The Death of Distance

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The world is flat and geographic distance does not matter anymore. Wrong, physical distance friction costs may decline as a result of information and communication technology, but there are still many other distance frictions that cause economic actors to cluster in space.

For centuries, distance was the economist's anchor point for analyzing spatial-economic interactions in the form of transport, trade, migration, commuting, or tourism. The central role of distance in economic research originates from the economic costs of bridging geographic distances. This "truth" is clearly incorporated in all gravity models in economics, which are essentially inspired by Newtonian physics. The new economic geography (NEG) introduced by Paul Krugman and others takes the cost friction of distance as a cornerstone for analyzing economic interdependencies in space.

Recently, several propositions have been voiced, which argue that in a modern economy, the role of information and communication technology (ICT)—and in particular digital technology—is so pervasive that geographic distance no longer matters. This claim of *the death of distance* has led to a new economic paradigm characterized by the proposition that *the world is flat*.

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Consequently, geography would no longer count in the modern space economy: competition is everywhere and is not determined by geographic locations, provided of course that they have open access to ubiquitous open cyberspace. This phenomenon would have great impacts on the dispersion of economic activity on our planet: the landscape of our world would become more uniform and flatter.

The *death of distance* hypothesis—and the related *flat world* hypothesis—does not seem to be very credible for several reasons. First, it is not true that Internet access—or, more generally, access to cyberspace—is uniformly distributed across the world. There are millions of people that have never even made a simple telephone call! Consequently, our world has been—and still is—rather spiky. Second, the access to digital technology is not identical to the use of this technology. Thus, demand conditions are critical for the benefits that accrue from the use of ICT and open cyberspace. Third, the advantages of Internet use in densely populated areas—through a varied portfolio of agglomeration advantages of all kinds—are much higher than in isolated areas. Distance friction is more than costly physical separation but finds its counterpart in locational benefits. Fourth, the combination of physical clusters and urbanization advantages and of virtual Internet advantages provides a strong competitive position to urban areas, with the necessary effect that large cities will nowadays tend to grow and lead even to a more spiky spatial-economic landscape. And finally, even if physical distance friction costs decline as a result of ICT, there are still many other distance frictions that cause economic actors to cluster in space. This is clearly reflected in the French "proximity school" where proximity—as the reverse of physical distance—is seen as a major organizing cluster paradigm for the spatial-economic landscapes of our world. Proximity is interpreted here as a connectivity principle bringing economic agents together from a social, cognitive, entrepreneurial, technological, or cultural perspective.

In conclusion, the current trend toward massive urbanization all over the world is a structural undercurrent of a modern and technologically advanced global economy, in which the idea of *the death of distance* and of a *flat world* is the least plausible assumption. A "flying carpet" world is a myth in economics.