



2

The Continuing Relevance of Jane Jacobs's Economics and Social Theory

The no-nonsense opening of Jane Jacobs's *The Death and Life of Great American Cities*—"This book is an attack on current city planning and rebuilding"—heralds the beginning of the decline of the post-World War II fascination of municipal governments with the large-scale reconstruction of cities in North America. Jacobs is one of the principal figures who, in her writings and in her activism, successfully fought the policies of a planning orthodoxy that ignored the actual values, the local knowledge, and the resourcefulness of ordinary urban dwellers.

Beginning in the 1960s, she actively challenged the widespread policy of "urban renewal," most notoriously practiced by Robert Moses¹ of New York, which frequently bulldozed the neighborhoods of the poor and politically unconnected, neighborhoods that often possessed lively community networks, and replaced them with intrusive highways, isolated housing projects, sprawling civic centers, and placeless voids that became dull and dangerous—public spaces shunned by the public. Such

¹ See Robert Caro's Pulitzer Prize winning biography of Robert Moses, *The Power Broker: Robert Moses and the Fall of New York* (Caro, 1975). Moses has been himself the subject of a recent play "Straight Line Crazy," in which Jacobs is also a featured character. See <https://www.nytimes.com/2022/10/26/theater/straight-line-crazy-review.html>. Accessed 6 May 2023.

heavy-handedness is less prevalent in North American urban-planning departments today. Thanks to the efforts of urbanists like Jacobs, present-day planning processes at least try to be more sensitive to the needs of local inhabitants and more cognizant of the practical importance of Jacobsian concepts such as “mixed uses,” “eyes on the street,” “face-to-face contact,” “density,” and the “sidewalk ballet.” (In Chap. 8, we will discuss why even these measures tend to fall far short of intentions.)

Elsewhere in the world, however, massive, city-size projects are still being planned and constructed. Reports of the demise of large-scale urban planning and design have been greatly exaggerated, and the era of city planning and rebuilding on an immense scale is certainly not behind us. Anyone bemoaning the post-Jacobs era of scaled-down planning in America (Campanella, 2011) might take heart in these developments. And so, to the extent they ignore Jacobs’s critique of twentieth century planning orthodoxy, and the social theory informing it, her arguments remain powerfully relevant.

Here are a few examples.

Zaha Hadid Architects, one of the leading architectural firms in the world, has designed an elongated mega-development of 3.6 km² (2.2 mi²), an area comparable to Midtown Manhattan, flowing like a frozen lattice through the city of Kartal-Pendik in Turkey.² In common with most projects of this scale, the design appeals to the eye, especially from afar, although the “parametricism”³ of the Kartal Masterplan purportedly lends a more navigable, street-level legibility that distinguishes it from some of the others.

There are an estimated 50 mega-projects sponsored by the People’s Republic of China, dubbed by critics “ghost cities” because their sprawling, pre-built residential and commercial buildings stand largely vacant.⁴ One such construction in the city of Ordos, located in Inner Mongolia, is the Kangbashi district. It is one of the more populated ghost cities, currently around one-third capacity, and covers an area of

² See the masterplan at http://www.kartalkentder.org/upload/Node/38715/files/Kartal-Masterplan_.pdf. Accessed 6 May 2023.

³ For an overview of parametricism, see <https://www.parametricism.com/>. Accessed 22 May 2023.

⁴ Described in this article, <https://www.wsj.com/articles/chinas-ghost-towns-haunt-its-economy-1529076819>. Accessed 6 May 2023.

about the size of the city of Atlanta, Georgia, 352 km² (136 sq. mi). But many other of these developments remain mostly empty, still waiting for occupants.⁵

And in the northwestern desert of Saudi Arabia an ambitious one-hundred-mile-long (160 km) project called “The Line” by NEOM (New Enterprise Operating Model) is currently under construction. The dreamchild of Crown Prince Mohammed bin Salman, it is slated to cover an area of 10,232 mi² (26,500 km²), larger than the city of Chicago, with an anticipated population of 9 million. Promising “a blueprint for tomorrow,” it is intended to utilize smart technology, offer an alternative to the oil industry as the country’s economic engine, and become a magnet for tourists that will stretch like a giant landing strip from the Red Sea coast far into the mainland.⁶

Like the “giga-projects” of Le Corbusier, Frank Lloyd Wright, and Robert Moses, I will discuss and critique in Chap. 8, these are architectural dream-developments based on cutting-edge technology and proposed for the very near future, or, as in the case of the ghost cities, that already exist. Chapter 9 examines some of these constructions in greater detail. (In that chapter and Chap. 10, I also address the challenge phenomena such as “virtual worlds” and “the metaverse” might pose for Jacobs’s emphasis on face-to-face contact.) So, although architectural styles, construction technology, and design philosophies have changed, Jacobs’s criticism of modern-day mega- and giga-projects are as germane

⁵ Some scholars of planning admire this approach.

American planners who travel to China risk coming back equally ruined, for they learn that their Chinese cousins have effectively charted the most spectacular period of urban growth and transformation in world history. They are then beset with an affliction far worse than the “Robert Moses envy” suffered, usually in silence, by an earlier generation of American planners. Here now is a nation that makes even Moses look small. Name any category of infrastructure and China has likely built more of it in the last 30 years, and bigger and faster, than any other nation on Earth—probably than all other nations combined. Long the poor man of Asia, China is now beating us at a game we once mastered—the game of building, and building big; the game of getting things done. (Campanella, 2011: 154–5)

⁶ Mohammed bin Salman’s entire vision is outline here, <https://www.neom.com/en-us>. Accessed 6 May 2023.

as they were during the heyday of Robert Moses's urban renewal or of Le Corbusier's "Radiant City" of a century ago.

In this chapter, I begin to make the case that beyond her critique of urban planning, which I discuss throughout this book, Jacobs made valuable and relevant contributions to economics and social theory, and that the theory of society underlying both her economics and her critique of urban planning is essentially the same as the social theory underlying so-called "market-process economics," which I outline below. Subsequent chapters will flesh out that argument in greater detail.

While my focus in this chapter is mainly on Jacobs as an economist, there are several preliminary issues that need to be addressed. The first is the basic question of whether Jacobs does indeed have a social theory. The second is how her particular concern with cities sets her apart from other urban commentators and how it aligns well with the traditional concerns of economics. The two sections following briefly deal with why we should regard the city as a basic unit of economic analysis and with the meaning of public space in this study. Finally, the last two sections detail why Jacobs is a serious contributor to economic theory and especially to market-process economics.

1 Does Jane Jacobs Have a Coherent Analytical Framework?

Yes, she does. It is true that in none of her writings does Jacobs fully articulate an explicit *social theory*, that is, a coherent set of principles explaining how social order arises and is sustained at different levels of analysis, that she then systematically links to her investigations of urban phenomena.⁷ But that doesn't mean a definite social theory does not frame how she views and interprets the social world.

⁷As I mention later, she comes close to doing so in the final chapter of *Death and Life* and the first chapter of *The Economy of Cities*.

One example of a coherent arc that runs through Jacobs's world-view is the way the central themes of her major works "scale up" over time.⁸ Proceeding chronologically, in *Death and Life* (1961) she explains what I call the "microfoundations" of the way physical design interacts with human activity to promote (or hamper) dynamically stable processes at the level of the neighborhood, the city district, and the city itself, and how this in turn generates the land-use diversity that fosters urban liveliness in a successful city. In *The Economy of Cities* (1969) she presents a theory of economic development that takes those microfoundations as given and then explains how different cities depend on one another to stimulate trade and spur local innovation. And in *Cities and the Wealth of Nations* (1984), she more carefully differentiates among various kinds of settlements (e.g., innovative cities, supply regions, transplant regions) and their roles, and then examines how economic development proceeds globally, through booms and busts, taking a more "macroeconomic" perspective than in her earlier books, though still dependent on their micro-lessons.

This perspective helps explain why in that first meeting, when I asked Jacobs what she thought her most important discovery was, she again answered without hesitation, "the fractal"! Now, one feature of fractal phenomena is symmetry at different scales of analysis. For example, how a satellite image of an irregular coastline appears the same as the irregular edge of a magnified puddle of water or how the same complex patterns appear at vastly different scales in computer-generated images such as a Mandelbrot Set.⁹ I was puzzled by this at the time, but I think least part of what she meant had to do with this scalability, that the dynamics taking place at the level of a neighborhood still operate, *mutatis mutandis*, at the level of the city, city regions, up to the complex reality of global trade.

But why doesn't she fully articulate her social theory?

I believe it is partly owing to her method of conducting research. Jacobs describes her method (Jacobs, 1961: 440) as proceeding inductively by first observing patterns in daily life, looking for "unaverage"

⁸ As noted in Chap. 1, I recently discovered that Richard Harris has also recognized this scalability in Jacobs's work (Page & Mennel, 2017).

⁹ See James Gleick's (1987) classic treatment of these phenomena.

clues to explain how those patterns emerge, and thoroughly studying reports, articles, and books on a particular subject from which she then tries to infer sensible principles to help make sense of what she has observed, read, and thought (Zipp & Storrington, 2016: 317–18). In other words, she doesn't begin with a set of principles from which she deduces conclusions. Rather, her method is inductive and, as she describes it, "pragmatic." Such pragmatism, at least in Jacobs's case, means her analytical framework tends to remain implicit.

My aim, of course, is to make that framework explicit, complementing it with insights from sociology, social network theory, and market-process economics. (As I explain below, market-process economics corresponds far more closely to Jacobs's economics than do standard microeconomics and macroeconomics, which are approaches Jacobs harshly criticizes for their lack of real-world relevance, a criticism I share.) The result, I believe, is a rich socioeconomic framework, grounded in a basic understanding of how and why a great city works that will help us to better address some of the most pressing issues of the social world. I hope to highlight valuable lessons economists can learn from Jacobs about economics and urbanism, and what insights admirers of Jacobs can learn about urbanism from her economics and social theory.

To reiterate, one of my primary motivations for writing this book is to make Jane Jacobs, economist, better known, especially to those who already rightly admire her for the other contributions she has made as a public intellectual; and that most of her criticisms of urban planning and design and of various public and private policies, which have gained supporters across the ideological spectrum,¹⁰ issue from a coherent if mostly implicit social theory. My second aim then is, as I said, to draw attention to and develop that social theory.

¹⁰ For example, Adam Gopnik wrote in *The New Yorker* in 2016: "Her admirers and interpreters tend to be divided into almost polar opposites: leftists who see her as the champion of community against big capital and real-estate development, and free marketeers who see her as the apostle of self-emerging solutions in cities. In a lovely symmetry, her name invokes both political types: the Jacobin radicals, who led the French Revolution, and the Jacobite reactionaries, who fought to restore King James II and the Stuarts to the British throne."

2 What Is Different About This Book and Jacobs's Approach to Cities?

The starting point for Jacobs's analysis and the focus of much of her thought is of course the city, its nature and significance. There are plenty of books about cities. Many describe cities as engines of economic development, wellsprings of art and culture, and incubators of ideas religious, social, and scientific. There are also books about the dark side of cities and city life. But few go very deeply into explaining how and why these are peculiarly urban phenomena. Fewer still view the urban processes as expressions of "emergence,"¹¹ or what some social theorists describe as a "spontaneous order." That is, however, the perspective of this book and its overall contribution: *To view through a Jacobsian lens what makes a city a spontaneous order and an engine of innovation, and to trace the analytical and policy consequences of viewing it this way.*¹²

Jane Jacobs is among those few who do, indeed the outstanding one. She is probably the first to carefully examine the nature and significance of great cities to distill realistic principles governing dynamic, urban systems and then to analyze the mechanisms of economic change and the policy implications that follow from those principles. Her analysis of the relation between the design of public spaces and the social interactions that take place within them (which is discussed in some detail in Chap. 4) offers insights that complement, and often exceed, other, more credentialed scholars of urban phenomena such as Max Weber, Henri Pirenne, Georg Simmel, and Kevin Lynch. I will explore these relations and the connections between her work and modern social theorists such as F.A. Hayek, Elinor Ostrom, Mark Granovetter, and Geoffrey West in the following chapters.

¹¹ Johnson defines "emergence" as the "movement from low-level rules to higher-level sophistication" (2002: 18). I elaborate on this concept in Chap. 3, which emphasizes the feature of wholes or patterns that cannot be reduced to their component parts.

¹² Other works take a spontaneous-order approach to analyzing cities, though not so explicitly from the perspective of Jane Jacobs. For example, see (Almazá, 2022), (Urhan 2011), Alain Bertaud (2018), and the excellent collections edited by Andersson (Andersson et al., 2011, Andersson & Moroni, 2014).

But Jacobs was not the first to develop conceptual tools congenial to understanding urban processes as emergent, spontaneous orders. They have in fact been largely available for decades in the field of economics, although few professional economists today, including urban economists, have fully appreciated the urban origins of many of their standard concepts and tools of analysis. In fact, there is a tradition in economics and social theory that takes an implicitly Jacobsian view of the world in this sense. As I will elaborate in Chap. 5, it is a tradition that follows from the work of Adam Smith, Carl Menger, Ludwig von Mises, F.A. Hayek, and Israel Kirzner, which is referred to as “market-process economics.” Like Jacobs, this heterodox approach to economics sees social processes as the emergent, largely unplanned, and self-regulating outcome of people who know a great deal about their local environment, though very little about the larger social order in which they are embedded, but who with the right “rules of the game” can approach a high degree of social coordination. Like Jacobs, the market-process tradition is concerned with social dynamics and how ordinary people may be able to use their own local knowledge and resourcefulness to solve the unpredictable problems they regularly encounter in their daily lives, and how social institutions such as markets and market prices help them to do so in the presence of imperfect knowledge and scarcity through voluntary, often collective, action without resort to extensive central planning. Like Jacobs, the market-process tradition finds little use for the concept of economic efficiency and static equilibrium (for reasons I discuss in the next chapter) and instead places greater importance on individual incentives, entrepreneurial discovery, and innovation to drive ordering processes, and on specific social institutions that enable these processes over time to generate economic development. In the final section of this chapter, I spell out in some detail these connections between market-process economics and Jacobs’s economics.

There are also important points of difference.

Whereas property rights and economic freedom, especially free entry into and exit out of markets, are front and center in market-process economics they are, as we will see, largely implicit but no less present in Jacobs’s analysis. On the other hand, whereas the market-process tradition has always emphasized the role of market prices and social

institutions in economic processes, only recently have the concepts of social capital, social networks, and trust—explicit components in Jacobs's analysis—begun to play a significant part in its solution to what I call the “central question of economics” outlined, below. Nor has the market-process approach gone into much detail on the *mechanisms* and the *spatial context* of entrepreneurial discovery, including land-use diversity in entrepreneurial development, and the part that physical proximity and social networks, personal contact, and the design of public spaces play in a flourishing economic system, all of which are central Jacobsian themes.

But one thing both Jacobsian and market-process economics do have strongly in common is seeing successful social orders as those that not only solve problems, but more fundamentally as those that discover and, in a sense, create the very problems that need to be solved, and in this reciprocal fashion, drive economic development and social change. Indeed, the key to integrating the Jacobsian and market-process perspectives in a way that fills in critical gaps in each is to see that the market process and the urban process are essentially the same social phenomenon: A city is a market and a market is a city. That is what I try to do, especially in Chap. 3.

With two outstanding exceptions, who I will discuss later, mainstream economists have mostly ignored Jacobs's theoretical work.

3 A Living City Is Not a Man-Made Thing

Architects and urban planners often use the term “built environment” to refer to things such as city streets and the grids they form, buildings of various kinds, plazas, the infrastructure of electricity and water inflow and waste outflow, and areas for parks and outdoor recreation. Although each of these urban elements are consciously designed and constructed wholly or in part, usually by teams of individuals, the way they adjust to one another *over time* is not the result of an overall plan, except in the case of very large-scale mega- and “giga-projects.” Buildings in a particular location—for example, offices, schools, residences, retail shops, malls, entertainment, places of worship, research facilities—are of different ages, shapes, and sizes constructed by different people for different

purposes in different eras with different techniques, historical contexts, sensibilities, and knowhow. The way they all more-or-less complement one another, however, their “fit,” is mostly unplanned and spontaneous. That is, just as English or any living language evolves as a result of continual and unforeseen variations in usage and context over time and in different places, a living city also evolves as structures and their uses adjust unpredictably to ever-changing circumstances. Such adjustments are, as I will treat more rigorously in the next chapter, “the result of human action but not of human design.”

A living city then is not and indeed cannot itself be man-made in the sense of being designed from top to bottom. While some of its constituent parts may be meticulously constructed at a given point in time, nevertheless, their structures and usages will change in ways the original designers did not intend or could not fully imagine.

4 Why We Will Be Focussing on Public Space

Our focus is on what goes on in a city’s public spaces and so it is important to understand the difference between “public space” and “private space,” as used here. That difference is about the relationship between us and others who may also use the space. “Public” and “private” in this sense have nothing necessarily to do with whether the space is controlled by a government entity or is privately owned. A coffeehouse may be privately owned but is typically a public space in our sense, while CIA headquarters in Langley, Virginia, is publicly (government) owned, but it is a private space.¹³

¹³Public space and private space correspond roughly to Jacobs’s terms General Land and Special Land (Jacobs, 1961: 262–3).

4.1 Public Space Versus Private Space

Simply put, a *public space* is a place where we are likely to encounter people who are more or less strangers to us. They include people we pass on the sidewalk for a moment and never see again, a clerk at a local supermarket, patrons in a restaurant or shoppers in a mall, a specialist to whom our primary-care physician refers us, or a new neighbor whose name we don't yet know. They range from utter strangers to what Stanley Milgrom (1977) calls "familiar strangers." They may be "socially distant"¹⁴ from us with different linguistic, cultural, ethnic, and religious backgrounds. A public space is where we would not be surprised to run into people like this.

A *private space* is a place where we are unlikely to encounter such strangers. These include our home, a private club, a company office, or a classroom at the end of a school year.

Of course, at any given time, we might regard a particular space as somewhere between public and private: a coffeehouse where we talk to the barista and a few of the regular customers; a restaurant where we regularly meet friends; a museum rented out for a private gala. And some specialized spaces, such as coffeehouses or bookstores or bars, are well-known for the serendipitous encounters between strangers and the subsequent connections they may enable. Again, the distinction between public and private space hinges on whether and the degree to which we know the people we expect to see there.

Moreover, the degree to which we feel comfortable enough to be in a particular public space depends, other things equal, on how safe we feel around strangers. And the larger the size or number of public spaces in a given location, the more likely we will encounter strangers there. So, feeling safe in public space becomes more of a challenge in a city, other things equal, the larger its population. This is something we will examine closely in Chap. 4.

¹⁴We take up this and related concepts in some depth in Chap. 5.

4.2 What Goes on Within the Built Environment Can Be Planned or Unplanned

Most structures are originally built for specific activities. As a specialized space, for example, a gas station is primarily for pumping gas, not playing football, which we are more likely to do at a stadium or park. But there are other activities, such as socializing or trading or entertaining, that take place in or are facilitated by more generalized spaces, such as embankments and plazas that are used in ways that their designers may indeed have taken broadly into account (“this plaza may be used for peaceful, unspecified, public gatherings”) but not planned for, strictly speaking. These generalized public spaces can have significant consequences for a neighborhood or district over time by enabling or encouraging informal contact and interaction in the presence of strangers or by accommodating multiple uses.

Within a more specialized private space, such as a corporate office, value-creating-but-unplanned discoveries (“intrapreneurship”¹⁵) might also take place. The focus of this book, however, like Jacobs’s *Death and Life*, is on public space and the unplanned social orders that arise within it. To make matters clearer, I can illustrate our subject-matter with the help of the following matrix (Fig. 2.1):

What happens in each cell of the matrix is important to the overall social process—the dynamics of family or office relationships, for example. But we will confine ourselves mainly to unplanned orders in public space.

5 The City Is a Relevant Unit of Economic Analysis

But why focus on cities? Why not nation-states or empires (Parker, 2004)?

¹⁵ “Intrapreneurship is acting like an entrepreneur within an established company. It’s creating a new business or venture within an organization. Sometimes that business becomes a new section, or department, or even a subsidiary spinoff” (Somers, 2018).

	Private Space	Public Space
Planned Order	HOME	MARCHING BAND
Unplanned Order	FAMILIAL RELATIONS	MARKETS & CITIES

Fig. 2.1 Space-order matrix

An underlying principle of Jacobs's economic framework is that, like individual choice, firms, and households in standard economics, a great city or living city is a natural unit of economic analysis. That is, like an individual or business or household, a great city arises spontaneously wherever economic development consistently takes place, perhaps, though not necessarily, after an act of deliberate creation, such as the granting of a charter. But a great city doesn't automatically appear where people might happen to settle. Historically, this took a very long time. Current estimates of the age of *Homo sapiens* range from about 250,000 to 350,000 years, but it is only in the last 10,000–12,000 years or so that large, permanent settlements took root and the story of human civilization began. (We examine some of this history in Chap. 6.)

In contrast, nation-states are deliberate political creations of recent origin with borders that are consciously created and rigidly maintained, especially against strong economic incentives to ignore them. Moreover, cities tend to endure far longer than the states that encompass them. As James E. Vance observes, the city is "...the most long-lived of all human physical creations" while "the nation-state, which seems so powerful and fundamental today, is a late and transitory successor to the enduring city"

(Vance, 1990: 23). And while it is widely accepted that cities are the locus of social change and cultural creativity, sometimes via politics but typically via economic development, nation-states are the locus of social stasis, cultural reaction, economic protectionism, and the principal players in war and violent political conflict.¹⁶ “Whereas nation-states tend toward revolution and radical transformation, great cities tend toward tenacious endurance and evolution” (Vance, 1990: 23).

I am not arguing that nation-states as such cannot be units of analysis for economic theory and policy or for disciplines outside of economics such as political theory. But in that case, they are essentially units of political analysis or political economy, not purely economic entities. Economists study them because (1) political boundaries create constraints on economic processes that have interesting consequences (e.g., international trade, exchange-rate movements, deadweight losses of protectionism) and (2) public choosers (i.e., those who use political means to promote their interests) want to know the narrowly national implications of various economic events or public policies vis-à-vis other nation-states. Nation-states are central to macroeconomic theory and of fiscal and monetary policy, and Jacobs is harshly critical of macroeconomics for that reason (Jacobs, 1984: 6). But cities that have emerged or that have evolved organically over time, not political entities or municipalities (e.g., the City of Los Angeles versus the urbanized area of Los Angeles), are fundamentally different from nation-states.

As I will argue in Chap. 3, it may be useful to see the study of markets as coincident with the study of cities.¹⁷ For instance, a surprising number of concepts in economics pertain mainly to large settlements and cities. Take the following familiar economic concepts:

- Competitive markets and impersonal exchange
- The price mechanism

¹⁶ Sociologist and historian Charles Tilly (1982) famously argues that “war makes states,” which he characterizes as monopolies of violence and identifies with “organized crime” and “protection rackets.”

¹⁷ I develop this argument in Ikeda (2007). <https://link.springer.com/article/10.1007/s11138-007-0024-2>

- Entrepreneurship and innovation
- Extensive division of knowledge and labor
- Complex structure of capital
- Externalities and public goods
- Comparative advantage and efficiency

Each of these has its origin or its greatest relevance in an urban setting. In the chapters that follow, I will clarify the close connection between most of these concepts and cities. Someone (it may have been Tip O'Neill, the late US House Speaker) once said, "All politics is local." One might also say without overstatement that all economic activity is urban. Innovation and the production (and usually also the consumption) of what Adam Smith refers to as the "necessaries, conveniences, and amusements" of life happen or get their start in a city.

6 Jane Jacobs, Economic Theorist

To begin making the case for Jacobs as an economist, I would like to make some general observations about her economics. Do keep in mind, however, that my principal aim is not to summarize the entire body of Jacobs's economic work. I am mainly interested in how her work relates to and fills gaps in economics and social theory, and I will be drawing extensively from elements of her economics and social theory to construct a coherent analytical framework integrated with market-process theory. This book is therefore not meant to be a "reader friendly" version of her work or a "Jane Jacobs for Dummies." Jacobs's writings are themselves eminently reader-friendly (though certainly not for dummies). For a clear and straightforward presentation of her economics, one can do no better than to read her books.

But some brief overview is necessary to get started, so this section covers three main areas. First, a summary of Jacobs's approach to economics and her overall economic framework. Again, the best source is to read her very readable books, especially *The Nature of Economies* and, if you are a little more ambitious, *The Economy of Cities* as well as *Cities and the Wealth of Nations*. I will discuss and elaborate on most aspects of her economics

and social theory in some depth in the chapters that follow. (I indicate the relevant chapters as I go along.) Second, the parts of her economic thought that I disagree with or think are her weaker economic arguments. Finally, the most time is spent establishing why Jacobs really is a serious economic theorist and not someone who simply dabbles in the subject or merely a competent amateur who has not made original and important contributions to our economic understanding of the real world.

Having established that Jane Jacobs is a legitimate economic theorist, the section following this one addresses the question of the extent to which she is specifically a market-process economist.

6.1 Jacobsian Economics

Jacobsian economics is squarely city-based. Jacobs argues that most important economic questions center on economic development and that great cities are the main drivers of economic development, especially economic development through innovation (Chap. 6). While deliberate planning by individuals, organizations, and governments each have important roles to play in allowing order to emerge in the complex patterns and processes within a great city, that order is largely unplanned, and sensitive to the scale, scope, and design of attempts, whether by governmental or business entities, to deliberately shape the city (Chap. 3).

The fuel for innovation-centered economic development is what Jacobs terms “effective economic pools of use” conveniently located so that ordinary but resourceful people may discover worthwhile ways of fitting such uses together. These potential complementarities within effective economic pools of use are themselves the fruits of the unplanned diversity of land-uses within a city, generated in the context of public spaces where myriad strangers interact with one another in peace and safety. Jacobs identifies the generators of that diversity as certain conditions within great cities—that is, mixed primary uses, the intricacy of city blocks, population density, and affordable work and living space (Chap. 4). Furthermore, strangers are the crucial and indispensable ingredient for an innovative city, where both dynamic social networks and market competition serve as organizing principles, and where tolerance and inclusivity

rather than distrust and exclusivity are the norm. With those elements present, innovation and economic development can take place (Chap. 5).

For Jacobs, the keys to that development are “import-replacement” and “import shifting.” The process of import-replacement consists of entrepreneurs drawing mostly on local resources—those effective pools of economic use—discovering ways to create local replacements for imported goods and services, which in turn allows locals to shift the revenues they earn from exports to purchase more or different imports (Chap. 6). Finally, poorly chosen policies for urban improvement and attempts to impose utopian visions can undermine the diversity and pools of effective use essential for innovative economic development. This is what motivates Jacobs's attack on the urban planning of her day and animates her heterodox economic analysis and policy recommendations (Chaps. 7, 8, and 9).

(Note again that in fleshing out Jacobsian economics, I will be filling in what I see as gaps with market-process concepts; I will also be fleshing out market-process economics with important Jacobsian insights. This may have the appearance of cherry-picking, but I believe I am presenting in these pages enough of Jacobs's socioeconomic ideas to give an accurate and fairly inclusive picture of her original economics and social theory.)

6.2 Where I Disagree with Jacobs

There are some economic and policy ideas of Jacobs's that I disagree with. I will point most of these out as they arise in the chapters that follow. There are two, however, that I think are worth mentioning at the outset. The first is her qualified advocacy of protective tariffs, which is not so much wrongheaded as ignorant of important realistic considerations in the political economy of interest groups. I address this in the Appendix to Chap. 6 (“On the Need for Tariffs”). The second is her vagueness on the nature of what constitutes economic value, which is worth noting because value theory is at the heart of most systems of economic thought (with important exceptions that I will mention). While important, my disagreements are not serious enough to dissuade me from the utility of her socioeconomic framework.

6.3 Jane Jacobs as an Economist¹⁸

One way to demonstrate Jacobs's standing as a serious economic thinker, and not merely a dabbler in economics, is to enumerate some basic criteria for what it means to be an economist and then examine the extent to which she meets these criteria in her published work. But what criteria to use?

I have taught economics since 1986 at the university level. While some might regard my approach to doing economic analysis as somewhat heterodox,¹⁹ my approach to teaching an introduction to “the economic way of thinking” departs little from the mainstream, and so I feel confident in using my own criteria to evaluate Jacobs's standing as an economist. Still, I appreciate that the reader may disagree with my criteria. To partly address this, I will first invoke the opinion of two widely respected economists, one a Nobel Prize winner, in support of Jacobs's *qua* economist.

6.3.1 Economists on Jane Jacobs

The first is Robert Lucas, the 1995 Nobel Laureate in economics. In an article, “On the Mechanism of Economic Development” published in *Journal of Monetary Economics* in 1988, Lucas states that in seeking the significance to economic development of what he terms “external human capital,” he will closely follow the path laid out in Jacobs's *The Economy of Cities* (1969a) which he calls “remarkable” and “highly suggestive.”

The second is the urban economist Edward Glaeser, who terms these external effects of human capital “Jacobs spillovers” and finds that they

¹⁸ Here, I again mention the work by Charles-Albert Ramsay (2022), published as I was completing the manuscript for this book, which argues as I do for greater recognition of Jacobs's contribution to economics. Purely by coincidence, the subtitle of his book and the heading of this subsection are nearly identical. For a succinct and accessible treatment of Jacobs's economics, sans discussion of social theory and with a different emphasis on policy issues, one could not go wrong by reading his book.

¹⁹ I am, as it should be clear by now, a student of economics in the tradition of Carl Menger, Eugen von Böhm-Bawerk, Ludwig von Mises, F.A. Hayek, and Israel M. Kirzner, among others, in other words “market-process economics,” some details of which I will make explicit in the text.

better explain differences in labor productivity than competing concepts. His analysis and results were published in an oft-cited article, “On the Mechanism of Economic Development,” in the *Journal of Political Economy* (Glaeser et al., 1992: 1126–1152).

Lucas, Glaeser, and others, including popular economist Richard Florida (2014), validate Jacobs's *insights* as having important economic implications, but they do not per se establish Jacobs's credentials as an economist. After all, some political economists cite Abraham Lincoln's dictum—“You can fool some of the people all of the time and all of the people some of the time, but you can't fool all of the people all of the time”²⁰—but that doesn't make Lincoln a political economist.

Yet it would be extremely unusual for an amateur or a mere dabbler to publish in a top-tier economics journal, and Jacobs did just that in 1969 with her “Strategies for Helping Cities” (Jacobs, 1969b) in the prestigious *American Economic Review*. The article outlines the main themes of her book, published earlier that year, *The Economy of Cities* (1969a).

Next, we look now at how Jacobs approaches her subject matter in order to determine the extent to which her approach is essentially economic.

6.3.2 What Is Economics?

When I teach introductory economics, I frame the body of economic theory around a statement that I call “The Central Question of Economics”:

How, in the presence of scarcity, human and natural diversity, and imperfect knowledge, does social order emerge among myriad, self-interested strangers?

Other than the mention of “imperfect knowledge,” this is pretty standard microeconomic stuff.²¹

²⁰Public-choice economists often refer to this as “Lincoln's Law.”

²¹In the final section of this chapter I explain in what way this makes my economics heterodox.

Economics helps us to understand how markets turn these challenging conditions—scarcity, diversity, ignorance—into virtues by transforming the potential inter-personal conflicts they create into useful complementarities by examining the *institutions* that enable myriad self-interested strangers to cooperate, directly and indirectly, intentionally, but mostly unintentionally. That is precisely what Jacobs does in *Death and Life*.

In economics, the institutions that usually do the heavy lifting include property rights, norms of free association and tolerance, and stable rules limiting fraud and coercion and maximizing the scope of voluntary individual action. These three factors are usually associated with the concept of “economic freedom” (Gwartnery et al., 2019). The idea of economic freedom is mostly implicit in Jacobs. However, the unplanned, large-scale street-level and interpersonal cooperation that is one of her main concerns presupposes that people own the resources (human and natural) they buy and sell in cities, that they do so without unwanted interference from others and, of course, without having to obey a comprehensive central plan. But by the same token, modern economic theory has only fairly recently begun to appreciate the role of social capital and social networks and other “invisible” social infrastructures that Jacobs pioneered in 1961 and, as she argues and that I argue in this book, constitute the broader institutional matrix for economic development.

But to what extent does Jacobs’s research program address the Central Question of Economics, and to what extent is her answer to it a recognizably economic one? Let us take the following factors in order: scarcity, diversity, ignorance, strangers, and social order.

Scarcity Some view scarcity—that is, when consuming more of one valuable resource entails sacrificing some amount of another—as the starting point of economics. In a world of scarcity you have to make trade-offs. Like many prominent economic theorists in the twentieth century, however, Jacobs doesn’t make this the explicit starting point or principal focus of her work. Indeed, as we will see in Chap. 3, Jacobs fought against a fixation with efficiency, which is doing something with the least sacrifice, and so by implication she fought against a fixation with

the problem of scarcity.²² From this perspective, coping with scarcity and efficiency take a back seat to innovating and reducing scarcity. Nevertheless, she is not guilty of “magical thinking” by ignoring scarcity. She clearly recognizes that trade-offs are unavoidable in the real world of scarce resources and never ignores costs in her analysis. Indeed, the failure of planners to recognize the trade-offs they incur in their urban planning is the *raison d'être* of *Death and Life*.

Modern economics teaches us that market prices reflect the relative scarcities of resources (e.g., Landsburg, 2013). When real-estate becomes scarcer, its market price goes up relative to, say, the cost of construction, and so, other things equal, developers will build taller buildings. A clear understanding of how market prices tend to reflect such scarcities and how they also help to coordinate the plans of countless people is indeed an indicator of economic intelligence. While this is mostly absent in her earlier works, by her 2000 book, *The Nature of Economies*, Jacobs clearly grasps how market prices provide feedback to buyers and sellers about the scarcity of resources. This dialog from that book is an example.

“Price feedback is inherently well integrated,” said Hiram. “It’s not sloppy, not ambiguous. As [Adam] Smith perceived, the data carry meaningful information on imbalances of supply and demand and they do automatically trigger corrective responses.” (Jacobs, 2000: Loc 1629)

She also understood how price regulations and subsidies distort this feedback process.

New York City failed to abandon rent controls instituted after civilian construction was halted during the Second World War; then, as anachronisms, ironically, rent controls depressed construction. (Jacobs, 2000: Loc 1728)

And in her last published book, *Dark Age Ahead*, she points out

²²In the language of economics, Jacobs was most concerned with the problem of how we push out the “production possibilities frontier” or, better, how we create brand new, hitherto undiscovered production possibility frontiers?

Rent controls helped check the avarice of profiteering landlords. Evictions for inability to meet rent increases diminished or halted. But otherwise, on balance, rent control was counterproductive, because it did nothing to correct the core problem, the lack of new or decently maintained affordable housing, the missing supply that was a legacy of fifteen years of depression and war. (Jacobs, 2004: 142)

In other words, high rents reflect the relative scarcity of housing, which fixing rents too low with regulations did nothing to address.

Human and Natural Diversity I mentioned earlier that one of the ideas Jacobs's followers often single-out is "diversity," but it is important to note that when Jacobs uses "diversity" in *Death and Life*, she is referring primarily to the diversity of land-use, rather than to racial or gender diversity. More broadly, of course, that diversity of land-use derives from the diversity of the perspectives, knowledge, backgrounds, and tastes of the people who use that land, which in turn can be traced to some extent to their economic, cultural, racial, ethnic, and gender differences. In any case, as we have seen, this diversity of land-use is for Jacobs a primary desideratum because, other things equal, greater land-use diversity in a public space creates the effective economic pools of use that fuel the discovery of value-creating complementarities.

Imperfect Knowledge If knowledge were perfect, we wouldn't really need cities (and the social networks in them). Perfect knowledge means we never make mistakes or miss any opportunities that matter. A city brings diverse people together so that they can learn and connect with one another and discover opportunities for mutual benefit they didn't know about, which is also what a market does. If everyone is perfectly aware of all such opportunities, there is no economic reason for them to gather to exchange information, in either a city or a market. The *raison d'être* of a great city and the markets and social networks that constitute it is the presence of "radical ignorance" or "not knowing that you don't know something" in the real world (Kirzner, 1973), which I discuss at greater length in the final section of this chapter and in Chap. 4. Jacobs makes this point in many ways, one of which is her observation that

urban planning fails when planners lack what she calls “locality knowledge” (Jacobs, 1961), a close relation to what Nobel laureate F.A. Hayek terms “local knowledge” or “the knowledge of the particular circumstances of time and place” (Hayek, 1945). (More about this in the penultimate section of this chapter.) That lack of locality knowledge means planners’ ambitions must be far more modest than the Le Corbusiers and the Robert Moseses Jacobs attacked, and more sensitive to the needs, knowledge, and resourcefulness of the inhabitants of a city.²³

Strangers The word “stranger” appears 36 times just in chapter 2 of *Death and Life of Great American Cities*, alone, and about 41 times total in the first 100 pages of the book. Indeed, the underlying theoretical question there is precisely how millions of strangers cooperate sufficiently to generate a flourishing order? In Jacobs’s own words

The bedrock attribute of a successful city district is that a person must feel personally safe and secure on the street among all these strangers. (Jacobs, 1961: 30)

As we will see in Chap. 5, this emphasis on socially distant strangers is central to her analysis of what makes a great city creative and innovative.

Social Order Essentially, what Jacobs seeks to explain in *Death and Life* is how the interaction of individuals, all following their own plans and armed with locality knowledge, generates an unplanned but stable social order of neighborhood communities with their supporting networks. The nature of that order is, as she refers to it in the final chapter of that book, characterized by “organized complexity.” The coordinating mechanisms for Jacobs are social networks and the price mechanism, as I will discuss in Chaps. 5 and 6, respectively.

²³I should mention that assuming perfect knowledge is also a vice common among economists, justifiable at times when we try to see the ideal end states to which real-world forces may be tending, for example in models of perfect competition or pure monopoly. As I explain later, Jacobs’s dispute with such economists is one of the things that places her in the camp of market-process economists.

Organized complexity is something economists have been concerned with since the French Physiocrats and Adam Smith in the eighteenth century, and a century later in the writings of Carl Menger (theory of the evolution of money [1883]) and Léon Walras (general equilibrium theory [1977]). Indeed, one of the on-going controversies in economics from the early twentieth century to the present day is whether central planners can deliberately and successfully construct a complex social order on a system-wide scale. This controversy is known as the debate over the possibility of rational economic calculation under pure socialism or the “socialist calculation debate” for short. One of the defining features of market-process economics is a profound skepticism about this possibility. In the final section of this chapter, I address the question of which side of the debate Jacobs falls, although the reader may have already guessed.

To be fair, however, it is possible to fully embrace the concept of organized complexity and still believe people can consciously create organized complexity. In other words, organized complexity is not the same thing as spontaneous order. But the context in which Jacobs uses the idea in *Death and Life*—for example, the sidewalk ballet, social capital, social networks, safety and trust, economic development, and her critique of ill-informed planning—makes it clear that it is precisely the unplanned, spontaneous character of the great city that she identifies as the source of a city’s organized complexity.

6.4 Summary

Those who have only read *The Death and Life of Great American Cities* might easily fail to notice Jane Jacobs the economist. In one sense, as I suggested in the last chapter, most of her readers tend to focus almost exclusively on Part One of that book on “The Peculiar Nature of Cities” with its detailed study of the use of city sidewalks, memorable imagery of the “sidewalk ballet,” and analysis of city neighborhoods, while overlooking the strong economic themes she develops in the rest of the book, especially Part Two on “The Conditions for City Diversity.” Obviously, then, to claim as I do that Jacobs had a great deal worthwhile to say about

economics is not in any way to discount her contributions to urban planning, urban sociology, and political theory. On the contrary, my overall point is that her insights in all these areas issue from a common social theory or socioeconomic framework.²⁴

But to the specific question of whether it is reasonable to regard Jane Jacobs as an important economic thinker, the answer is an unqualified yes. First, she self-identifies as an economic thinker. Second, eminent economists have acknowledged her inspiration in their own work. Third, she has published in highly prestigious economic journals. Fourth, her work meets the criteria of what constitutes an economic point of view by engaging the problems of scarcity, human and natural diversity, imperfect knowledge, and how countless strangers can form a stable and complex social order. And while she doesn't employ sophisticated mathematics, the preferred tool of many though not all economists, she does construct abstract models of economic development in her characteristically idiosyncratic way (Jacobs, 1969a: 252–61). As will become more evident as we proceed, she understands the nature and significance of prices and markets, of innovation, and of entrepreneurship. Crucially, Jacobs locates these phenomena in the urban context and she uses them in her economic analysis.

7 Jane Jacobs, Market-Process Theorist

While Jacobs is often skeptical of schemes to extend government intervention, especially of course in the area of urban planning and design, and seeks solutions to problems that we would today characterize as market-based, she is no advocate of unregulated, free-market economics. She doesn't reject all urban planning and indeed favors zoning restrictions on the size and form of buildings, limited landmarks and heritage preservation, housing subsidies to developers and landlords, and, as we have seen, even tariffs to protect import-replacing activities (although she was mindful of the downsides to this policy). This, of course, doesn't

²⁴On the other hand, as I point out in the Introduction, it would take a real effort to miss Jacobs's sustained preoccupation with economic theory and policy in her subsequent books.

disqualify her from being a market-process theorist, contrary to what many people believe, including some advocates of market-process economics, themselves. So then what are the hallmarks of market-process economics? As I have written elsewhere:

[Market-process economists], in particular, have consistently stressed, in contrast with the mainstream of the profession, the role of social institutions, the prevalence of inefficiency and discoordination, the relative importance of processes over endstates, the centrality of entrepreneurial discovery in the market process, and the nature and significance of spontaneous orders. (Ikeda, 2007: 215)

More succinctly, the editor of *The Elgar Companion to Austrian Economics* Peter J. Boettke identifies three methodological tenets that characterize market-process or what some call “Austrian Economics”: methodological individualism, methodological subjectivism, and market process (Boettke, 1994: 4). Taking these as our criteria, then, to what extent can we say that Jane Jacobs is a market-process economist?

Jacobs herself in the final chapter of *Death and Life* outlines the following ways of thinking about cities.

In the case of understanding cities, I think the most important habits of thought are these:

1. To think about processes
2. To work inductively, reasoning from particulars to the general, rather than the reverse
3. To seek for “unaverage” clues involving very small quantities, which reveal the way larger and more “average” quantities are operating (Jacobs, 1961: 440)

It might be useful to try to relate these “habits of thought” to the tenets outlined in Boettke (1994) as closely as possible:

Methodological Individualism The building blocks of any explanation for Jacobs—for example, of safety, trust, social capital—are the actions of individuals and how, for example, the design of a public space impacts their interaction, especially when those interactions result in complex,

dynamic, and unpredictable patterns and processes that take place in living and dying cities. I believe this is what she means in #3 when she admonishes us to “seek ‘unaverage’ clues involving small quantities.” One of her jabs at urban planners is that they tend to be concerned exclusively with “statistical people” (Jacobs, 1961: 136) rather than actual, flesh-and-blood people who operate in cities and how they interact with their urban environment.

Methodological Subjectivism Moreover, one of her most-quoted phrases is “eyes on the street,” which refers to the individual perceptions and observations of ordinary people in their daily lives following their own plans. How they regard others in public spaces, and their safety and trust in them, is for Jacobs the starting point for understanding why some urban environments are successful and others are not.

Market Process Certainly “to think about processes,” by which she means social processes that take place over time, is consistent with the market-process concern, not with equilibrium end states, but to processes that may tend toward those end states and the patterns that emerge within those processes. And as we will see, Jacobs uses economic theory to help us understand economic development, the nature of which is dynamics and not stasis; it is an evolutionary approach in which the passage of time plays a significant role: “The constructive factor that has been operating here meanwhile is time. Time, in cities, is the substitute for self-containment. Time, in cities, is indispensable” (Jacobs, 1961:133).

Beyond these methodological characteristics, what other features of Jacobs's economics are characteristically market-processual?

Ignorance and Imperfect Knowledge This is part of the Central Question of Economics. Without going into great detail here, one of the principles of modern market-process economics is that in the real-world people never have all the relevant information they need to perfectly execute their plans (Hayek, 1945, Kirzner, 1973). As I mentioned earlier, the *raison d'être* of great cities and the markets and social networks that define them is the presence of radical ignorance (i.e., not knowing that

you don't know something) and radical uncertainty (i.e., uncertainty that is inherently unquantifiable) in the real world. Moreover, absent such ignorance and uncertainty, gathering in cities or anywhere else would be largely unnecessary. One of the main ways we learn is through contact with others, and so the need for such contact disappears when there is nothing more to learn. When planners ignore this they endanger the life of a city.

Role of Entrepreneurship A central element of modern market-process economics is an appreciation of entrepreneurship as the driving force of the market (Kirzner, 2000). This includes the discovery of previously unexploited profit opportunities, particularly discoveries that generate innovation. For Jacobs (1969a: 49) innovation involving what she calls “new work” is the essence of economic development (Chap. 6). For example, her narrative in the opening chapter of *The Economy of Cities* (1969a) is focused on how the causes and conditions of the discovery of agriculture, among the greatest innovations in human history, uniquely emerge in large, diverse settlements.

Knowledge Problem As we will see, what has come to be known as “the knowledge problem” is of central concern to both the economics and social theory of market process economics. It arises when knowledge relevant to the success of a design or plan is both *dispersed* across the minds of very many individuals and dependent on the local *context* of that knowledge (i.e., dependent on the circumstances of and interpretations in a particular place and time).

While there are many examples of Jacobs's appreciation of the knowledge problem, one of the best appears in the penultimate chapter of *Death and Life*:

In truth, because of the nature of the work to be done, almost all city planning is concerned with relatively small and specific acts done here and done there, in specific streets, neighborhoods and districts. To know whether it is done well or ill—to know what should be done at all—it is more important to know that specific locality than it is to know how many bits in the same category of bits are going into other localities and what is being done

with them there. No other expertise can substitute for *locality knowledge* in planning, whether the planning is creative, coordinating or predictive. (Jacobs, 1961: 418; emphasis added)

The recognition of the problem of local, contextual knowledge to planning of all kinds at all levels of decision-making is a fundamental principle of the social theory of market-process economics and, I will argue, Jacobs's socioeconomic framework.

Subjective Value Theory The genesis of market-process economics is Carl Menger's exposition in 1871 of the subjective marginal-utility theory of value—that value is in the eyes of the beholder—in contrast to the then prevailing objective or labor theory of value, in which economic value does not depend on subjective perceptions but is inherent in a resource or commodity. It is in this area of economic theory where Jacobs is perhaps the least market-process oriented, insofar as she is never entirely clear about what she means by value. This need not constitute a serious divergence from the market-process perspective. Why not?

Let us first recognize that she seems to assume that the reader knows what she means when she speaks of the value of something, which varies between a kind of labor-theory of value (in which the economic value of a good derives from the amount of labor that has gone into its production) to at times a more modern concept of subjective (marginal) value (in which the value of the good depends on its usefulness to someone for something). For example, when she writes about economic development, there is an almost exclusive focus in both *The Economy of Cities* (1969) and *The Nature of Economies* (2000) on the creation of jobs, or in the case of economic development what she calls “new work” that is reminiscent of the economics of John Maynard Keynes, who fashioned a “labor-based” macroeconomics (Garrison, 2000).

This conflation of work, jobs, and sometimes even energy is also evident in Jacobs's discussion of imports and exports. For example she writes: “What are exports? End products of a settlement's economy, that's what. They're discharges of economic energy” (Ibid: Loc. 782). And elsewhere: “Works of art are extreme and vivid examples of import stretching, but

other kinds of producers also stretch imports” (Ibid: Loc. 852). But goods don’t derive their value ultimately merely from “stretching” (a market-processionist might say “lengthening the structure of production”), as important as that may be in an economy, and we cannot simply assume that what we call “art” always has value.

As a trained economist understands, imports not exports are the *raison d’être* for trade. Exports buy imports, just as the revenue from what we sell to others gives us the wherewithal to purchase things from others. Jacobs, in explaining economic development, tends to focus on the production-side and less on the demand-side of the process. But from exports to resource endowments, Jacobs seems to assume that whatever is produced or used in production *ipso facto* has value, without articulating the nature of this value or clearly identifying its source (e.g., Jacobs [2000: Loc 819]), which in modern economics is what the end users of the product *subjectively* perceive that value to be. Again, value lies in the beholder and is not inherent or embodied in whatever is beheld. I wonder if this is a result of Jacobs’s focus on the details of the process of economic development, so that the idea of value gets lost in the background? This is worth dwelling on for a moment.

Jacobs (speaking through one of her characters in *The Nature of Economies*) says:

“If exports are a settlement’s economic discharges, then what are its received infusions of economic energy?” Murray asked rhetorically. “Imports! Besieging armies and blockading navies have always known that.” (Ibid: Loc 795)

Imports can be seen as *inputs* for the exported *outputs*. But the ultimate purpose of trade at the level of the individual or the city is consumption. To call exports “economic discharges” then is misleading, but Jacobs does recognize that they are not lost entropically to the system “because payments for exports buy imports” (Ibid: Loc 804). And it is clear that Jacobs avoids the discredited mercantilist error, common to this day, of valuing exports over imports (Chap. 6).

She does sometimes hint at a subjective concept of value, as in this passage:

“Joel and Jenny were producing services,” said Hiram. “You can’t call their work of searching, sampling, assembling, and distributing ‘nothing.’ They were adding human capital to other matter/energy in the city conduit. What Joel, Jenny, and their salesmen added was sufficiently concrete and *useful* to purchasers of findings to be worth part of the cost of the items.” (Ibid: Loc 859; emphasis mine)

Like J.M. Keynes’s obsession with employment, Jacobs’s focus on “new work” in the process of innovation (Jacobs, 1969a, 1969b: 49) sometimes seems to suggest a classical, labor-theory of value. And, again, in her *The Nature of Economies* it almost seems as though “energy” rather than subjective value drives the economic system.

It’s a muddle.

Did she clearly articulate a theory or value in her writings? No, but in the end that is not a requirement to qualify as an economist or even a market-process economist. Self-identified market-process economists, including myself, have not done so, and neither do others whom many consider strongly sympathetic to market-process economics, such as Nobel Prize winner Elinor Ostrom.

The Role of Institutions Jacobs sees the city as a fundamental economic unit of analysis and as a collection of complementary, evolving institutions: for example, the built environment along with the invisible infrastructure of norms, social networks, social capital, and neighborhoods. Indeed, the city itself, as a whole, is a social institution. In this sense, institutions of one kind or another are certainly central to Jacobs’s socio-economic framework.

Spontaneous Order The founder of the so-called Austrian School of economics, Carl Menger, made this relevant observation regarding “new localities”:

As a rule, however, new localities arise “unintentionally,” i.e., by the mere activation of individual interests which of themselves lead to the above result [the unintended result, as the unplanned outcome of specifically individual efforts of members of a society] furthering the common interest,

i.e., without any intention really directed toward this. (Menger, 1883: Book 3, Chapter 2, Section 4(b))

As I argue in Chap. 3, the last chapter of *Death and Life* concerns the organized complexity of cities while the first chapter of Jacobs's next book, *The Economy of Cities*, is explanation not only of how that organized complexity emerges unplanned, but the innovations that take place within it also emerge unplanned. Cities are spontaneous orders *par excellence* and spontaneous order is *the* central concept of the social theory underpinning market-process economics.

Critique of Macroeconomics Jacobs's critique of macroeconomics is scathing. Moreover, it overlaps the core disagreements that market-process economists have leveled against it.

[W]e must be suspicious that some basic assumption or other is in error, most likely an assumption so much taken for granted that it escapes identification and skepticism. Macro-economic theory does contain such an assumption. It is the idea that national economies are useful and salient entities for understanding how economic life works and what its structure may be: that national economies and not some other entity provide the fundamental data for macro-economic analysis. (Jacobs, 1984: 29)

She thus questioned whether nation-states, unlike cities, are natural units of economic analysis.

Nations are political and military entities, and so are blocs of nations. But it doesn't necessarily follow from this that they are also the basic, salient entities of economic life or that they are particularly useful for probing the mysteries of economic structure, the reasons for rise and decline of wealth. (Jacobs, 1984: 31)

Instead, as I argued earlier, cities are natural units of economic analysis.

The book she wrote after *Death and Life* does become increasingly more oriented toward macro entities. But this doesn't make Jacobs a methodological holist any more than a microeconomist who studies macroeconomic phenomena, such as aggregate national income or economic

development, from a microeconomic perspective of knowledge and incentives must be a methodological holist. The key for the microeconomist and for Jacobs is that what constitutes a satisfactory explanation of a phenomenon—whether market prices or inflation—can be traced back to the actions and perceptions of individuals. Jacobs is a methodological individualist and a methodological subjectivist, and in *Death and Life* (perhaps less so in subsequent writings until *The Nature of Economies*) this is precisely how she explains urban phenomena.

Modern macroeconomics disregards the concept of capital complementarities in the structure of production. Jacobs in *The Nature of Economies*, her use of the concept of “codevelopment” and the interdependency of economic variables in the process of economic development, as well as her discussion of “biomass” (Jacobs, 2000: Loc 708) and the complexity of the division of labor, is fully consistent with the market-process concept of complementarity through time among heterogeneous units of capital (Lachmann, 1978). For instance, one of Jacobs’s characters observes:

“Many imports, even after they’re initially transformed or otherwise stretched, are then passed around some more, fragmented, recombined, recycled, and stretched further.” (Jacobs, 2000: Loc 867)

As I mentioned earlier, putting her treatment of value to one side, “import stretching” in Jacobs’s analysis plays a very similar role in increasing value-productivity that “lengthening the capital-structure of production” to increase the value of consumption goods at the end of the process plays in the market-process framework, explicated by Hayek. In this theory, net investment in complementary capital in an economy, other things equal, increases the number of stages of production in the system—a sort of division of labor and knowledge over time—and the overall length of the production process, which results in an increase in the value of the consumer goods at the end of the process (Hayek, 1935). (I develop the theme of capital complementarity in Jacobs in [Chap. 4](#).)

Critique of Microeconomics Like market-process economics, Jacobs’s approach to economic analysis is decidedly microeconomic, although in

The Economy of Cities, she takes a more sectoral view of the economy and of the relation among different regional urban economies. Nevertheless, in line with the “fractal” nature of her overall vision described at the beginning of this chapter, all of her economic analysis is grounded methodologically in the actions and creations of individual agents. And as I noted earlier, she clearly recognizes the important feedback role of prices (Jacobs, 2000), even though she does not articulate a well-developed theory of price formation.

In standard microeconomics, individual incentives are a driving force of the market process, likewise in *Death and Life*, Jacobs takes an individual, “street-level” approach to understanding and explaining how urban social orders emerge and operate. “Eyes on the street,” as noted earlier, is a good example of her methodological subjectivism. I also noted that after *Death and Life*, Jacobs’s concern shifts toward macroeconomic analysis: How do the import and export sectors interact, how do urban economies interact, how do economies develop over time, etc.? Unlike traditional macroeconomics, however, Jacobs’s macroeconomics remains grounded methodologically on the microeconomic foundations established in *Death and life*.

Like market-processians, and unlike standard microeconomics, Jacobs is highly critical of the efficiency criterion, and is more focused on the processes of economic development and innovation, which is characteristic of market-process economics (Kirzner, 1973, 1997). This is because a great city is particularly geared to facilitate the discovery of overlooked opportunities, opportunities thrown up constantly, which would not exist in a city that was already perfectly efficient. (I will pursue the idea of the experimental nature of urban processes owing to imperfect knowledge in Chap. 6.) About the desirability of efficiency in a city, Jacobs has this to say:

Cities are indeed inefficient and impractical compared with towns; and among cities themselves, the largest and most rapidly growing at any given time are apt to be the least efficient. But I propose to argue that these grave and real deficiencies are necessary to economic development and thus are exactly what make cities uniquely valuable to economic life. *By this, I do not mean that cities are economically valuable in spite of their inefficiency and*

impracticality but rather because they are inefficient and impractical. (1969a: 85–86; emphasis added)

I will develop this important argument in the next chapter.

Critique of Central Planning One of the features of market-process economics that sets it apart from other approaches is its epistemic critique of collectivist central planning (a.k.a. socialism). That critique is a direct implication of the knowledge problem and it continues to be a source of ideas and inspiration for a diverse range of research to this day, including urban economics.²⁵ Pioneered by Ludwig von Mises (1981[1922]) just after the Bolshevik Revolution, it focuses on the inability of a central planner to utilize resources rationally, owing to the absence of private property in and money prices for inputs (e.g., labor and capital) and outputs (e.g., consumer goods). Without money prices, it is impossible for planners to calculate profits and losses, which are the means by which they are able to tell whether they are wasting resources. Later, F.A. Hayek (1945) argued that without the signals that market prices provide, planners cannot effectively harness dispersed and contextual knowledge to coordinate the innumerable plans of multitudes of anonymous strangers in a dynamic, complex economy.

Similarly, Jacobs broke onto the intellectual and policy scene with her devastating take-down of the heavy-handed central planning at the local level à la the planner, Robert Moses, and the dubious theoretical support to such planning offered, for example, by the pioneering urban designer, Le Corbusier. She later expressed her skepticism of socialist economic planning at the national level, itself.

Nobody places more faith in the nation as the suitable entity for analyzing economic life and its prospects than the rulers of Communist and socialist countries, nor more faith in the State as the salient instrument for shaping economies. (Jacobs, 1984: 31)

²⁵ See, for example, the topics covered in Boettke and Coyne (2015).

And we have seen that the principal obstacle to effective central planning for Jacobs, as for market-process economics, is the lack of locality knowledge on the part of the planners. She was consistent in the principles of her critique, as witnessed by this passage in her last book (which I will cite again in Chap. 7), in which she explicitly invokes the knowledge problem:

Central planning, whether by leftists or conservatives, draws too little on local knowledge and creativity, stifles innovations, and is inefficient and costly because it is circuitous. It bypasses intimate and varied knowledge directly fed back into the system. (Jacobs, 2004: 117)

As Jacobs says in *Death and Life*, “big cities are just too big and too complex to be comprehended in detail from any vantage point—even if this vantage point is at the top—or to be comprehended by any human” (Jacobs, 1961: 121–2). While there is no evidence that Jacobs was aware of the Mises–Hayek critique of central planning, nevertheless the epistemic grounds for both critiques are essentially the same.

8 Concluding Thoughts

Jacobs’s insights into urban planning and design are still relevant today and so, too, is the framework of analysis, her social theory, that informs those insights. What distinguishes Jacobs’s approach from other urbanists is precisely the socioeconomic nature of that framework. Although she has no formal degree or academic affiliation, Jane Jacobs should be widely acknowledged first and foremost as an exceptional economic thinker and indeed, as we will see in the pages that follow, an important one. Moreover, Jacobs’s economics lies squarely in the tradition of modern market-process economics. Economists working within other traditions, especially complexity theory, might also legitimately claim her as their own. But in terms of her general orientation, the methods she uses to identify and then address social phenomena, and the policy conclusions she draws from them, market-processians may have the stronger claim.

Finally, while there are gaps in Jacobs's socioeconomic framework that modern mainstream economics and market-process economics can fill, the following chapters will show that the reverse is also true, that Jacobs's contributions to economics and social theory fill important gaps in the prevailing economic point of view.

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