way to stop investors from encroaching on a sufficiently attractive neighborhood—is one of the most wasteful ways to achieve redistributive objectives. A *laissez-faire* economist might propose deregulatory measures that facilitate entrepreneurship and capital accumulation as a more productive reform that would improve the lot of the poor over time. Conversely, an economist who favors a more activist government might propose redistribution of income or increased education funding as a superior alternative, since the misallocation of resources would be smaller than with the abolition of markets. The important point here is that *both* these hypothetical economists offer a more effective prescription for helping the poor than any measure that aims to do away with market allocation of resources. Gentrification is consequently good as long as it is a market outcome and not the result of governmental takings.

Conclusion: The Dire State of Urban Sociology and Geography

Urban studies (as defined by Marxist sociologists and geographers) deal with interesting phenomena, of which gentrification is only one illustrative example. Unfortunately, the field has been colonized by a breed of sociologists and geographers that take the writings of Karl Marx and Friedrich Engels far too seriously. The labor theory of value, which Marx adopted from the classical economists, was demolished by a number of notable economists in the 1870s as part of the neoclassical paradigm shift. Marx's methodological collectivism and his monopoly hypothesis have not fared any better, and have negligible influence in contemporary debates within any of the main economic research programs. This is a major flaw, since it produces erroneous causal inferences whenever economic phenomena play any role at all. Urban studies will only yield theoretical advances in our understanding of urban processes if it adopts a number of pertinent economic assumptions, including methodological individualism, a modern theory of economic value, and a rejection of the ubiquitous monopoly hypothesis.

The field has also introduced the confusing notion of neoliberalism into the theoretical framework, which blurs the distinction between state and market, and further blurs the distinction between rent-seeking and profit-seeking among private-sector actors. It is an often invoked but rarely defined concept that sociologists and geographers refer to whenever they observe something they do not like. Given the range of phenomena they refer to as being affected by neoliberalism, it is hard to avoid the conclusion that they reject not only capitalism but also liberal democracy. Quite apart from any considerations related to economic theory, it is therefore clear that they are at ideological odds with those who consider a market-led liberal democracy to be preferable to other social systems.

Stevenson's well-written book, while including a number of interesting issues and providing a comprehensive literature review, has the unintentional effect of putting economists as well as liberals (in the broadest possible sense) among her readers ill at ease. The conclusion is that sociological and geographical approaches to urban studies are either irrelevant or counterproductive for our understanding of cities. Moreover, they are rightly viewed as abhorrent to those who believe, as I do, that Marxism leads to theoretical errors in science and to impoverished tyrannies if put into practice on a more imposing scale.

Notes

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