



# **Economic geography**

M. Sokol

GY2**164**, 2790**164**

**2011**

Undergraduate study in  
**Economics, Management,  
Finance and the Social Sciences**

This is an extract from a subject guide for an undergraduate course offered as part of the University of London International Programmes in Economics, Management, Finance and the Social Sciences. Materials for these programmes are developed by academics at the London School of Economics and Political Science (LSE).

For more information, see: [www.londoninternational.ac.uk](http://www.londoninternational.ac.uk)



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This is one of a series of subject guides published by the University. We regret that due to pressure of work the author is unable to enter into any correspondence relating to, or arising from, the guide. If you have any comments on this subject guide, favourable or unfavourable, please use the form at the back of this guide.

University of London International Programmes

Publications Office

Stewart House

32 Russell Square

London WC1B 5DN

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Website: [www.londoninternational.ac.uk](http://www.londoninternational.ac.uk)

Published by: University of London

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Reprinted with minor revisions 2011

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# Introduction

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**164 Economic geography** is a '200' course offered on the Economics, Management, Finance and the Social Sciences (EMFSS) suite of programmes. It is a subject which employs a geographical approach to provide insights and understanding of the economy. When they approach this course many students think that economic geography is about describing economies of individual countries or the location of their industries. A common misunderstanding is that in the globalising world, geography does not matter any more since firms can locate anywhere around the globe. However, as economic activities are increasingly internationalised, interconnections between various places increase, competition between them intensifies and inequalities are on the rise, so geography becomes more important than ever.

What students take away from this course is an understanding of economic geography as a dynamic, diverse and contested body of knowledge that aims to provide critical insights into the workings of contemporary societies and economies. The course will introduce you to basic approaches, concepts and theories that economic geographers use; it will help you to understand how these concepts and theories may be applied in the context of the globalising world economy; and it will make you aware of the ways in which economic geography approaches can inform policy-making.

Why would you want to study this course? Economic geography is relevant for a wide range of careers in both the public and the private spheres. The course is useful for all those who would like to pursue careers related to economic development, business development, management, finance, geography and planning. It is particularly relevant for those who would like to work for local, regional and national authorities, international bodies, non-governmental organisations or private consultancies in the area of local and regional development, business and economic development or planning-related issues. Also, economists and future business leaders will find basic knowledge of economic geography useful. More generally, the course is suitable for those who are simply interested to know more about the ways economic globalisation works, or are concerned about inequalities that this economic globalisation brings about. All those who would like to pursue further studies in economics, geography, planning, politics or development studies should find this course helpful too.

Much of this course is constructed around a module on 'Economic geographies of globalisation' and a course on 'Regional development in a global context' that I have been teaching to undergraduate students at Queen Mary, University of London (QMUL) and University College London (UCL) respectively, while also drawing on various pieces of my own research. The latter addresses various economic geography issues including those of urban and regional development in the context of the global knowledge-based economy. This course places emphasis on economic geographies of production, although it is important to keep in mind that this aspect of economic geography is intrinsically linked to other areas such as geographies of consumption, trade, environment, migration, crime, education and social issues (which cannot be fully covered here as they go beyond the syllabus of this course). Inevitably, the subject

guide is written from a European perspective, but I hope that it will be understandable to all students regardless of their geographical location and that they will be able to apply the knowledge gained in their own context. I hope that you enjoy studying this course.

---

## Aims and objectives

The specific objectives of the course are to:

- highlight the importance of economic geography in analysing contemporary societies and economies
- provide a comprehensive introduction to basic concepts and key theoretical approaches in economic geography
- introduce economic geography as a dynamic, diverse and contested body of knowledge
- enable you to apply this knowledge to key social and economic issues in the context of economic globalisation
- encourage you to think about policy options for overcoming inequality and uneven development in the globalising world.

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## Learning outcomes

On completion of this course, and having completed the Essential reading and activities, you should be able to:

- explain the importance of economic geography in analysing the ways societies and economies work
- explain and apply key concepts and theoretical approaches in economic geography
- discuss and critically evaluate these concepts and theoretical approaches
- apply these concepts and theoretical approaches to key social and economic issues in the context of economic globalisation
- discuss policy options for overcoming inequality and uneven development in the globalising world.

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## How to use this subject guide

The aim of this subject guide is to help you to interpret the syllabus. It outlines what you are expected to know for each area of the syllabus, discusses key issues, suggests relevant readings and includes learning activities which you should work through to help you to understand the material.

Much of the information for the course is contained in examples and activities within the subject guide itself, but in addition you are given guidance on other reading resources. Readings are divided into Essential and Further readings. There is one set textbook which is essential for this course, and which you must purchase and read as directed; it contains much of the information you need to learn and understand, and many of the activities are based on readings from it.

Some activities refer to other readings. In most cases, these will be available to you in the Online Library, which you can access via the Student Portal (see below). Where the reading for an activity is available to you, you should make sure you read it and complete the activity. We have indicated with an asterisk (\*) those activity readings that were available in the Online Library at the time of going to press. However, it is

often worth checking the Online Library for other readings, since they may become available later on.

A few activities refer to readings that may not be available online. If you have access to the readings, for example through an academic library in your neighbourhood, you should also complete those activities; and even if you do not have access to the readings referred to, it is worth considering the activity questions in the light of the material that you have read.

I would recommend that you work through the guide in chapter order, reading the chapters specified in the essential textbook and completing as many of the activities as you can. When you have completed a chapter and as many activities as possible, you should aim to supplement your studies with some of the further reading. Each chapter will provide you with a list of further reading relevant for a particular topic. Again, many of these readings are available in the Online Library.

It is important that you appreciate that different topics are not self-contained. There is a degree of overlap between them and you are guided in this respect by the cross-referencing between different chapters. In terms of studying this course, the chapters of this guide are designed as self-contained units of study, but for examination purposes you need to have an understanding of the subject as a whole.

At the end of each chapter you will find a checklist of your learning outcomes which is a list of the main points that you should understand, once you have covered the material in the guide and the associated readings.

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## Structure of the guide

- Chapter 1 serves as an introduction to economic geography as a dynamic and diverse subject and highlights its importance for analysing contemporary societies and economies.
- Chapter 2 presents discussion of key theoretical approaches and intellectual traditions that have shaped and informed economic geography concepts.
- Chapter 3 provides a foundation to the understanding of key concepts and theories used in economic geography.
- Chapter 4 then goes on to demonstrate how some of these concepts and theories may apply to our contemporary world.
- Chapter 5 focuses specifically on the role economic geography may play in informing policy-making.

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## Essential reading

You should purchase:

Coe, N.M., P.F. Kelly and H.W.C. Yeung *Economic Geography: A Contemporary Introduction*. (Oxford: Blackwell, 2007) [ISBN 9781405132190].

This is an excellent textbook and you will enjoy reading it. It is written in an accessible, engaging and interesting way, with plenty of examples and case studies from all over the world. It has been chosen as the main Essential reading for this course, and each chapter of the subject guide commences by identifying the appropriate chapters from it.

Detailed reading references in this subject guide refer to the edition of the set textbook listed above. New editions may have been published by the time you study this course. You can use a more recent edition of the textbook; use the detailed chapter and section headings and the index to

identify relevant readings. Also check the virtual learning environment (VLE) regularly for updated guidance on readings.

In addition to this textbook, you will also need to read some other material in order to complete certain learning activities. Many such readings are available in the Online Library. Where the reading for an activity is available to you, you should read it.

Finally, it should be noted that this course builds on previous knowledge and understanding that you will have gained in studying for the prerequisite courses if you are studying this course as part of a BSc degree.

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## Further reading

Please note that as long as you read the Essential reading you are then free to read around the subject area in any text, paper or online resource. You will need to support your learning by reading as widely as possible and by thinking about how these principles apply in the real world. To help you read extensively, you have free access to the VLE and University of London Online Library (see below).

Other useful texts for this course include:

### Books

- Clark, G.L., M.P. Feldman and M.S. Gertler (eds) *The Oxford Handbook of Economic Geography*. (Oxford; New York: Oxford University Press, 2003) [ISBN 9780199250837].
- Dicken, P. *Global Shift: Mapping the Changing Contours of the World Economy*. (London: Sage, 2007) fifth edition [ISBN 9781593854362]. This is a classic textbook focusing mostly on various aspects of economic globalisation. The success of this book has been demonstrated by numerous editions that have been published. You do not necessarily need the latest edition and you may be able to buy older editions quite cheaply over the internet.
- Dicken, P and P. Lloyd *Location in Space: Theoretical Perspectives in Economic Geography*. (New York: Harper Collins Publishers, 1990) third edition [ISBN 9780060416775]. This is an old, but very good, textbook. The third edition is the best as it explains in detail much of the theory behind both neo-classical and Marxist approaches in economic geography. However, given the date of its publication, the book does not cover the newer economic geography approaches.
- Ellwood, W. *The No-nonsense Guide to Globalization*. (London: Verso, 2001) [ISBN 9781904456445].
- Hudson, R. *Economic Geographies: Circuits, Flows and Spaces*. (London: Sage, 2005) [ISBN 9780761948940]. This slim textbook is also very good, but it is written from a particular perspective and it is harder to read.
- Knox, P. and J. Agnew *The Geography of the World Economy*. (London: Arnold; New York: John Wiley and Sons, 2008) fifth edition [ISBN 9780340948354]. This is another successful textbook focusing on economic geographies of globalisation. It can be used as an alternative to Dicken's *Global Shift*.
- MacKinnon, D. and A. Cumbers *An Introduction to Economic Geography: Globalization, Uneven Development and Place*. (Harlow: Pearson/Prentice Hall, 2007) [ISBN 9780131293168]. This is a comprehensive economic geography textbook accompanied by plenty of maps, graphs, tables, figures and photographs. The glossary of terms at the end of the book is also very valuable.
- Pike, A., A. Rodriguez-Pose and J. Tomaney *Local and Regional Development*. (London and New York: Routledge, 2006) [ISBN 9780415357180]. This textbook focuses mostly on issues of local and regional development. It is very valuable for its thorough explanation of various theoretical approaches as well as a number of case studies and examples from the real world.



- Sheppard, E. and T.J. Barnes (eds) *A Companion to Economic Geography*. (Malden, MA: Blackwell, 2002) [ISBN 9780631235798].
- Stiglitz, J. *Globalization and its Discontents*. (London: Penguin, 2002) [ISBN 9780393324396] Chapter 1.

### Journals

Recommended articles that were available in the Online Library at the time of going to press include:

- Amin, A. and N. Thrift 'Neo-Marshallian Nodes in Global Networks', *International Journal of Urban and Regional Research* (16) 1992, pp.571–87.
- Asheim, B. 'Industrial Districts as "Learning Regions": a condition for prosperity', *European Planning Studies* 4(4) 1996, pp.379–400.
- Beaverstock, J.V., R.G. Smith and P.J. Taylor 'World City Network: A New Metageography?', *Annals of the Association of American Geographers* 90(1) 2000, pp.123–34.
- Clark, G. 'Money Flows Like Mercury: The Geography of Global Finance', *Geografiska Annaler* Vol. 87B (2) 2005, pp.99–112.
- Coe, N.M., M. Hess, H.W.C. Yeung, P. Dicken and J. Henderson "'Globalizing" Regional Development: A Global Production Networks Perspective', *Transactions of the Institute of British Geographers* 29(4) 2004, pp.468–84.
- Graham, S. 'Global Grids of Glass: On Global Cities, Telecommunications and Planetary Urban Networks', *Urban Studies* 36 (5/6) 1999, pp.929–49.
- Henderson, J., P. Dicken, M. Hess, N. Coe and H.W.C. Yeung 'Global Production Networks and the Analysis of Economic Development', *Review of International Political Economy* 9(3) 2002, pp.436–64.
- Hudson, R. 'The Learning Economy, the Learning Firm and the Learning Region: A Sympathetic Critique of the Limits to Learning', *European Urban and Regional Studies* 6(1) 1999, pp.59–72.
- James, A. 'Demystifying the Role of Culture in Innovative Regional Economies', *Regional Studies* 39(9) 2005, pp.1197–216.
- MacKinnon, D., A. Cumbers and K. Chapman 'Learning, Innovation and Regional Development: A Critical Appraisal of Recent Debates', *Progress in Human Geography* 26(3) 2002, pp.293–311.
- Morgan, K. 'The Learning Region: Institutions, Innovation and Regional Renewal', *Regional Studies* 31(5) 1997, pp.491–503.
- Smith, A., A. Rainnie, M. Dunford, J. Hardy, R. Hudson and D. Sadler 'Networks of Value, Commodities and Regions: Reworking Divisions of Labour in Macro-regional Economies', *Progress in Human Geography* 26(1) 2002, pp.41–63.

### Journals of general interest

- Annals of the Association of American Geographers*
- Area*
- Economic Geography*
- Environment and Planning A*
- European Urban and Regional Studies*
- Geoforum*
- Geography Compass*
- International Journal of Urban and Regional Research*
- Journal of Economic Geography*
- Progress in Human Geography*
- Regional Studies*
- The Geographical Journal*
- Transactions of the Institute of British Geographers*
- Urban Studies*

## Online study resources

In addition to the subject guide and the Essential reading, it is crucial that you take advantage of the study resources that are available online for this course, including the VLE and the Online Library.

You can access the VLE, the Online Library and your University of London email account via the Student Portal at:

<http://my.londoninternational.ac.uk>

You should have received your login details for the Student Portal with your official offer, which was emailed to the address that you gave on your application form. You have probably already logged in to the Student Portal in order to register! As soon as you registered, you will automatically have been granted access to the VLE, Online Library and your fully functional University of London email account.

If you forget your login details at any point, please email [uolia.support@london.ac.uk](mailto:uolia.support@london.ac.uk) quoting your student number.

### The VLE

The VLE, which complements this subject guide, has been designed to enhance your learning experience, providing additional support and a sense of community. It forms an important part of your study experience with the University of London and you should access it regularly.

The VLE provides a range of resources for EMFSS courses:

- Self-testing activities: Doing these allows you to test your own understanding of subject material.
- Electronic study materials: The printed materials that you receive from the University of London are available to download, including updated reading lists and references.
- Past examination papers and *Examiners' commentaries*: These provide advice on how each examination question might best be answered.
- A student discussion forum: This is an open space for you to discuss interests and experiences, seek support from your peers, work collaboratively to solve problems and discuss subject material.
- Videos: There are recorded academic introductions to the subject, interviews and debates and, for some courses, audio-visual tutorials and conclusions.
- Recorded lectures: For some courses, where appropriate, the sessions from previous years' Study Weekends have been recorded and made available.
- Study skills: Expert advice on preparing for examinations and developing your digital literacy skills.
- Feedback forms.

Some of these resources are available for certain courses only, but we are expanding our provision all the time and you should check the VLE regularly for updates.

### Making use of the Online Library

The Online Library contains a huge array of journal articles and other resources to help you read widely and extensively.

To access the majority of resources via the Online Library you will either need to use your University of London Student Portal login details, or you

will be required to register and use an Athens login:  
<http://tinyurl.com/ollathens>

The easiest way to locate relevant content and journal articles in the Online Library is to use the **Summon** search engine.

If you are having trouble finding an article listed in a reading list, try removing any punctuation from the title, such as single quotation marks, question marks and colons.

For further advice, please see the online help pages:  
[www.external.shl.lon.ac.uk/summon/about.php](http://www.external.shl.lon.ac.uk/summon/about.php)

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## Examination structure

**Important:** the information and advice given here are based on the examination structure used at the time this guide was written. Please note that subject guides may be used for several years. Because of this we strongly advise you to always check both the current *Regulations* for relevant information about the examination, and the VLE where you should be advised of any forthcoming changes. You should also carefully check the rubric/instructions on the paper you actually sit and follow those instructions.

The examination paper for this course is three hours in duration and you are expected to answer **three** questions, from a choice of **ten**. The Examiners attempt to ensure that all of the topics covered in the syllabus and subject guide are examined. Some questions could cover more than one topic from the syllabus since the different topics are not self-contained. A Sample examination paper appears as an appendix to this guide, along with a sample *Examiners' commentary* (Appendix 2: Guidance on answering the Sample examination paper).

The *Examiners' commentaries* contain valuable information about how to approach the examination and so you are strongly advised to read them carefully. Past examination papers and the associated reports are valuable resources when preparing for the examination. You should ensure that all questions are answered, allowing an approximately equal amount of time for each question, and attempting all parts or aspects of a question.

Remember, it is important to check the VLE for:

- up-to-date information on examination and assessment arrangements for this course
- where available, past examination papers and *Examiners' commentaries* for the course which give advice on how each question might best be answered.

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## Examination advice

My examination advice is as follows.

### Before the examination

- Revise thoroughly and carefully.
- Using examination questions from previous years, from the sample examination paper included in the appendix at the end of this subject guide or sample examination questions included at the end of each chapter, test yourself in a 'mock' examination. Remember that various topics are interrelated and examination questions often cut across various topics (in order to check your understanding).

**During the examination**

- Read all the questions carefully and make sure you understand what they are about.
- After selecting three questions, read these again to make sure that you are 100 per cent certain what each precise question is about.
- Pay attention to words like 'describe', 'explain' or 'discuss'. There is a big difference in what these words are requesting you to do.<sup>1</sup>
- Some questions include a request to do this or that 'with reference to' some example(s). If so, try to use the most pertinent example or examples.
- Plan your answers before writing the essay, note key points and prepare a structure for your answer.
- Make sure that you cover all aspects of a particular question.
- Make sure that your answer addresses the question asked and not another that you have seen on a past examination paper or that you would prefer to answer.
- Write clearly and to the point.
- Include a short introduction (briefly outlining how you are going to answer the question and indicating what your answer to the question will be) and a conclusion (summarising the key arguments and restating your answer).
- Make sure that you pay equal attention to all three questions selected.

<sup>1</sup> See the section 'Understanding what the question is asking for' in Strategies for success where these distinctions are explained.

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## Syllabus

**Section 1: Introduction**

What is economic geography?

Why is economic geography important?

**Section 2: Key approaches in economic geography**

What is the economy? How does the economy work (neo-classical, Marxist and evolutionary/institutionalist views)?

Key approaches in economic geography (neo-classical-inspired, location theory, Marxist-inspired approaches, evolutionary and institutionalist-inspired approaches, new economic geography, alternative views).

**Section 3: Key concepts and theories in economic geography**

Key concepts and theories: wealth, value and circuits of capital; factors of production; agriculture, manufacturing and services; neo-classical equilibrium; central place theory, urban hierarchy, market potential; connectivity-accessibility; increasing returns and cumulative causation; uneven development; core-periphery theories of economic change; agglomeration economies; divisions of labour (social, technical, spatial); cycle theories, waves of development; technical change, innovation; regional innovation systems and clusters; knowledge and learning economies; networks, trust and social capital; cultural economies, ethnicity and gender.

**Section 4: Economic geographies of the contemporary world**

Geographies of economic globalisation (investment, production, trade, consumption) in agriculture, manufacturing and services. Governing globalisation. Trans-national and multi-national corporations (commodity chains and value networks). Global finance. Global cities and city-regions (global cities, world city network, mega-city regions). Geographies of ICT

and knowledge economies. Geographies of emerging markets. Geographies of labour and migration.

### **Section 5: Economic geography and policy challenges**

Policy challenges: uneven development and inequality in the global age. Key policy responses: neo-liberal approaches, Keynesian approaches, State-socialism, Third way, alternative economic approaches. Policy options for the future.

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## **List of abbreviations used in this subject guide**

AFTA	ASEAN Free Trade Area
APS	Advanced Producer Services
ASEAN	Association of South East Asian Nations
BRIC	Brazil, Russia, India and China (emerging markets)
CBD	Central Business District
EU	European Union
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
ICT	Information and Communication Technology
ILO	International Labour Organization
IMF	International Monetary Fund
IT	Information Technology
KIBS	Knowledge-Intensive Business Services
LDC	Less Developed Country
LLDC	Least Developed Country
MNC	Multi-National Corporation (or Company)
NAFTA	North American Free Trade Agreement
NEG	New Economic Geography (Krugman-style)
NGO	Non-Governmental Organisation
NIC	Newly Industrialised Countries
NIDL	New International Division of Labour
OECD	Organisation for Economic Cooperation and Development
R&D	Research and Development
TNC	Trans-National Corporation (or Company)
UK	United Kingdom
UN	United Nations
US	United States
US\$	US Dollar
WB	World Bank
WTO	World Trade Organization
WWII	The Second World War

## **Acknowledgement**

I am grateful to Roger Lee and Nigel Spence at QMUL and Steve Gibbons at LSE for their encouragement, suggestions and comments on the earlier drafts of this subject guide. I would also like to thank Rosemary Gosling, Director, University of London International Programmes at LSE, and Kate Barker at LSE for their support throughout the writing process. I am indebted to Christina K. Webster, International Programmes Publications Editor, and her team for their excellent work. Finally, many thanks to my students at both QMUL and UCL for their questions and stimulating discussions. The usual disclaimer applies.

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# Chapter 1: What is economic geography about?

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## Aims of the chapter

The aim of the chapter is to introduce you to economic geography as a sub-discipline and to highlight the relevance of economic geography for analysing contemporary societies and economies.

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## Learning outcomes

By the end of this chapter, and having completed the Essential readings and activities, you should be able to:

- explain what economic geography is about
- explain the main differences between an economic-geographical perspective and the approach used by mainstream economics
- describe key economic-geographical concepts of space, place and scale and recognise their key strengths and weaknesses
- identify four main theoretical perspectives in economic geography
- identify some key issues that economic geographers engage with
- discuss the importance of economic geography for understanding today's globalising world.

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## Essential reading

Coe, N.M., P.F. Kelly and H.W.C. Yeung *Economic Geography: A Contemporary Introduction*. (Oxford: Blackwell, 2007) Chapter 1.

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## Further reading

Dicken, P. *Global Shift: Mapping the Changing Contours of the World Economy*. (New York: Harper Collins Publishers, 1990) Chapters 1 and 2.

MacKinnon, D. and A. Cumbers *An Introduction to Economic Geography: Globalization, Uneven Development and Place*. (Harlow: Pearson/Prentice Hall, 2007) Chapter 1.

Pike, A., A. Rodriguez-Pose and J. Tomaney *Local and Regional Development*. (London and New York: Routledge, 2006) Chapter 1.

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## Works cited

See Appendix 4 at the end of this subject guide.

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## Additional resources

Unless otherwise stated, all websites in this subject guide were accessed in April 2011. We cannot guarantee, however, that they will stay current and you may need to perform an internet search to find the relevant pages.

[www.egrg.org.uk/](http://www.egrg.org.uk/)

The website of the *Economic Geography Research Group* (EGRG) of the Royal Geographical Society – Institute of British Geographers (RGS-IBG).

<http://geog.uconn.edu/aag-econ/>

The website of the *Economic Geography Specialty Group* of the Association of American Geographers (AAG).

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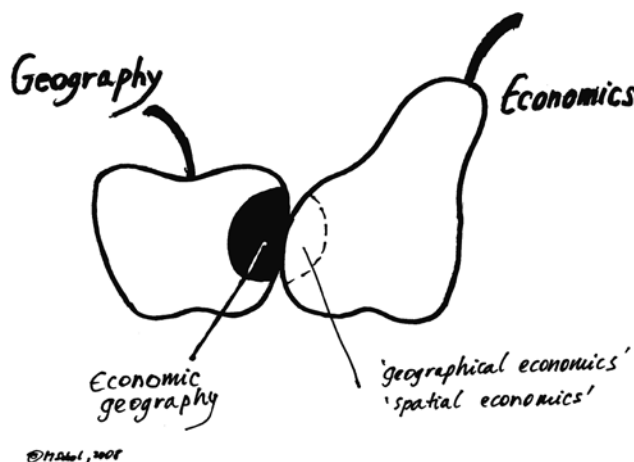
## Introduction

This chapter will introduce economic geography as a sub-discipline of geography that uses a geographical approach to study the economy. The chapter will stress that an economic-geographical approach to studying economies is very different from the approach used by mainstream economics. In this chapter we will explore some of the key differences between the approaches used by geographers and economists. The chapter will suggest that the field of economic geography offers some unique insights and is well placed to analyse and understand the contemporary world economy in all its complexity. One of the key features and strengths of the economic-geographical approach is the use of the concepts of space, place and scale and these will be introduced in turn. The chapter will also point out that economic geography itself represents a dynamic, evolving and diverse body of knowledge. However, this diversity also allows economic geography to engage with a number of issues in contemporary societies and economies. Indeed, despite the claims that economic globalisation will inevitably bring about ‘the end of geography’, geography matters more than ever and economic geography provides us with useful tools to analyse and understand economic processes that shape our world.

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## What is economic geography?

Economic geography is a sub-discipline that uses a geographical approach to study the economy. It is a vibrant and exciting branch of geography. Its name would suggest that economic geography lies somewhere between, or at the overlap of, the disciplines of geography and economics. This is true to some extent. In fact, both geographers and economists use the term ‘economic geography’. However, they mean different things by it. Indeed, it is important to stress from the outset that the approach that geographers are using to study the economy is very different from that used by most economists.



**Figure 1.1: Economic geography** (Source: Author)

In line with the terminology used by the key textbook for this course *Economic Geography: A Contemporary Introduction* written by Neil Coe and his colleagues (Coe et al., 2007), this subject guide uses the term



**economic geography** and **economic-geographical approach** to describe the approach used by geographers. On the other hand, the type of ‘economic geography’ that economists are using, can be best described as ‘geographical economics’ (see Coe et al., 2007, Preface, p.xx) or ‘spatial economics’. More generally, this distinction between ‘economic geography’ and ‘geographical economics’ reflects fundamental differences between the way the economy is treated by geographers on the one hand, and economists on the other. In other words, an economic-geographical approach to studying the economy is very different from the one used by mainstream economics (see Figure 1.1). Let’s have a look at these differences in more detail.

### Key differences between economic geography and economics’ approaches

The key difference is that mainstream economists usually pay little attention to the geographical dimensions of economic processes while economic geographers consider geography as being essential for the understanding of the ways economies work. From this, two completely different views of the economy, and the way it operates, emerge.

Most mainstream economists see the economy as a machine that works according to certain principles and whose behaviour can be predicted using modelling techniques. Mathematics is therefore the main ‘language’ economists ‘speak’. The body of thought that underpins such a conceptualisation of the economy can be referred to as ‘economic orthodoxy’. Let us first explore the key components of economic orthodoxy before introducing the key concepts of an economic-geographical perspective.

### Mainstream economics (economic orthodoxy)

Key components of economic orthodoxy (see Coe et al., 2007, pp.10–11) could be simply summarised as follows.

1. One of the key assumptions of the economic orthodoxy is that all people are behaving in a rational, self-interested and economising, profit-maximising manner. This type of **rational** individual is sometimes referred to as ‘economic man’ or *homo economicus*.
2. Economic orthodoxy assumes that these rational individuals (directly or through firms) are competing against each other on the **market**. Mainstream (orthodox) economists believe that the market is the best mechanism to ensure economic efficiency since, they believe, perfect competition on the market guarantees that supply will meet demand at a particular price and the economy will be in **equilibrium**. The notion of equilibrium is one of the central assumptions of mainstream economic thought and shapes the way in which economists see the world around them.
3. Mainstream economists believe that the market economy operates according to certain **laws** and **principles** that could be studied as a ‘science’. One of the main concerns of this economic ‘science’ is to predict the behaviour of the economy using mathematical models and equations. The achievement of the aforementioned equilibrium is one of the key concerns of such modelling.
4. Mainstream economists believe that these laws and principles work everywhere and therefore economic models are applicable to them in every context. In other words, economic orthodoxy believes in certain **universalism**.

Some would argue that such a portrayal of economic orthodoxy is somewhat simplistic, a caricature of an increasingly diverse body of economics. However, a tendency among economists to assume some sort of universal applicability of basic economic ‘laws’ is rather pervasive. Within this world of universal laws there is a little room for local differences and geography in general. Indeed, geography (with the exception of ‘geographical economics’) rarely enters economists’ equations. The use of geography by economists is somewhat limited. There are some important exceptions, however. Among them is Paul Krugman, US economist and the Nobel Prize winner for economics in 2008. Over the years, Krugman has made an important contribution in terms of bringing geography into economics and is seen as a leading figure of the so-called ‘New Economic Geography’. However, his notion of geography is still somewhat limited and narrow, especially when compared with the conceptualisation of geography used by the economic-geographical perspective discussed below. Indeed, as you will see, there are stark differences between the ‘New Economic Geography’ (NEG) used by economists and the ‘new economic geography’ used by geographers.

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### Activity 1.1

Read Sections 1.1 and 1.2 of Chapter 1 from *Economic Geography: A Contemporary Introduction* (Coe et al., 2007) about poverty and famine in Niger and the way economists explain the causes of the problem. Answer the following questions:

1. What are the underlying structural causes of poverty according to economists?
2. What role does geography play in economic development, according to economist Jeffrey Sachs?

**Feedback:** See Appendix 3 of the subject guide.

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## An economic-geographical perspective

In contrast to a rather limited appreciation of geography by most economists, geographers emphasise the fact that no economy can function at the head of a pin (Massey, 1995). In other words, ‘all economies must **take place**’ (Lee, 2006a, p.430, note 3, original emphasis). Geography, therefore, is always intrinsically present in all economic processes. One could therefore argue that, in fact, there are ‘**no economies, only economic geographies**’ (ibid; see also Lee, 2002a, emphasis added).

It follows then, that the kind of **universalism** that mainstream economics assumes is somewhat problematic. Indeed, if all economic processes have a geographical dimension, then it is difficult to imagine that economic rules can apply equally to all places.

Another major difference between an economic-geographical perspective and the assumptions of economic orthodoxy concerns the notion of a ‘rational man’ – *homo economicus*. As we have seen above, mainstream economists assume that people are always behaving as rational, profit-maximising individuals responding to market signals. However, life is more complex than that and people’s behaviour is not always the outcome of rational decision-making. Rather, it can be influenced and conditioned by their gender, race, age, class, religion, culture, health or disability. Geographers are keen to take these aspects on board when studying economies. A ‘geographical man/woman’ – or what I will call here *homo geographicus* – can behave very differently from the way they are supposed to behave according to economic orthodoxy (Figure 1.2).

This has important implications for the remaining assumptions of economic orthodoxy. Indeed, if people are not behaving in a predictable way, than it is hard to expect that the entire economy will behave according to some predictable **laws** and **principles**. However sophisticated, mathematical models may not be able to capture all the complexity of economic processes happening in the real world.

Worse still, mathematical models are not very helpful in elucidating the ways people relate to each other within societies and economies. In other words, 'the language of mathematics limits the ways in which economists can think about questions of **power** and **social relations**' (Lee, 2002a; emphasis added). However, the questions of power and social relations are crucial in understanding economies because people do not live and work in isolation. We are connected to each other in complex ways and economic geography helps us to explore these connections and relations. As we shall see later in this chapter, this exploration becomes **more** important in the age of globalisation.

Further to this, it could be argued that these connections and relations are not limited to **market** exchanges and transactions. Indeed, there is a wide range of economic processes happening outside the scope of the market. The diversity of forms of economic processes, both within and outside the scope of the market, means that many economic geographers are not talking about 'the economy' (singular) but about 'economies' (plural). In recent years, the notion of 'diverse' or 'alternative' economies attracted much interest among geographers (e.g. Lee and Wills, 1997; Lee, 2002b; Leyshon et al., 2003; Peck and Theodore, 2007). The notion of 'diverse economies' further undermines the **universalism** of economic orthodoxy and paves the way for alternative explanations of what the economy is and how it works.

Thus, one way or another, geographers in general, and economic geographers in particular, help to build a much richer, and perhaps more accurate, picture of the contemporary globalising economy. Coe and his colleagues go as far as to suggest that 'the set of approaches offered by the field of economic geography is best placed to help us appreciate and understand the modern economic world in all its complexity' (Coe et al., 2007, Preface, p.xviii). They identify the following key concepts that form part of the economic-geographical approach: **space**, **place** and **scale**. Let us examine these three concepts in more detail.

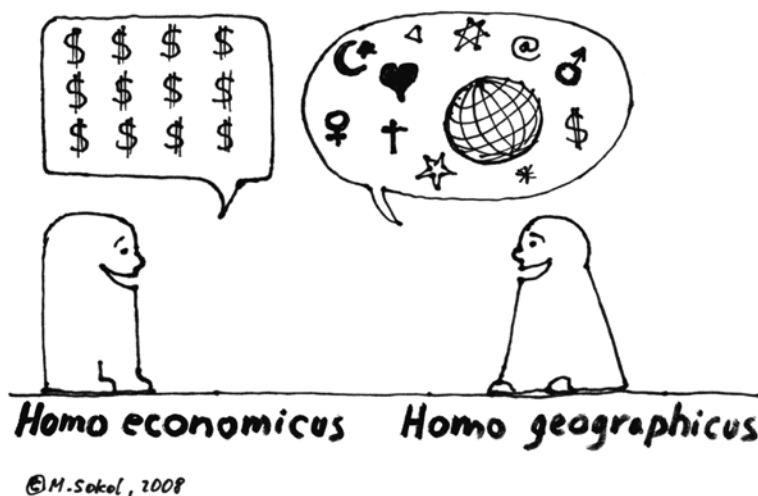


Figure 1.2: Homo economicus and Homo geographicus (Source: Author)

## Key concepts of economic geography: space, place and scale

An economic-geographical approach puts spatial concepts such as **space**, **place** and **scale** at the centre of the analysis. These concepts form part of the common language that is shared among professional geographers (Coe et al., 2007, p.11). It is therefore essential that you familiarise yourself with these concepts right at the start:

1. **Space:** The concept of space refers to physical distance and area. The concept of space allows us to ask simple questions such as **where** a particular process is happening. Four interrelated elements of the concept of space can be identified:
  - a) territoriality and form (e.g. a territorial form of a particular country)
  - b) location (e.g. a location of a particular country)
  - c) flows across space (e.g. trade flows between countries)
  - d) the concept of uneven space as a necessary condition of a capitalist system (see Coe et al., 2007, pp.14–15).
2. **Place:** The concept of place aims to capture the **specificity** or **uniqueness** of particular places that are carved out of space. Through the notion of place, geographers are able to explore the richness and complexity of particular places and economic processes which are always embedded in environmental, social, cultural, institutional and political contexts (see Coe et al., 2007, pp.16–18). The idea of being embedded is very important because environmental, social, cultural, institutional and political contexts influence (and, in turn, are influenced by) economic processes. Many Western (occidental) values, for instance, may be alien to many other cultures, societies or nations. Therefore, the way economies are constructed and performed may be very different in different places (e.g. in London or in Trinidad). Despite its importance for geographical research, the notion of place is somewhat vague because it can take various shapes and sizes.
3. **Scale:** The concept of scale therefore helps us to organise places through a typology of spatial scales. Spatial scales that are commonly used by economic geographers include:
  - a) global scale
  - b) macro-regional scale (e.g. South-East Asia, Europe or North America)
  - c) national scale (e.g. USA, UK, France, Niger, Japan)
  - d) regional scale (e.g. California or South East of England)
  - e) local scale (e.g. Silicon Valley, Manhattan or the City of London)
  - f) lived places (e.g. workplaces and homeplaces) (see Coe et al., 2007 pp.18–20).

It is worth noting that the precise typology is sometimes problematic. The terms 'local' and 'regional', for instance, are often used rather loosely. In some cases (e.g. Hong Kong, Singapore or Trinidad), it is difficult to establish whether we are looking at a national, regional or local scale (or a combination of these). When reading economic geography literature, you should always pay attention to what definition of scale a particular author is using.

Further to this, it is important to realise that the above three key concepts are not simply neutral tools for describing the world – they can also be seen as **representations** of the world. Indeed, the way these concepts

are used by academics, the media or politicians influences the way we look at the world and how we understand its problems.

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### Activity 1.2

Read Sections 1.3, 1.4 and 1.5 of Chapter 1 from *Economic Geography: A Contemporary Introduction* (Coe et al., 2007) and answer the following questions:

1. In what ways is the concept of space useful in analysing Niger's problems?
2. What are the strengths and weaknesses of the concept of place?
3. What does it mean when we say that economic processes are constituted at **multiple** scales simultaneously?
4. Why is it important to be aware of **representations** of space, place or scale?

**Feedback:** See Appendix 3 of the subject guide.

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## Major theoretical perspectives in economic geography

While most geographers would recognise and use the concepts of space, place and scale described above, it is important to realise that concepts of space, place and scale are themselves subject to debate and alternative interpretations in geography (e.g. see Clifford, 2009). For instance, some geographers use the term space to describe **absolute** geographical space (as described above), while others are using the term to describe **relative** space or **relational** space. You need to keep this in mind when reading some geography texts. More generally, you need to be aware of the fact that economic geography is a vibrant, dynamic and continuously evolving sub-discipline composed of a diverse set of approaches and concepts. This subject guide will help you to learn about the key approaches and concepts that contemporary economic geography has to offer. These approaches and concepts will be explained in some detail in subsequent chapters. However, already at this point, it is useful to highlight the various intellectual traditions within which these approaches and concepts are anchored. Four main theoretical perspectives in economic geography are:

- 1. Neo-classical location theory:** Location theory flourished in the 1950s and the 1960s and was primarily interested in establishing and explaining patterns in the distribution of economic activities across space. This type of economic geography was firmly anchored in a neo-classical economics theory and used a model-based approach to study the **location** of economic activities (e.g. firms) in space. This period in the development of economic geography is often called a 'quantitative revolution' which provided foundations for 'regional science', 'geographical economics' and 'spatial economics'. However, many economic geographers became dissatisfied with this approach and started exploring alternatives. More recently, the interest in regional science and geographical economics has been revived through the work of economist Paul Krugman and his 'New Economic Geography' (NEG).
- 2. Behavioural approach:** A behavioural approach emerged in the late 1960s as one of the reactions to the 'quantitative revolution'. It moved away from a simple neo-classical assumption of *homo economicus* and explored a wider range of factors that influence economic decision-making of human actors in various situations. The problem with this approach, however, is that it fails to explore fully the relationships between individuals and society.

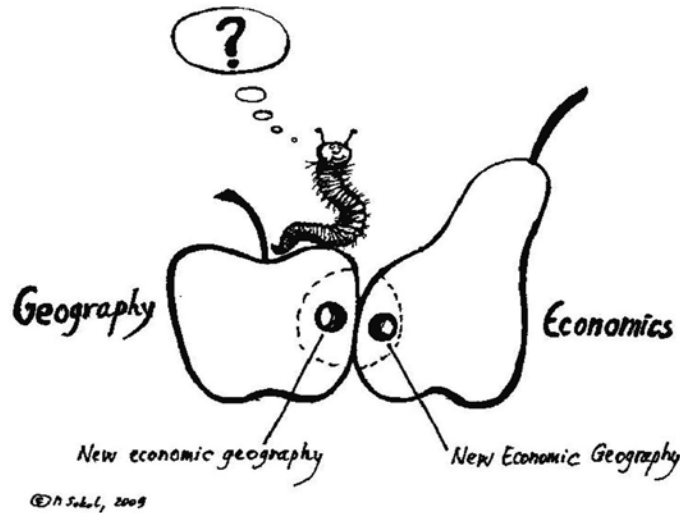
- 3. Structuralist approach/Marxist political economy:** By contrast, a Marxist political economy approach, places social relations at the centre of its analysis, with an emphasis on class. Since the 1970s Marxist views started to influence geography and still have a significant influence on economic geography today. Importantly, Marxist-inspired economic geography moved the attention from spatial patterns and locational issues to questions of **social relations** and economic structures of capitalist economies.
- 4. Post-structuralist approaches/New economic geography/Cultural turn:** However, since the mid-1990s, a new type of economic geography has started to emerge from post-structuralist ideas. An important contribution of the new economic geography is its insistence that economic process cannot be seen in isolation from social, cultural and political contexts. In fact, new economic geography argues that social, cultural and/or institutional factors are central to the functioning of the economy/economies. Thus the emphasis on the notion of class has been replaced by the interest in categories such as gender, race, age, religion and culture. This change of emphasis is often referred to as the 'cultural turn'. Please note that this emphasis on cultural factors also represents one of the key differences between the 'new economic geography' used by geographers and the one used by economists (see a discussion below). Furthermore, the cultural turn brought with it a change of focus away from structural (general) features towards more particular (specific and place-specific) features of societies and economies.

You will familiarise yourself with these major theoretical perspectives step by step in Chapters 2 and 3 of this subject guide (grouped under the three broad headings of neo-classical, Marxist and alternative approaches). The important thing to remember is that economic geographers do not always agree which approach is best and concepts they are working with are continually tested and contested. None of the theoretical perspectives is perfect; each of them has its strengths and weaknesses. However, collectively, they provide critical insights into the ways in which societies and economies work. The importance of economic geography for understanding the economic world around us will be explored in the subsequent section.

However, before moving on to the next section, let me reiterate the difference between the '**new economic geography**' described by geographers and the '**New Economic Geography**' (NEG) described by economists. The difference between the two reflects a fundamental difference of understanding concerning **what** economic geography is about. According to Paul Krugman, the key proponent of NEG, economic geography is about 'the location of production in space'; in other words, it is a 'branch of economics that worries about where things happen in relation to one another' (Krugman, 1991, p.1). In investigating the patterns of location of production in space, Krugman uses complex economic models in which geography (often simply in the form of transport costs) is inserted as an important factor. In this way, Krugman's NEG has much in common with neo-classical location theory described above. This subject guide will not explore Krugman's theory in any detail (as this is beyond the scope of the syllabus for this course). However, by learning about neo-classical location theory (in Chapter 3) you will gain a good understanding of the basic principles on which Krugman's theory builds. This, in turn, will help you to study Krugman's work in the future should you choose to do so.

In contrast to NEG, the '**new economic geography**' described by geographers as part of the 'cultural turn' is not represented by one single theory. Rather it is very much a diverse set of approaches. More

importantly, the new economic geography of the cultural turn represents a dramatically different view of economies and their geographies (see more in Chapter 3). While there have been attempts to foster a dialogue between geographers and economists (e.g. via the *Journal of Economic Geography* or through edited volumes such as Clark et al., 2003) the gap between the two types of new economic geographies is rather noticeable (Figure 1.3).



**Figure 1.3: New economic geography** (Source: Author)

### Activity 1.3

Read Box 1.2 in Chapter 1 of *Economic Geography: A Contemporary Introduction*. (Coe et al., 2007) and answer the following questions:

1. Which of the four major theoretical perspectives described in Box 1.2 is most closely related to the 'new economic geography' developed by economists?
2. Which of these approaches sees economic development as an outcome of struggles between capital and labour?
3. Is new economic geography represented by a particular theoretical perspective?

Now read the Preface to *Economic Geography: A Contemporary Introduction*. (Coe et al., 2007, pp.xvii–xxiii). What is the favoured approach of the authors?

**Feedback:** See Appendix 3 of the subject guide.

## Why is economic geography important?

### Issues for economic geography

In the previous section we highlighted the fact that economic geography can be seen as a diverse set of approaches and concepts that economic geographers use to study economic processes. In turn, this diversity of economic geography approaches allows economic geographers to engage with a diverse set of questions about the economy and society. Concrete questions often depend on a theoretical standpoint. Peter Dicken and Peter Lloyd in their textbook *Location in Space* (Dicken and Lloyd, 1990) argue that:

'Fundamentally, the economic geographer is concerned with the **spatial organisation** of economic systems: with **where** the various elements of the system are located, **how** they are connected together in space, and the **spatial impact** of economic processes.' (Dicken and Lloyd, 1990, p.7, original emphasis)

On the basis of this, they argue that economic geographers are interested in three interconnected questions.

1. In what ways are economic activities organised spatially on the earth's surface, and how do such spatial forms or patterns change over time?
2. Why are economic activities organised spatially in particular ways; that is, what are the underlying processes at work?
3. How does the spatial organisation of economic activities itself influence economic and other social processes? (Dicken and Lloyd, 1990, p.8)

On the other hand, Roger Lee suggests that economic geography is 'a geography of people's struggle to make a living' and should therefore concern itself with 'the sustainable and humane production, use and reproduction of the social, natural and material conditions of human existence' (Lee, 1994, p.147). On the basis of this, Lee (1994, p.148) argues that an 'inclusive economic geography' should include the study of:

- the cultural and environmental origins of economic activity, articulated through socially constructed gender and kinship relations; and the struggle to establish a particular set of social relations of production and their geographical extent
- the conceptualisation of nature
- the forms of calculation and measurement of value
- the processes and forms of production and consumption generated by such relations and value systems
- the division of labour
- the conditions of development within a particular set of social relations
- the forms of state and politics which support and legitimise particular social relations and processes of production and consumption
- the construction of cultural and ideological forms which shape the basis of discourse within a particular value system
- the structuring of relationships within and between different sets of social relations
- the conditions of transformation from one set of social relations of production to another.

This is a long list indeed – it reflects the view discussed earlier that there are 'no economies, only economic geographies'. Put differently, given that all economic processes are inherently **spatial**, economic geographers should be concerned about all the processes related to the people's struggle to make a living. However, an important question arises about whether such an approach is still needed in the era of globalisation in which space is apparently being dissolved by modern information and communication technologies (ICTs).

### **The age of globalisation: the end of geography?**

Powerful arguments have been put forward about the impact of globalisation in general, and the effects of the ICT revolution in particular, on economic activities. Some observers have come to the conclusion that electronic communications have 'space-shrinking' effects and will bring about the 'death of distance' and thus, ultimately, the 'end of geography'.

The 'death of distance' thesis has been expressed by Cairncross as follows:

'Distance will no longer determine the cost of communicating electronically. Companies will organize certain types of work in three shifts according to the world's three main time zones:



the Americas, East Asia/Australia, and Europe...No longer will location be key to most business decisions. Companies will locate any screen-based activity anywhere on earth, wherever they can find the best bargain of skills and productivity.' (Cairncross, 1997, p.xi, cited in Martin, 1999, p.15).

A similar argument has been put forward by O'Brien who argued that ICTs will allow money to be moved around the globe without constraints, thus spelling the 'end of geography':

'The end of geography, as a concept applied to international financial relationships, refers to a state of economic development where geographical location no longer matters, or matters less than hitherto. In this state, **financial market regulators** no longer hold sway over their regulatory territory; that is rules no longer apply to specific geographical frameworks, such as the nation-state or other typical regulatory/jurisdictional territories. For **financial firms**, this means that the choice of geographical location can be greatly widened... **Stock exchanges** can no longer expect to monopolize trading in the shares of companies in their country or region... **For the consumer of financial services**, the end of geography means a wider range of services will be offered, outside the traditional services offered by local banks.' (O'Brien, 1992, p.1, original emphasis, cited in Martin, 1999, p.15).

As you can see, both the authors of these statements attempt to convince their readers that, thanks to ICTs, **space** and **place** no longer matter or at least they matter much less than before. Indeed, they both seem to suggest that **location in space** is no longer an issue for firms as they can locate 'anywhere on earth'. Also, the role of **place** is apparently greatly diminished. Cairncross, for instance, suggests that the only place characteristics that firms may be interested in can be reduced to 'the best bargain of skills and productivity'. O'Brien, in the meantime, does not seem to recognise any role that **places** may play in the globalised financial markets. But, interestingly, both Cairncross and O'Brien seem to imply that the national **scale** is increasingly irrelevant in the global economy. Indeed, O'Brien specifically points out that (national) financial market regulators 'no longer hold sway' and that rules no longer apply to nation-states, because financial flows are spilling over traditional national boundaries. Similarly, Cairncross seems to suggest that the (macro-regional) time zone is the only geographical scale that holds any relevance in the new era of global electronic communications.

What is interesting about the above statements of Cairncross and O'Brien is that they both see globalisation as something positive. Note, for instance, Cairncross's suggestion that companies will benefit from the new locational freedom by allowing them to find and exploit 'the best bargain of skills and productivity'. O'Brien, meanwhile, suggests that the 'end of geography' will be beneficial for both financial firms **and** their customers. Views such as these can be labelled as 'hyperglobalist' (see Dicken, 2007, Chapter 2). Some of them go as far as to suggest that freeing economic activities from their traditional geographical constraints will bring benefits to all people in all corners of the globe. However, this, manifestly, does not seem to be the case. Today's world is ridden with sharp inequalities both within and between countries and geography plays an important role in understanding economic and social processes and their uneven manifestations in the age of globalisation.

## Importance of economic geography in the era of globalisation<sup>1</sup>

Despite the hyperglobalist views, the role of **space**, **place** and **scale** do not diminish in the globalising world. Quite the opposite perhaps. Indeed, as economic activities are increasingly internationalised, interconnections between various places increase, competition between them intensifies and inequalities are on the rise, so geography becomes more important than ever.

And as we have pointed out earlier, an economic-geographical approach is perhaps 'best placed to help us appreciate and understand the modern economic world in all its complexity' (Coe et al., 2007, Preface, p.xviii). This conviction is based on the knowledge that economic geography offers powerful tools for analysing and understanding contemporary economies and societies.

Economic geography, for instance, can help us to understand that, despite years and decades of economic globalisation, the pattern of investment, production, trade and consumption is highly uneven. Economic geography can also help us to understand that even footloose multi-national corporations (MNCs) have to be 'grounded' in specific locations and often 'embedded' in **places** and their socio-political, institutional and cultural contexts. Economic geography also helps to elucidate the ways in which MNCs and other economic activities are 'governed' at various geographical scales from local and regional to national, macro-regional and global levels. Economic geography also helps us to understand that despite the widespread use of ICTs, trading places for global financial capital remain stubbornly located in a small number of global cities and these global cities, in turn, influence economic processes around the world. Thanks to these and other insights, economic geography can thus contribute to our understanding of inequalities at various geographical scales from poverty in urban areas to global uneven development.

No other discipline can claim such a wide scope of interest and relevance to today's rapidly changing world. By following this subject guide, you will gain solid foundations in economic geography approaches, concepts and theories and their applicability to the contemporary world and policy-making.

<sup>1</sup>To read more about the importance of economic geography in the current globalising world, you may refer to the further reading listed at the beginning of this chapter.

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### Activity 1.4

1. Revisit Chapter 1 of *Economic Geography: A Contemporary Introduction*. (Coe et al., 2007) and think about the following questions:
  - a) Why, despite O'Brien's views, does Wall Street continue to function as a key node in the global financial system?
  - b) How can economic geography contribute to an understanding of poverty in places like Niger?
  - c) In what ways, would you say, can Wall Street and Niger be connected economically?
2. Find two or three articles in the local press about poverty in your country or city. Try to answer the following questions:
  - a) What causes of poverty are given in these articles (if at all)?
  - b) In what ways are **space**, **place** or **scale** represented in these articles (if at all)?
  - c) How can economic geography help you to understand the problem of poverty in your country or city?

**Feedback:** See Appendix 3 of the subject guide.

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## Conclusion

This chapter introduced economic geography as a dynamic, diverse and contested sub-discipline of geography that uses a geographical approach to study the economy. The chapter emphasised that an economic-geographical approach to studying economies is very different from the one used by mainstream economics. In highlighting these differences, the chapter introduced the key concepts of an economic-geographical approach, namely the concepts of space, place and scale. Having these and other concepts at its disposal, economic geography is uniquely placed to help us appreciate and understand the modern economic world in all its complexity.

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## A reminder of your learning outcomes

Having completed this chapter, and the Essential readings and activities, you should be able to:

- explain what economic geography is about
- explain the main differences between an economic-geographical perspective and the approach used by mainstream economics
- describe key economic-geographical concepts of space, place and scale and recognise their key strengths and weaknesses
- identify four main theoretical perspectives in economic geography
- identify some key issues that economic geographers engage with
- discuss the importance of economic geography for understanding today's globalising world.

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## Sample examination questions

1. 'Economic geography is best placed to help us appreciate and understand the modern economic world in all its complexity' (Coe et al., 2007). Discuss.
2. Describe the key economic-geographical concepts of space, place and scale and discuss their usefulness for analysing contemporary societies and economies.
3. Critically evaluate the proposition that economic globalisation leads to the 'end of geography'.
4. Explain the key differences between economic orthodoxy and an economic-geographical approach to the economy.

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## Notes

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# Chapter 2: Key approaches in economic geography

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## Aims of the chapter

The aim of the chapter is to highlight the contentious nature of the concept of 'the economy' and to introduce the key theoretical approaches in economic geography.

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## Learning outcomes

By the end of this chapter, and having completed the Essential readings and activities, you should be able to:

- explain why the concept of 'the economy' is problematic and contentious
- identify the three main theoretical perspectives on 'the economy' and the way it works
- recognise that different perspectives on 'the economy' have profound implications for theoretical approaches in economic geography
- describe the key theoretical approaches in economic geography and discuss the key differences and similarities between them.

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## Essential reading

Coe, N.M., P.F. Kelly and H.W.C. Yeung *Economic Geography: A Contemporary Introduction*. (Oxford: Blackwell, 2007) Chapters 2 and 3.

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## Further reading

Hudson, R. *Economic Geographies: Circuits, Flows and Spaces*. (London: Sage, 2005) Chapter 1.

Martin, R. (2000) Institutional Approaches in Economic Geography in Sheppard, E. and T.J. Barnes (eds) *A Companion to Economic Geography*. (Malden, MA: Blackwell, 2002), pp.77–94.

MacKinnon, D. and A. Cumbers *An Introduction to Economic Geography: Globalization, Uneven Development and Place*. (Harlow: Pearson/Prentice Hall, 2007) Chapters 2 and 3.

Pike, A., A. Rodriguez-Pose and J. Tomaney *Local and Regional Development*. (London and New York: Routledge, 2006) Chapter 2.

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## Works cited

See Appendix 4 at the end of this subject guide.

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## Additional resources

<http://homepage.newschool.edu/het/>

The History of Economic Thought (HET) website provided by the Economics Department at the New School for Social Research (New York) includes useful materials on key economic thinkers, theories and schools of thought.

[www.econlib.org/index.html](http://www.econlib.org/index.html)

The Library of Economics and Liberty is dedicated to advancing the study of economics, markets and liberty. It offers a unique combination of resources for students, teachers, researchers, and *aficionados* of economic thought. The website is provided by Liberty Fund, Inc., a private, educational foundation established to encourage the study of the ideal of a society of free and responsible individuals. The site includes an access to the online *Concise Encyclopedia of Economics* (CEE): [www.econlib.org/library/CEE.html](http://www.econlib.org/library/CEE.html). As an observant reader you will notice that much of the material on this website is US-centred and frequently written from a particular (free market) perspective.

[www.communityeconomies.org/](http://www.communityeconomies.org/)

'The Community Economies project website is a place where new visions of community and economy can be theorized, discussed, represented and enacted. The project grew out of J.K. Gibson-Graham's feminist critique of political economy that focused upon the limiting effects of representing economies as dominantly capitalist. Central to the project is the idea that economies are always diverse and always in the process of becoming'. One of the aims of the Community Economies project is to produce a more inclusive understanding of economy.

<http://phg.sagepub.com/>

The journal *Progress in Human Geography* is a very useful online bibliography on 'diverse economies'. You should also be able to access the journal via the VLE.

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## Introduction

In the previous chapter we introduced economic geography as a sub-discipline of geography which uses a geographical approach to study economies. We have highlighted the fact that the economic-geographical approach of studying economies is very different from the one used by mainstream economics. We have also noted that economic geographers see the economy through the prism of space, place and scale.

What we have **not** done is to explore the question of what 'the economy' actually is. However, this is a fundamental question. Indeed, the way in which we define what 'the economy' is influences our understanding of how 'the economy' works and what can be done about it. Importantly, the definition of 'the economy' and 'the economic' has an important bearing on our understanding of the way economic processes work over space, across scales and in particular places. In other words, the way in which we define 'the economy' has profound implications for our understanding of economic geographies.

This chapter thus aims to address this issue by exploring the different theoretical perspectives on 'the economy' and their geographical implications. The point here is not to provide a detailed description of the various economic geography concepts as this will be provided in Chapter 3. Rather the aim here is to allow the reader to grasp and recognise the key differences in the theoretical foundations on which various economic geography concepts have been developed. As we have already noted in Chapter 1, economic geography is not a monolithic sub-discipline. Rather it is a sub-discipline which draws on various intellectual traditions. This chapter will consider three broad perspectives on the economy:

1. The mainstream economic perspective.
2. The Marxist perspective.
3. Alternative approaches.

These three perspectives represent contrasting views on how the economy works and in turn offer three quite different ways of approaching economic geographies. But first, let us explore the question of what the economy is.

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## What is the economy?

### Defining the economy

Let us start with a definition of 'the economy'. The term is used in everyday life with such frequency that we rarely pause to think what the economy actually is. Most people take the notion of the economy for granted. In fact, many economics dictionaries and textbooks take it for granted too and do not even bother defining it (for example, see *The Penguin Dictionary of Economics* by Bannock et al., 1998, or *A Dictionary of Economics* by Black, 2002). The term 'economy' had not featured in the original version of Raymond Williams' (1976) *Keywords* either.

So what is 'the economy'? *The Concise Oxford English Dictionary* (2006) suggests that the word 'economy' is in fact of Greek origin. The Greek term 'oikonomia' basically means 'household management' – from *oikos* 'house' and *nomos* 'managing' from *nemein* 'manage' (see also *Online Etymology Dictionary* by Harper, 2001). The hint of this original meaning still survives today and 'economy' can mean 'careful management of available resources'. In travel this can mean that you buy the cheapest air or rail ticket and travel 'economy class' (see *The Concise Oxford English Dictionary* by Soanes and Stevenson, 2006).

However, since about the eighteenth century the term economy also began to gain a new meaning and now can refer to economic affairs at a much larger geographical scale, namely that of a nation (see Coe et al., 2007, p.38). Nowadays, the notion of 'the economy' is perhaps still most commonly used to describe the economic processes of a country (although it can also be used in connection with other geographical scales, e.g. 'local economy' or 'global economy'). *The Concise Oxford English Dictionary* defines the economy as 'the state of a country or area in terms of the production and consumption of goods and services and the supply of money' (*The Concise Oxford English Dictionary*, Soanes and Stevenson, 2006). However, as it will become apparent below, even this latter definition is somewhat problematic.

### Measuring the economy

Perhaps the most common way of measuring 'the state in which a country is in terms of the production and consumption of goods and services' is an indicator called **Gross Domestic Product** (GDP). GDP measures, in money terms, the total market value of production in a particular economy in a given year. It is usually calculated as a sum of expenditures by households, firms and the government plus net exports. By household expenditure (or **consumption expenditure**) we mean the total amount spent by individuals in a given year including their expenditure on food, fuel, housing, clothing, household appliances, leisure, etc. Expenditure by firms is measured as **investment expenditure** by which we mean the amount invested by businesses in future productive capacity. **Government expenditure** is the amount spent by the government to build infrastructure (e.g. roads or railways) or provide services (e.g. health or education). Finally, **net exports** represent the value of goods and services sold to other countries minus the value of goods and services imported from abroad (see Coe et al., 2007, p.34, Figure 2.2).

## Problematizing and re-defining the economy

GDP represents a fairly standard way of measuring the economy. It captures three key economic agents – namely households, firms and the government – all of which play important roles in the economy. Yet measuring the economy in this way can be highly problematic. One of the key problems is that GDP measurement is derived from a definition of the economy that is rather narrow – it includes certain things and processes but excludes others. Coe et al. (2007, p.35) offer a very good example of this problem. If you have taken a bus or drive a car to your place of work or study then you have engaged in an economic act. Your bus fare or your fuel bills and parking costs would be included in your individual consumption and therefore included in the conventional definition of the economy. But if you decide to cycle or walk instead, no money will change hands and, therefore, oddly, you have not engaged in an economic act! Another good example is unpaid work. Since no wages are paid, unpaid work occurs outside the formal monetary economy and therefore is not included in the consideration of the state of the economy. This way, not only is the economy **miscounted**, but also the work of certain people is **discounted** (Coe et al., 2007, p.45).

A similar problem arises with the ‘black economy’. In the ‘black economy’, money can indeed change hands, but because these monetary transactions are not recorded by the government, they are not included in what counts as ‘the economy’. Yet, the livelihoods of millions of people around the world may be dependent on such transactions. Thinking about what constitutes an economic act or process is crucial for our understanding of the economy and is, therefore, a point of contention.

The way in which cultural, social, political and environmental processes are related to the economic processes is another contentious issue. A conventional definition of the economy (which places rigid boundaries around the ‘economic’) supports the impression that the economy is somewhat separated from other dimensions of our lives. This in turn helps to create the impression that the economy is something ‘out there’, which affects our lives, but which we, as individuals, cannot control. This impression is often reinforced by the way the economy is represented in everyday use and policy documents. Indeed, the economy is often represented by metaphors such as a ‘machine’, an ‘organism’ or a ‘body’; that presumably has a life of its own. However, it could be argued that the economy is inseparable from cultural, social, political and environmental processes. Ray Hudson, for instance, understands ‘the economy’ as referring to:

those simultaneously discursive and material processes and practices of production, distribution and consumption, through which people seek to create wealth, prosperity and well-being and so construct economies; to circuits of production, circulation, realisation, appropriation and distribution of value. (Hudson, 2005, p.1)

However, he is quick to add that value is ‘**always** culturally constituted and defined’ (Hudson, 2005, p.1, original emphasis) and that ‘[w]hat counts as “the economy” is, therefore, always cultural, constituted in and distributed over space, linked by flows of values, monies, things and people that conjoin a diverse heterogeneity of people and things’ (Hudson, 2005, pp.1–2). He further argues that ‘[e]qually importantly, the social processes that constitute the economy **always** involve biological, chemical or physical transformation via human labour of elements of the natural world’ (Hudson, 2005, p.2, original emphasis).



This also means that thinking about ‘the economy’ in terms of ever-growing GDP, for instance, may not be a universally shared, nor necessarily desirable, concept. Indeed as Hodder and Lee (1974, p.7) have argued several decades ago, that it is ‘all too easy, for instance, to assume that the dream of each less-developed country is to become developed’. Indeed, ‘such a view can easily disregard highly developed local cultures’. They add that ‘self-respect is at least as important a measure of social and economic progress as are increases in... material wealth’ (ibid). Similarly, studying ‘the economy’ without considering the environmental dimension of economic processes is problematic, not least because ‘economic activities are taking an increasing toll of balanced interactions within the life-giving ecosystem’ (Hodder and Lee, 1974, p.7).

Another way to approach a definition of ‘the economy’ is to remind ourselves of the notion introduced in Chapter 1 that there are ‘no economies, only economic geographies’. In turn, economic geographies can be defined as ‘geographies of people’s struggle to make a living’ (see Chapter 1). Importantly, this struggle to make a living is framed in both material and social processes. In other words, ‘all economies and economic geographies are both material **and** social constructs’ (Leyshon and Lee, 2003, p.8, original emphasis). What is more, in the construction of economic geographies the relations between the material and the social are ‘inseparable and mutually formative’ (ibid, p.8). The recognition of this further undermines the notion of the economy as simply being ‘the state of production and consumption of goods and service and the supply of money’ or as being measurable by GDP (see also Gibson-Graham, 2005).

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### Activity 2.1

1. Read Chapter 2 on economic discourse in *Economic Geography: A Contemporary Introduction* (Coe et al., 2007). Answer the following questions:
  - a) What is the economy?
  - b) What are the five assumptions of the conventional view of the economy?
  - c) Why are these assumptions problematic?
  - d) Can economic processes be separated from social, cultural, political and environmental processes?
2. Think about all the activities you and your friends or members of your family have done or are going to do today. Answer the following questions:
  - a) Which of these activities would be considered as economic activities under the conventional view of the economy and which activities would be **excluded**?
  - b) Whose work is being **discounted** under the conventional definition of the economy?
3. Find an article in the local press which talks about the state of the economy in your country, region or city. Answer the following questions:
  - a) What economic metaphors are being used in the article?
  - b) Are these metaphors useful?
  - c) Do you feel that the article is written within a certain discourse?
  - d) Is the article concerned about the implications of the economic situation for people like you and families like yours?

**Feedback** (Part 3 only): See Appendix 3 of the subject guide.

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## How does the economy work?

In the previous section we have attempted to answer the question ‘what is the economy?’. As we have seen, the process of defining the economy can be problematic. What should and should not be included in the notion of ‘the economy’ remains a contentious issue.

In this section we will attempt to address an issue which is even more contentious: ‘How does the economy work?’ As already pointed out in the introductory section, the answer to this question is in part influenced by the way we define the economy. However, even people who would share the view about what the economy **is** can disagree profoundly on the question of how it **works**. Large numbers of economists and social scientists work on this question every day and we have no space here to review all of their theories. Instead, what we will attempt to do in this chapter is to identify three basic theoretical perspectives on the economy.

First, we will examine the **mainstream economic perspective**, which sees the functioning of the economy through the lens of market forces and which maintains that individual self-interest mediated by the ‘invisible hand’ of the market leads to equilibrium and prosperity.

Second, we will introduce the **Marxist perspective** which, in contrast, argues that the capitalist market economy is ridden by internal contradictions and produces both inequality and instability.

Finally, we will have a look at the **alternative approaches**, especially those associated with **evolutionary and institutionalist economics**, which try to go beyond the boundaries of market-based processes and which pay attention to wider social, cultural and institutional contexts in order to explain how economies function.

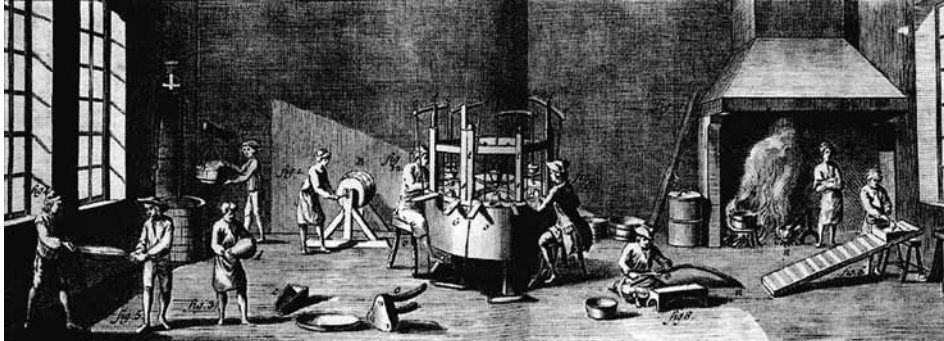
### Mainstream economic views

The mainstream economic perspective is mainly associated with **neo-classical economic theory**. The neo-classical school of thought has been developing since the late nineteenth-century and currently represents the dominant way of looking at the economy. Neo-classical economics is rooted in the belief that the market is the most efficient mechanism for the allocation of resources and hence the creation of prosperity. The neo-classical school of economic thought has been built on the foundations laid down by Adam Smith, a Scottish economist and the founder of the **classical political economy**. Back in the eighteenth century, Smith devised an economic theory, the features of which remain with us today. This includes his concepts of rational self-interest and the ‘invisible hand’ of the market, concepts that underpin much of contemporary mainstream economic thinking.

In seeking to identify how wealth is created, Adam Smith argued that the main cause of prosperity is the **division of labour**. Smith expressed his arguments in his famous work titled *An Inquiry into the Nature and Causes of the Wealth of Nations* published in 1776. In it, Smith used an example of a factory making pins to explain the power of the division of labour and the productivity that can be achieved from this. He argued that a single worker working alone at home would be lucky to produce even one pin per day and certainly not 20. However, he observed that in a pin-making factory 10 workers can engage in the production of pins by dividing 18 specialised pin-making tasks between them (Figure 2.1):

One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct

operations; to put it on, is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations, which, in some manufactories, are all performed by distinct hands, though in others the same man will sometimes perform two or three of them... Smith (1776).

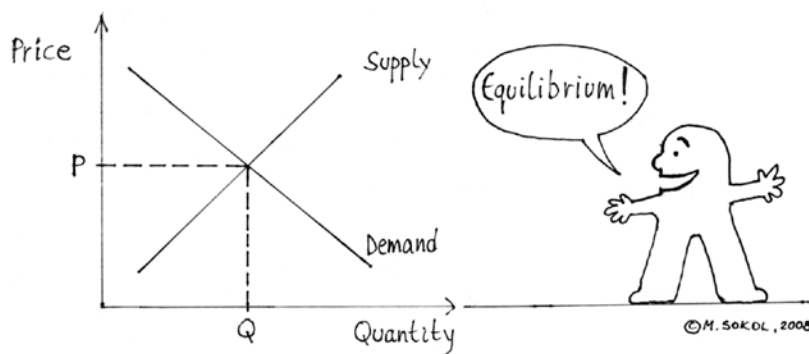


**Figure 2.1: Division of labour in a pin-making factory described by Adam Smith in his *An Inquiry into the Nature and Causes of the Wealth of Nations***

(Source: [www.timesonline.co.uk/tol/news/uk/article617514.ece](http://www.timesonline.co.uk/tol/news/uk/article617514.ece))

By dividing the work between them in this way, Smith argued, 10 workers can together produce about 48,000 pins per day. That is 4,800 pins per worker per day, representing a massive improvement of productivity when compared to the output achievable without the division of labour.

The above improvement of productivity in the pin-making factory is impressive indeed. But how does the pin-making factory know how many pins to produce and at what price to sell them? According to mainstream economists, this problem will be solved by what Smith called the ‘invisible hand’ of the market. The market will determine both the quantity of goods produced and the price at which these goods will be sold, by matching **supply** with **demand**. This is how it works (see Figure 2.2). From a producer’s point of view, the higher the price customers are prepared to pay for a product (i.e. a pin) the more the producer will be prepared to produce. This is represented by the upward-sloping **supply curve** in Figure 2.2. However, the higher the price, the less the goods will be in demand by the customers – shown as the downward-sloping **demand curve** in Figure 2.2. Under perfect market conditions, supply and demand curves will intersect in the middle, thus fixing both the quantity of goods to be produced and the price under which they will be sold. In other words, the markets will achieve **equilibrium** (see Figure 2.2; see also Dicken and Lloyd, 1990, pp.5–6).



**Figure 2.2: Market economy: the equilibrium relationship of demand, supply and price.** (Adapted from Dicken and Lloyd, 1990, Figure 1.1, p.5)

However, the functioning of the economy in the way described above, is based on the expectation that both producers and consumers are acting in a rational, economising or profit-maximising way. In other words, they are behaving as *homo economicus*, a concept we have introduced in Chapter 1. Adam Smith argued that such behaviour is motivated by ‘self-interest’. He further argued that by pursuing their own self-interests, individuals, led by the ‘invisible hand’ of the market, are unintentionally contributing to a greater societal good, a win–win situation, from which everybody will benefit. If pin-makers, shoe-makers, butchers and bakers all pursue their individual self-interest, the market will ensure that everybody will be better off.

Since the times of Adam Smith, economic theory has developed a lot, but the key principles he introduced are still with us. The analysis of the workings of the economy through the lens of rational profit-making agents (individuals or firms) and the belief that markets are capable of delivering both equilibrium and efficiency, is central to neo-classical economic theory (and to mainstream economics more generally). However, such an understanding of the economy has been challenged by Marxist and other alternative approaches which we will examine in turn.

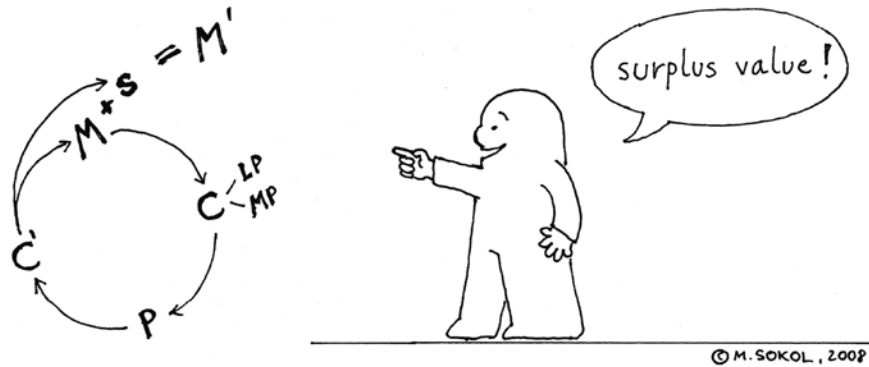
## The Marxist approach

The Marxist perspective on the economy is derived from the work of Karl Marx and Friedrich Engels, two German philosophers of the late nineteenth-century. Like Adam Smith, Karl Marx was interested in the question of how wealth is created in the economy and how wealth is distributed among members of society. However, in stark contrast to the win–win situation alluded to by Smith, Marx pointed out that wealth will increasingly concentrate in the hands of the few. How so? To answer this question, Marx devised his **labour theory of value**.

In order to explain the basics of the **labour theory of value** as devised by Marx, let us go back to the pin-making factory described earlier. As we have seen, the productivity gains from organising pin production in the pin factory were substantial. But who reaps the benefits? If the factory was jointly owned by the 10 workers who work there, it is possible to imagine a situation in which they could split the benefits of their production between themselves. However, in the capitalist market economy, the factory is likely to be privately owned. The owner, the capitalist, would own the land on which the factory is built, the factory building itself, the raw materials needed to produce the pins and all the machinery and tools used by the workers. In other words, he or she would own the **means of production**. Workers, on the other hand, do not own the means of production and the only way they can sustain themselves is to sell their own work (or as Marxists call it, their **labour power**) to capitalists. Thus, in the capitalist market economy, labour itself becomes a commodity – labour power can be bought and sold like any other commodity. So, workers sell their labour and receive wages in exchange for their work and that looks fine on the surface.

However, the question arises as to what capitalists do to sustain themselves? They have to engage in the circuit of capital and make **profit**. The way Marx described how the circuit of capital works is presented in Figure 2.3. Imagine a capitalist who has capital in the form of money – **money capital** (M) – to invest. He or she can turn this money capital into **productive capital** (P) by purchasing two commodities – the **labour power** (LP; e.g. labour of 10 workers) and the **means of production** (MP; e.g. pin-making factory, raw materials, machinery, tools, etc., needed to produce pins). The **labour power** and the **means of production** are then combined in the process of production

to produce 48,000 pins a day – representing another form of capital – **commodity capital** (C). Commodity capital can be turned back into money capital when the factory owner sells pins on the market at a certain price (and this price represents what Marxists call **exchange value**). For the capitalist to survive, he or she has to make a **profit**. This means that the money he or she receives in exchange for the commodities produced must be greater than the money originally invested in the enterprise ( $M' > M$ ). The search for profit is the motivating force of the capitalist economy.



**Figure 2.3: Circuit of capital in the capitalist economy**

M = money capital, C = commodity capital, LP = labour power, MP = means of production, P = production process, C' = increased commodity capital, s = surplus value, M' = increased money capital. (Adapted from Hudson, 2005, p.26, Figure 2.2; Lee, 2006b, p.22, Figure 3; Dicken and Lloyd, 1990, p.356, Figure 9.5).

The crucial point in the Marxist analysis is a recognition that, ultimately, all value comes from human labour and the only way for a capitalist to make profit is to appropriate **surplus value** (s). Surplus value is the difference between the wages the factory owner pays workers for their labour and the value these workers produce for him or her in the factory while making pins. To frame it differently, workers add value to the commodities they produce by applying their labour, and this value is greater than the reward they get in exchange for their efforts in the form of wages. This is the basis of **exploitation** in the capitalist economy. However, capitalists have to engage in it, if they are to survive the cut-throat competition from other capitalists, who have to do exactly the same. Those capitalists who fail to generate profit (or enough profit) go out of business. The effort to maximise profit is therefore an imperative of the capitalist economy. All capitalists, individually, have to act in a profit-maximising manner, which echoes the self-interested behaviour described by Adam Smith. Such behaviour, in turn, further exacerbates competition and so it could be argued that one of the key features of capitalism is that it is inherently competitive.

However, Marx argued that such individual action will not lead to the equilibrium and win-win situation envisaged by Smith – far from it. Marx argued that capitalism (the system based on capital) is both unequal and unstable. He argued that inequalities within society will **increase** as capitalists try to increase their profits and squeeze workers' wages, by introducing machines, intensifying labour processes or simply by forcing workers to work longer hours, for example. Capitalists can also endeavour to replace workers by machines and by doing so, they create a growing pool of the unemployed, which in turn will push wages down further still. The result of this process will be an increasing concentration of wealth in the hands of a few (the capitalist class) and the impoverishment of the working class masses (proletariat). Simply put, the capitalist system will ensure that the rich will become richer and the poor will become poorer.

Ethical issues aside, Marx argued that such a system is unlikely to reach an equilibrium of the kind envisaged by Adam Smith, because sooner or later the fundamental economic **contradiction** arises: too many commodities (e.g. pins) will be produced, but there will be too few people able to buy them. Marxists call this situation an **overaccumulation**. Overaccumulation can take various forms, but overaccumulation of capital in the form of unsold commodities is one of the most striking symptoms. Ian Craib offers a very good illustration of how such a crisis of overaccumulation can happen, using a crucial distinction in Marxist theory between **use value** and **exchange value**:

‘If I am a worker and I produce £50 worth of goods in a day (the use value of my labour to my employer), and I receive £10 a day in wages (the exchange value of my labour power), then I do not receive in wages sufficient to buy back the value of goods I have produced. This applies right across the system, so that if stocks of unsold goods build up, workers have to be laid off, and the economy enters a crisis, a depression, or slump, until the stock of goods are used up and firms go back into production. There is a cycle of growth and slump, something that capitalist economies have been trying to deal with for over a century and a half.’  
(Craib, 1997, pp.94–95).

This is then one of the possible causes of the familiar **boom-and-bust** cycle (see more in Shaik, 1991; Wolff and Resnick, 1987, pp.185–92). Each boom is followed by a crisis in which **devaluation** must take place to kick-start the accumulation process all over again. For Marx then, the capitalist economy is neither equal nor stable – it is inherently unequal and crisis-prone. The profit-making imperative that drives the capitalist economy and makes it dynamic, is also a source of its fundamental contradiction. Marxist conceptualisation of the economy therefore represents a stark contrast to the equilibrium-prone and win-win expectations of mainstream economics.

Importantly, Marx also argued that in the long run, the capitalist system is unsustainable, because the increasing contradictions will reach a tipping point at which the system will eventually collapse. This, according to Marx will happen in the most advanced capitalist countries, where the contradictions between labour and capital will be the greatest. The collapse of capitalism will pave a way (via a socialist revolution led by the working class) for a new social and economic order (communism). Marx said very little about how such a new system would operate. However, for a system to be freed from exploitation, both private property and class relations based on property rights would have to be abolished.

While Marxism provides a powerful analysis of the way the economy works, it also leaves us with a number of important issues. Indeed, the economy does not always work as predicted by Marx and, so far, the socialist revolution has failed to materialise in the most advanced capitalist countries. One of the key questions therefore is how can we account for the fact that the capitalist system manages to survive despite its contradictions? As we shall see below, economic geographers have made an important contribution to the debate on this question. But for now, let’s turn to the alternative approaches.

### Alternative approaches

It is clear from the above two sub-sections that mainstream economic and Marxist perspectives differ dramatically in their analysis of the workings of the economy. However, despite the differences, these two perspectives also share one common feature – they both focus on formal market transactions. Indeed, as we have seen, mainstream economics is concerned with the

relationship between the demand and supply of goods or services as expressed by a price fixed through the market mechanism. The Marxist analysis, meanwhile, focuses on the difference between the price of labour (exchange value of labour power) and the exchange value of the commodities produced by the labour. However, as we have seen in the opening section of this chapter, what constitutes ‘the economy’ and ‘the economic’ is a contentious issue. Echoing these concerns, a number of alternative economic approaches have emerged. These approaches usually fall within a category of **heterodox economics** since they are providing a counterbalance to the established mainstream (orthodox) economic views. One of the leading heterodox approaches is associated with **evolutionary and institutional economics** (e.g. Williamson, 1975; Nelson and Winter, 1982; Hodgson, 1988, 1993, 1998).

**Evolutionary and institutional economics** is in itself a diverse set of approaches, but there are some key shared characteristics that clearly distinguish these approaches from both the mainstream economics and Marxist perspectives. The starting point of evolutionary/institutional and other alternative approaches is their insistence that the economy cannot be reduced to market transactions only. Instead, they argue that wider social, cultural and institutional contexts need to be taken into consideration if one is to explain how economies work. Institutional contexts are defined broadly here and may include both **formal** institutions (e.g. laws, regulations, formal procedures) and **informal** institutions (e.g. habits, customs, conventions, cultural norms, etc.) at various scales – from the level of the firm to the institutional landscapes underpinning the whole economy.

The inclusion of the wider social, cultural and institutional considerations has profound implications for the understanding of the ways economies work. Importantly, such an inclusion challenges the neo-classical notion of the rational behaviour of ‘economic man’ guided by the ‘invisible hand’ of the market. Instead, it emphasises the way in which social institutions play an essential role in guiding the action of economic agents. (This also differs from the Marxist view that the role of economic agents is **structured** by the prevailing social relations of production). In the evolutionary/institutionalist view, firms, for instance, are not seen as atomistic units competing against each other on the free market. Rather, firms are perceived as being **embedded** within wider socio-economic relations and networks. These networks may include various formal and informal links with suppliers, customers and competitors. Importantly, transactions within these networks are not simply guided by market competition. Rather they often involve valuable elements of **coordination** and **cooperation**. This is important because such cooperative networks are often crucial for fostering **innovation** which is seen as vital for economic development or economic **evolution**. In turn, this raises the question whether the ‘pure market’ is the best mechanism for ensuring economic progress. Evolutionary and institutionalist economists would argue that successful economies are neither pure **markets** nor pure **hierarchies**. Instead, successful economies are ‘mixed economies’ (e.g. see Lundvall and Johnson, 1994) with important roles for the public sector and for different kinds of policy. Mixed economic systems are also seen as capable of producing a diversity of economic forms which contributes to the adaptability and long-term survival of economic systems (rather than just the simple short-term ‘survival of the fittest’ enforced by unfettered markets).

Another line of argument advanced by alternative approaches relates to the claim that successful economies are increasingly knowledge-intensive or knowledge-based. The **knowledge-based economy** can be simply

defined as an economy in which knowledge becomes the key economic resource. While all economies can be seen as knowledge-based, there is a perception that we witness a major shift in the relative importance of land, physical capital and knowledge capital, in favour of the latter. For some observers, the shift towards the knowledge-based economy represents an epochal transformation. As Burton-Jones (1999) vividly put it:

‘Since ancient times, wealth and power have been associated with the ownership of physical resources. The traditional factors of production, materials, labour, and money, have been largely physical in nature. Historically the need for knowledge has been limited, and access to it largely controlled by those owning the means of production. Steam power, physical labour, and money capital largely facilitated the Industrial Revolution... In contrast, future wealth and power will be derived mainly from intangible, intellectual resources: knowledge capital. This transformation from a world largely dominated by physical resources, to a world dominated by knowledge, implies a shift in the locus of economic power as profound as that which occurred at the time of the Industrial Revolution. We are in the early stages of a “Knowledge Revolution.” (Burton-Jones, 1999, p.3)

The notion that the economy is moving towards a post-industrial, knowledge-intensive phase, in turn, opens up a whole set of questions. Both mainstream (neo-classical) economics and Marxist approaches have been devised in the context of an (emerging) industrial era. But will the same principles apply to the new knowledge economy?

Evolutionary and institutionalist economists have devised their own approaches to account for the ways knowledge economies work. One of the most influential concepts is that of the **‘learning economy’** introduced by Lundvall and Johnson (1994). The starting point of the ‘learning economy’ concept is the argument that if **knowledge** is the most fundamental resource in our contemporary economy, then **learning** is ‘the most important process’ (Lundvall and Johnson, 1994, p.23). Although Lundvall and Johnson admit that knowledge always has been a ‘crucial resource’ for the economy, and was in the past ‘layered in traditions and routines’, they argue that knowledge and learning have more recently become much more fundamental resources than before (ibid, p.24). They argue that the economy is now characterised by ‘new constellations of knowledge and learning in the economy’ (ibid, p.24) mainly through the development of ICTs, flexible specialisation and, finally, changes in the process of innovation (ibid, pp.24–25). These changes are bringing challenges that firms have responded to by changing organisational forms and by building alliances in order to gain access to a more diversified knowledge base (ibid, p.25). This implies ‘broader participation in learning processes’ to include all layers within the firm, the development of ‘multi-skilling and networking skills’ and enhancing the ‘capacity to learn and to apply learning to the processes of production and sales’ (ibid, pp.25–26). This is why Lundvall and Johnson ‘regard... capitalist economies not only as knowledge-based economies but also as “learning economies”’ (ibid, p.26). They offer the following definition of the ‘learning economy’:

‘The learning economy is a dynamic concept; it involves the capacity to learn and to expand the knowledge base. It refers not only to the importance of the science and technology systems – universities, research organisations, in-house R&D departments and so on – but also to the learning implications of the economic structure, the organisational forms and the institutional set-up.’ (Lundvall and Johnson, 1994, p.26)



At the core of the 'learning economy' are apparently firms that 'start to learn how to learn' (ibid, p.26) and which are able to handle various types of knowledge. Lundvall and Johnson distinguish at least four categories of knowledge: **know-what**, **know-why**, **know-who (when and where)** and **know-how** (ibid, p.27). The first category, **know-what**, represents knowledge about 'facts'. The meaning of this is probably close to that of 'information'. The second category, **know-why**, refers to scientific knowledge of principles and laws of motion in nature and in society. This kind of knowledge, Lundvall and Johnson argue, is extremely important for technological development (ibid, p.27). The third term, **know-who**, (together with **know-when** and **know-where**) is already a more complex construction that reaches a sphere of specific social relations and time-space dimension. A simple example of **know-who** can be a situation when, for a successful innovation, it is more important to know key persons than to know basic scientific principles (ibid, p.28). **Know-when** and **know-where** refers to economically useful knowledge about markets with their temporal and spatial dimensions, for instance. Finally, **know-how** refers to practical skills in production or other spheres of economic activity (ibid, p.28).

Lundvall and Johnson (1994) also address different aspects of **learning**. Importantly, they do not understand learning as a simple absorption of science and technical knowledge. Rather, they define it more broadly as learning (about) changes in economic structures, organisational and institutional forms. Learning is presented as a dynamic and interactive process aimed at the accumulation of knowledge at the level of the firm and the economy as a whole. Learning is present in both production and consumption processes and is expressed through 'learning by doing' and 'learning by using'. From the point of view of permanent renewal (learning) and adaptation of economic and organisational structures, Lundvall and Johnson have also introduced an innovative term 'forgetting' (ibid, p.40). They argue that the 'learning economy' should not only preserve and store its pool of knowledge, but also should be able to 'forget'. 'Forgetting' at the level of individual workers refers to their ability to abandon obsolete skills and professional expertise. An example of 'forgetting' at the level of the firm or economy includes closing down ailing branches or whole sectors. Thus, the 'learning economy' is supposed to intelligently manage continuous self-organised learning (and forgetting). As we shall see below, the work of Lundvall and Johnson and other evolutionary/institutionalists has proved highly influential in framing the discussion on contemporary economic geographies, despite the fact that there remain questions about the precise nature of the supposed transformation of the economy towards the 'knowledge-based economy' or 'learning economy' (for example, see Sokol, 2004).

One contentious issue relates to the question of whether the transformation beyond an old industrial economy also signifies a move beyond a capitalist economy. Geoffrey Hodgson – one of the prominent evolutionary/institutionalist economists – contributed to the debate by offering his own definitions of the 'knowledge-intensive economy' and 'learning economy'. Hodgson has argued that the 'knowledge-intensive economy' would still be a capitalist one (see Hodgson, 1999, pp.214–15), but it would be an economy in which an 'enlightened group of business leaders' is 'aware of the kind of democratic culture and participatory industrial relations that facilitate productivity'. Alongside 'collaborative and cooperative relationships between firms... against the neo-liberal insistence on fierce, price driven, market competition' (ibid, p.211), Hodgson suggests that:

‘[s]uch a progressive movement of business people could find valuable allies among trade unionists and the population as a whole’ (ibid, p.211). However, for Hodgson, the ‘learning economy’ or ‘market cognitivism’ (ibid, p.213), in contrast, is a scenario clearly ‘beyond capitalism’ (ibid, pp.211–215) where the ‘degree of control by the employer over the employee is minimal’ (ibid, p.212). Hodgson has argued that such an economy, ‘would not be socialist, in any common sense of the word’, but nevertheless, ‘it is not capitalism’ (ibid, p.213) presumably because the means of production (brains of knowledge workers) are effectively controlled by the workers themselves, not by the employers (capitalists). Such a benign view of the emerging new ‘knowledge era’ thus implies that the contradictions identified by Marx as inherent to the capitalist economy may be waning. This point is hotly debated (e.g. see May, 2002), but if proven true, it can have potentially important implications for the way we conceptualise economic geographies of the ‘new era’ (see below).

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### Activity 2.2

Re-read the newspaper article you have selected for Activity 2.1 and answer the following questions:

1. Does the article discuss the causal forces behind economic growth or, alternatively, the reasons for economic difficulties?
2. If so, what explanations are given? What theoretical perspective (if any) is being used? Does the article discuss the role of market, competition, exploitation, innovation or knowledge?
3. Are the explanations provided by the article satisfactory?
4. Does the article mention the **spatial** dimensions of the economic processes discussed?

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## How does the economy work over space?

### Introduction

The perspectives on the economy presented above offer a good starting point to explore the question of what the economy is and how it works. However, the problem is that all views presented above could be seen as ‘aspatial’. Indeed, they do not tell us much about how the economy or economies work over space. Yet, as we have learnt in Chapter 1 all economies must ‘take place’. Economic and geographical considerations are, in other words, impossible to separate. The question of how the economy (or economies) work(s) over space, across scales and in particular places, is the key question of economic geography.

This is an important question, because as we have already mentioned in Chapter 1 (and as we will see in the remaining chapters of this subject guide), economic processes are unfolding in space in a highly uneven way and are engaged in producing and reproducing inequalities at various spatial scales. How can we explain this uneven and unequal development? The three perspectives on the economy presented in the previous section provide three very different (in fact, contrasting) ways of approaching this question. In other words, different perspectives on ‘the economy’ have profound implications for the theoretical conceptualisation of economic geographies.

### Neo-classical approach, location theory and beyond

Let us start with the neo-classical approach. The application of the neo-classical model for the understanding of the ways in which the economy works over space looks straightforward enough. Echoing the view that the ‘invisible hand’ of the market will ensure equilibrium between demand and

supply, neo-classical theory of spatial development implies that any uneven development is temporary, because market forces will ensure that some sort of **spatial equilibrium** or balanced development will be achieved in the long run. This view is based on the assumption that, following the logic of the rational **economic man**, both producers (firms) and consumers (workers) will move between regions in search of the most profitable location. Simply put, labour will move from poorer to richer regions (in search of higher wages) and capital will move in the opposite direction (in search of cheaper labour and land).

Even more complex neo-classical models that involve other factors of production (e.g. technology) are all built around the assumption that some sort of spatial equilibrium will be achieved in the long run, because such factors of production will inevitably **spread** or **disperse** over space. The processes of **spatial dispersal** can indeed be observed in reality. However, the examples of **spatial equilibrium** that the neo-classical theory envisages, are hard to find.

One way of accounting for this discrepancy is to acknowledge that, in real life, factors of production cannot move 'freely' over space. Indeed, there are various constraints involved. One of the obvious obstacles is the **friction of distance**. The calculation of the cost associated with moving people, machinery, materials or goods across space and the implication of this for location in space forms the basis of the **neo-classical location theory**. Key concepts that build upon the **location theory** include the **central place theory**, **urban hierarchy**, **market potential** and **accessibility**, all of which will be explored in more detail in Chapter 3. These concepts help us to understand how the **friction of distance** influences the location of economic activities in space.

Further insights into why economic activities simply do not disperse in space are, among others, offered by the concepts of **agglomeration economies**, **increasing returns** and **cumulative causation**. These latter concepts identify additional market advantages arising from the spatial **concentration** of economic activities (see more in Chapter 3). In essence, these concepts show that rather than having a self-correcting dispersal effect, market forces can in fact reinforce existing inequalities in space. The kind of spatial equilibrium envisaged by the neo-classical theory is therefore hard to achieve. It could be argued that these latter concepts 'use the approach and language of neo-classical economics to reach contrary conclusions' (Pike et al., 2006, p.70).

## **Marxist-inspired approaches and uneven development**

Marxist-inspired approaches in economic geography also challenge the neo-classical idea of spatial equilibrium, although coming from a completely different perspective. As we have seen earlier in this chapter, Marxist theory sees capitalism as a system based on the exploitation of labour. The profit imperative makes such a system incredibly dynamic, yet, at the same time, inherently unequal and crisis-prone. Internal contradictions mean that crises of overaccumulation are inevitable in such a system. Devaluation must take place to kick-start the accumulation process all over again. Building on these systemic features of capitalism, Marxist economic geographers do not see inequalities in space as disappearing with the operation of market forces. Instead they consider uneven development as a permanent, unavoidable and, in fact, necessary feature of the capitalist market economy. Indeed, in Marxist-inspired approaches, uneven development is usually seen as both the necessary precondition and the unavoidable consequence of capitalist economic growth.

Several concepts have been put forward that try to describe the way capitalist economies work over space. One of them uses a '**see-saw**' metaphor to describe the ebb and flow of capital from one region to another in search of profit. Destruction and devaluation of places left behind may create pre-conditions for future renewed growth. In a similar vein, the concept of **spatial fix** recognises that geographical space is an important element in the functioning of the capitalist economy and its ability to contain, absorb or delay crises. This includes the expansion of the spatial horizons of the capitalist system, for example, in the form of new (more profitable) spaces of production or new regional markets. Such a spatial expansion (or spatial fix) is perhaps one of the ways in which the capitalist system is able to postpone the collapse predicted by Marx. In this view, geographical space plays a crucial role in the workings of the capitalist system. Another concept that tries to capture the operation of the capitalist economy over space is that of **spatial divisions of labour**. It describes the way in which capitalism creates spatial structures that assign distinct economic functions to particular regions. The economic fortunes of these regions are thus linked to their position in the spatial division of labour within the wider economic structure. Related to this is a concept of **core-periphery** which conceptualises uneven development as a set of uneven economic relations between a (dominant) core region and (dominated) periphery region(s). Somewhat echoing the exploitative nature of capitalist class relations, the **core-periphery** concept suggests that rich regions (or countries) exist thanks to the exploitation of peripheral regions (or countries). One way or other, in Marxist-inspired approaches, uneven development is always linked to the structural features of the economy (see more in Chapter 3). This is in stark contrast to some alternative approaches that are going to be examined in turn.

### **Evolutionary/institutionalist approaches and new economic geography**

Economic geography approaches that draw from heterodox economics and the evolutionary/institutionalist perspective represent a diverse and evolving group (e.g. see Martin, 2000 for a good overview). However, some common features are discernible. As we have seen earlier in this chapter, the evolutionary/institutionalist perspective emphasises the importance of social, cultural and institutional factors for the understanding of the ways economies work. This is in contrast to both neo-classical views (that largely disregard such factors) and the Marxist approach (that assumes that such factors are determined by, rather than being determinants of, the economy). However, the evolutionary/institutionalist perspective sees the economy as always embedded in, and constituted by, social, cultural and institutional spheres. Economic geography approaches developed from this perspective thus see uneven development as inextricably linked to (or shaped by) institutional contexts. One of the key points that such economic geography approaches are making is that social, cultural and institutional contexts are **place-specific**. In other words, economic fortunes of regions (or whole countries) depend on the institutional arrangements that these regions (or countries) are able to create.

At the regional level, for instance, the concept of '**institutional thickness**' has been proposed to capture the strength of local/regional institutions, their ability to cooperate and to promote a coherent development strategy. In line with the view that successful economies are increasingly knowledge-based or learning economies, successful regions

have also been conceptualised as **learning regions**. The key feature of such regions is their ability to innovate, to learn and to accumulate knowledge in various forms, thanks to their institutional set-up. It is argued, for instance, that the capacity to innovate and to learn depends on various collaborative networks, which are sustained thanks to the institutions of trust, shared culture and social capital, all of which are dependent on particular regional settings. In this view then, regions are in fact seen as key engines of the knowledge economy and uneven development in such an economy is a result of differences in regional ‘institutional thickness’, innovation capacity, learning and knowledge accumulation.

Interestingly, there are two opposing views with regard to the prospect of achieving balanced development in the knowledge-based or learning economy. The first view is based on the assumption that economically lagging regions (or nations) can catch-up because favourable conditions for growth can be created locally by making appropriate institutional arrangements. This view is further supported by the assumption that thanks to information and communication technology (ICT), the key resource in the knowledge economy – knowledge – can move freely around the world. It should therefore be possible for previously underdeveloped regions to emulate the success of leading regions such as Silicon Valley. The second, and opposing, view suggests that uneven development will continue to be a feature in the knowledge-based economy. This view is based on the assumption that the key sources of competitiveness and economic success is non-standardised **tacit** knowledge (as opposed to standardised, written, **explicit** knowledge). Tacit knowledge, the argument goes, is embedded in local/regional institutions, regional innovation cultures and **clusters** and these are apparently place-specific to the extent that they cannot be replicated by regions elsewhere.

One way or another, the interest in regional institutional settings has been associated with the emergence of so-called **new economic geography** (see also the discussion in Chapter 1). While the term ‘new economic geography’ is used by some economists to describe recent advances in economics in relation to space (e.g. see Krugman, 2000), in geography the term is used to describe an economic geography approach which moves away from viewing economic processes as separate from social, cultural and political contexts and emphasises that these contexts are crucial for understanding economic dynamics (e.g. see Coe et al., 2007, p.13). New economic geography therefore also enthusiastically embraces the notions of culture, social capital, ethnicity and gender in its study of the economy (e.g. see Lee and Wills, 1997), reflecting a wider ‘cultural turn’ in social sciences.

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### Activity 2.3

Read Chapter 3 of *Economic Geography: A Contemporary Introduction*. (Coe et al., 2007) and answer the following questions:

1. How can we explain the fact that some parts of the world are less developed than others?
2. Why do conventional approaches fail to provide satisfactory explanations?
3. What do authors mean when they say that we need to think structurally about the economy?
4. Why is uneven development both the cause and consequence of capitalist development?

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## Conclusion

This chapter aimed to examine three interrelated questions, namely: (i) what is the economy?; (ii) how does the economy work?; and (iii) how does the economy **work over space**? In relation to the first question, the chapter argued that a definition of ‘the economy’ is both problematic and contentious, not least because the question arises as to what is included in, and what is excluded from, being considered as an ‘economic’ process. Further to this, the extent to which economic processes can be separated from cultural, social, political and environmental processes is another contentious issue.

In relation to the second and third question, the chapter examined three contrasting perspectives on the economy (neo-classical, Marxist and alternative perspectives). The chapter emphasised that different perspectives on ‘the economy’ have profound implications for the theoretical conceptualisation of economic geographies. Indeed, as highlighted by the chapter, there are stark differences between neo-classical, Marxist and alternative approaches to economic geographies. The neo-classical perspective supports the view that any uneven development is of a temporary nature and should melt away under the operation of market forces. The Marxist approach, in contrast, emphasises that uneven development is an inherent, structural and unavoidable feature of the capitalist economy. Alternative approaches, meanwhile, focus on institutional and cultural factors to account for uneven patterns of economic development. Concepts and theories that have been built on these three basic perspectives will be examined in more detail in Chapter 3.

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## A reminder of your learning outcomes

Having completed this chapter, and the Essential readings and activities, you should be able to:

- explain why the concept of ‘the economy’ is problematic and contentious
- identify three main theoretical perspectives on ‘the economy’ and the way it works
- recognise that different perspectives on ‘the economy’ have profound implications for theoretical approaches in economic geography
- describe key theoretical approaches in economic geography and discuss key differences and similarities between them.

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## Sample examination questions

1. Describe the key features of neo-classical, Marxist and evolutionary/institutionalist theoretical perspectives on the economy, then discuss the key differences between them and the way they conceptualise economic geographies.
2. Is uneven development an unavoidable feature of the capitalist economy?
3. Why is the neo-classical assumption that market forces lead to spatial equilibrium problematic?
4. Is it possible to understand the workings of the economy and its geography without taking into consideration the social, cultural, political and environmental factors?

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# Chapter 3: Key concepts and theories in economic geography

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## Aims of the chapter

The aim of the chapter is to provide a comprehensive introduction to the key concepts and theories in economic geography.

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## Learning outcomes

By the end of this chapter, and having completed the Essential reading and activities, you should be able to:

- explain the key concepts and theories in economic geography
- identify similarities and differences between these concepts and theories
- discuss and critically evaluate these concepts and theories and their usefulness in analysing economic geographies.

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## Essential reading

Coe, N.M., P.F. Kelly and H.W.C. Yeung *Economic Geography: A Contemporary Introduction*. (Oxford: Blackwell, 2007) Chapters 3, 5, 11, 12 and 13.

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## Further reading

- Dicken, P. *Global Shift: Mapping the Changing Contours of the World Economy*. (London: Sage, 2007) Chapter 3 ('Technological Change: Gales of Creative Destruction') [or a relevant chapter from any other edition of this book].
- Dicken, P. and P. Lloyd *Location in Space: Theoretical Perspectives in Economic Geography*. (New York: Harper Collins Publishers, 1990).
- Hudson, R. *Economic Geographies: Circuits, Flows and Spaces*. (London: Sage, 2005).
- MacKinnon, D. and A. Cumbers *An Introduction to Economic Geography: Globalization, Uneven Development and Place*. (Harlow: Pearson/Prentice Hall, 2007) Chapters 2 and 3. See also Chapter 10 on the knowledge-based economy and learning regions.
- Martin, R. (2000) 'Institutional Approaches in Economic Geography' in Sheppard, E. and T.J. Barnes (eds) *A Companion to Economic Geography*. (Malden, MA: Blackwell, 2002), pp.77–94.
- Pike, A., A. Rodriguez-Pose and J. Tomaney *Local and Regional Development*. (London and New York: Routledge, 2006) Chapter 3 and the section on Silicon Valley in Chapter 7 (pp.212–19).

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## Journal article

Amin, A., and N. Thrift 'Neo-Marshallian Nodes in Global Networks', *International Journal of Urban and Regional Research* (16) 1992, pp.571–87.

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## Works cited

See Appendix 4 at the end of this subject guide.

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## Additional resources

<http://davidharvey.org/>

A website maintained by David Harvey, a Distinguished Professor at the City University of New York (CUNY). The website contains video lectures of David Harvey explaining the fundamentals of the theory of Karl Marx.

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## Introduction

In Chapter 1 of this subject guide we have introduced economic geography as a dynamic, diverse and contested sub-discipline of geography that uses a geographical approach to study the economy. Subsequently, Chapter 2 aimed to define what 'the economy' is and how it works. In doing so, we have identified three contrasting perspectives on the economy (neo-classical, Marxist and alternative perspectives). The chapter emphasised that different perspectives on 'the economy' have profound implications for the theoretical conceptualisation of economic geographies. Indeed, as we have seen, the neo-classical perspective supports the view that any uneven development is temporary and will disappear thanks to the operation of market forces. The Marxist approach, in contrast, emphasises that uneven development is an inherent, structural and unavoidable feature of the capitalist economy. The alternative approaches, meanwhile, focus on institutional and cultural factors to explain uneven patterns of economic development.

In this chapter we will examine in more detail the concepts and theories that have been derived from the above theoretical perspectives. The chapter, in other words, aims to provide a comprehensive introduction to key concepts and theories in economic geography. These concepts and theories help to elucidate the way in which economies work over space, across scales and in particular places. A good knowledge of these concepts and theories is therefore fundamental for our understanding of economic geographies of the contemporary world (see Chapter 4) and our ability to discuss policy options for overcoming inequality and uneven development (Chapter 5).

The chapter will be organised in the following way. The first section will examine concepts and theories whose starting point is the mainstream economic (neo-classical) perspective. It will start by examining the hypothesis of spatial equilibrium and will proceed to examine concepts that demonstrate that uneven development is a more likely outcome of the operation of market forces. The issue of uneven development will be taken further in the second section, where concepts and theories associated with the Marxist perspective will be examined. The third and final section of this chapter will examine concepts and theories mostly associated with various alternative approaches to economic development. Taken together, the chapter will provide you with a solid basis of theoretical knowledge on which the subsequent chapters will be able to build.

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## Neo-classical approach, location theory and beyond

This section will examine concepts and theories in economic geography that use the mainstream (neo-classical) perspective of the economy as their starting point. This will include a discussion on **neo-classical spatial equilibrium** which presupposes that factors of production (capital and labour) will disperse across regions to create a balanced and



efficient pattern of development. This will be followed by a discussion on the neo-classical **location theories**, one of which is the **central place theory**. The **central place theory** shows that even under perfect market conditions economic activities will cluster in certain locations (central places) creating a dynamic equilibrium in space and a distinct **urban hierarchy**. Such an urban hierarchy, in turn, creates different levels of **market potential** and **connectivity-accessibility**, concepts that will be examined subsequently. Finally, the section will turn attention to the concepts of **agglomeration economies** and **increasing returns** and the theory of **cumulative causation**, all of which help to explain why the spatial equilibrium envisaged by the neo-classical theory is hard to achieve. These latter concepts demonstrate that rather than having a self-correcting dispersal effect, market forces can in fact reinforce existing inequalities in space.

### Neo-classical spatial equilibrium

The simplest version of the neo-classical spatial model involves the movement across space of the two key **factors of production** – capital and labour. Imagine a country – an island – that has two regions, one ‘rich’ and one ‘poor’ (Figure 3.1a). In the rich region, there is a great supply of capital, but a relative shortage of labour. As a result of this labour shortage, the wages in the rich region will be very high. In the poor region, wages are much lower, due to the abundance of labour and a relative lack of capital. According to the neo-classical model, labour will move from the poor region to the rich region in search of higher wages, while the capital will move in the opposite direction in search of cheaper labour (and thus higher profits; see Figure 3.1b). This is fully in line with the expected behaviour of a rational ‘economic man’. Importantly, individual actions of this kind will ensure that the system as a whole will reach **spatial equilibrium** (Figure 3.1c). The economic geographer, Diane Perrons, summarises the neo-classical hypothesis as follows:

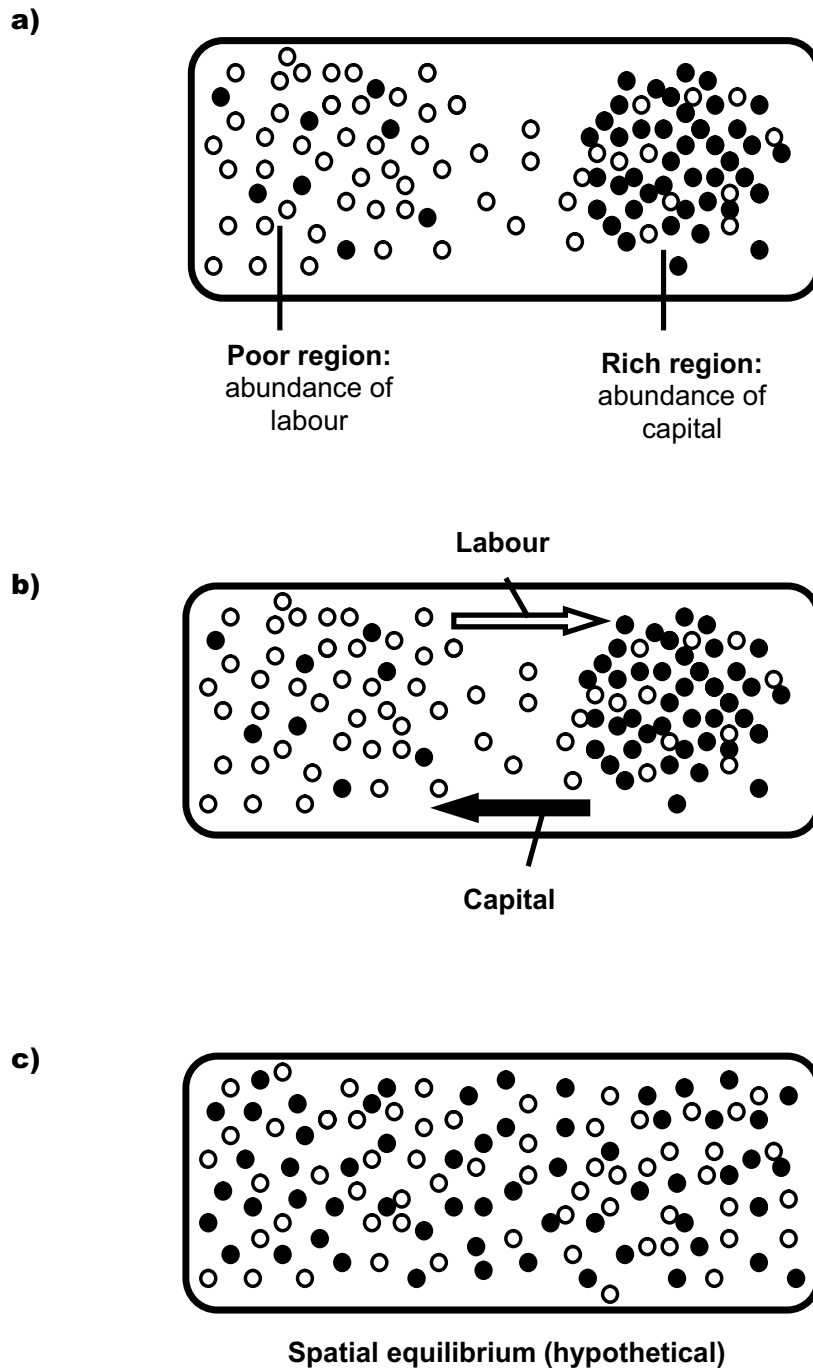
‘Labour and capital are predicted to move from areas of surplus to areas of deficit, stimulated by higher returns – wages or profits respectively. Thus, labour should move from poor to rich regions and capital should move in the opposite direction until wages and profits are equalised across regions resulting in an efficient and balanced pattern of development.’ (Perrons, 2004, p.56)

Even more complex neo-classical models that involve other factors of production (e.g. technology) are all built around the assumption that some sort of spatial equilibrium will be achieved in the long run, because such factors of production will inevitably **spread** or **disperse** over space. The processes of **spatial dispersal** can indeed be observed in reality. However, the examples of **spatial equilibrium** that the neo-classical theory envisages are hard to find. Firms, for instance, do not disperse over space but cluster in particular locations. The explanation for this has been offered by the neo-classical **location theory** to which we now turn.

### Neo-classical location theory

One way of accounting for the fact that **spatial equilibrium** does not occur, is to acknowledge that in real life, factors of production cannot move ‘freely’ over space. Indeed, there are various constraints involved. One of the obvious obstacles is the **friction of distance**. In other words, moving people, machinery, materials or goods over geographical distance usually involves a cost. For workers, there is usually a price tag associated with travelling to work, for instance. For firms, there is a cost involved in moving

raw materials from the source to the factory and there is a cost associated with delivering finished products from the factory to consumers (i.e. literally bringing them to market). Thus, for both people and businesses, location in space is a crucial part of their strategy of self-interest and profit-maximisation. The calculation of the cost associated with moving across space and the implication of this for location in space, forms the basis of the **neo-classical location theory**. Key concepts that build upon the **location theory** include **central place theory**, **urban hierarchy**, **market potential** and **connectivity-accessibility**, all of which will be explored in turn.

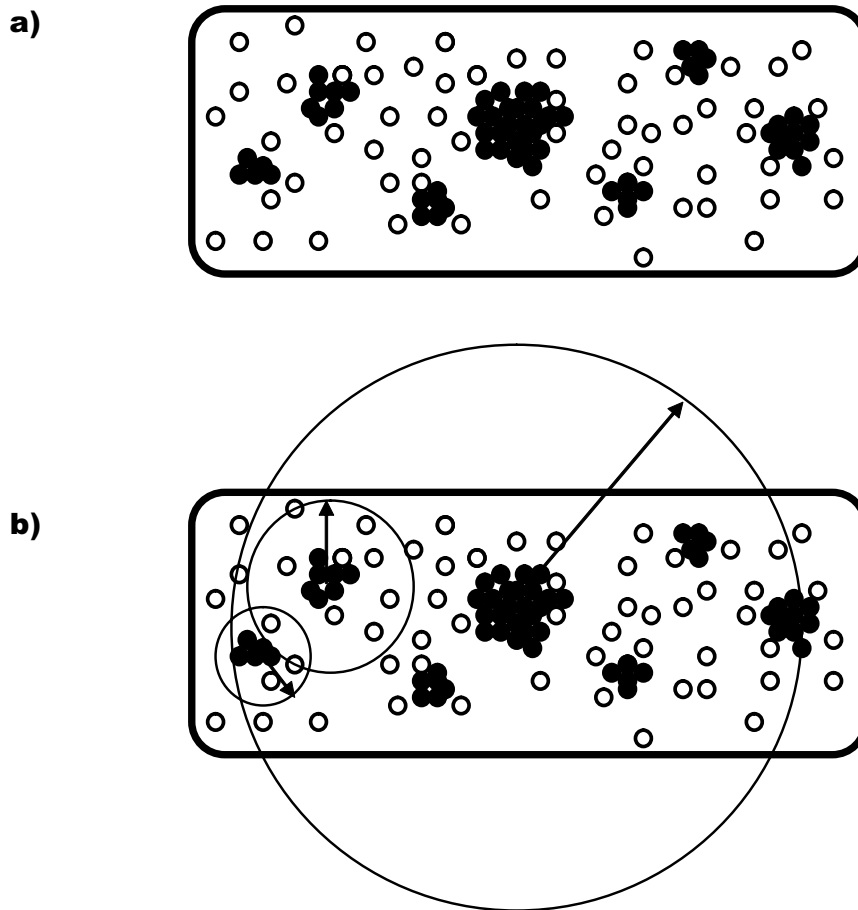


**Figure 3.1: Neo-classical spatial equilibrium** (Source: Author)

## Central place theory and urban hierarchy

**Central place theory** helps us to understand how the **friction of distance** influences the pattern of the location of economic activities in space, while focusing on the issue of the delivery of goods and services from producers/providers to customers/clients. In order to explain central place theory, let's return to our imaginary island. The starting point of central place theory is the observation that even if the population (consumers) of the island were distributed evenly over space, firms (producers) would still tend to cluster in particular locations (Figure 3.2a). Walter Christaller, a German scholar and the key proponent of central place theory called these locations **central places**. Why would firms want to locate in central places? The friction of distance, and the cost associated with overcoming it, is the central element in the explanation offered by location theorists (e.g. Thünen, von, 1842; Weber, 1909; Lösh, 1954; Isard, 1956; Christaller, 1966). Central place theory highlights the fact that firms do not simply have 'markets' – they have 'market **areas**'. Geography is a factor in the operation of the market, because there are **transport costs** associated with delivering finished products (i.e. pins, shoes or sausages) to customers. The longer the delivery distance, the higher the final price of a product (final price = production cost + transport cost). In order for a firm to survive, it clearly needs a certain **minimum** market area. The pin-making factory, for instance, needs a certain minimum market area to be viable. This minimum market area must contain a sufficient number of potential customers which would create a sufficient demand for its products (pins). This minimum market area is called **threshold**. Of course, it is in the interest of every factory to extend its market area well beyond the threshold. However, due to the transport costs, a market area cannot be infinitely large. Indeed, with each mile or kilometre of distance from the factory, the final price of a product (e.g. a box of pins) will increase. Following the neo-classical reasoning of supply and demand, with each price increase, the number of customers willing to pay for the product will decrease. As the price of our box of pins increases with distance, less and less customers will be willing to pay for it, until we reach a point where a box of pins becomes too expensive for anyone to buy it. In central place theory this is called a market area **range**. Beyond the range, there is no market for our pins due to the transport costs involved. It goes without saying that for a company to be profitable, the market area range must be bigger than the threshold. In general, the bigger the overall market area, the better.

However, central place theory rightly points out that different products (and services) have market areas of different sizes. In fact, one can imagine a hierarchy of goods and services, each having different market areas and therefore prompting a different location in space for their providers. A simple ranking may include higher-order, medium-order and lower-order goods and services. Higher-order goods would include high-value items that are bought infrequently (e.g. cars). Lower-order goods would include the least expensive items that customers demand on a frequent basis (e.g. milk). According to this logic, butchers, bakers, pin-makers, shoe-makers, car-makers would locate in central places of relevant order, because those locations offer the best opportunity to serve the market (Figure 3.2b).



**Figure 3.2: Central place theory: hierarchy of central places** (Source: Author)

What central place theory does then, is apply the principles of neo-classical thought to location in space, while incorporating the role of distance (transport cost). In doing so, it shows that **spatial equilibrium** characterised by the total dispersal of economic activities is unlikely to happen. However, the theory remains firmly within the neo-classical framework. It suggests that a **dynamic equilibrium** will emerge out of the balance between the inputs of money (i.e. demand from the population) and the outputs of goods and services (i.e. supply by producers). A **dynamic equilibrium** will be achieved as firms move around and locate in central places until the island is covered by overlapping market areas of various hierarchical order, ensuring that demand by local consumers is met by producers' supply in the most efficient manner (see Dicken and Lloyd, 1990, p.38; Coe et al., 2007, pp.291–92, Box 10.2 and Figure 10.1).

One important implication of the central place theory model is that the hierarchy of central places can be translated into an **urban hierarchy**. Higher-order central places become higher-order urban centres, while lower-order central places correspond to lower-order settlements. A simple urban hierarchy that can emerge out of Christaller's conceptualisation of central places may involve five levels, namely:

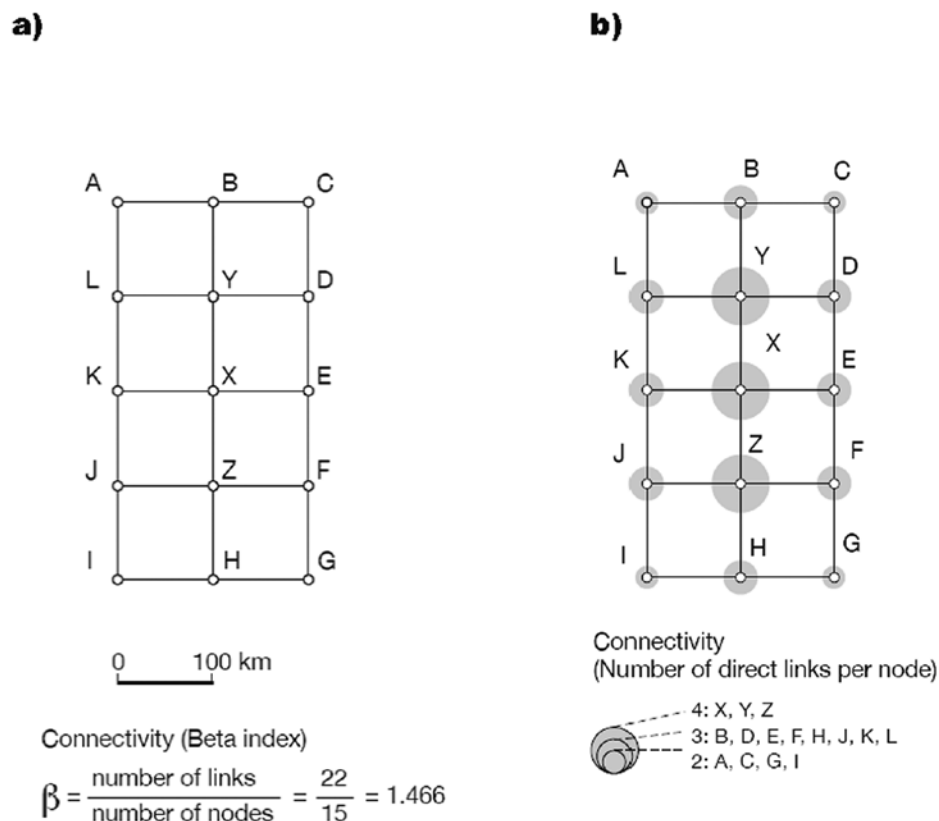
1. metropolis
2. city
3. town
4. village
5. hamlet

(see Dicken and Lloyd, 1990, p.28).

While central place theory does represent a major improvement on the original simple **spatial equilibrium** model, it has its own shortcomings. One of the key limits (already recognised by central place theorists such as August Lösh, 1954 and Walter Isard, 1956) is that population is never spread evenly over space. Rather, population is likely to concentrate in urban centres of various sizes, perhaps reflecting the urban hierarchy outlined above. This also means that market opportunities are not spread evenly over space. This in turn, may have important implications for the location of firms. One concept that is used to capture this is called **market potential** and this will be examined in turn alongside the concepts of **connectivity** and **accessibility**.

### Market potential and connectivity-accessibility

**Connectivity-accessibility**, in its simplest terms, can be defined as the ease with which people, materials and information can be moved from one location to another (e.g. within and between regions). In contemporary economies, these movements are usually supported by dedicated transport infrastructure (e.g. rail, road, air, water) and telecommunication networks (e.g. telephone, telegraph, internet). Therefore, regional connectivity-accessibility could also be seen as a measure of the ability of these infrastructures and networks to reduce the friction of distance within and between regions. While the two terms (connectivity and accessibility) are often used interchangeably, there are in fact subtle differences between the concept of **connectivity** and the concept of **accessibility** (Sokol, 2009).



**Figure 3.3: Connectivity** (Source: Sokol, 2009)

**Connectivity** (sometimes also referred to as **connectedness**) usually relates to the features of a given transport or communications network and can be measured in two basic ways. The first one is to measure the level of connectivity of an entire network (i.e. the degree to which the

network as a whole is internally connected). Numerous indices have been devised to measure such connectivity. One of the most frequently used is the **beta index**, which is calculated as the ratio of links (connections) to nodes (e.g. urban centres). The higher the number of links to nodes, the higher the degree of connectivity of a given network. Figure 3.3a shows an example of a calculation of beta index for our imaginary island which has 15 urban centres (nodes) connected by a simple road network grid (links).

The second option is to measure the level of connectivity of individual places (nodes) within a network. In other words, node connectivity measures the degree to which individual nodes are connected with other nodes within the network. Again, this can be done in a number of ways. The simplest measure of node connectivity is the number of direct links that a particular node has with other nodes. The more direct links a particular node has, the higher its degree of connectivity (see Figure 3.3b). The measures of connectivity may be useful in some cases and some firms may choose to locate in certain places thanks to their higher level of connectivity. However, if firms want to achieve the best possible access to the largest share of markets, then the concepts of **accessibility** and **market potential** may be more relevant for their location decisions.

The concept of **accessibility** is based on the explicit recognition of the importance of both the **geographical distances** between nodes (e.g. urban centres) and the **characteristics of the nodes**. The characteristics of the nodes are sometimes called the 'attributes of destinations' (see below). Within the concept of accessibility, the aspect of geographical distance (i.e. the length of links between the nodes) is considered as an **impedance** for the movement of people, materials and information. While transport and telecommunication infrastructures may reduce the friction of distance, it still takes a certain amount of time, money and/or effort to move people, goods and services around. Travel time and travel cost is often a direct function of the distance covered (although, this does not always hold true). One way or another, the level of impedance is clearly important to economic agents, as we have already learned in the case of central place theory.

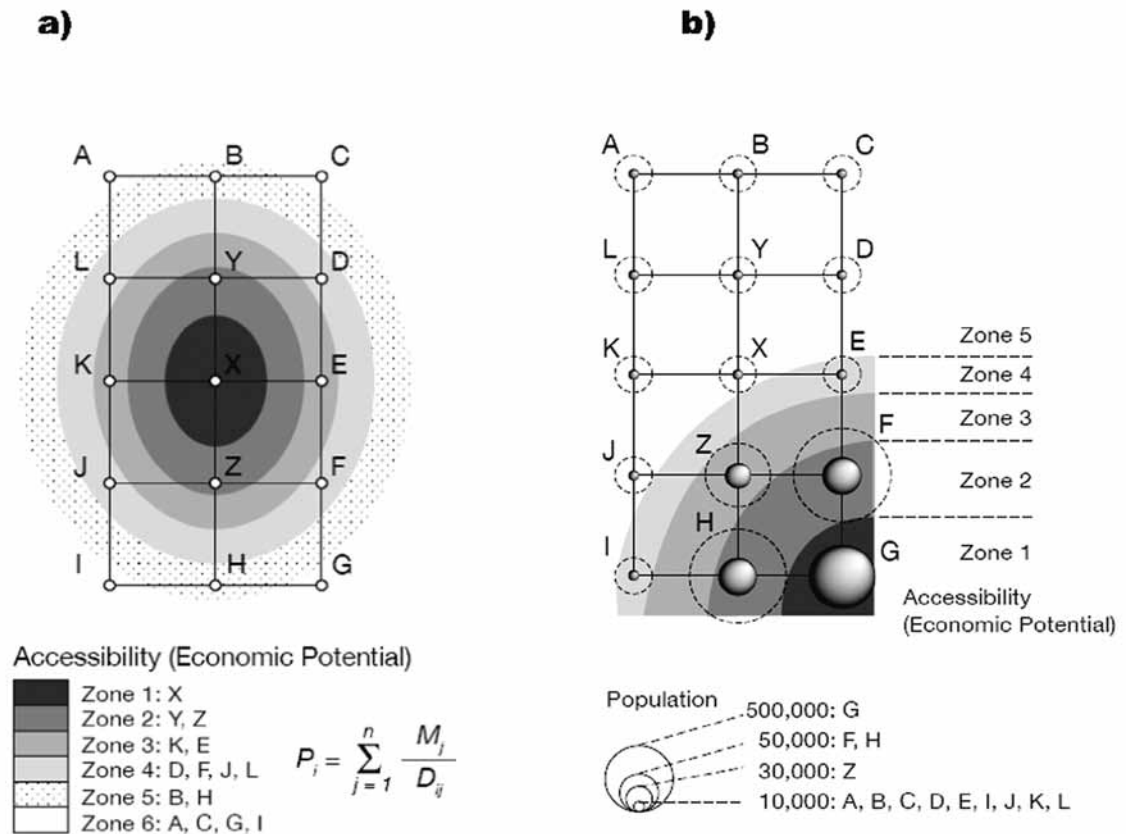
The crucial difference is that the concept of **accessibility** explicitly recognises the fact that population (and therefore market) is not evenly spread over space. The **attributes of destinations** (i.e. the level of attractiveness of nodes) represent the second dimension of the concept of accessibility. From an economic point of view, the level of attractiveness of destinations is frequently associated with the **size of their markets**, which can be expressed as an **economic mass** or volume of economic activity either in terms of population size, income, spending power, gross domestic product (GDP), opportunities to be reached, or similar characteristics. This is based on an assumption that the bigger the market a firm has access to, the better the prospects for the firm's profitability and growth. This way, the level of accessibility (to markets) is directly associated with the expected economic performance and competitiveness of firms. In other words, it is expected that a firm (e.g. the pin-making business) will be more successful if it locates in places (regions) with high levels of accessibility. In turn, regions with high levels of **accessibility** are expected to be more economically viable.

This assumption is encapsulated in the **market potential or economic potential** model, which represents the most frequent way of measuring accessibility. In this model, the economic potential of a region is a positive function of the size of markets (**economic mass**) that can be accessed from the region, and a negative function of **impedance** (e.g.

geographical distance) that needs to be overcome when reaching those markets. In the simplest measure of regional accessibility, the potential of any region can be calculated by summing the population of all other regions in the system and dividing these by some measure of their intervening distance. The potential of region  $i$ , thus can be calculated as:

$$P_i = \sum_{j=1 \rightarrow j=n} M_j / D_{ij}$$

where  $P_i$  is the potential of region  $i$ ,  $M_j$  is a measure of economic mass (e.g. population) in region  $j$  and  $D_{ij}$  is a measure of impedance (distance) from region  $i$  to region  $j$ , and  $n$  is the total number of regions in the system. The regions located closest to the biggest markets (and therefore presumably having the cheapest access to them) would be seen as having the highest economic potential. The way in which the size of markets (economic mass) influences the market potential of different places is captured in Figure 3.4. If all the urban centres on our island were of equal size (e.g. towns with populations of 10,000 each) then the picture of accessibility measured through the market potential model (with population as a measure of economic mass) would be simple: the urban centres located in the geographical centre of the island would display the highest level of accessibility. Meanwhile the urban centres located at the geographical periphery of the island would be considered as the least accessible (see Figure 3.4a).



**Figure 3.4: Market potential and accessibility** (Source: Sokol, 2009)

However, if, for whatever reason, the populations of these urban centres start to vary, the picture of accessibility can change considerably, due to the changing market potential. If, for instance, urban centre G were to become a city with a population of 500,000, the picture of accessibility for this regional economy would be dramatically transformed. Indeed, city G with its population of half a million people would several times exceed the population (market size) of the rest of the island. Therefore, due to the weight of its own self-potential (however calculated), city G (formerly one of the least accessible places) would become the most accessible place on the island (all

this without changing the levels of **connectivity**). Thanks to their proximity to city G, urban centres F and H, would overnight become the second-best 'accessible' places on the island, perhaps attracting some population growth, thus further strengthening their own market potential, while having a similar knock-on effect on town Z (see Figure 3.4b). Looking at the question of industrial location from the point of view of market potential and regional accessibility, our pin-making factory will be best located in city G, where the biggest market can be reached with the least effort or cost.

As we can see from the above example, the **economic mass** (i.e. the size of market) has a major influence on the level of **accessibility** of different regions. The concept of **market potential** using two variables (impedance and economic mass) is ultimately more satisfactory than the Christaller's concept of central places which operates with one variable (impedance) only. The concept of **market potential**, in other words, helps us to better understand the economic pull that is created when markets are being concentrated in particular places. Further insights into why economic activities simply do not disperse in space are offered by the concepts of **agglomeration economies**, **increasing returns** and **cumulative causation**, which will be examined in turn.

### Agglomeration economies

As we have noted above, the **market potential** model is based on the assumption that the bigger the market a firm has access to, the better the prospects for the firm's profitability and growth. But this is not the end of the story. By pursuing the strategy of locating close to (or directly within) large markets, firms inevitably end up locating close to each other. This, in itself, can be a source of an additional advantage. Indeed, firms can derive further advantages (**additional** benefits) from simply co-locating in particular places. In other words 'clustering itself offers further economies' (Dicken and Lloyd, 1990, p.207). Economies ('savings') derived from co-located firms are called **agglomeration economies** or **economies of agglomeration**. In order to explain how **agglomeration economies** work, we will introduce the concepts of **economies of scale** and **increasing returns to scale**.

Let us start with the concept of **economies of scale** (or **scale economies**). There are two types of scale economies – **internal** economies of scale (i.e. scale economies internal to the firm) and **external** economies of scale (i.e. scale economies derived from factors outside the firm). In order to explain how **internal** economies of scale work, let us return to our pin-making factory. As we have already learned in Chapter 2, Adam Smith described a situation in which major productivity gains were achieved by introducing a **division of labour** (i.e. by assigning workers to particular specialised tasks). There are about 18 specialised tasks to be performed in the pin-making process. One worker alone would find it difficult to produce one pin a day (and certainly not 20). However, productivity can increase dramatically if 10 workers are employed to do the job. It could be argued that further productivity gains are possible if 18 workers were employed, each performing just one particular task. **Internal economies** have emerged in our pin-making factory thanks to the division of labour. Importantly, these economies ('savings') have been growing as we have been up-scaling our production, by employing more and more workers. The bigger the operation (the more workers we have employed), the higher productivity per worker has been achieved (thus giving us higher rates of profit or return to our investment). In other words, we have achieved **increasing returns to scale**.



Unfortunately, returns to scale are not increasing indefinitely. One can imagine that our pin-making factory can employ more workers still. For instance, a cleaner, a machine repair specialist, an accountant, advertising/marketing people and selling agent(s) may all come in useful. Also, employing a worker responsible for delivering boxes of pins to our customers in our market area would be of benefit. So, one can imagine that the factory can probably profitably employ up to 23 or 25 workers. But beyond this number, the return to scale would start to decline dramatically. In other words, we would not gain much by employing additional workers as the existing workforce is already covering all the tasks in an efficient manner. In fact, employing an extra pair of hands would probably be more of a hindrance than a benefit – the profit per worker would decline. In other words, we would experience **decreasing** or **diminishing returns to scale**.

Consider now what options are available to firms if they ‘cluster’ (co-locate) in certain locations. It is possible that if such a geographical concentration (or agglomeration) of firms was large enough, certain specialised tasks can be performed by specialist firms. For instance, there may be scope for a professional accountant who can provide comprehensive accountancy services to all firms in the agglomeration – and at a much smaller cost to the firms involved. Our pin-making factory would benefit from this, because the need to employ our own full-time accountant would disappear (thus saving us money and increasing our profit). Similar economies can be achieved if other tasks or sub-processes were performed by specialist firms, rather than employing in-house workers. One can imagine that a cleaning company, a machine repair company, an advertising agency or a transport (courier) company can be set up if sufficient demand exists within the agglomeration. In effect, **division of labour** (between firms) would emerge in such an agglomeration. The benefits of such a division of labour **between** firms would be similar to those derived from a division of labour **within** firms. Economies of scale can be realised, but this time these economies would be **external** to any one firm. Our pin-making factory would benefit from this development and its profitability would increase. In other words, our pin-making factory (as well as other producers in the agglomeration) would reap the benefits of **agglomeration economies**. Such benefits of agglomeration were originally described more than a century ago by Alfred Marshall in *Principles of Economics* (1890). Marshall also argued that, in addition to agglomerated firms providing each other with key inputs and markets (as described above), there are two further major benefits of agglomeration (or of an ‘industrial district’). First, the availability of a local pool of skilled labour may be an advantage, and second, firms within an agglomeration may benefit from knowledge spillovers (i.e. knowledge exchanged between firms). This latter point about knowledge spillovers is interesting, because it diverts from a strict neo-classical framework. More recently, it has been re-discovered by the **new economic geography** approaches that we will discuss later in the chapter.

Meanwhile, you will find that literature usually describes two types of **agglomeration economies** – **localisation economies** and **urbanisation economies** (e.g. see Dicken and Lloyd, 1990, pp.211–12; Coe et al., 2007, p.137). **Localisation economies** are agglomeration economies that emerge between specialised suppliers, collaborators, sub-contractors or competitors within a **single industry** (e.g. pin-making industry, steel industry or financial services industry) located together in a particular place. **Urbanisation economies**, on the other hand, refer to agglomeration economies shared by **all firms in all industries** in one location (e.g. urban agglomeration). In real life, **localisation**

**economies** and **urbanisation economies** are sometimes hard to distinguish, as the boundaries between these two notions are rather porous. One way or another, firms co-locating in particular locations can often benefit from agglomeration economies which can include:

1. the collective use of transport infrastructure and communication facilities
2. the local availability of skilled labour force
3. a technical college or university offering relevant training
4. access to research facilities
5. proximity to ancillary industries (materials, components, machinery, specialised services – such as those described above), among others

(see Smith, 1994a, p.4; Smith, 1994b, pp.184–85; Dicken and Lloyd, 1990, pp.207–18).

Further to this, it is important to recognise that agglomerations are usually underpinned by two types of linkages (or interdependencies) between firms. The first type is referred to as **traded** interdependencies, the second one as **untraded** interdependencies (see Coe et al., 2007, pp.137–43). **Traded** interdependencies are created by firms having formal trading relationships between them within a given agglomeration. For instance, our pin-making factory has a formal contractual relationship with a professional accountant, with a cleaning company, or with a local courier service. These arrangements benefit from agglomeration economies as described above. On the other hand, **untraded** interdependencies refer to the less tangible benefits of being located in the same place. **Untraded** interdependencies may include various informal links and interactions between firms and between firms and other economic actors. **Untraded** interdependencies thus relate to various social and cultural bases of agglomerations that go beyond the narrow neo-classical definitions of the 'economic'. The concept of **untraded** interdependencies is linked to the notion of **clusters** which will be examined in more detail in the final section of this chapter, alongside the alternative and new economic geography approaches.

### Cumulative causation

As seen from the discussion above, important advantages (economies) occur for firms locating close to each other in specific locations. We can now ask the question: what are the implications of this for uneven development? The theory of **cumulative causation** introduced by a Swedish scholar Gunnar Myrdal (1957; see also Kaldor 1970, 1981) argues that a circular chain reaction will emerge leading to a greater polarisation between rich (core) and poor (economically peripheral) regions. In the rich regions with strong **agglomeration economies**, a virtuous circle of growth and development may emerge in which 'success breeds success'. In part, this is possible thanks to the **multiplier effect** (see Dicken and Lloyd, 1990, pp.222–34), a mechanism in which each dollar spent in the local economy generates further income down the line. Indeed, it is not difficult to imagine that existing **agglomeration economies** may attract further firms into the region (or allow for the expansion of existing firms). If this happens then a circular chain reaction will begin. Indeed, jobs created by new or expanding firms will increase employment and the population of the region. This in turn will increase local demand for goods and services, thus leading to an enlarged local supply base and expanded service sector. This in turn will enlarge the local financial (tax) base and spending power of the local government, which

will allow for local infrastructure to be upgraded. This in turn will increase agglomeration economies. The increased agglomeration economies will again attract more firms into the region, fuelling a virtuous circle of growth and development (see Pike et al, 2006, pp.73–4; Dicken and Lloyd, 1990, pp.219–52). This is then a principle of circular and cumulative causation in which one event triggers a sequence of causal links in a circular and self-reinforcing way.

What we observe could also be described as a process of the **increasing returns to scale**, although this time at the level of the entire agglomeration. If in operation, such a process would ensure that the bigger the agglomeration gets, the bigger the agglomeration economies that can be achieved. In addition to the advantages described above, such a growing agglomeration may go hand in hand with an increasingly diverse economic base characterised by a complex division of labour. Indeed, as a given agglomeration grows, there is a possibility that more and more specialised tasks will be carried out by specialist firms, contributing to the increasing division of labour between firms, thus increasing economies of agglomeration further still.

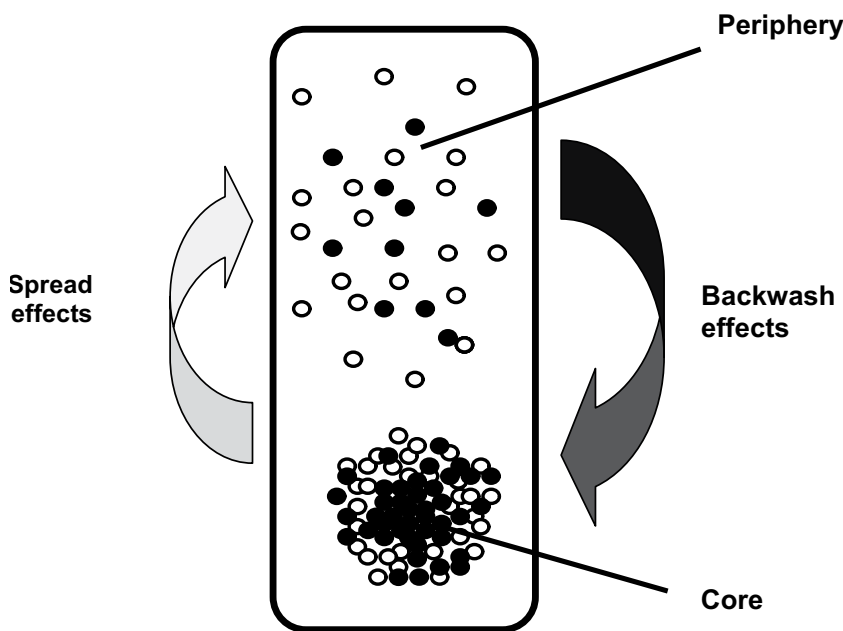
While the increasing dynamism of successful regions may be welcome, the problem is that their expansion may be happening **at the expense** of other regions. Indeed, it may well be the case that firms that are being attracted by the vibrant economic climate of large agglomerations relocate there from poorer, 'less developed' or **less favoured regions**. The loss of a firm in a less favoured region generates a negative chain reaction that mirrors the process of cumulative causation in an adverse sense. Indeed, it is not difficult to imagine that the closure of a firm leads to the loss of employment and possibly to a loss of population too, via out-migration. Either way, the spending power of the local population decreases, reducing the local demand for goods and services and in turn undermining the local tax base, leading to the reduced ability of the local government to maintain local infrastructure. This, in turn, affects the agglomeration economies and reduces the attractiveness of the peripheral region further still. More firms may choose to relocate to richer (core) regions, and the younger and skilled workforce may follow suit. In essence, this constitutes what Myrdal called a **backwash effect** – a flow of capital and labour from lagging regions to developed regions. Contrary to the neo-classical assumption of **spatial equilibrium**, the **backwash effect** will cause the economic gap between rich and poor regions to widen further (Figure 3.5). The rich (advanced) regions will end up with increasing levels of investment, young workers, growing purchasing power and improving local services and infrastructure, while less developed regions will be characterised by a lack of investment, an ageing labour force, a decline in local services and a dilapidated infrastructure. This polarised spatial pattern is often referred to as **core-periphery** (e.g. see Krugman, 1991). The important question is whether such a core-periphery pattern will remain in place once established.

This is a difficult question. Some economists and economic geographers believe that just as is the case with individual firms, agglomerations too have their limits, beyond which **diminishing returns** will kick-in. Indeed, the **dis-economies** that may occur in large cities may include the prohibitive cost of land, the cost of labour, pollution and congestion. Such **dis-economies** may indeed encourage the **decentralisation** of operations or whole firms to less developed regions. In other words, **spread effects** may emerge, as predicted by the neo-classical **spatial equilibrium** model. However, according to cumulative causation

theorists, **backwash effects** (centripetal forces) will always be greater than **spread effects** (centrifugal forces), thus contributing to the **polarisation**, rather than the **dispersal**, of economic fortunes between regions. This is because:

‘market forces, if left to their own devices, are spatially disequilibrating. Economies of scale and agglomeration lead to the cumulative concentration of capital, labour, and output in certain regions at the expense of others: uneven regional development is self-reinforcing’ (Martin and Sunley, 1998, p.201; cited in Pike et al., 2006, p.70)

In essence, the theory of cumulative causation provides further evidence that, rather than having a self-correcting effect, market forces can in fact reinforce existing inequalities in space. The kind of **spatial equilibrium** envisaged by neo-classical theory (introduced at the beginning of this chapter) is therefore difficult to achieve. Importantly, this conclusion has been reached while using the neo-classical conceptual framework (e.g. profit-maximising agents, market operation, price signals, etc.). It could therefore be argued that the cumulative causation theory and similar concepts ‘use the approach and language of neo-classical economics to reach contrary conclusions’ (Pike et al., 2006, p.70).



**Figure 3.5: Cumulative causation** (Source: Author)

### Activity 3.1

1. Read Chapter 5 from *Economic Geography: A Contemporary Introduction* (Coe et al., 2007) and answer the following questions:
  - a) What implications have ‘space-shrinking’ technologies on the location of economic activities?
  - b) Why do economic activities continue to agglomerate in certain locations despite the availability of ‘space-shrinking’ technologies?
2. In addition to this, find at least one newspaper report and at least one academic journal article (using the Online Library, as described in the Introduction to this guide) about regional inequalities in your country. Answer the following questions:

- a) What is the extent and the nature of regional inequalities described in these pieces of literature?
- b) Do these articles offer a discussion about the causes of these regional inequalities?
- c) If so, what concepts are offered as a way of explanation?
- d) What role (if any) is assigned to the friction of distance (or transport costs); the size of markets; accessibility; agglomeration economies or cumulative causation?
- e) More generally, what role is attributed to the operation of market forces in shaping the fortunes of regions in your country? What other factors are mentioned?

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## Marxist-inspired approaches and uneven development

In the previous section we have examined concepts and theories of spatial development whose starting point is the neo-classical framework of self-interest and the profit-maximising behaviour of economic agents (e.g. firms). We have seen that after a thorough application of neo-classical principles, the original neo-classical ideal of **spatial equilibrium** is in fact hard to achieve. Some of these concepts and theories (e.g. the theory of cumulative causation) show that market forces can **reinforce**, rather than reduce, existing inequalities in space.

The issue of unequal and uneven development will be taken further in this section, although from a completely different perspective. The section will examine concepts and theories associated with the (broadly defined) Marxist perspective. This will include a discussion on wealth, **value** and **circuits of capital**, with an emphasis on the concepts and theories which help to elucidate the circuits of capital over space. Subsequently, the related concept of **spatial (spatio-temporal) fix** will be examined, highlighting the role of space and uneven development as fundamental to the functioning of the capitalist economy. Further to this the concept of **spatial divisions of labour** will be introduced alongside a discussion on the technical and social division of labour. The concept of the **spatial divisions of labour** helps us to appreciate how the economic fortunes of regions are associated with their position in the spatial division of labour within the wider economic structure. The section will conclude by examining the **core-periphery** concept which conceptualises uneven development as a set of uneven economic relations between a (dominant) core region and (dominated) periphery regions.

### Wealth, value and circuits of capital

Wealth can be defined as ‘a cumulative share of the rewards created in the economic process of adding **value**’ (Coe et al., 2007, p.64, original emphasis). The creation of value is therefore central to the discussion on economic development in general and uneven development in particular. But what is value and how is value created? As we have already learned in Chapter 2, according to Marxist theory, all value ultimately comes from human labour. In other words, ‘value is always created by **people**’ (Coe et al., 2007, p.64, original emphasis) such as our workers in the pin-making factory. Workers engage in a **labour process**, that is, they apply their labour on raw materials (or semi-finished goods) to produce new goods (e.g. pins, shoes, clothes, cars, etc.) and these goods embody values.

Marxist theory distinguishes several types of value embodied in commodities. The key distinction can be made between **exchange value** and **use value** (see, for example, Craib, 1997, p.93). As we have already hinted in Chapter 2, **exchange value** is a value expressed in money for which a particular commodity has been sold on the market. A pair of shoes, a coat, a bottle of milk or an apple can all be commodities for which you need to pay a certain price (exchange value) to buy them. **Use value**, on the other hand, is the value of a commodity to the person who uses it – the pleasure, for instance, of drinking a glass of milk. Use value is therefore harder to express in terms of money. For instance, a coat can be bought via the internet for the same price anywhere around the world (plus the delivery cost of course!), but the **use value** of having such a coat and keeping oneself warm is definitely higher for those living in cold climates.

For Marxists, the key problem of the capitalist system is that **labour power** itself is a commodity which is bought and sold on the market for an exchange value (i.e. wages). A capitalist (e.g. the pin-making factory owner) only employs workers if their **use value** to him or her (the value of what these workers produce for him or her) is greater than the **exchange value** of their labour (the wages that the capitalist has to pay to the workers; see Craib, 1997, p.94). The difference between the two is **surplus value**. Capitalists accumulate wealth by appropriating **surplus value** through the **exploitation** of workers. Capitalists have to do this if they are to survive competition from their rivals. The creation of the little 's' (**surplus value**) is absolutely essential for the operation of the capitalist system and this is done via a circuit of capital we have described earlier (see Figure 2.3 in Chapter 2).

However, capitalists need to make a decision about what to do with the little 's' (surplus value) they 'create' (or, to be more precise, appropriate). One option is to simply **consume** it, for example, by indulging in the luxuries of life. This creates a situation which Marxists call a **simple reproduction** (Figure 3.6; see also Hudson, 2005, p.27). The other option is to **re-invest** the surplus value in the production process. For instance, the owner of the pin-making factory may decide to use the profit to hire a few more workers (the gains that can be achieved from the up-scaling of production in this way have been discussed in the previous section). In other words, the owner will engage in **expanded reproduction** (Hudson, 2005, p.27). With each run of the circuit of capital, the little 's' gets bigger and bigger (Figure 3.7). The rate at which surplus value is expanding is usually referred to as **accumulation** (of capital).

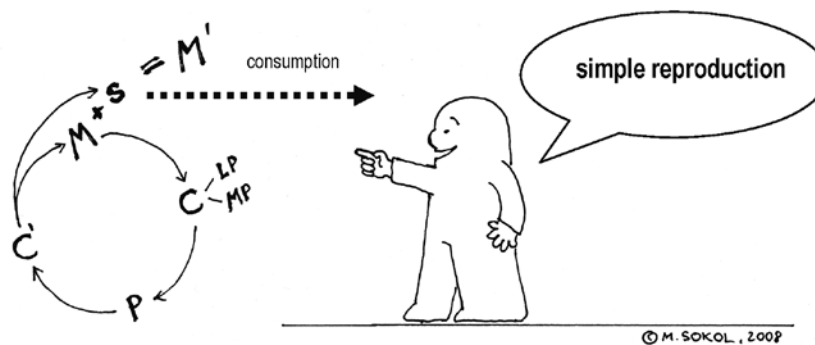
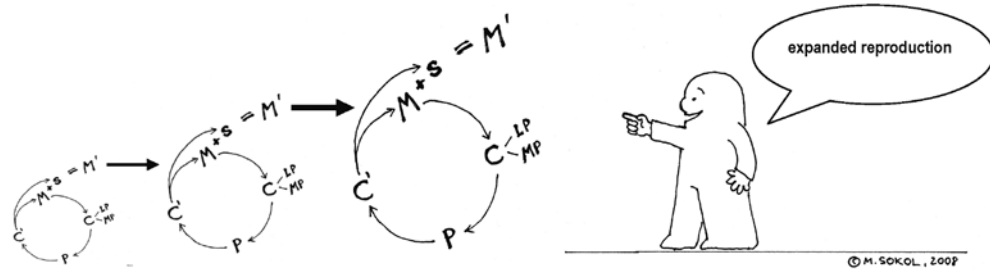


Figure 3.6: Circuit of capital: simple reproduction (Source: Author)



**Figure 3.7: Circuit of capital: expanded reproduction** (Source: Author)

What we have just described is a circulation of value in the **primary circuit** of capital. The re-investment of surplus value in production involves continuously putting capital to work within the **primary circuit** of capital. This can work well, but there are limits. Indeed, as we have already learned, the capitalist system is crisis-prone. It is likely that, sooner or later, a crisis of **overaccumulation** will surface. This can happen in a number of ways, but usually such a crisis is caused by **over-production** (high levels of stock) and/or **under-consumption** (declining demand). In other words, too many pins or cars will be produced and too few people will be able to afford them. One way or another, the crisis of **overaccumulation** will mean falling rates of profit for the capitalist. The circuit of capital is broken, the surplus value cannot be created. Existing surplus value has nowhere to go to be profitably employed. The way in which the capitalist system copes with this has been described by economic geographer David Harvey in his influential book *The Limits to Capital* (Harvey, 1982) a new edition of which was published more recently (Harvey, 2006). Let us examine David Harvey's hypothesis in a bit more detail.

As already discussed in Chapter 2, one obvious 'solution' to the crisis of **overaccumulation** is **devaluation** (see also more below). However, Harvey has pointed out that another way of coping with this is **capital switching**. Capital switching involves re-directing capital surpluses to various other circuits of capital. This can happen at various levels and scales. It may be possible that profitable opportunities still exist within the **primary circuit** of capital. If a pin-making business goes bust, capital can be redirected to a mobile phone business; if a car-making business is in difficulty, money can be invested in the production of computers. Capitalists do not care which business their money is in, unless it produces the precious little 's' (surplus value). However, if the crisis engulfs the entire economy, then switching capital within the **primary circuit** is not going to help (all producers are in trouble). The system then enters a '**switching crisis**'.

However, David Harvey (1982, 2006) has identified two other circuits in which capital can be invested (see also Harvey, 1978): **secondary** and **tertiary circuits** of capital. The **secondary circuit** involves investing surplus value in fixed capital. Fixed capital includes all the elements of the built environment such as factories, dams, offices, shops, warehouses, roads, railways, docks, power stations, water supply and sewage disposal systems, schools, hospitals, parks, cinemas, restaurants, etc. (Harvey, 2006, p.233). Capitalists investing in the **secondary circuit** (e.g. property development) are doing so in the expectation of realising their profits either in the form of rental income, or from the enhanced future sale price

of the building. The **tertiary circuit** involves investment in science and technology, education, health care, etc. Although usually undertaken by the state, investment in these latter areas may eventually improve the profitability of capital via increased productivity and improving labour capability (see Pacione, 2005, p.151).

The **secondary** and **tertiary circuits** are very different in character, but they share an important common feature. In both cases, there is a potentially considerable time lag between the time when investment is made and the time when profits are eventually realised. In other words, both these circuits have a capacity to absorb surplus value for a long time before releasing it back into circulation many years later. In other words, both these circuits have a **temporal** dimension and both may be part of what can be called a '**temporal fix**' (a concept that will be examined below).

The other important point to note is that circuits of capital also have their **spatial** dimension. Indeed, capital switching may happen both **within and between regions**. Some regions may be engaged in specific circuits of capital and the crises of those circuits may be translated into regional crises. Capital switching thus may involve not only moving surpluses into **secondary** and **tertiary circuits** of capital within a given region, but also into various circuits outside the regional (or national) economy in question. One way or another, geography plays an important role in the operation of the capitalist system. Spatial structures (built environment) created around us (e.g. sub-urbanisation, shopping malls, office blocks) can be seen as being part of the circuits of capital. As such, they can also be part of the answer to the question of why capitalism has managed to avoid terminal collapse despite its inherent contradictions. This leads us to the concept of a **spatial fix**.

### Uneven development and 'spatial fix'

**Spatial fix**, or more precisely, **spatio-temporal fix** is another concept developed by David Harvey (1982, 2006). The concept refers to the way in which both time and space play a central role in the operation (and survival) of the capitalist system. The word 'fix' has a double meaning here. On the one hand, it describes a situation in which a certain portion of capital is '**literally fixed in and on the land** in some physical form for a relatively long period of time' (Harvey, 2003, p.115, emphasis added). On the other hand, the term 'fix' is used as 'a metaphor for a **particular kind of solution to capitalist crises** through temporal deferral and geographical expansion' (Harvey, 2003, p.115, emphasis added).

There are several ways in which capitalism can cope with crises (see Coe et al., 2007, pp.70–72, for a short summary):

1. devaluation
2. macro-economic management
3. temporal displacement of capital (temporal fix)
4. spatial displacement of capital (spatial fix).

**Devaluation** (already mentioned in Chapter 2) may involve the devaluation of money (via inflation), devaluation of labour (via unemployment) as well as the devaluation of productive capacities (devaluation or physical destruction). **Macro-economic management**



involves attempts to bring together idle capital and idle labour (the unemployed) back into productive use through government intervention. This can be done by curbing excessive labour exploitation (which pushes up wages and increases the spending power of the population) or through increased government spending (to create jobs and stimulate demand), for instance. An example of such an approach to the economic crisis is Keynesianism which we will discuss in more detail in Chapter 5. More generally, various modes of regulation may be instituted to prevent the system from collapsing (e.g. see the box on **Regulation Theory** in Coe et al., 2007, p.71). A **temporal displacement of capital (temporal fix)** involves placing surplus capital in long-term ventures. This may include the investment in **secondary** and **tertiary circuits** of capital discussed above. Social expenditures and long-term investments in infrastructure of various kinds are examples of this, as is the advancement of loans (credit). The effect of such temporal displacements of capital is that they avert crises at the present and delay them into the future. A temporal fix is therefore responsible for expanding the **time horizons** of the circuits of capital.

The **spatial displacement of capital (spatial fix)**, on the other hand, expands the **spatial horizons** of the capitalist system. The spatial fix includes the opening of new spaces of production (e.g. those with cheaper production costs); spatial expansion into new markets (with the effect of boosting much-needed demand); finding new sources of raw materials; or the **re-creation** of old places (places previously devalued). The logic behind the **spatial fix** has been summarised by Harvey as follows:

If the surpluses of capital and of labour power exist within a given territory (such as a nation-state or a region) and cannot be absorbed internally (either by geographical adjustments or social expenditures) then they must be sent elsewhere to find a fresh terrain for their profitable realization if they are not to be devalued. (Harvey, 2003, p.117).

In other words, capital constantly searches for the spaces in which surplus value can be created (see also the 'see-saw' theory of Neil Smith, 1984). This search for new spaces of capital accumulation may involve re-investment in previously devalued old spaces or pushing the boundaries of capitalist enterprise beyond the established circuits of capital. Understanding the operation of the economy in this light opens up new ways of looking at processes such as **globalisation** (which will be discussed in more detail in Chapter 4). One way or another, it is important to note that Harvey's conceptualisation of economic geographies include the notion that uneven development 'is not only an inevitable feature of capitalism, but also a **necessary** one' (Coe et al., 2007, p.66, original emphasis). This is because:

[s]pace is **not just the container** in which capitalism takes place. Rather, economic geography is **fundamental** and **inherent** to the successful operation of the system. (Coe et al., 2007, p.72, emphasis added)

To put it differently, 'uneven development is both a **cause** and an **outcome** of capitalist growth' (Coe et al. 2007, p.84, emphasis added). Further insights into the issue of uneven development in the capitalist economy have been offered by the concept of **spatial divisions of labour** to which we now turn.

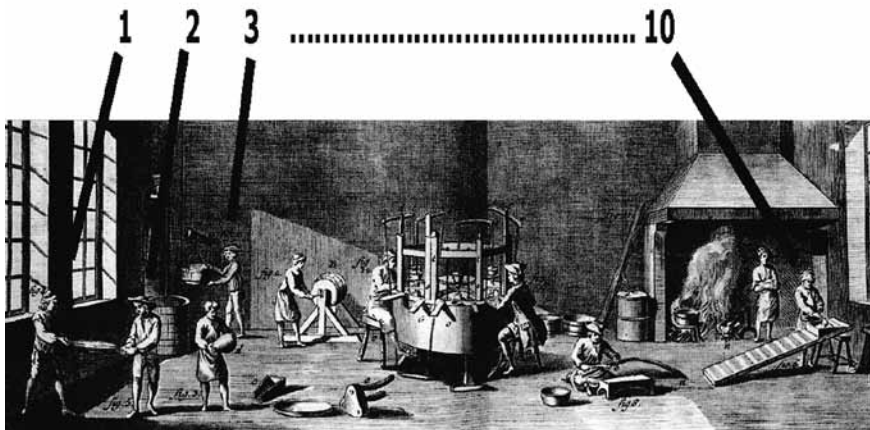
## Spatial divisions of labour

The concept of **spatial divisions of labour** has been developed by a British geographer Doreen Massey in her highly influential book *Spatial Divisions of Labour: Social Structures and the Geography of Production* (Massey, 1984; with the second edition appearing a decade later – see Massey, 1995). In it, Massey has discussed the geography of production and uneven development through the prism of the **social relations** of production. Under capitalism, **social relations** of production revolve:

around the social relations between capital and labour, employers and employees, investors and wage earners. These are essentially relations of economic power, within which control lies with capital, employers, and investors. (Dicken and Lloyd, 1990, p.352)

Another way of putting this would be to say that social relations under capitalism are structured along the relations based on **class** (e.g. the capitalist class on the one hand, and the working class on the other). Massey's point is that social relations are also organised **spatially** and this is captured in her concept of **spatial** divisions of labour. In order to explain the concept of **spatial** divisions of labour, we will first examine two key related concepts – **technical** division of labour and **social** division of labour.

**Technical** division of labour, in its simplest form, involves the division of labour within a firm. As we have seen in the example of the pin-making factory (see Chapter 2), the process of making pins involves 18 distinct stages. The **technical** division of labour implies a division of the production process into distinctive tasks and the assignment of workers to these tasks. In the pin-making factory described by Adam Smith, 10 workers covered 18 tasks (Figure 3.8). But it is possible to imagine that a more refined technical division of labour can be achieved if an additional eight workers were hired so that each worker specialises in one task.



**Figure 3.8: Technical division of labour** (Source: Author)

**Social** division of labour, on the other hand, is a more general concept which goes beyond the boundaries of a firm to describe the roles performed by various people or groups of people within a society at large. **Social** divisions of labour thus may refer to the division of labour between various sectors (e.g. agriculture, fisheries, pin-making, car-making industry, banking sector, education sector, health service...) or to workers in different jobs or professions (e.g. farmer, fisherman, pin-maker, car factory worker, banker, teacher, nurse...) (see also Coffey, 1996). One way or another, the concept helps us to understand that we rely on each other for society to function. In the capitalist society, however, both technical and social divisions of labour reflect the underlying capitalist social relations of production (e.g. see Massey, 1995, pp.30–38).

The idea of **spatial** divisions of labour is based on the recognition that the economy is characterised by complex technical and social divisions of labour which are reflected in complex **spatial** structures. Massey argues that the economy cannot work at the 'head of a pin' – therefore the spatial dimension is always present (see also our discussion in Chapter 1). Inevitably, the economy is stretched over space and so are social relations of production. In other words, social relations are organised **spatially**. The **spatial** organisation of the economy is rather complex, reflecting complex **spatial** divisions of labour.

A simple example of the **spatial** division of labour involves the division of labour **within** a firm, in which different tasks are undertaken in different locations. For instance, head office functions, administrative functions, research and development (R&D) and production functions can all be located in different regions. Also it is possible to imagine a situation where the different stages of production are located in different regions (see Figure 3.9). Another example of the **spatial** division of labour involves the division of labour **between** firms and sectors – e.g. the steel industry, the electronics industry, financial services) concentrating in certain locations (regions). One way or other, at the level of the national economy, all regions are functionally inter-connected through economic linkages and social relations of production. Individual regions thus must be seen as parts of a wider economic structure. The economic power and fortunes of particular regions depend on their position within the wider social relations of production (i.e. on their position within the wider spatial divisions of labour). The position within the spatial divisions of labour, in turn, is modified or maintained by successive **rounds of investment** (see Coe et al., 2007, pp.78–80). Uneven development, therefore, cannot be understood in relation to the characteristics of individual regions only. Rather it involves a recognition that the roles the regions are playing are mutually constituted. In addition, it involves a recognition that uneven development can vary not only in **degree** (i.e. the extent of disparities – the rate of unemployment, for instance) but also in **character** (qualitatively different regional problems; Mohan, 1999, pp.10–11). Simply put, high-level strategic, control and R&D functions would remain concentrated in major metropolitan regions in core countries; management of operations would be delegated to regional capitals; while routine operations and production itself would be based in the periphery (see MacKinnon and Cumbers, 2007, pp.147–48 and Box 7.2 on p.148; see also Coe et al., 2007, pp.78–80; Hymer, 1972; Cohen et al., 1979).

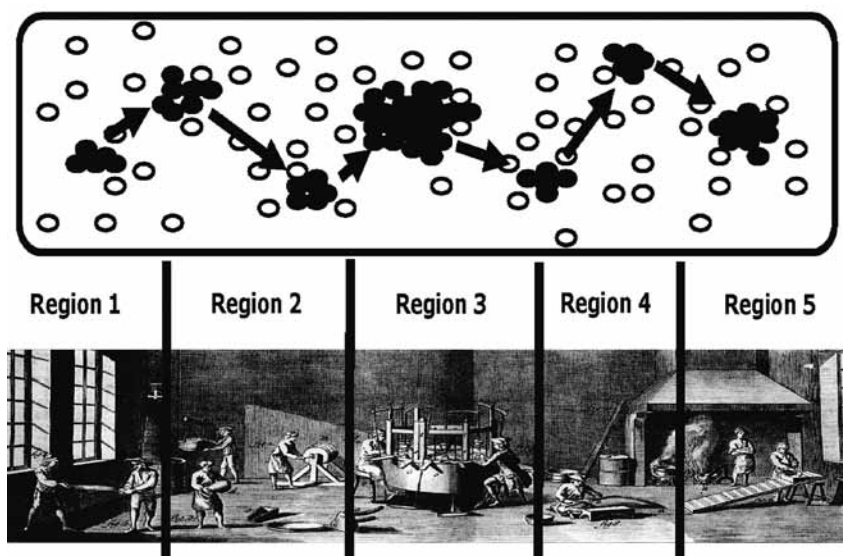


Figure 3.9: Spatial division of labour (Source: Author)

Doreen Massey offers an example of London and the south-east of England (UK) which, she argues, ‘was (and still is) the prime locus of control, of strategic planning, of finance, of the resources for research and innovation’ (Massey, 1995, p.3). Because of the social relations involved, the south-east of England is, Massey argues, ‘in a position of structural dominance in comparison with, **and in relation to**, other regions of the country’ (Massey, 1995, p.3, original emphasis). Many of the other regions of the country, meanwhile, remained dominated by branch plant manufacturing, simple line assembly or other, subordinate tasks.

Thus, Massey insists, this is not about the geography of jobs, but rather the geography ‘of power relations, of dominance and subordination, of enablement and influence, and of symbols and signification’ (Massey, 1995, p.3). Massey is well aware that the power relations of ‘dominance and subordination’ are not confined to the national space. Rather, the spatial divisions of labour within a national economy are embedded within a wider international context of economic and social relations. Simply put, national economies are themselves part of much wider **international divisions of labour** and power relations that such a division of labour entails (see also Chapters 4 and 5). The significance of the **international divisions of labour** has been growing hand-in-hand with the processes of globalisation (e.g. Coffey, 1996). The way in which regional economies (and whole nations) are economically inter-dependent on each other is also reflected in the concept of the **core-periphery** model to which we now turn.

### Core-periphery

The key idea of the **core-periphery** model is that uneven development results from a set of **uneven economic relations** between a (dominant) **core region** and (dominated) **periphery regions**. Simply put, economically advanced regions (or national economies) become rich by exploiting economically less developed regions (or nations). The idea of domination and subordination between regions has a strong resonance with the principle of **exploitation** of labour under capitalism (although not all core-periphery concepts are necessarily Marxist; see Gill and Law, 1988, p.54 or Krugman, 1991, and the discussion above on cumulative causation). According to the Marxist-inspired **core-periphery** models, the economic fortunes of regions are dependent on their economic power within the uneven economic relations which allow for an **unequal exchange** (of values) to take place between regions (Figure 3.10). **Unequal exchange**, in turn, contributes towards uneven development between regions (see Coe et al, 2007, pp.82–84). The insistence by the **core-periphery** model that the fortunes of regions are mutually linked thus echoes both the concepts of **spatial divisions of labour** reviewed above and that of **cumulative causation** introduced in the first section of this chapter.

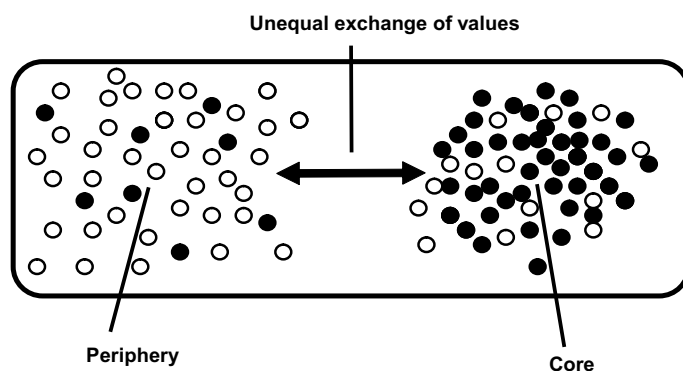


Figure 3.10: Core-periphery (Source: Author)

The **core-periphery** model offers a simple way of looking at economic dependency between economies and has been applied at various spatial scales from national to international and global. For instance, the above-mentioned south-east of England may be seen as a core region of the UK national economy. In relation to this, the extent to which Britain is economically divided into prosperous South and declining North by the North–South divide has been debated (see Mohan, 1999, pp.3–9). Meanwhile, at the European level, the south-east of England can be seen as but a part of a much larger core area which stretches from London through Germany to Northern Italy (e.g. see Dicken, 2003, p.77; Dicken, 2007, p.65). With the fall of state-socialism in Central and Eastern Europe, the extent to which the East–West development divide characterises the New Europe has become an issue (e.g. see Sokol, 2001). Finally, at the global level, the reference is frequently made to the advanced ‘core economies’ of the Global North (a group of countries including the US, Canada, UK, France, Germany, etc.) and the extent to which the global North–South divide is a useful way of describing divisions within the global economy (see also Chapters 4 and 5). While the **core-periphery** model has its limits (for instance, it hides inequalities within both the core and peripheral regions), it nevertheless alerts us to some important issues about the mutual interdependencies within and between economies and the creation of ‘core’ and ‘peripheral’ spaces at various spatial scales (please note that **economic** peripherality is not necessarily the same as **geographical** peripherality).

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### Activity 3.2

1. Revisit Chapter 3 from *Economic Geography: A Contemporary Introduction*. (Coe et al., 2007). Answer the following questions:
  - a) In what ways is the Marxist conceptualisation of uneven development different from the neo-classical approach?
  - b) What do Marxists mean when they say that uneven development is both a cause and an outcome of capitalist growth?
  - c) What constitutes an unequal economic exchange between regions or nations?
2. Revisit the articles you have retrieved for Activity 3.1 and think about the economic relations between various regions of your country **and** between your country and other countries. Answer the following questions:
  - a) In what way is your region (country) economically connected to other regions (countries)?
  - b) What is the extent and the nature of these economic relations?
  - c) Can these economic relations be seen as equal?

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## Alternative approaches and new economic geography

The third and final section of this chapter will examine concepts and theories associated with various alternative approaches to economies and their geographies. In doing so, the section will provide basic insights into concepts associated with **new economic geography**. (As already discussed earlier, there are two types of ‘new economic geographies’. Here I refer to the one used by geographers and associated with the cultural turn.) Most (although not all) of these concepts have been developed from intellectual vibrations of the evolutionary-institutionalist perspective which we have introduced in Chapter 2. **New economic geography** approaches thus often provide a stark contrast to both the

neo-classical and Marxist approaches in the way they see the operation of economies over space. Indeed, by taking on board various social, cultural, institutional and other factors, **new economic geography** approaches are shedding a new light on the issue of uneven development. This is a vibrant area of geography and one that has seen many exciting developments in recent years. Having said that, it is important to recognise that some of the new concepts are still hotly debated. You need to be aware of this and keep a critical eye on whatever you read (and this applies to any other concepts and theories you may encounter). Also, you need to be aware that many scholars use a combination of various approaches in their study of economic geographies. Therefore, a sharp delineation of boundaries between various perspectives is sometimes not easy. However, some key differences between the neo-classical and Marxist approaches on the one hand, and **new economic geography** and other alternative approaches on the other hand, are apparent and will be highlighted in this section.

The section will begin by discussing geographical implications of broad sectoral shifts between agriculture, manufacturing and services (**stages theory**), stages of product and industry life cycles (**cycle theories**) and technological shifts (**wave theories**). This will set a stage for the examination of selected **new economic geography** concepts. The section will specifically focus on the role of technical change, innovation and the emergence of knowledge-based and learning economies in the form of **regional innovation systems, clusters and learning regions**. In relation to this, the section will also discuss the role of **networks, trust and social capital** in regional economic development. Finally, the section will examine aspects of **cultural economies, ethnicity and gender**.

### Stages theory: agriculture, manufacturing and services

**Stages theory** is the first of a group of theories that look upon economic development as 'historical and evolutionary processes' (Pike et al., 2006, p.78). The starting point of the **stages theory** is a recognition that the economy is composed of four major sectors:

- **primary** (agriculture and extractive activities)
- **secondary** (manufacturing)
- **tertiary** (services)
- **quaternary** (research and knowledge-intensive activities).

Statistical offices around the world are routinely using the split of economic activities into these major sectors to capture the economic structure of national and regional economies. The key idea of the **stages theory** is that as societies and economies develop, they move through 'stages' of economic growth from agriculture to manufacture to services to knowledge-based forms of development (see Pike et al., 2006, p.78), each representing a more advanced stage of development. Sectoral shifts from primary to secondary to tertiary and quaternary activities can indeed be observed in the real world. The importance of each of the sectors changes over time, and this can be measured both in terms of the share of employment and the relative importance of these sectors in the economic output (GDP) of a given economy. Advanced economies are said to be characterised by a very small agricultural sector, continuously declining manufacturing sector, large and expanding service sector and, more recently, growing quaternary sector. The growth of the tertiary and

quaternary sectors, in turn, fuels the views that advanced economies are in fact entering a stage of the **knowledge-based economy** (see below). Seen in this light, uneven development can be considered as a consequence of the unevenness in development stages between various regions (or whole nations). However, things are probably more complicated than that. As we have seen in the previous section, regions (and nations) are functionally inter-dependent and their roles may be determined by their position within the wider spatial divisions of labour. (See also Chapters 4 and 5.)

### Cycle theories: products and profits

**Cycle theories** are also concerned with the process of economic evolution. However, they focus on the stages of development (**life cycles**) of individual products or industries. In its simplest version, the **product life cycle** theory suggests that products progress through various stages of development – from a product's introduction to growth to maturity to saturation and decline (see Pike et al., 2006, pp.79–80; see also Dicken, 2003, pp.104–5; Dicken, 2007, pp.93–4). Each stage of the **product life cycle** is associated with different locational patterns: the conception of a new product results from an innovation, the original location of which can be a historical accident. However, it is likely that innovative firms introducing new products are located close to key supplier and research and development (R&D) facilities (usually found in the core regions). As the product matures and the markets for it expand, however, there is a scope for a mass production to be moved to less developed regions where cheaper labour can be found. A more sophisticated version of the **product life cycle** theory is a profit cycle theory which focuses on the product's **profit** stages and associated locational patterns (see more in Pike et al., 2006, pp.79–82).

### Wave theories, technical change and innovation

**Wave theories** (or theories of **long-waves**) are based on the idea that economic growth occurs in a series of 50-year long-waves (see Coe et al., 2007, pp.123–25; Dicken, 2003, pp.87–9; Dicken, 2007, pp.75–7; Pike et al., 2006, pp.82–3). Such long-waves are also known as **Kondratiev waves** (or Kondratiev cycles) after the Russian economists who first identified them (Knox and Agnew, 1998, p.12). Each Kondratiev wave (or K-wave) may be divided into four phases: prosperity, recession, depression and recovery. Importantly, each wave is associated with 'particularly significant technological changes around which other innovations – in production, distribution and organization – cluster and ultimately spread through the economy' (Dicken, 2003, p.87). In other words, each wave is underpinned by a progressively more advanced '**techno-economic paradigm**' (Pike et al., 2006, p.82). So far, five Kondratiev waves have been identified, each underpinned by a specific set of technologies and type of industry and associated with particular locations (regions and nations) in which these industries flourished (before fading away and giving an opportunity to new locations associated with a subsequent wave).

The first Kondratiev wave is sometimes referred to as the 'early mechanisation' wave (see Coe et al., 2007, Figure 5.2 on p.124; Dicken, 2003, p.88; or Dicken, 2007, p.76). Lasting from about the 1780s through to the 1830s and being mostly associated with regions in Britain, France and Belgium, the first wave was associated with textile industries, iron working/casting and water power. The subsequent second Kondratiev

wave, of 'steam power and railway' (1840s to 1880s) was based on steam engine technologies, steamships, machine tools, iron and steel industries and railway equipment. Regions associated with the second wave regions are: Britain (South Wales, North East England, Central Scotland), Germany (Ruhr), France, Belgium and USA (see also Pike et al., 2006, pp.82–3). The third wave of 'electrical and heavy engineering' (1890s–1940s), was associated with electric power and the emergence of electrical engineering, electrical machinery, heavy engineering and armaments, heavy chemicals and synthetic dyestuffs. The spatial core of the third Kondratiev wave included regions in Germany (e.g. Hessen), USA, Britain (e.g. West Midlands or Greater London), France, Belgium, Netherlands and Switzerland. The fourth wave coincided with the post-War boom years (late 1940s–1970s) and is known as the '**Fordist** mass production' Kondratiev wave. The main industrial branches that were associated with this wave included: automobiles; trucks; tractors; tanks; aircraft; consumer durables; process plant; synthetic materials and petrochemicals. The 'Fordist mass production' wave was led by the USA, Germany, Switzerland, Sweden and other European countries, Japan, Canada and Australia.

Finally, it has been argued that we are now in the midst of the fifth Kondratiev wave (from about the 1970s onwards). This is based mostly on computers; digital information technology; the internet; software; telecommunication; optical fibres; robotics and biotechnology; it is often referred to as the 'information and communication' wave or the **post-Fordist** wave. Again, there are specific geographical locations associated with this current technological wave. However, apart from the 'core' economies (USA, Europe and Japan), countries like Taiwan and Korea are also claimed to be part of this wave (see Dicken, 2007, p.76). We will revisit this point in Chapter 4 when we discuss the concept of the international division of labour. In the meantime, please complete the Activity below to find out more about the role of technology in the economy and to learn more about **Fordism** and **post-Fordism**.

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### Activity 3.3

Re-read sections 5.1, 5.2 and 5.3 of Chapter 5 from *Economic Geography: A Contemporary Introduction* (Coe et al., 2007). Answer the following questions:

1. What are the two different types of technologies described there?
2. What are their geographical impacts?
3. What is Fordism?
4. What are the key features of post-Fordist production?

**Feedback:** See Appendix 3 of the subject guide.

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### Further reading

Dicken, P. (2007) *Global Shift: Mapping the Changing Contours of the World Economy*. (fifth edition) (London: Sage.) Chapter 3 ('Technological Change: Gales of Creative Destruction') [or a relevant chapter from any other edition of this book].

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## Regional innovation systems and clusters

While the concepts such as **techno-economic paradigm**, **post-Fordism** and the **long-waves of development** continue to be debated, they are nevertheless useful in that they highlight the importance of the link between technology and economic development. More specifically, they make the point that economic growth is dependent on either the technological **innovation** (i.e. the development of brand



new technologies) or the **adoption** of new technologies (developed elsewhere). In terms of the technological **innovation**, the literature distinguishes between two basic models: the **linear innovation model** and the **interactive innovation model**. The **linear innovation model** involves the linear stage of innovation from: (i) idea/invention, to (ii) design and development of prototypes; (iii) production; and finally (iv) sale.

The **interactive innovation model**, on the other hand, recognises that innovation is an interactive social process and cannot be reduced to a one-way linear process. Instead, the **interactive innovation model** emphasises mutual/two-way interactions between various stages of innovation and between producers and users (customers). The concept of the **interactive innovation model** has been influenced by evolutionary and institutional approaches (discussed in Chapter 2). Originally, it has been applied at the national level in the form of the **national innovation systems** model (e.g. Lundvall, 1992; Lundvall and Maskell, 2000).

However, economic geographers quickly pointed out that the kinds of interactions implied in the **national innovation systems** model are probably best achieved at the **regional** level. Indeed, within the regional context, interactions between individual firms (suppliers, collaborators as well as competitors); firms and public R&D laboratories; firms and universities; and firms and their customers may benefit from close geographical proximity and evolve into **regional innovation systems** (Braczyk et al., 1998). There are a large number of other, similar concepts that you may encounter in the literature, all of which try to describe the phenomenon of innovative regions. Such concepts include:

- **innovative milieus** (Aydalot and Keeble, 1988; Camagni, 1991)
- **technopoloes** (Castells and Hall, 1994)
- **high-technology districts** (e.g. Keeble, 1989, 1992)
- **flexible specialisation districts** (Piore and Sabel, 1984)
- **new industrial districts** (Amin and Thrift, 1992)
- **new industrial spaces** (Scott, 1988)
- **sunbelt regions** (Hall and Markusen, 1985)
- **intelligent regions** (Cooke and Morgan, 1994).

More recently, the concepts of **clusters** and **learning regions** have gained considerable currency among academics and policy-makers alike. It is therefore worth examining both these concepts in a bit more detail. We will first start by discussing the concept of **clusters** before examining **learning regions** in the following sub-section.

**Clusters** have been defined as the ‘geographic concentration of interconnected companies, specialised suppliers and service providers, firms in related industries, and associated institutions (e.g. universities, standards agencies, and trade associations) in particular fields that compete but also cooperate’ (Porter, 2000, p.253; cited in Pike et al., 2006, p.110). The notion of the ‘geographic concentration’ evokes the concept of **agglomeration** discussed earlier in this chapter. Indeed, the two terms (**clusters** and **agglomerations**) are often used interchangeably (e.g. see Coe et al., 2007, pp.143–45). However, one could argue that there are a small number of important differences between the two concepts. Two such differences will be highlighted here.

First, it is important to notice that the above definition provided by Porter already signals one important feature of **clusters**, which clearly distinguishes them from **agglomerations**: while the neo-classical approach emphasises **competition** between firms as the key economic driver, the concept of **clusters** recognises that interactions between various economic agents may involve the elements of both competition **and** cooperation (see also Scott, 1988). Moreover, some would argue that the element of active cooperation may not only apply to economic agents such as firms, trade associations and universities, but also to actors such as trade unions and local and regional government. A term **associational economy** (Cooke and Morgan, 1998; see also Amin and Thrift, 1995) has been coined to capture this cooperative nature among principal economic players. This is an important point, because it implies that the contradictions between capital and labour can somehow be overcome (see Chapter 2 for a discussion of the Marxist approach to the economy). Indeed, it has been argued that, in successful regions, cooperative institutional arrangements exist to coordinate the actions of regional players. This also represents another important contrast to the neo-classical framework, which sees the ‘invisible hand’ of the market as the key mechanism for guiding the actions of economic agents (see Chapter 2). The ability of institutional arrangements to guide collective action in successful regions has been referred to as **institutional thickness** (Amin and Thrift, 1994, p.14). **Institutional thickness** arises from coordination between a plethora of regional institutions, which include firms, financial institutions, local chambers of commerce, training agencies, trade associations, local authorities, development agencies, innovation centres, clerical bodies, marketing boards, government agencies and trade unions.

Another important difference between **agglomerations** and **clusters** lies in a type of interaction between various regional players. As we know from Chapter 2, both neo-classical and Marxist approaches focus on formal market transactions. Formal market transactions are transactions that have a price tag attached to them. Such transactions are also called **traded** interdependencies; that is, formal trading relationships between economic agents (see Coe et al., 2007, pp.137–39). An example of a formal market transaction or a **traded** interdependency includes a formal contract between a supplier and a client (or, as we have seen earlier in this chapter, between a pin-making firm and a specialised accountancy practice). Firms may also use formal contracts to regulate relationships in joint cooperative projects, for instance. It is these traded transactions that form an agglomeration in the neo-classical, strictly economic, sense (as discussed earlier in this chapter).

However, as we have already learned in Chapter 2, the economy cannot be reduced to market transactions only. Indeed, in addition to traded interdependencies, regional economies are made up of a vast array of exchanges that are not based on formal market relationships. Such non-market exchanges are also called **untraded** interdependencies (Storper, 1997; see Coe et al., 2007, pp.139–43). These are less tangible, but not less important, interactions between economic agents. Examples of such interactions include informal information exchanges (e.g. about emerging technologies and markets) and various forms of cooperation happening through informal networks and inter-personal contacts (rather than formal contracts). Often, such exchanges are based on trust and reciprocity, and are lubricated by a shared culture. What emerges from this process are so-called **relational assets**, which are not based on economic, but primarily on social and cultural factors. This then, constitutes the second major difference between a **cluster** and a (narrowly defined) economic

**agglomeration.** In other words, **cluster** is perhaps much closer to Alfred Marshall's century old concept of 'industrial districts'. Indeed, contemporary innovative regions have been described as 'neo-Marshallian nodes in global networks' (Amin and Thrift, 1992). It has been argued that in successful regions, **untraded** interdependencies foster technology spillovers, innovation, learning, and ultimately competitiveness of the firms involved and of the entire regional economy. However, the reality is perhaps more complex and confusing and the ability of the cluster concept to explain regional economic success has been questioned. Important criticisms have been levied upon the concept of clusters (e.g. Martin and Sunley, 2003).

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### Activity 3.4

Re-read sections 5.4, 5.5 and 5.6 of Chapter 5 from *Economic Geography: A Contemporary Introduction*. (Coe et al., 2007). Answer the following questions:

1. What is a 'vertical disintegration' of production?
2. What is the difference between 'tacit' and 'codified' knowledge?
3. What are the ways in which knowledge is disseminated in the Motorsport Valley outside of formal business transactions?
4. Why are **untraded** interdependencies important?
5. What typology of clusters is offered by Coe et al. (2007)?
6. Why can Silicon Valley be seen as a **hybrid** form of a cluster?
7. What are the differences between spatial proximity, institutional proximity, cultural proximity, organisational proximity and relational proximity? Please illustrate this or give an example.
8. Why do we need to think 'relationally'?

If you have access to Martin and Sunley (2003) (see Appendix 4: Works cited), read their critique of clusters. What are the main shortcomings of the concept according to Ron Martin and Peter Sunley?

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## Knowledge economies and learning regions

**Learning region** (Coe et al., 2007, p.341; see also Pike et al., 2006, pp.97–102) is another influential concept that aims to account for dynamic innovative regions. However, unlike the **regional innovation system** and (to a lesser extent) **cluster**, the concept of the **learning region** focuses less on technological innovation. Instead, it emphasises the importance of 'learning' (i.e. innovation as a wider social and economic process). From this point of view, the learning region can be seen as a regional dimension of the **knowledge-based, learning economy** (which we discussed in Chapter 2). In the definition provided by Richard Florida, **learning regions** '...function as collectors and repositories of knowledge and ideas, and provide the underlying environment and infrastructure which facilitates the flow of knowledge, ideas and learning' (Florida, 1995, p.257). The process of 'learning' is defined very broadly here and goes beyond the usual meaning of individual learning (i.e. a formation of human capital). Instead, in line with the view that learning is a social process, the notion of 'learning' encompasses a range of situations (see below). Various versions of the **learning region** concept exist (e.g. Florida, 1995; Morgan, 1997; Asheim, 1996; see also Storper, 1997; Maskell et al., 1998; Lagendijk, 2000) and we have no space to review them all here. However, it could be argued that 'learning region' theorists build on several commonly held positions. These positions could be tentatively summarised as follows (Sokol, 2003).

1. There is a commonly shared conviction that the role of knowledge in the economy and society is indeed growing (Florida, 1995; Maskell et al., 1998, p.3 and p.24; Amin and Thrift, 1999, p.293; see also Bryson et al., 2000) and that the current economy is best described as the 'learning economy', 'knowledge economy' or 'knowledge-based economy' (e.g. Florida, 1995; Cooke, 2002; *inter alia*). Within such an economy (echoing Lundvall and Johnson, 1994), knowledge is considered as 'the most important resource and learning the most important process' (e.g. Morgan, 1998, p.230; Boekema et al., 2000). Consequently, '[k]nowledge has become a central organising concept for those concerned with regional economic development' and '**learning** has become the best way to understand regional economic change' (Malecki, 2000, p.119, original emphasis). In effect, the region has become conceptualised as a 'nexus of learning processes' (Cooke and Morgan, 1998).
2. It is maintained that learning is a **collective** process (e.g. Asheim, 1996). Therefore, it is not confined to individuals, or even individual firms, rather it is conceptualised as occurring **between** firms (producers, suppliers, competitors); between firms **and** consumers (users); and between firms **and** a plethora of local or regional institutions (Amin and Thrift, 1994; Storper, 1997; Morgan, 1997).
3. The result of this learning process, resulting knowledge, is however a rather 'leaky phenomenon' (Storper and Scott, 1995, p.510). Indeed, as soon as it is **codified**, the global knowledge economy renders knowledge ubiquitous and makes it open to competitors' appropriation and replication. Therefore, it is non-codified or **tacit** knowledge that is a crucial source of competitive advantage (Maskell et al., 1998; Maskell and Malmberg, 1999; see also Storper, 1995).
4. Tacit knowledge requires regular face-to-face contacts of involved actors. It is assumed that in the absence of 'magic carpets' (Storper and Scott, 1995, p.506) these face-to-face relations are only sustainable within a certain spatial proximity (see also Cooke and Morgan, 1998).
5. Besides, what is needed for successful 'collective learning' is a set of **informal** institutions such as habits, conventions, rules of conduct, lubricated by cooperative culture and trust (Storper, 1997; Cooke, 1998; Maskell et al., 1998; Maskell and Malmberg, 1999). These factors, it is believed, are place-specific and supported by regionally based **formal** institutions (see below) that facilitate the exchange of knowledge and ideas between regional actors, guarantee continuous innovation and ensure coordination of regional action for the benefit of all participants (Amin, 1999; Amin and Thrift, 1994, 1999; Cooke and Morgan, 1998; Storper and Scott, 1995; Storper, 1997, 1999; *inter alia*). Thanks to 'localised learning' and 'institutional endowments' (Maskell et al., 1998, p.97), 'learning regions' can thrive in the 'global knowledge economy', while becoming the basic organisational units of such an economy (Florida, 1995; see also Storper and Scott, 1995; Storper, 1997, 1999).

To conclude, it could be said that in comparison to economics-based approaches, the above conceptualisation of 'learning regions' brings very different answers to the questions of economic agglomeration and competitiveness. As Peter Maskell and his colleagues assert, 'it has to do with **knowledge creation** and with the development of **localised capabilities** that promote the learning process' (Maskell et al., 1998, p.193, original emphasis). Learning, knowledge creation and localised

capabilities are believed to lie behind the success of advanced regions, such as Silicon Valley (see Coe et al., 2007, pp.144–45; and Pike et al., 2006, pp.212–19; for a discussion on Silicon Valley). What is more, some commentators believe that less-favoured regions can emulate the success of advanced regions by mimicking their institutional structures and creating favourable conditions for ‘learning’. In other words, it is believed that the new ‘knowledge’ era offers opportunities to eradicate/overcome uneven development. However, it needs to be noted that the concept of the **learning region** and its ability to act as a catalyst for a more balanced development has been questioned (e.g. Hudson, 1999; Lovering, 1999; Sokol, 2003; MacKinnon et al., 2002; *inter alia*).

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### Activity 3.5

1. Read as many of the following journal articles as you can and answer the questions below:
  - Florida, R. ‘Toward the learning region’, *Futures*, 27(5) 1995, pp.527–36.
  - Asheim, B. ‘Industrial Districts as “Learning Regions”: a Condition for Prosperity’, *European Planning Studies*, 4(4) 1996, pp.379–400.\*
  - Morgan, K. ‘The Learning Region: Institutions, Innovation and Regional Renewal’, *Regional Studies*, 31(5) 1997, pp.491–503.\*
    - a) What theoretical foundations do the author(s) build on?
    - b) What are the key arguments that the author(s) put(s) forward?
    - c) Do they provide convincing evidence to back these arguments?
2. Read the following journal articles and answer the questions below:
  - Hudson, R. ‘The Learning Economy, the Learning Firm and the Learning Region: A Sympathetic Critique of the Limits to Learning’, *European Urban and Regional Studies*, 6(1) 1999, pp.59–72.\*
  - Lovering, J. ‘Theory Led by Policy? The Inadequacies of the “New Regionalism” (illustrated from the case of Wales)’, *International Journal of Urban and Regional Research*, 23(2) 1999, pp.379–96.
  - MacKinnon, D., A. Cumbers and K. Chapman ‘Learning, Innovation and Regional Development: A Critical Appraisal of Recent Debates’, *Progress in Human Geography* 26(3) 2002, pp.293–311.\*
    - a) What theoretical foundations do the authors build on?
    - b) What are the key arguments that the author(s) put(s) forward?
    - c) Do they provide convincing evidence to back these arguments?

\* Available in the Online Library at the time of going to press.

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## Networks, trust and social capital

As we can see from the above, **new economic geography** approaches such as **regional innovation systems**, **clusters** and **learning regions**, differ substantially from both the neo-classical and conventional Marxist perspectives on economies and their geographies. Indeed, the notions of **networks**, **trust** and **social capital**, help to shed a new light on the way regional economies work. The focus on networks is important, because they are seen as intermediate and institutionalised forms of social organisation that are neither **markets** nor (organisational) **hierarchies**. Instead, networks are seen as cooperative and reciprocal, especially when they are lubricated with mutual **trust** and shared **culture** (see also below). What emerges from such trustful relations and networks is ‘social

capital'. **Social capital** can be defined as 'the associations, activities, or relations that bind people together as a community via certain norms and psychological capacities, notably trust, which are essential for civil society and productive of future collective action or goods, in the manner of other forms of capital' (Farr, 2004, pp.8–9; cited in Pike et al., 2006, p.92). Social capital is thus seen as an 'asset' for regional economies, an asset that neither neo-classical models, nor conventional Marxist approaches have captured. The **new economic geography** thus provides a much richer picture of the ways economies and their geographies work (although many key concepts remain debated).

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### Activity 3.6

If you have a copy of Pike et al. (2006) available, read the section on 'Networks, Trust and Social Capital' in Chapter 3, pp.92–94.

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### Further reading for this section

- Amin, A., and N. Thrift 'Neo-Marshallian Nodes in Global Networks', *International Journal of Urban and Regional Research* (16) 1992, pp.571–87.
  - Martin, R. (2000) 'Institutional Approaches in Economic Geography', in: Sheppard, E. and T.J. Barnes (eds) *A Companion to Economic Geography*. (Malden, MA: Blackwell, 2002), pp.77–94.
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## Cultural economies, ethnicity and gender

The final sub-section of this chapter is devoted to economic geographies of culture, ethnicity and gender. This is an area of geography which has recently seen dramatic developments, in part reflecting the rise of the feminist approaches (e.g. Gibson-Graham, 1996) and the 'cultural turn' (Lee and Wills, 1997) in geography and in social sciences more widely. In many ways, these approaches challenge the very notion of 'the economic' (see also the section 'What is the economy?' in Chapter 2). Indeed, the boundaries and the relations between 'the economy' and 'culture' are being questioned and problematised. The mutual constitution of 'the economic' and 'the cultural' is being emphasised. The terms such as 'cultural economies' and 'economic cultures' have been used to highlight this point. Furthermore, the ways in which ethnicity and gender are intertwined with economies and their geographies have received a lot of attention. In order to get a good understanding of this vibrant and often contested area of 'economic' geography, you are invited to complete the Activity below.

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### Activity 3.7

1. Read Chapter 11 ('Culture and the firm') from *Economic Geography: A Contemporary Introduction* (Coe et al., 2007). Answer the following questions:
  - a) What is corporate culture and sub-culture?
  - b) Does place matter in shaping the culture and behaviour of firms?
  - c) Does globalisation mean that economic cultures will inevitably become more alike?
2. Read the following journal article and answer the questions below:
 

James, A. 'Demystifying the Role of Culture in Innovative Regional Economies', *Regional Studies* 39(9) 2005, pp.1197–216.\*

  - a) Why does the author argue that the role of culture in regional economies is poorly understood?

\* Available in the Online Library at the time of going to press.

- b) In what ways does culture and religion influence the ways firms operate?
  - c) What implications might this have for the competitiveness of firms?
3. Read Chapter 12 ('Gendered economic geographies') from *Economic Geography: A Contemporary Introduction* (Coe et al., 2007). Answer the following questions:
    - a) What are 'gender divisions of labour'?
    - b) What are the processes through which such divisions of labour occur?
    - c) What is 'labour market segmentation' and how does it occur?
    - d) Why is female work often devalued?
    - e) Is there any gender inequality in the place where you live and work? If so, what is the nature of it? What are the processes that sustain such an inequality? Can such an inequality be overcome?
  4. Read Chapter 13 ('Ethnic economies') from *Economic Geography: A Contemporary Introduction*. (Coe et al., 2007). Answer the following questions:
    - a) What is 'ethnic sorting' in the workplace and how does it occur? Can you observe 'ethnic sorting' in your local labour market?
    - b) What explains the emergence of ethnic business clusters? Are there any ethnic business clusters in your city or the city nearest to you?
    - c) What role does ethnicity play in transnational economic processes?
    - d) How does ethnicity work in your own economic life?

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## Conclusion

This chapter has aimed to provide a comprehensive introduction to key concepts and theories in economic geography. These concepts and theories help to elucidate the way in which economies work over space, across scales and in particular places. The first section has examined concepts and theories whose starting point is the mainstream economic (neo-classical) perspective. It started by examining the hypothesis of spatial equilibrium and proceeded to examine concepts that demonstrate that uneven development is a more likely outcome of the operation of market forces. The issue of uneven development has been taken further in the second section, where concepts and theories associated with the Marxist perspective have been examined. The third and final section of this chapter has examined concepts and theories mostly associated with various alternative approaches to economic development. Taken together, the chapter has provided you with a solid basis of theoretical knowledge on which the subsequent chapters will be able to build. Indeed, this knowledge will help you to understand economic geographies of the contemporary world (see Chapter 4) and to discuss policy options for overcoming inequality and uneven development (Chapter 5).

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## A reminder of your learning outcomes

Having completed this chapter, the Essential readings and activities, you should be able to:

- explain key concepts and theories in economic geography
- identify similarities and differences between these concepts and theories
- discuss and critically evaluate these concepts and theories and their usefulness in analysing economic geographies.

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## Sample examination questions

1. 'Uneven development is both a cause and an outcome of capitalist growth.' Discuss.
2. With reference to regional examples of your choice, explain the difference between traded interdependencies and untraded interdependencies.
3. With reference to examples, explain the difference between 'agglomeration' and 'clustering' of economic activities.
4. Learning regions 'function as collectors and repositories of knowledge and ideas, and provide the underlying environment and infrastructure which facilitates the flow of knowledge, ideas and learning' (Florida, 1995). Discuss.