

## **THE STRUCTURAL SOURCES OF INEQUALITY IN THE GLOBAL CITY**

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I isolate three major structural trends that come together in major globalized cities in ways that contribute to earnings/income inequality. This effect is centered in the advanced sectors of the economy. The advanced sectors are only one component of the economic and social structure of a city. The overall earnings and income distribution of a city depends partly on what these other economic sectors are and the extent of their contribution to middle class incomes; government policies can make a significant difference, especially by establishing a safety net for low-income workers (e.g. the social state in European cities).

- 1) A major structural trend evident in all reasonably working economies is the growing service intensity in the organization of just about all economic sectors, including rather routine and often non-globalized sectors. Whether in mining and agriculture, manufacturing, or service industries such as transport and health, more firms are buying more producer services. Some of this translates into a growing demand for producer services in global cities, but much of it translates into a demand for such services from regional centers, albeit often less complex and advanced version of those services.
- 2) The income effect is a growth in high-income professional jobs evident in extreme form in global cities and in more diluted forms in many non-global cities. A second income effect is the growing direct and indirect demand for low income jobs in this growth sector. (Direct demand: in the actual firms and associated economic sectors, such as cleaning, low level technicians, etc. Indirect: high-income households buy more services that could also be produced at home through family labor –food, childcare, etc).
- 3) The leading economic sectors also create a vast demand for low-profit making sectors. To variable extents, the latter need to be in situ. Downgrading and informalization is one trade-off for these low-profit firms to stay in situ and survive at a time of growing competition for space coming from high-earning sectors. This then extends to the low-income households: household survival might include a growing share of informally produced goods and services.

Let me elaborate briefly. The growth in the demand for producer services is then, in the analysis, a structural feature of advanced market economies which affects most economic sectors. It is not just a feature of globalized sectors. What globalization brings to this trend is a sharp increase in the demand for complexity and diversity of professional knowledge. It is this qualitative difference that leads to the heightened agglomeration economies evinced by firms in global cities compared to other types of urban areas. But the basic structural trend is present in both types of areas. This perspective also clarifies what is in my view a somewhat misguided interpretation about the higher growth rates of producer services in cities that are not global. The

trend is to assume ipso facto that these higher growth rates of producer services reflect decline and/or the departure of producer services from global cities. Those higher growth rates are actually in good part the result of lagged growth of these services throughout the national economy; global cities had their extremely high growth rates much earlier, in the 1980s. The lower growth rates evident in global cities compared with other cities should thus not necessarily be interpreted as losses for the former, but rather as the latter entering this new structural phase of market economies.<sup>1</sup> Looking at matters this way recodes some common interpretations of growth and decline.

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1 . Thus the high growth rates of producer services in smaller cities as compared with global cities is not necessarily a function of relocations from global cities to better priced locations. It is a function of the growing demand by firms in all sectors for producer services. When these services are for global firms and markets their complexity is such that global cities are the best production sites. But when the demand is for fairly routine producer services, cities at various levels of the urban system can be adequate production sites. The current spatial organization of the producer services reflects this spreading demand across economic sectors