Chapter 2
State, Economy, and City: A Reconstruction

Abstract Why did commercial cities begin to emerge in Western Europe as they did after 1100 CE? In this chapter, I review and synthesize important thinking about the evolution of commercial cities as a market economy took hold. After discussing ideas about the state in prehistory, I trace thinking about the economic functioning of communities in the ancient world, Roman World, early medieval Western Europe, and into the rise of commercial cities. I integrate the work of Abu-Lughod, Bairoch, Braudel, Cooley, Heaton, Hurd, Mann, Marshall, Power, Smith, Tawney, Tilly, and Weber. I am not so much interested in the historical accuracy of their thinking as I am in how these writers each conceptualized a process based on purposeful behavior. Of particular interest to me is the how the notion and practice of the state changed and how this affected the formation of cities. I build this review around seven themes. Continuing from Chap. 1, I see these as follows: the importance of the governance of a nation to the urban economy; occupational division of labor, command and control, and power; decentralization and entitlement within governance; the functioning of a community as settlement, trading city, or commercial city; the significance of transportation costs, the spatial division of labor, and trade; importance of networks, routes, and nodes in circuits of trade; and the conflicted role of the city.

In this chapter, I discuss what scholars thought happened to enable the growth and economic functioning of cities over time. I focus in particular on explanations that emphasize purposeful behavior by people coping with the situations in which they find themselves. After discussing ideas about the state in prehistory, I trace thinking about the economic functioning of communities in the ancient world, Roman World, early medieval Western Europe, and into the rise of commercial cities. My review weaves together ideas about the state, the economy, and the city as these help us better understand the changing function of the urban economy.

My motivation here is to help us better understand why and how to conceptualize the urban economy. In so doing, let me be clear about my contributions.

1Other scholars include the Roman world in the ancient economy: e.g., Heichelheim (1965). Because of its importance for thinking about how European cities emerged, I have separated the Roman World in this chapter.
I claim no expertise in Archaeology, History, Political Science, or Sociology. However, I draw on helpful ideas from those disciplines to explain how purposeful individuals might have come to forge a prosperous urban economy. Also, I am also not interested in social construction; I do not seek to explain the processes by which people come to describe, explain, or otherwise account for the world around them. My purpose instead is to review the logic of purposeful behavior that writers use to justify—or is consistent with—their approaches and ideas. I build this review around seven themes: the importance of the governance of a nation to the urban economy; occupational division of labor, command and control, and power; the pivotal role of decentralization and entitlement within governance; the functioning of a community as settlement, trading city, or commercial city; the significance of transportation costs, the spatial division of labor, and trade; importance of networks, routes, and nodes in circuits of trade; and the conflicted role of the city.

Prehistory

Mann (1986), Bairoch (1985), and Fukuyama (2011)—which each summarize evolutionary thought and evidence from Archaeology—are useful places to start. As I define the term in Chap. 1, the notion of a state can be pushed back to the earliest human populations. It is widely thought that individuals had to function within groups to survive. Mann (1986, p. 42) argues that hunter-gatherers organized themselves (possibly as nuclear family units) within a band of 20–70 persons: presumably, many of these bands were composed of extended families (kin groups). To me, each band—tiny as it was—constituted the earliest form of a state. To emphasize its small size, I refer to the band as a microstate. At a minimum, governance within a microstate of purposeful individuals might have concerned team efforts: assigning individuals to teams and vetting the allocation of the team’s product for consumption. There might have been teams for hunting, teams for gathering, teams for work in and around the encampment, and teams for defense of the encampment from raiders and other predators. Where governance gave each individual the assignment and allocation they sought, all was fine. However, there may well be assignments and allocations that purposeful individuals perceived as inappropriate; what does governance look like then? For the microstate, this may have been seen as a carrot and stick problem. The individuals in a microstate had relatives and ancestors—not to mention religious tokens—in common. These commonalities provided carrots and sticks that might motivate individuals to act appropriately: e.g., by invoking the honor of the family, by appealing to their moral codes, their sense of respect, community, or collegiality, their sense of shame, or by invoking their mercy.

When we say that a microstate has the power of coercion, we mean that it alone makes a final determination. Given the possibility of conflict among them, how then

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3Sets of linked trade flows, be these bilateral or multilateral.
might microstates have co-existed geographically? Presumably, not every band felt
the need to establish a territory over which it had control; nomadic bands might
easily relocate when rivalry flared up. For others, geography gave the microstate the
opportunity to hide easily or protect its territory. For still others however, the
bountiful resources that attracted them also attracted other bands and raised fears of
encounter, rivalry, and raiding. At the same time, there is reason to think that bands
did not live constantly in fear of all other bands. Mann (1986, p. 43), for example,
argues that the band was not large enough as a reproductive pool for family for-
formation, and that marriages across nearby bands created linkages that led to the
notion of a tribe: a loose coalition of microstates.4

As well, there is evidence of commodities being traded over long distances.
Traders would have to pass through or by the territory of one band to get to the next.
The trade in commodities suggests that traders were resourceful enough to do this.
One means might have been the individual explorers or peddlers who exchanged
their own commodities with individuals from other microstates met during their
travels. A second means, somewhat more organized, might be where the band
gathers up its surplus product and sends out a party seeking other microstates with
whom to exchange for other commodities useful to the band. How were commodities
transported? Several modes come to mind: porterage, pack animals, drawn wagon, or
vessel. In each case, there was also typically a best route (e.g., fastest, safest, or most
efficient) for getting goods from one place to another. Improvements could be made
to routes: e.g., building a bridge, ramp, fortification, or staircase, or buying off
potential raiders en route. We can imagine that purposeful traders sought out best
routes, their trips and efforts overlapped at key points, and this led to circuits (net-
works) of trade in which commodities moved systematically across the landscape.
On these networks were various nodes: places where the paths of traders intersected
and where opportunities arose to resupply, rest up, and trade.

What might have been the nature of the economy within a microstate? As I
envisage it, the microstate was so small and so primitive in economic terms that there
was little or no capital and no land rents; labor was the only paid factor in production.
Karl Polanyi identified three kinds of exchange: market, redistribution, and
reciprocity. A band was too small to permit market exchange as I envisaged it in
Chap. 1. Presumably, commodities produced by a team were allocated in a redistri-
bution exchange; the band collects the product and then allocates it to various band
members. However, there would also be (craft) goods produced in the microstate by
individuals working by themselves. Craft goods might also have been gathered up by
the microstate for redistribution. Alternatively, craft goods might have been left in the
hands of the maker. Presumably, reciprocity exchange was common in the latter: e.g.,
gifting as a sign of affection or respect or honoring a moral code. There may have been
bartering too, although reciprocity was presumably always in the background. Behind
these exchanges were notions of ownership and possession; what is owned by the

4Fukuyama (2011, pp. 31–34), in presenting evidence that chimpanzees go on raiding parties to
kill off the males of nearby communities and to capture and mate females, suggests that early
humans may well have exhibited similar behavior.
band, by the family, or by the individual and who has the right of possession or resale that may well have varied from one microstate to the next. Whatever the story, presumably the band itself would also need commodities to offer (trade with) other bands in reciprocity exchange; these might be obtained as a levy, or as surplus (unassigned product) in a redistribution exchange.

There is no surviving information about governance itself within microstates. Given the diversity of personalities across humankind, I speculate that microstates would have spanned a spectrum from hierarchical to nonhierarchical structures. As I use the term, a hierarchical structure has a command and control with one or a few people at the top and some delegation or decentralization of power below that to individuals or groups. In Chap. 1, I label this Mann-power. In a band with a non-hierarchical structure, power would be more equally distributed and decision-making would be more on the basis of consensus. I make the following presumptions about governance in a microstate. First, power structures might well have spilled over into arrangements for accommodation; e.g., non-hierarchical bands might have lived communally while hierarchical bands opted for separate accommodation for groups (e.g., family units) within the band. Second, microstates would have been typified by communal ownership of land; it is hard to imagine how the sophisticated procedures required for private ownership might have emerged here. Third, the microstate was plausibly all-encompassing (see Chap. 1): governance decisions were all made centrally; there was no decentralization or entitlement, no exchange economy, and no market prices here; the microstate decided what teamwork was undertaken and how much product was to be allocated to each resident.

A typical microstate here might well have been hierarchical (akin to State B in Chap. 1). Division of labor (teamwork) makes it possible to generate more output with the same total amount of labor; productivity is improved, and workers potentially benefit because they have more commodities to consume. However, division of labor requires teamwork and hence command and control. That is what the hierarchical microstate is able to do. Individuals here presumably gain respect now also from their position within the command and control structure. Here, economic and noneconomic are more readily separated. This microstate also has the potential to convert part of these gains in productivity into improved defenses or a stronger military: moves that enhance the security of the state.

We could also imagine here the possibility of a nonhierarchical microstate—akin to State A in Chap. 1—in which each individual, as much as possible, decides for himself or herself what to do each day and bears the economic consequences (production and consumption). Teamwork is at a minimum. Individuals deliberately forego the added productivity (and hence consumption) that teamwork enables to have the potential for self-actualization and privacy that arises from not being under the direction of someone else. The nonhierarchical microstate will appeal to some

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5Fukuyama (2011, p. 53) distinguishes between a band (which he sees as more egalitarian) and a chiefdom (which he sees as more hierarchical).

6See Polyani (1957, pp. 69–70).
individuals. They don’t mind a lower standard of consumption because they like the more egalitarian nature of their community. Individuals gain respect from others on the basis of status: e.g., blood relations, achievement, and ability. Here, the economic and noneconomic are difficult to separate.

The transition from tools based on flaked stone to tools based on ground stone marks the start of the Neolithic period: about 12 thousand years ago. For the next two thousand years, there was still no evidence of permanent communities; the human population continued to be nomadic (gathering and hunting). Some archaeologists also argue that, in the presence of plentiful game and other foods, gathering and hunting was relatively energy efficient. In the absence of any remnants of surviving structures, it is thought that these early people lived in impermanent encampments: moving on when local resources became depleted. Mann (1986, p. 41) argues that the first permanent communities may well have been camps for fishers or flint miners. 7

**Ancient World**

In the ancient economy, 8 the state typically struggled with the separation of political and economic decision-making. It is only in Greece and Phoenicia that we begin to glimpse how a market economy might work. Elsewhere, states muddled through: unwilling or unable to pull the pieces together that would allow markets to work. As the state grew in territory, we also see the emergence of local lords and subalterns who manage prosperous estates or otherwise help further the objectives of the state. States that relied on command and control hierarchies found it difficult to determine the minimum incentives required get their agents to act appropriately; the great advantage of decentralization (as in markets) was to be its ability to find efficient incentives.

There are two stories here: one about the emergence of agriculture; the other about the emergence of communities. These two stories are interconnected. Both stories are also closely connected to changes in the nature of the state and the emergence of markets.

When and how did permanent communities first start to appear? There are two competing arguments here. One argument, offered by archaeologists, is that a demographic crisis began about 10,000 years ago when the human population became too large to be supported solely by gathering and hunting. Over, the next 6000 years, we see the introduction of relatively permanent communities across the globe. Bairoch argues that we see the first evidence of permanent communities in early agricultural areas. However, while the practice of agriculture explains

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7 Oddly to me, the literature largely does not mention any early communities formed by people who saw themselves as outside existing tribal or state structures: e.g., anarchists, apostates ascetics, cultists, heretics, hermits, nonconformists, outlaws, rebels, or religious zealots. An exception here is a brief mention in Weber (1899, p. 174).

8 Broadly, the economy, as it existed and changed, from the dawn of humankind to the dawn of the Roman World.
permanent dwellings, it does not necessarily create a need for permanent communities. There must be an additional reason for farmers to want to cluster their dwellings into communities. Perhaps, farmers wanted ease of social contact or easy access to communal resources. Perhaps, a community provides security for the farmer’s family against raiders. Both of these possibilities have implications in terms of the nature of state action. A second argument, closer to Economics, is that communities arose because people wanted to do and have things that were different from the things normally associated with rural life. In Plato’s *The Republic*, Socrates argues that since no one is self-sufficient and everyone is in need of much, people gather in communities as partners and helpers: see Bloom (1968), pp. 45–51. If everyone specialized in the particular good or task to which they are best suited, each good becomes more plentiful and/or of better quality. Jacobs (1969) famously argues that communities predate farming. Braudel (1981, p. 484) similarly argues that some populations chose sites with good access to sources of food: be it produced in fields adjacent to the community or with easy access by ship. In Braudel’s memorable words, town residents may have had to “create the countryside to meet the needs of the town” (p. 485).

With the introduction of farming, what happened to the microstate? In prehistory, the need for teamwork (and hence command and control) in hunting and gathering was apparent on a daily basis. With the introduction of farming, I see two paths for the state. One is a more-hierarchical state built around redistribution exchange. Everyone lived in a community. Teamwork was prevalent; some people were assigned to work daily in the field. Harvests were transported back to a storehouse in the community for distribution among the residents. The second is a less-hierarchical state in which individual farmers each lived on and worked an assigned plot of land. Here, the need for teamwork was lessened or at a smaller scale. A farmer might still need a state to undertake defense, road building, and other communal projects. However, the day-to-day pattern of farm life needed only the kind of teamwork that we might find within a family or household. It is easy to imagine the less-hierarchical state becoming a “them”—remote from the daily experience of farm residents—to which farmers must remit part of their harvest.

Why communities only after a certain point in history and not before? Two interconnected arguments come to mind. One argument starts from a more-hierarchical state operating as a redistribution exchange. Purposeful individuals with more power seek aggrandizement; they accumulate wealth and income. In their search for the better things in life (e.g., clothing, fine foods, household furnishings, art, education, or armaments), they need either to import these or to have artisans close at hand who can provide them. Here is the model of a city as the spatial expression of aggrandizement and privilege (in the social sense): i.e., Weber’s

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9 Unless it intends to trade for needed goods, the state requires command and control to ensure that all needed goods get produced.

10 A similar point is made in Finley (1973, p. 124) where it is argued that the distinction between a “little town” and a “genuine city” is that the latter is a political and cultural center where well-born and educated could live a civilized life and dominate political life at least at the municipal level.
consumer city. A second argument starts from a less-hierarchical state organized as family farms; each farm consuming only what it is able to produce (autarky). Each farm is unit of labor that, whatever its talents and aspirations, must produce basically the same necessities of life as every other farm. With the creation of a community, it became possible to have a greater division of labor and for at least some people to engage in work and consume commodities that were simply not possible on the farm. Whatever we think of the bucolic life, communities must have been seen as a great freedom by all those whose talents and enthusiasms left them unsuited for farm life. In the growing array and functioning of these activities, Braudel (1981, p. 528) sees cities as hothouses for cultural and intellectual development, even revolution. Expressed more blandly, communities enable a further division of labor locally. The extent of this division is ultimately limited by the amount of production or accumulated wealth locally. I return to the question of size of community shortly. From this perspective, communities come to exist when overall population density had increased to the scale where division of labor made it possible to split off urban activities from rural activities and where the cost of shipping the necessary amounts of commodities between communities and farms was not prohibitive.

To forge a state with a sufficient population to enable the establishment of a city, we need much more than a microstate of 20–70 persons. This might happen as a consequence of warfare: one band conquering another and absorbing its population and land area. We might alternatively imagine a tribe, as a result of intermarriage, that consists of a large number of bands who find themselves brought together under single governance in the face of a common need or purpose. Here, the coercion powers of the band are surrendered to the tribe in the process. A third possibility is the intermarriage across royal families that leads to amalgamation of states.

The accumulation of kin groups into a single city or state creates an additional problem for the state. How are individuals to be motivated by the state to act appropriately? Put differently, how did the identity of a state morph out of the microstates of prehistory? Many of the carrots and sticks (e.g., family honor, moral codes, sense of respect, sense of shame) available to the microstate are typically no longer available in a diversely populated state. The state might instead invoke a notion of crown as God. Another way is to incentivize kin groups by decentralizing some of the authority of the state to them: hence family or tribal rights. Still another way is to attempt to break down existing kinship groups and reconstitute individuals directly within the state: e.g., providing them with rights and remedies as well as local government that obviates the need for a kin structure. Shaw (1985) argues that it is not until the Greek empire that we first see the development of a rational view of the world that leads to a novel ideology of the state in the form

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11A city populated by consumers, such as rentiers, whose purchasing power determines the economic opportunities for artisans, trade workers, and merchants.

12Absence of trade.

13Shaw (1985), for example, argues that the grand states in Egypt and Mesopotamia—wherein dispersed small social units coexisted with a centralized palace and temple—were based on a vision that tied the monarch to the cosmos as a model for all society.
of Stoic thought. In this, actors in the state purport to act ethically: that is, in alignment with common moral codes related to autonomy, community, and divinity. The tension here between the state as ethical institution and the state as outcome of self-interested actors continues with us to the present day.

The creation of early cities must have strained governance. A community requires fixed capital investment: land clearing and preparation; fortifications, roads and streets; wells and aqueducts; commercial, religious, community, and administrative buildings, as well as dwellings. Who was going to provide these, and how was the use of such facilities to be allotted across individuals within the community? How might the state proceed here? In an all-encompassing state, the state decides how much to set aside to invest in land improvements, structures, roads, and water access; as the state grows in population, making such decisions becomes increasingly complicated and onerous.

The introduction of agriculture also created problems for the state. Farming too requires fixed capital investment: land clearing, drainage, and other improvements to land; roads and bridges; wells, aqueducts, and canals; barns, fences, and other enclosures; and dwellings. Who was going to do this work and how was the use of such facilities to be apportioned across individuals within the state? As well, this fixed capital investment put new pressures on matters of security and defense. These communities raise questions about the production of various commodities and their allocation. It is possible to imagine a communal structure in which all residents (farmers and townsfolk) cooperate for the greater good of the social unit wherein those with a command and control function decide how much of each good is to be produced and how much is to be allocated to each resident. Of course, it is easy to imagine such a regional economy sliding into dysfunction in the absence of incentives to be efficient and to produce what residents want. Which individuals are to remain on the farm? Which are to live and work in the community? How does the state determine whether the amounts being produced are correct and whether the amounts allocated for investment or to each member for consumption is correct?

Here is where Adam Smith’s argument about the invisible hand and the exchange economy is so attractive. He argued that the state can withdraw from decisions about production and allocation and enable markets to perform this function. With many buyers and sellers, no one person will be able to affect price. With consumers bidding up the prices of preferred commodities that are in short supply, with firms (including farmers) and workers freely able to move from industry to industry in search of a higher profit or wage, and with no one having a particular talent that enables them to earn any more than their peers, the competitive marketplace will ensure efficiency in production: that is, the largest total market value of production possible given the available resources (land and labor). Participants come to have trust and confidence in the exchange economy. They like the autonomy they have in deciding where and how to participate. With experience, they also come to see that the exchange economy is resilient: driving up

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14A belief that one can rely on someone or something.
the price of a good that has become scarce; driving down the price of a good that has become more plentiful or easier to produce. However, the switch to market prices to signal production and allocation proved to be a long time in the making. Until then, each state would just have to muddle through.

Imagine now a territory—with a fixed labor force—organized as a state with one community and having no trade with the outside world. Commodities can be shipped within the territory at a cost related to distance shipped, bulkiness and the risks of spoilage, theft, or other loss. Of course, the existence of a community also raises issues of local governance within the state. I assume here that the state has enabled local governance to ensure adequate clean water supply, handle waste and garbage, ensure efficient flows of people and commodities within the city, ensure adequate income or consumption by residents, and ensure adequate safety and security. What does the state do to ensure local government is effective? In terms of total employment, how large would the community be? The answer to both these questions depends on the nature of the state. To exemplify, consider two different states.

First, suppose an all-encompassing state wherein actors focus only on national security and defense. I assume here that the economy produces only an agricultural good. For simplicity, I also assume that the army, security forces, and other state employees are garrisoned in the city. As an extreme, actors in the state seek to maximize the amount of labor allocated to state employees, the army, and the security force. The state allocates sufficient labor to agriculture to make this possible. Finley (1973, p. 125) refers to this as the parasitic city (state). State agents also determine and finance efficient improvements to the farm as well as accommodation for all workers in the territory. Using a redistribution exchange, the state leaves farms with just enough net income to maintain their workers. The balance of workers between city (largely actors in the state) and farm will depend on the productivity of a farm worker, the cost of outfitting each member of the army and security forces, compensation for a state employee, and the unit cost of shipping the agricultural product. Presumably, the army and security forces help to keep the loss from theft low on shipments from farm to community. Of course, the concentration of army and security forces in the city is not without its risks to the state (namely mutiny) and this may be a further consideration in determining how large a city becomes. Of course, an all-encompassing state might have a different objective from national security and defense. Whatever the objective, the state here acts to exploit the income available to further its own end; in this sense, actors in the state are aggrandizing. The city here is simply the spatial manifestation of the organization of the state. A variant of the all-encompassing state is the raiding city. Here, the state garners wealth and population by systematically raiding other territories. Put differently, the state here is exploiting not just the farmland in its hinterland; it also exploits cities and regions elsewhere. This is the exploitive state.

In the second state, I assume no taxation or spending by the state. The state makes it possible for individuals to buy, possess, use, manage, and then sell as they

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15A similar notion underlies Harvey (2012).
see fit. The state also ensures the presence and competitiveness of markets. The
state sees its goal only as promoting the commonwealth of its subjects. The
economy produces several commodities: an agricultural good (food) produced only
on the farm, a craft good produced either in the city or on the farm, housing
produced either in the city or on the farm, capital goods for agricultural and craft
production, and shipping services to bring products to market. With the multiplicity
of markets, the need for a currency arises; hence the urban economy leads to
monetization.\(^\text{16}\) Where the cost of transporting the craft good is sufficiently high,
each farm is in autarky: producing its own food and craft good onsite with a small
investment in capital goods and housing. Where the city production of the craft
good is advantageous and transportation costs permit, city producers sell their craft
product in the countryside in exchange for the agricultural product. The city
accommodates artisans, retailers and merchants who engage in trade within the
territory, and the financiers who fund investments in agricultural and craft pro-
duction as well as housing. The balance of workers in craft production between city
and farm will depend the relative preferences for the agricultural and craft goods,
and the cost of shipping the agricultural and craft goods.\(^\text{17}\) This is the common-
wealth state.

Under either of these two versions of the state, the city is a component in the
spatial organization of the national economy. In the exploitive state, the city is an
organization that helps the state achieve its objective. In the commonwealth state,
the city arises as an efficient outcome of the operation of markets; markets—by now
delivering the commodities that consumers want—contribute to the commonwealth.
In either case, actors in the state may have mixed feelings about this city.
A concentration of population in the community may alter power relationships
among actors in the state. Certainly, close proximity makes it easier to spread
information and ideas; some actors may see this as a threat to the state. In the case
of the commonwealth state, there is also the prospect that the state might be
attacked and need to mobilize its population to fight a war. In this context, residents
of a community might be seen as inferior; rural residents might be seen as stronger,
better fit, better used to living outdoors, and better able to survive on the battlefield
or a long march. Using these two polar forms of state, we see that the size and
economic activity of a community depends in part on the objectives of actors in the
state as well as on production technologies, shipping costs, and preferences.

Finally, we come to trade. What is trade? We generally think of trade as a
voluntary exchange, transaction, or swap of assets among two or more purposeful
parties.\(^\text{18}\) Voluntariness and purposefulness imply that the exchange is for the
mutual benefit of the parties. Today, we tend to think of trade arising as a market
exchange (typically where the parties are merchants or traders) and where the price

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\(^{16}\)See Braudel (1981, p. 511).

\(^{17}\)Finley (1973, p. 125) refers to this as the symbiotic city (state).

\(^{18}\)Unlike Lévy (1967, p. 7) for example, my definition of trading does not include goods acquired
by theft, raiding, plundering, piracy, or military expedition.
ratio at which the commodities are transacted is set in a competitive market.\textsuperscript{19} However, trade also arises in reciprocity exchange (typically where the parties are states) and where the exchange ratio between the commodities is set by treaty agreement. The two forms of trade have likely coexisted for much of human history: from the peripatetic peddler to ritual exchange between microstates. Early market trading routes first appeared in Mesopotamia, and Babylon became a famous commercial center.\textsuperscript{20} Here, we first see private investment, loan making, and the use of limited partnerships (risk splitting) on a large scale.

As we move into the period of history for which we have written records, we run into evidence of ever-larger communities and the start of trading on a larger scale: consistent with an overall human population that is growing and the appearance of larger states and empires. Tellier (2009, pp. 576–578) suggests that total population did not exceed 10,000 persons for Catal Hüyük, early Jericho, Uruk, and Tyre. The largest city of the time, Ur, topped out at about 65,000 persons some 4000 years ago. It is only when empires start to form that we begin to see larger cities. In the Hittite empire, the city of Hattusa peaked at about 90,000 people some 3300 years ago; in the Babylonian empire, the city of Babylon topped out at about 300,000 persons at about the same time. The Phoenicians and the Greeks, with their trading routes along the Mediterranean coast came later. At the height of the Greek empire some 2300 years ago, Alexandria reached 350,000. In each case, these were important both as a trading city and as an administrative center.

How did commercial trading emerge? So far, I have mentioned only peddlers or explorers (presumably carrying small amounts of commodities with them) and states exchanging commodities. Toward the end of the ancient economy, the Greeks were among the first to engage in large-scale commercial trading.\textsuperscript{21} Before currency was invented, how was trade enabled? Polanyi (1957b, p. 14) argues that account-keeping and early forms of banking (banks of settlement) were developed for this purpose. Near 650 BCE, the Greeks invented money.\textsuperscript{22} Trade appears to have been begun by owners of large estates seeking markets for their surplus products. However, there were risks involved in trading (e.g., shipwreck). The Athenians developed the idea of a maritime loan.\textsuperscript{23} This was a high-interest loan secured by the value of a shipment where principal and interest are forgiven if the ship fails to reach its destination. Maritime loans were an important innovation in spreading the risks of shipping. The implication here is that trading of necessity involves an additional level of command and control. The end-user (customer) is at a different place and time from the originating producer (farmer or artisan); that

\textsuperscript{19}Polanyi (1957b, pp. 16–17) argues that there is no archaeological evidence of a large market-place in any city in the ancient economy. Trade did occur, but the scale was small and not focused on the determination of a market equilibrium price.
\textsuperscript{20}See Lévy (1967, pp. 9–10).
\textsuperscript{21}For estimates of the economy of Greece (Attica) at the time, see Goldsmith (1987, Chap. 3).
\textsuperscript{22}See Lévy (1967, p. 19).
\textsuperscript{23}See Millett (1983).
difference has to be bridged; e.g., by a financier, an insurer, or by the originating producer’s willingness to postpone receipt. As teamwork becomes part of trade, so too does command and control; markets require a discipline (teamwork) that may put individual autonomy at risk.

The size of a city becomes more complex to think about as we move from a settlement in the prehistoric period through to a trading city and then to a commercial city in more-modern times. Settlement and trading city each instance a kind of consumer city; the commercial city instances a producer city. Let me use this as an opportunity to segue from prehistory and the ancient economy through the Roman World (Republic and Empire), early medieval Europe, and into the emergence of commercial cities.

**Settlement**

I define a settlement as a spatial concentration of population that is not necessarily capable of producing all its wants locally. In early days, some of what is needed locally might be obtained by the state through raiding (a variant of hunting and gathering). Other commodities were obtained from the reciprocal trade between states using redistribution exchange. Finally, there is market exchange in which local merchants engage in a modest level of bilateral trade with merchants elsewhere. Residents trade—with local merchants—some of the commodities they produce for other commodities they need. A settlement is therefore a community in which the trading sector is necessarily small.

In a particularly simple case, trade is only between a settlement and farms nearby and within the territory of one state. In the absence of a settlement (i.e., each farm is in autarchy), each farm produces both agricultural and craft goods for its own consumption. A farm here might be just one family; alternatively it might be a small group of people living and working in a kind of collective (sharing production and consumption); the farm might not see any prices around them at all. I might assume here that division of labor within the settlement makes production of the craft good more efficient than on the farm. Within the settlement, local merchants have local artisans work up raw materials and then gather up the product to sell to farmers. On the farm, there is a transition from unpriced to priced production and consumption. For the state as a whole, there is an implicit price for the craft good: that is, the agricultural good production foregone from the re-allocation of the amount of farm labor to the settlement needed to produce the marginal unit of craft good. What is also interesting about the settlement is the refocusing of farm activity it implies. I am thinking of the farm here as a unit of labor: e.g., two adults and their children. With the establishment of a settlement, several things happen to the farm: (1) the now-advantageous price for craft goods made in the settlement implicitly make the agricultural good
relatively more expensive; (2) each farm consumes more of the craft good than they did under autarky; (3) farm activity becomes more or wholly concentrated in production of the agricultural good; (4) the higher relative price for the agricultural good, the more attractive it becomes to invest in improvements to land that boost output; (5) because of shipping costs, these effects are strongest for farms near the settlement and wane with distance from it. Compared to the relatively simple life of the farm in autarky, the settlement brings opportunity but also risks for farms. Put differently, the existence of the settlement encourages farmers who are more entrepreneurial: specifically, more willing to take risks. In contrast, following Power (1941), trading locally is conducted by a petite bourgeoisie (risk averse merchants) in the town who serve a well-known, inelastic (saturated) local market.

What is the role of the state here? I assume that actors in the state see the gain to the commonwealth from concentrated production of the craft good in the settlement, and the advantages of a competitive market for the exchange of food and craft goods. In general, this in turn requires competitive markets for labor (to ensure enough artisans in the settlement) and for land (since farm sites closer to the settlement incur lower shipping costs than farms further away). The state also plays a role by clarifying the personal and real property rights of farmers and consumers (as regards land, commodities, capital, and labor) so as to reduce inefficiency that would otherwise arise from the risk of loss. The state also plays a role (through route construction, maintenance, and policing) in facilitating (i.e., making less costly and less risky) the flow of food to the city and craft good to the farms. It is also in the state’s interest to ensure efficient investment in both food and craft good production. Finally, it is in the interest of the state to address moral codes.

In a more complicated case, trade involves the export of a good outside the state in exchange for the import of some other good. This is more complicated because now there presumably must be mechanisms in place to offset the risks of seizure, piracy, or other forced takings. The role of the state is now more complicated because it now cannot rely solely on its power to coerce within its own territory. It may need agreements with other states for the mutual protection of trade routes, the financing of trade, and the resolution of trade disputes. In some cases, it may also require actions by another state: e.g., an investment to improve the ability of shippers to move product efficiently through its territory. The state may gain experience in handling reciprocity-based trading that can then be applied to trading based on market exchange.
Trading city

As with a settlement, a trading city can be home to firms that produce goods and services that are primarily consumed locally. How does a settlement differ from a trading city? In a trading city, the trading sector is larger and is more important as a source of income. Merchants no longer simply sell a local good elsewhere. As a result of their ongoing trading, they discover opportunities to purchase product in one remote market for resale in another. A trading city is therefore home to merchants who primarily purchase a product abroad for resale elsewhere and typically do not otherwise work up or add to the value of the product. This trade may well be multilateral. The traders’ income is made from the shipping services they provide and their profits from arbitrage. Phoenician and Greek settlements are thought to be among the first trading cities; they began to appear in the late ancient economy (some 2500–3000 years ago). Not surprisingly, some of these trading cities originated at nodes in the circuits of trade. If traders were passing through a particular place on a regular basis, some commercial functions (e.g., brokerage and storage) were likely to follow.

In a trading city, merchants take more risks. In the same way that the settlement encouraged more risk-taking among farmers, the trading city leads to greater risks than for settlements. The trading sector contributes to the size of the city. The number of traders increases with trading activity. So does the number of financiers required to bankroll these ventures. Multilateral trading adds to the need for a currency and for the banks of settlement that make trade more liquid by removing the need for (and risk in) counterbalancing flows of currency and fostering currency exchange. Also important, trading results in wealth accumulation. It is not that every trader is successful. The risks are high and traders may go bankrupt. However, for those that do survive, great wealth is a possibility. In turn, wealthy people drive the demand for luxury goods and services that then attract artisans to fill that need. There may have been some trading cities in the prehistory period. However, examples become clearer with the emergence of empires and thus the ability to ensure shipping safe from pirates and raiders over great distances.

What is the role of the state in promoting trading cities? What’s in it for the state? The state sees the advantage of market exchange that brings in commodities needed by the local population. However, a trading city can imply the aggrandizement of merchant traders without substantial benefit to others in the state. Nonetheless, states typically see a benefit from having a trading city and use their political and diplomatic abilities and military strength and alliances to maintain those trade routes and promote
trade. This is as true for the minimalist state as for the aggrandizing state. The trading city can become a joint enterprise (growth machine) that joins the state, land owners, city merchants, artisans, shippers, and other stakeholders to focus on the needs of business enterprise in search of tax revenue, profit, and income. Even if the state were not to need these merchants in the short term, the advantages of having this expertise and financial wealth locally would become clearer as time went on.

**Commercial city**

A commercial city also engages in production for sale elsewhere (like a settlement) as well as in multilateral trade (like a trading city). In a commercial city, we now also find now export producers: firms that plan, design, finance, organize, fashion, fabricate, assemble, refine, market and/or distribute a product primarily for markets elsewhere. This product might be a commodity manufactured locally. It might be just a refinement of something produced elsewhere. The product might be a book, magazine, or other media or cultural programming. It might be a business or financial service or expertise including software. It might simply be a command and control function: from management to distribution. It might be just an idea that gets turned into a product somewhere else. Phoenician settlements are thought to be among the first commercial cities; they began to appear in the late ancient economy.

What distinguishes the commercial city is now a *haute bourgeoisie* that sees an elastic (unsaturated) demand elsewhere that it can profitably service. By unsaturated, I mean a market not presently served by such a product and where demand is particularly responsive to a reduction in price (that is, elastic) because consumers there are switching from other kinds of consumption to this new good. Where there is large-scale production locally, we find economies of scale, localization economies, and urbanization economies sufficiently large to offset high levels of congestion and land rents in the commercial city. In the settlement and trading city, local production largely was simply working up by local artisans and gathering up by merchants. In a commercial city, we see instead production either centralized at large factories where the scale economies can be realized or as highly integrated networks of sites to take advantage of competition and resilience that these enable. In the commercial city, we see the accumulation of still more wealth and a further demand for luxury goods and services that then attract the crafts and professions to fill that need. At the level of the commercial city, we now see increased risk taking among producers seeking the upper hand in the increasingly quick pace of commercial development.
What is the role of the state here? Even more so than the trading city, the commercial city can become a growth machine. Driven by Adam Smith’s notion that division of labor (hence economies of scale) are limited only by the size of the market, producers realize that they must grow themselves or lose out to others who do. For the state, the perils of being inattentive to the fortunes of producers are losses of revenue, taxation, and employment. The taxation of trade and of the wealth arising from it benefitted the state. In time of war, the state also came to rely on the expertise of these merchants to sell war loans, collect war taxes, and be contractors to the army or navy.

Notice here the progression in the nature of loss, risk, and fear. At the level of the settlement, it is the farmers who adapt: moving from production for one’s needs only in the case of autarky to risks and fears associated with price and revenue in the city market. Moving up to the level of the trading city, it is now the merchant who faces risks and fears in multilateral trading. Moving up to the commercial city, it is now the producer who faces risks and fears: investing in industrial capacity to meet the needs of consumers far away. Across these three is a corresponding and growing need for financiers to assist in spreading risks and for states to make possible for all of them to flourish by helping to ease their fears.

Across the three categories, the size of a city depends substantially on the size of the state. The state enables a larger city in part by the state’s own needs for command and control. A larger state also helps ensure a larger trading area for the city within which the city’s merchants can safely engage in trade. What in turn determines the size of the state? On the one hand, this leads to imponderable questions. Why do some states seek out empires for themselves? Why do they often fail at doing this? Instead of doing this, let me focus here on the activities of the state. Actors find that the state needs to gather information: e.g., check, count, deliberate, enumerate, estimate, inspect, investigate, locate, measure, note, number, probe, spy, survey, tally, value, and watch. Actors also find that the state needs to manage: e.g., authorize, command, control, correct, direct, enroll, exempt, hide, license, make secret, reform, register, and regulate. Actors find the state needs to build support: e.g., admonish coalesce, condemn, drill, indoctrinate, inveigh, preach, raise awareness, reinforce, support, and uplift. Actors find the state needs to aggressively protect itself and its actors from those who would bring harm: e.g., arrest, attack, censure, defend, deport, detain, disarm, dishonor, exploit, fine, forbid, fortify, guard, imprison, intimidate, judge, prevent, punish, repress, sacrifice, secure, and vilify. All of these activities have to be financed from revenue. Where is the state to get this money? The state can appraise, collect, exact, levy, monopolize,

\footnote{To differentiate for the purpose of a count or list.}

\footnote{To favor particular individuals by freeing them from an obligation imposed on others.}
rate, seize, sell, stamp, tax, tithe, or toll. Each activity, including fund raising, also has implications for the nature and extent of administrative work and therefore for the size of the city.

The size of the city also depends on the orientation of the state. In particular, the exploitive state may well see growth of a city as useful in furthering its own objectives. The city provides wealth in the sense of the economies possible with division of labor. By furthering trade, through reciprocity or market exchange, further growth in the scale of production is made possible with its beneficial impacts on division of labor. Put differently, the state has an incentive to foster trading cities and commercial cities.

In the description above, I prioritize economic and political principles. In the transition from settlement to trading city to commercial city, there are also stories to be told about self-actualization more broadly. Braudel (1981, pp. 481–482), for example, argues that a settlement exists only in relation to a form of life lower than its own; the settlement has to dominate its own local little empire to exist. He argues that towns impose the amenities of its market, the use of its shops, its moneylenders, and its lawyers on the surrounding rural residents. In the same way, the trading city elevates itself above settlements in the more exclusive shops, its cultural amenities, and other displays of wealth. In that respect, the hinterland is now seen as different from the city: less visible, less known, less sophisticated, and less street-smart.

The Roman World

The Roman World (Roman Republic and Roman Empire) is an appropriate place to start thinking about the emergence of commercial cities since many places that subsequently became major commercial cities began as Roman settlements. Most historians appear to agree with the following sketch. The Roman Republic, having grown rapidly from its formation some 2500 years ago, came to include almost all land adjacent to the Mediterranean, the Atlantic coast of southern Europe, the English Channel, and parts of the North Sea together with the inland waterways that could be accessed therefrom. By the start of the Roman Empire in 27 BCE, territorial expansion had reached its limit. An aristocracy who prized land ownership above all other economic activities ruled the Roman World. At strategic points in newly captured lands, the Romans typically built a fortified city and established the area around it as a province. Roads were built to facilitate the movement of troops and armor from the city to the frontier as needed. Provincial cities were staffed as garrisons and administrative centers, headed by a provincial governor, whose purpose was to defend the province, maintain order, and collect and remit tax revenues (tribute) to Rome. Tribute was often paid in kind: in grain and other locally produced commodities. A fleet of ships conveyed the tribute back to Rome. The state leased land to its wealthy subjects to establish estates (villas) on large tracts of leased land (latifundia) in each province: typically for mining and
quarrying, ranching, grain, olive oil, or wine production. During the Roman Republic, villas were staffed mainly with slaves captured during the expansion of the Republic. However, villa owners also used free peasants and dependent tenants. Without new lands being conquered, the supply of slaves began to dry up at the outset of the Roman Empire. In most of the Roman provinces, villa owners came to rely eventually on peasant tenants (*coloni*) who paid a rent for the right to sharecrop or to farm a plot.

What was happening in these provincial cities? In some cases, lease holders or their estate managers resided on the *latifundium* itself together with their employees. In other cases, the lease holders or their managers lived in the provincial city: availing themselves of its protection (from rivals, dissidents, raiders, and thieves), good water supply, and access to the provincial governor, local services, and artisans. According to Burton (2004, pp. 313–315), provincial cities were autonomous political units within the Roman Empire. Each city was given control of land in the surrounding countryside. To the state, a chief role of the city was as tax agent. The state assessed taxes on city and countryside residents that the city elders—a civic duty—assigned to the heads of wealthy families—were to collect and remit. The risk (loss) associated with any shortfall had to come from the wealthy family’s own pockets. The exigencies of warfare, barbarian pillage, and plague made taxes difficult to collect: especially those taxes not strictly proportional to the level of local economic activity: e.g., poll tax and land tax. Cities were also permitted to raise tax revenue of their own: e.g., local customs duties, sales taxes, tithes on pasturage, leases on public lands and buildings, and public monopolies. To the state, a second role of the city was to administer and police its territory. In both these roles, the state oversaw city governance and would step in as it saw fit. A local ruling elite selected the magistrate who policed provincial villages, regulated use of public lands, and awarded citizenship. In addition, local courts presided over minor crimes and private disputes. However, the state could set rules that were binding on a province or an individual city. Further, a governor could intervene in or regulate the administrative affairs of a city.

In a typical city of the day, there was much capital investment by the state. This included fortification and port improvements, an aqueduct to supply potable water, roads out into the countryside to enable the rapid deployment of troops, and public buildings such as places of worship, administration, justice, bathing, and entertainment. The urban economy was built around public administration and justice, garrison, construction, metalworking, craft production, commodity processing, markets, trade, and services with a labor market in part fuelled by the inflow of workers (*proletarii*) from the countryside. Where a city and its environs were not

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26 A legal obligation.
27 Within this overall context, some cities (*civitas libera*) were exempted from the payment of tribute: either because of a formal treaty or by imperial decree. These were so-called free cities; in addition to being freed from paying tribute, citizens of the city might have other special freedoms. 28 Braudel (1981, pp. 520–522) points out the parallels between Roman towns and the Spanish colonization of the Americas over 1000 years later.
sufficiently large to support local production full time, it is thought that wandering artisans moved from city to city, or from villa to villa, plying their trade.

Much production flowed back to Rome in the form of tribute in kind. Except for the portion of local product that was exported as tribute, many Roman provincial cities were simply settlements according to the definition above. At the same time, much of this tribute was eventually sold in the marketplace and the great variety of produce and sources allowed affluent consumers (especially in Rome) to be more selective in the commodities they consumed. The inflow of tribute from far away places undercut the bargaining power of local producers in or near Rome and made local markets there more competitive; however, among large villas abroad, some landlords had particularly fertile or productive estates and thus earned exceptional (Ricardian) profits. In addition, the design of realty rights is thought to have favored land acquisition by the aristocracy leading to a substantial increase in the proletarii and, in the absence of a robust local market in labor in the cities, to increasing social unrest. As Rome grew from a small settlement to a large city, exchange based on reciprocity became less feasible. Aided by the inflow of tribute from faraway places, consumers became more reliant on markets for commodities ranging from food to cloth to household furnishings. The slave trade is a particularly harsh example of a labor market in which the labor forthcoming from one slave might be thought to be qualitatively no different from that of any other similar slave. The infusion of great amounts of tribute paid into the Roman economy had the effect of ensuring an equilibrium price in each affected market. Put differently, no one supplier is able to affect the price in that market and more-costly suppliers are driven out of the market.

The remainder of the profit generated on the estates flowed to the wealthy individuals (families) who had leased this land from the state. This was a joint venture between the family and the state. The family ensured a steady flow of tribute back to Rome and in return the family hoped to earned substantial profits. However, the state could take the lease away from one family and give it to another at any point in time. In this way, the state incentivized families to help ensure that the state’s needs were met.

Trading cities had already existed in Greece, Turkey, Syria, Palestine, Egypt, and North Africa before these cities were incorporated into the Roman World or destroyed. Among the larger of these were Alexandria, Byzantium, Carthage, Ephesus, Jerusalem, Memphis, Syracuse, Thebes, and Ur. None is thought to have had a population of more than 300,000 persons. Rome, an inland city with a distant port at Ostia, was a center of trade largely because of the tribute paid in kind. Rome is thought to have had a population near 1,000,000 persons at its peak; thought to be the largest city ever to that point in time. Despite its size, Rome is not thought to have had a substantial sector engaged in production for export; it was not a commercial city. At the time, Marseilles (a Roman ally) also exemplified a trading city in the Roman World.

In the two editions (1936 and 1948, the latter republished in 1963) of his treatise, Heaton devotes a chapter to commercial relations in the Roman World. Heaton asserts that, for much of the population, the economy was primitive. Most people
had subsistence lives; they lived mainly off what they farmed, hunted, fished, and/or gathered. As a family, tribe, or village, they may have cooperated in production (each with their specific duties) and shared in the bounty. While this did involve some barter or exchange, there was little engagement for much of the population with a market economy. On the other hand, villa owners, traders, processors, and other individuals bought and sold in markets in slaves, minerals, agricultural products, olive oil, wine, fish, and other products for profit and gain. So too, to some degree, did those who made their livelihood in whole or in part in crafts, blacksmithing, construction, mining, lumber, shipping, and other activities where they exchanged services or products for food and other necessities of life. Heaton takes a dim view of the overall economy of the empire. To Heaton, Rome itself was not a great commercial or industrial center producing for export, and the countryside around it lacked distinctive occupations. In the absence of substantial mechanization, the advantages of large-scale production over small were still slight. Heaton (1963) argues that there is little evidence of extensive commercial shipping at the time. Where it existed, trade—in slaves as well as agricultural products and other commodities—was mainly along the coastal waterways. Nonetheless, Heaton argues that the enormous inflow of tribute distorted prices and local production in and around Rome. Local artisans were competing against the products of provincial artisans and slaves: local grain producers against provincial producers.

Marshall (1907) saw the Romans as daring, clear-sighted in judgment, and deliberate in reshaping their own lives. However, the unprecedented flows of tribute collected from their provinces created risks for the state. First, even with the state’s best efforts at discipline among taxpayers and tax collectors, there were the risks of tax revenue foregone: i.e., tax evasion, corruption, pilferage, and administrative ineptitude. Second, even with the state’s best efforts at maritime security and safety, there was the likelihood of loss (from piracy to shipwreck) en route. Third, even with the state’s best efforts at management, a considerable inventory of commodities could easily accumulate in Rome. This inventory could be costly to manage (store and safeguard) and it might spoil. To reduce losses due to corruption and pilferage, the state could contract out the collection of tribute abroad to the highest bidder. To reduce losses associated with shipping, the government could sell the tribute, collected in a province, to a contractor who would bear the risks associated with shipping to Rome for resale. The fourth risk is that the government is unable to sell its tribute in Rome at the expected price. In its simplest form, the government would sell the tribute upfront (wholesale) and the contractor bears the risk of selling it later on the (retail) market. Overcoming these risks required the development of a set of markets, institutions, and processes. In part, the scale of the flows of tribute also meant that there had to be a way of sharing the risks; no one contractor being big enough to do this alone. As a result, Marshall (1907; p. 731) argues that Romans were among the first to set up joint stock companies. As well,  

29Here, a bidder is a person who bids for something at auction. In economic thought, the outcome of any competitive market can be thought to such that highest bidders obtain the product.
the Romans developed institutions and practices for money lending that made capital markets more efficient.

The joint stock company was important for another reason. In an important sense, its activities correspond to the decentralization of the redistribution economy formerly practiced by the state. In a primitive society, the state would collect up production and then redistribute it to team members as it saw fit. In the case of a joint stock company, the firm collects up production, sells it, and then distributes its revenue (net of material and other costs of production) among workers, managers, owners, and others that it seeks to incentivize.

Roman law also regulated a variety of everyday business practices. Five areas of regulation come to mind. One was the common calling: i.e., any profession (fee-for-service occupation) that was widely practiced. The idea here was to ensure that persons in a profession were obliged to provide a standard of service and were liable for negligence should they not. Breedlove (1932, pp. 416–417) also argues that the right to engage in a common calling was a fundamental liberty whose economic purpose was to encourage and permit the creation of wealth in the population at large. A second area of regulated practice was in regard to bailments and negligence. This concerns personal property (e.g., commodities) put temporarily in someone else’s possession for some purpose (e.g., servicing, storage, or shipment) without a transfer of ownership and the liability of the possessor for any loss or damage during that time. As Willis (1907, p. 306) argues, Roman law added an insurance function to the role of bailees. A third area dealt with warranty. According to McGovern (1971, p. 1178), Roman law did not require an express warranty for the seller to be liable; however, not every statement by a seller in praise of his wares gave the buyer a claim. A fourth area concerned just price. Following the work of Aristotle, the normative notion of a just price began to appear in Roman law. The fifth area was in terms of the ownership of realty.

With the Roman Empire came a new push toward a common legal code. In part, this was Rome’s attempt to make sense out of the various local legal practices it inherited as its empire grew. In part, it was also a way of replacing the kinship structures that permeated these conquered territories. In part, it was also driven by

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30 McGovern (1971, pp. 1150–1151) notes that a bailee was not ordinarily liable without fault under Roman law; however, the bailee could contract to be liable for any risk of loss. In contrast, Hamilton (1931, p. 1157) notes that buyers in general had no remedy under Roman law for a defect in quality and argues this may have been because there was little trade at the time and therefore no experience with the need for protection. Husveth (1994, p. 29) notes that common callings included haulers and shippers. McGovern (1971, pp. 1150–1151) notes that common callings also included innkeepers and livery (stable) operators.

31 See Arterburn (1927).

32 A rate of exchange in which no party has been injured.

33 See Farris (1967, p. 31). Schumpeter (1954, p. 60) argues that Aristotle wrote of the good and virtuous life for an educated leisure class that held work and business in contempt, loved the farmers who fed them, and hated the money lenders who (as they saw it) exploited them.

34 McGovern (1971, p. 1182) asserts that, under Roman law, ownership is not transferred to the buyer until the property is delivered.
ideas in Stoic thought on the nature of the individual man and his relationship to the state. As a pre-Christian philosophy, Stoics saw each man as a purposeful being with powers of perception. To Stoics, men were not divided by citizenship status. Stoics posited a Divine Economy in which all men are brothers; subjects and rulers are united, each with their respective and respected roles. Each man is thought to have autonomy to address his own needs and wants, although this varied with one’s place and function. The place and function of each man was to be respected by those above him: in this sense, a decent life for all, regardless of one’s station. Stoic thought emphasized the rights of the individual (men only)—not the family—to possess, use, and manage things within a social order in which each individual had his own place. Roman law demarcated the personal and real property of each man (excluding slaves, women, and children), and men could do with their property as they wished, subject to the brotherhood of men and taking into account their place and function within Roman society. The effect was to replace the individual’s ties to kin with ties to the state and his fellow subjects. The right of individuals to have and use personal and real property as they see fit, the right to a decent life regardless of one’s circumstances, the right to a democratic voice, and the right to community self-determination are fundamental to our notions of liberty today. In the Roman World, the right to property was advanced substantially (but only for men); the right to a decent life was advanced mainly in the stoic idea that each man should be accorded the respect of his station in life; the rights to democracy and to self-determination were not advanced at all.

Urban economies existed before the Roman World. However, Rome itself can be seen, ex post, as a grand experiment in a new scale of urban economy. Before Rome, the urban economy was driven largely by its agricultural (resource) base and by the ambitions of the state. Typically, some landowners accumulated wealth and the remainder of the population lived largely hand-to-mouth. That part remained the same in the case of Rome. However, the extent of the empire (itself a consequence of the Roman genius for organization) gave Rome the unprecedented ability, as a parasitic state, to harvest or plunder the wealth of resources across its empire. This plunder was split two ways: tribute and rents (profits) to lease holders. Tribute allowed the state to continue operating; rents were the rewards given to loyal families to ensure the continuity of the state.

To me, the most important contribution of this examination of the Roman World is its focus on cities in the context of rent (tribute) seeking by the state (government of Rome). The Romans were almost certainly not the first to view the accumulation of tax revenue as significant for governance. However, the Romans enlarged that

35Shaw (1985).
36Fukuyama (2011, pp. 232–239) makes that interesting argument that it was the emergence of the Roman Catholic Church in the latter half of the first millennium that promoted individualism and the breakdown of kinship ties (outside the immediate family). However, I think that Roman Catholicism merely incorporated ideas from Stoic thought that had been having an effect on social and state relations for some time by then.
system to a scale never seen before, and they began to do it in a way that, at the same time, came to recognize personal and real property, equality under the law, and contracts. Rome became the largest city ever at that time in large part because of that aggrandizing and in part because its legal system was changed to facilitate large-scale markets. Provincial cities prospered similarly as administrative centers. Large-scale markets—a result of the flow of tribute that facilitated trade across the Roman World—created higher consumer expectations as regards the quality, diversity, and price of commodities.

Early Medieval Western Europe

There is much debate as to how, and why the Roman Empire ended. We know that the empire split into two and that the eastern half with its capital in Constantinople lasted longer than the western half. At some stage the Roman army was no longer available to defend and maintain order in a particular province in the Western empire and that the flow of tribute to Rome ceased. Heaton (1963, p. 60) argues that the end of the (western) Roman Empire did not mean a sudden change in the nature of the regional economy. While tribute may no longer be being remitted to the capital, it is thought that the various former provinces largely continued to produce as they did before, at least through to about 700 CE. The markets established in grains and other commodities largely continued. Seaports continued to prosper where these commodities flowed to distant markets. Why? The economy of the Roman World had benefitted from, and adapted to, the availability of low-cost suppliers of various products. As the Roman Empire disappeared, there were still advantages to continuing these patterns of trade. Some aspects of the post-Roman regional economy were undone by the three great invasions (Mohammedan, Viking, and Magyar) that happened between 400 and 1000 CE. In Heaton’s succinct phrasing, “the uproar eventually subsided”.

Heaton argues that, with the decline of the Roman Empire, the control of local life in Western Europe gradually passed into the hands of the great lords. Smith (1776, p. 232) similarly asserts that, after the fall of the Roman Empire, landowners built and occupied fortresses on their own villas, in the midst of their tenants and other dependents. Smith argues that what were left behind living in the former Roman towns were mainly merchants, artisans, and tradesmen. Some of these artisans and tradesmen were reliant entirely on the great lord. The goods and services they produced were solely at the request of the great lord and had little to do with considerations of market price. In Smith’s view, most city folk were just as much serfs as were peasants on the villa. To him, most towns were inhabited by tradesmen and mechanics living in servile conditions.

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38See also Whittaker (1983).
Some merchants settled in the town to provide the great lord with commodities from elsewhere that artisans working on the estate could not produce. In other cases, merchants carried commodities for sale from place to place. In their travels, they had to pay fees to stop at particular places or to pass along their routes as well as taxes to the great lord in their town of residence. Smith does not discuss the violence and arbitrariness that may well have been associated with the extraction of these taxes and fees. Presumably, graft and corruption were endemic. Smith (1776, pp. 232–233) argues that sometimes a great lord would give an exemption for taxation of trade to particular traders within his or her domain. Though in other respects servile, they were called free traders. A free trade usually paid an annual poll tax and land rent. Smith does not discuss why an exemption was a benefit to traders: presumably they were paying tax either way. I suspect that the advantage of being a free trader is that your annual tax load is known beforehand and thus the profit is more predictable; that is, less subject to the vagaries and the avarice of the tax collector. At the same time, free traders pay a lump sum tax that discouraged small firms from entering the market. From the perspective of the great lord, granting a free trader concession might have been seen as a way of buying the allegiance\footnote{Dedication of subordinate to superior or of individual to group or cause.} of a trader who might otherwise be able to move his/her business to another jurisdiction. The great lord might also be cognizant of the inefficiencies of his/her own tax collection system and feel that the free trader generates at least as much tax revenue as do other traders.

The nature of the state began to change with the emergence of Christianity in early medieval Western Europe. Christianity had a fundamental message of sacrifice, compassion, forgiveness, and humility that for many was compelling. Christianity was all-encompassing; a way of life in which the ethical treatment of others was paramount. The Church provided a religion (an ideology that invoked an authority higher than the state) that helped its followers cope with what could be a brutish and unjust life. To its followers, Christianity was a project seen as catholic; disbelievers were to be converted. The Roman Catholic Church lived in uneasy coexistence with the crown, state, and great lords; after all, they each appealed to the loyalty of their subjects or followers. Crowns, who in pursuit of their agendas typically had portrayed themselves as the voice of God, now found that role usurped by a Pope with a special claim to God and a church with its own agenda. It slowly became clear that the state, to the extent that it differed from a religion, would have to find a different way to focus the loyalty of its subjects. Eventually, validation by the Church became valuable to the state. The Church also became important as a place of study, reflection, writing, and art. Based at least initially on the donations by its followers including the crowns, the Church also became wealthy: controlling large amounts of land and grand structures. As church and state separated, the possessions of the temples continued to increase, until the priesthood dominated economic life through their great estates, their training of the scribes, and their issuance of coined money. Cities were also important to the
Church; here were the wealthy nobles and large parishes that financed the construction of cathedrals and abbeys.

Heaton and Smith each appear to dismiss the former Roman towns as inconsequential, but neither explains why. As the Roman Empire waned, the provincial governor and villa owners presumably were left to defend the province on their own. The provincial city typically had the advantage of a port, fortification, and aqueduct, and was at the center of a network of good military roads. However, income and product still arose largely on the villas. As time went by, the transition from control by a provincial governor or villa owner to control by a great lord must have been bumpy and varied. Presumably, the disappearance of the Empire meant that owners now had to defend their villas with their own militias and proximity was essential. To defend their valuable personal and real property, the villa owner might have to build fortifications closer at hand; and this would be costly. Militarization of the villa changed the relationship between resident and landlord. The resident was no longer just an employee or a tenant. The resident could also expect to serve in the militia and to swear allegiance to the great lord. Given the turbulence of the times, free peasants, runaway slaves, and intimidated townsfolk presumably came from elsewhere to seek protection, and to serve, under the great lord. However, the skill set (more administrative and political) required for a successful villa owner was different from that for a great lord (more of a warrior). Some villa owners may have made this transition. Presumably, others saw their land taken over, perhaps forcibly, by upstarts with a better skill set. In some cases, a small group—be it a band, tribe, or gang of brigands—might have been able to fend for itself given favorable geographic conditions. However, success in battle at the time typically required training as well as horses, armor, carriages, and weapons of a kind not easily obtained. Great lords had the wherewithal to equip and maintain such an army. So what indeed happened to Roman provincial cities? A city surrounded by great lords in their fortified villas faced an uncertain future; without their support, a city could be attacked, besieged, and starved into submission. In other cases, a local great lord might force the city to be within his/her jurisdiction. However, there was also a third possibility. Provincial cities that turned their role in shipping into strength in trading and finance had something to offer great lords in the countryside. By carefully aligning themselves to be useful to the great lords, a city could maintain some independence.

What did the urban economy look like at the time? The early medieval urban economy was still largely focused on craftwork. I do not argue here that there was no manufacturing at all. Heaton (1963, pp. 130–131) argues that there are four reasons people do not produce a good on their own: (1) manual skill required, (2) special equipment or tools needed, (3) power required, or (4) heat required. Where these conditions obtain, we then get local producers who make such commodities and sell them to local customers. What Heaton and others argue is that when the cost of shipping the good (including risk of loss) is high, there will be little incentive to ship the good produced in one place to customers at a distant place.

Smith (1776, p. 240) argues that, in the absence of trading, the great lord had no choice but to consume the entire surplus product of his estate at home. That surplus
would determine the size of the retinue of (hopefully) loyal retainers and their dependents that the great lord could afford: e.g., soldiers, guards, officials, extended family and other courtiers, and servants. Smith does not discuss further the operation of these estates and the nature of vassal life. At a time when there was no notion of an organized market for labor, estate owners needed workers to produce lumber, agricultural goods, and livestock, hunt game, build and maintain structures, improve land, and extract minerals from their land. Vassalage can be thought of as a kind of contract: an agreement voluntarily made by two parties for their mutual benefit. For their part of the contract, a great lord offers investiture. For the vassal’s benefit, the great lord ensures access to land for agricultural production, hunting, and other uses including habitation. For their part, the vassal offers homage and fealty\(^{40}\) (including labor and military service) to the great lord. For the great lord’s benefit, the vassal agrees to provide labor and commodities produced on the estate.

At the same time, there was a growing divergence in experience between town and countryside. In contrast to the countryside at the time, Smith argues that the residents of a town frequently came to be granted the right to be collectively answerable for the taxes due to the crown; they could collect the taxes in their own way, and to pay it to the crown through their own bailiff. Because the town as a whole owed the taxes and not each resident individually, because one’s peers and not an agent of the crown or great lord collected the tax, and because a local court oversaw the process, the place was referred to as a free town. Here, privacy is enabled in the sense of being free from being observed or disturbed by the crown’s tax agent. Note that this is different from the Roman free city that was tax-exempt. In the medieval period, the free town thus became a corporation, with its own magistrate (mayor) and town council. The crown empowered these towns to enact (create bylaws), build walls for their own defense, and oblige residents to guard and defend the town. In England, the residents of such towns were generally exempted from lawsuits in county and other courts: pleas of the crown excepted. The free town eased fears and represented an important advance in the right of individuals to have and use personal and real property as they see fit and the right to a democratic voice and community self-determination. With such reforms, Smith argues that the violence and arbitrariness of the great lords was reduced.

Smith does not appear to focus on the significance of the city for privacy in daily life. The vassal in the countryside typically lived in a village environment where it might seem that everyone was known to everyone else. Here, every exchange of goods and services was at risk of involving a reciprocity based on personal history. Where that personal history leads to respect and a favorable exchange, all is well. However, a different history might lead to shame, contempt, or jealousy and an unfavorable exchange (perhaps even a refusal to exchange). By fleeing to a town or city of sufficient size, it might be possible to live a daily life of pure market exchange in which one is free from being observed or disturbed by other people (free of history). In this way, the anonymity of the market in a city gives rise to privacy.

\(^{40}\)Sworn loyalty of feudal tenant or vassal to a great lord.
Why did the crown give up some of its authority and allow free cities to exist? Smith offers two reasons. First, it may well have been more efficient for the crown to have cities manage their own affairs and collect and forward the tax revenue. Put differently, it was a way for the crown to get around the leakage of tax revenue associated with corruption and graft among its agents and to reduce taxpayer resistance by making the tax collector their peer. Second, Smith sees this as an outcome of the rivalry between the crown and the great lords. In those days, the crown had to rely on the good will of the great lords to project its legal authority throughout the country. Smith (1776, 234) argues that the lords envied the economic successes of city folk and looked down on them as simply emancipated vassals. In Smith’s words, the great lords “plundered them upon every occasion without mercy or remorse”. On the other hand, the crown was fearful of the great lords. It was in the crown’s interest to make the cities secure and independent of great lords. Smith (1776, 233) argues that at first, farmland around the city was likely rented to the city folk for a term of years only. Smith thought that, as times passed, it became general practice to grant it to city folk for a fee (estate in land) in perpetuity, requiring a fixed rent never afterwards to be increased. At the same time, the city itself began to assume responsibility for collecting and remitting the tax associated with these lands. By granting farms in fee, the crown gave up the possibility that it would later raise rents or grant the land to another farmer. Of course, this was a difficult balancing act for the crown. On the one hand, the crown wanted better control over the great lords; on the other hand, the crown did not want cities to become so strong that they became independent republics.

Smith argues that the political freedoms possible in new towns encouraged the market economy. In the countryside, without such protection, vassals resigned themselves to subsistence living. Acquiring more would only tempt an injustice of the great lord. Should they accumulate commodities, vassals needed to conceal it from the great lord, to whom it would otherwise belong, and take the first opportunity to run away to a city. Smith (1776, 236) argues, in England at least, if a vassal could conceal himself in a city for a year, he became a free man.41 As a result, whatever commodities accumulated in the hands of industrious inhabitants of the country was soon moved to cities. Townsfolk secure in enjoying the fruits of their industry, work to better their condition by acquiring better commodities. Although Smith did not make this linkage directly, the essential difference here between the city and the great lord’s estate is the nature of land holding. Freehold helped residents defend their personal property against seizure.

As a result, the production of commodities that go beyond the necessities of life was first established to meet the demands of city residents. Of course, commodities available in a city typically incorporate resources that originate in the countryside. However, Smith (1776, 236) argues that a city on a navigable waterway can also trade to get these resources from elsewhere in the world. Smith (1776, 236) argues that the cities at first imported fine goods from abroad and then traded some of these

41Smith does not discuss the political status of women here.
to the great lords who paid for them with raw produce from their estates: e.g., English wool for French wine. The great lords benefitted from the growth of the commercial cities to the extent that there was more demand for agricultural products. At the same time, the great lords found the purchases of products from the city cut into the size of the retinue they could otherwise maintain. Heaton argues that the Crusades were important here; they exposed Western Europeans to the luxury goods and fine foods available in the Middle East.

What were the implications of the feudal economy for markets? In the presence of trade, markets continued to operate. On the one hand, trade had to endure since virtually no estate could produce the range of products typically consumed at that time, from cloth to wine to foods to metals. Power (1941, p. 6) speaks of the emergence of manufacturing in cloth (Flanders and Italy), linen (North of France), silk (Lucca, Italy), leather (Cordova, Spain), metal wares (Dinant, Belgium), and glass (Venice, Italy), of the great guilds that were established there, and of the skills in commerce and finance these engendered. However, where the great lord sought a local fiefdom, markets might be damaged if not destroyed. The operation of a labor market is stifled when employment affiliation becomes intertwined with a governance affiliation. Similarly by exacting inappropriate tolls and taxes and seizing shipments within its territory, a great lord might also unduly increase the cost of commerce; thereby reducing the benefit of trade to local residents. Why would a great lord behave in this way? Isn’t it in his/her interest to have residents as well off as possible? Here was the great importance of Smith’s book. Before Smith, economic thinking was largely in terms of William Petty and mercantilists such as Hornick (1684). Such authors tended to see the wealth of a nation in terms of its accumulation of treasure. Smith broke that mold by arguing that the wealth of a nation lay in the ability of its population to produce goods and services.

Smith (1776, p. 239) argues that the commercial city had three principal lasting effects on the surrounding countryside. First, the development of trading and manufacturing gradually led to good government, liberty, and security among people who had before lived in servile dependency and often in a state of war. Second, the demand by city residents for the produce of the countryside encouraged cultivation and land improvement. Third, with their growing wealth, city merchants purchased land in the countryside and turned their business skills to farm management.42

The Rise of Commercial Cities

The period from 1150 to 1350 CE was one of expanding and maturing economic enterprise in which more cities became centers of trade and eventually also of production. Venice illustrates the linkages between production and trade.43

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42A similar point is made in Braudel (1981, p. 486).
43Heaton (1963, pp. 82–83).
Early Venetians caught fish and harvested salt from lagoons. Local traders then carried these commodities to markets elsewhere to exchange for commodities to be consumed back in Venice. This is Venice as a settlement. As their trading network expanded, Venetian traders found new raw materials—e.g., iron, lumber, and slaves in the Balkans—which they were then able to sell as far away as Egypt. This is Venice as a trading city. From their trading, Venetians eventually learned how to make glass locally, among other products, which they could then export to customers abroad. This is Venice as a commercial city. In the case of Venice, much of this production (including glass-making) took the form of craftwork. The capital needs (e.g., tools and equipment) were relatively modest. There were indivisibilities associated with a good harbor and a local supply of power, coal, minerals, or other inputs. There were the ever-present economies from the division of labor. However, there were otherwise no substantial economies of scale. To ramp up production, a city needed more specialized artisans, more space for them to work, and more raw materials to work up. The trader would gather up a stock of the good, by purchasing from local producers, for resale abroad. This process of gathering up was the same employed by Venice traders first selling their fish abroad and later selling Balkan iron. What is different here are the use of production labor locally and the required trade in raw materials.

To me, the period after 1150 CE can also be thought to be a period of “panic” for the purposeful state. Those states that contained a large trading city (later, a commercial city) were typically more affluent than a state that was still primarily rural. A rural state could not easily access the profits of merchants and the wealth made possible by division of labor. It also lacked the financial wherewithal associated with trading. Here, there was an urgency to get with it and foster one’s own trading and commercial cities.

At the same time, the modern liberal state was emerging from its feudal roots in God and crown; in the case of England, it began to take shape in the period from the Reformation to the English Civil War. In many places, the state came to be seen as a commonwealth of its subjects; a compact (be it implicit or explicit) that joins a people in mutual protection (wherein the state is guardian) and mutual assistance (wherein the state dispenses prosperity). Across both spheres, the state can be thought to reflect the diversity of human experience and aspiration among its people and its actions define implicitly a set of values in common across them. In the words of Tawney (1926, p. 6), “Reason takes the place of revelation, and the criterion of political institutions is expediency, not religious authority.” In Western Europe, the focus of religion on community gradually came to also include a notion of the importance of individualism with its roots in stoicism. However, Adam Smith advanced the idea that competition among individuals within markets also promotes the greater good of society as a whole. Commercial cities are essential to individualism because in them we find the large markets for both commodities and factors of production that make competition work. Unfettered competition is the order of the day, except where it interferes with a role of the state. Where, for example, the unbridled excesses of competition led to slavery and indenture, workhouses and punitive bankruptcy, the state dispenses prosperity (enables the right to a decent life) in part by banning such contracts and institutions.
What then made Western Europe the center for development of the market economy? Abu-Lughod (1989, p. 34) argues that areas of Europe, Asia, the Near East, and North Africa were all similarly positioned at the end of the 12th century. They each contained a network of cities with some sophistication in technology, production, marketing, finance, business organization, shipping and navigation, and banking. Despite differences in culture and religion among them, as well as in the form of economy they practiced, these cities were actively engaged in trade. Slowly, these patterns of trade were rearranging local economic activity into global patterns. By the end of the 13th century, Abu Lughod (1989, p. 356) describes prosperity as widespread. Yet only 50 years later, the trading system had begun to break down: coincident with the ravages of the Black Death. While all regions went into economic decline, Abu-Lughod argues that it was the discovery of the Americas, among other factors, that led to renewed regional economic growth in Western Europe.

All of this development of commercial cities came before the Industrial Revolution changed the nature of production. After that, economies of scale became pervasive. There were now efficiencies associated with large-scale production that, for whatever reason, could not be scaled down to a small-scale operation. The process of gathering up was replaced by factory (concentrated) production. Factories became larger. The presence of localization economies made it attractive for firms to co-locate in industrial districts. At the same time, urbanization economies made it attractive for firms to co-locate into larger cities. The industrialization of Western Europe was one important example of these trends. Another was in industrialization of the American east coast and the opening of the Great West in the United States in the 19th century. At the end of the 20th century, we can similarly point to the unparalleled urbanization of Eastern (coastal) China. Yes, all of these changes changed the nature of the commercial city. However, the fundamental mechanisms that enable the commercial city had been established several centuries earlier.

Cooley (1894) nicely summarizes key aspects of my argument. Cooley (1894, p. 72) argues that the national economic landscape “rests upon the division of labor, territorial and personal, and embraces the whole mechanism of production and economic exchange”. In his view, the specialization (localization) of industry across space is necessary because of (1) the economies associated with division of labor and (2) the existence of local facilities for production. However, this spatial division of labor necessitates shipments of commodities and a further localization, this time in transportation and allied industries (e.g., customs, brokerage, agency, credit, storage and insurance), is induced. As production becomes concentrated, so too does population, and this leads to the formation of towns and cities. At this point, Cooley sees a further division of activity in terms of residential, commercial, and industrial areas within the city. All of this happens only when and as low transportation costs permit. Cooley (1894, p. 91) then argues that urbanization (which he equates with population and wealth) will also cluster where there is a break in transportation: a break being a place where there is a transfer of commodities (possibly from one shipper to another) and/or temporary storage. At a break, there is a need for labor locally to unpack and pack vehicles, as well as for transfer and storage facilities; in turn, this labor needs to be housed and stimulates demand for
local retailing. Where the break involves transfers between shippers, there must be brokers, insurers, merchants, bankers, and others who facilitate the transfers. In an important sense, these agents were arbitrageurs; they earned their profit by the difference in price for the good being shipped at its origin compared to at its destination. From his observations on urban development in the Great West of America in the nineteenth century, Cooley concludes that it was these businesses that generated much wealth and that it was this wealth that led these places to become the seat of political power, of the central institutions of all varieties of social organization, and ultimately become large enough and rich enough to attract manufacturers. In his words (1894, p. 93), “even in the most primitive states the commercial capital usually becomes the political capital and is commonly the seat of the chief temples and of the culture of letters and art”. To summarize, it is Cooley’s argument that the growth of commercial cities is driven fundamentally by the opportunity to earn profit: in the case of nineteenth century America, from the risks and arbitrage inherent in shipping to newly emerging markets. What Cooley does not discuss is how these profits to be earned at breaks in the transportation system also provide an incentive for producers and shippers to find less costly ways of getting their commodities to market. In the Great West for example, there were boomtowns that saw a great future for themselves as a railhead only to discover that they were bypassed by more efficient methods of moving traffic. Over the longer term, the effect of competition is to shrink opportunities for profit.

Conclusion

Let me now summarize the seven main themes underlying my reconstruction.

One theme concerns the importance of the governance of a nation to the urban economy. In each nation, decisions get taken under the authority of the state that have implications for the organization of its economy and the lives of its people both inside and outside the city. How these decisions get made and the implications they have vary from one state to the next. The governance of a nation itself is also constantly in change: a precarious balance among diverse actors with their own interests in an environment of ever shifting concerns about moral codes, security, the commonwealth, and aggrandizement. Important here is the separation of religion and state that became necessary with the emergence of world religions. Governance determines how the nation molds its economy and enables a role for the city in this.

The second theme concerns the occupational division of labor, command and control, and power. The occupational division of labor that makes teamwork productive allows a society to become better off. However, that in turn generally requires a command and control (hierarchical) structure to ensure that each part of the teamwork gets carried out appropriately. Teamwork is at the heart both of governance and of efficiency. However, the power structures that teamwork
requires may well interfere with the autonomy of individuals to further the good life for themselves.

The third theme concerns decentralization and entitlement. I started from a prehistory band (microstate) that might well have been all-encompassing with an economy based on redistribution exchange. With the development of agriculture and the earliest communities, decisions as to investments in land and structures had to be made and this complicated governance. How was the state to do this effectively? How was it to motivate individuals and organizations to assist in this? The development of stoic thought and the idea of the legal individual were important. So too were the development of world religions that put the individual in direct relation to God and that downplayed kinship rights. By enabling individuals to have and protect personal and real property, actors in the state could incentivize the kind of economy (production and allocation) they sought.

The fourth theme concerns the functioning of a community as settlement, trading city, or commercial city. It is helpful to think here of a progression in function: from serving local needs (settlement), to exploiting trading opportunities elsewhere (trading city), to exploiting opportunities for new products and services to be sold abroad (commercial city). Corresponding to this are shifts in risk-taking: both in terms of who is taking the risk and the scale of the risk involved.

The fifth theme concerns transportation costs, spatial division of labor, and trade. With economies of scale and externalities, division of labor is key to efficient and profitable production. Division of labor has implications for occupations: driving each worker into increasingly specialized functions. Because it implies a local specialization of production (around each worker), it also has important implications for the flow of commodities. However, this spatial division of labor is not possible when shipping is prohibitively costly. When transportation costs are high, only luxury goods can be shipped. As transportation costs fall, it becomes economical to ship a wider variety of goods. All these patterns have implications for the urban economy: defining what is profitable to produce in the city for export elsewhere.

The sixth theme concerns the importance of networks, routes, and nodes in circuits of trade. Efficient transportation is not ubiquitous. Particular transportation networks have proved important through the years because they are the fastest, safest, and/or least costly way of transporting commodities. Fortune shines on communities that are important nodes on these networks. At the same time, competition among shippers and traders leads to a relentless search for new ways to relieve bottlenecks and reduce costs that may, as a consequence, reduce the commercial advantage of a particular node.

The seventh theme concerns the important, but conflicted, role of city in furthering the state and vice versa. Enabled as centers of wealth, commerce, and knowledge, cities can be important in furthering the objectives of the state. At the same time, some activities and roles in the city can also be perceived as a threat by some actors in the state: either a threat to themselves or a threat to the security of the state. The uneasy relationship between state and city continues to be evidenced today in the relatively weak authority typically granted by the state in support of local governance.
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