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Dedicated,
With love and hope for the future

Rachel
Evan Leah
Jason

52. This discussion of the distinction between nation and state is based on Herfried Munkler, "Nation as a Model of Political Order and the Growth of National Identity in Europe," *International Sociology*, 14(1999):283–299.
53. For further discussion of this dual referent, see Jean L. Cohen, "Changing Paradigms of Citizenship and the Exclusiveness of the Demos," *International Sociology*, 14(1999): 245–68.
54. U.S. Census Bureau, *Current Population Survey* (March 2000, Washington, D.C.: Government Printing Office, January 3, 2001).
55. Quoted in Robert Holton, "Globalization's Cultural Consequences," *The Annals*, 570 (July 2000):149.
56. See Cohen, "Changing Paradigms of Citizenship," and Jurgen Habermas, "Citizenship and National Identity," in *Theorizing Citizenship*, ed. R. Beiner (Albany, N.Y.: SUNY Press, 1995), 255–82.
57. See Martin MacEwen, *Tackling Racism in Europe* (London: Berg Publishing, 1995).
58. Chris Hedges, "Policy to Protect Jailed Immigrants Is Adopted by U.S.," *New York Times*, 2 January 2001, p. A1.
59. There is also the obligation of nation-states to noncitizens living elsewhere who may, for example, be affected by that nation's environmental regulations.
60. Ginger Thompson, "Mexico President Urges U.S. to Act Soon on Migrants," *New York Times*, 6 September 2001, p. A10.
61. David Jacobson, *Rights Across Borders* (Baltimore: Johns Hopkins University Press, 1996). In addition to human rights groups and pressures from specific nations, immigration-related issues have also been subjected to courts, whose rulings can potentially further erode the sovereignty of nation-states over people residing within their boundaries. Created by the United Nations and located in The Hague, Netherlands, the oldest is the International Court of Justice, often called The World Court. The content of the cases this court considers often intrudes into areas where nation-states were historically considered to have exclusive jurisdiction. For example, in 1999, Germany sued the United States for executing two German brothers who were convicted of murdering a bank manager during a robbery in Arizona. The court ruled, in 2001, that the United States should have informed the German consular offices of the arrest and allowed those offices to assist the prisoners. The ruling was too late for the German brothers—Arizona had already executed them—but it could affect the twenty German citizens who were still in American jails at the time, four on death row. Marlise Simons, "World Court Finds U.S. Violated Consular Rights of 2 Germans," *New York Times*, 29 June 2001, p. A10.

FOUR

Cities in the Global Economy

Throughout most of the twentieth century, urban rankings and classifications typically focused on the role or place of a city in its nation. At one extreme, a city might be at the literal and figurative center of its nation, ecologically, economically, politically, and so on. At the opposite extreme, a city might be of little significance to its nation. This difference involves degrees of primacy, and those cities that are at the highest end are considered to be primate cities. The most frequently relied on measure of primacy is a demographic ratio that compares the size of the largest city in a nation to the next largest city (or cities) in that nation.[1] To illustrate, Santiago, Chile, is a highly primate city because its population of more than 4.5 million people is over ten times greater than any other Chilean city, none of which has as many as 400,000 people. In contrast, Rome, Italy, is not much of a primate city because its population of 2.7 million is just about twice the size of Milan, the next largest Italian city (and Naples and Turin also have populations of about a million or more).

This straightforward demographic ratio typically reflects the degree to which a city dominates the rest of its nation in terms not only of population, but all types of economic resources, such as jobs and investment funds. In addition, primate cities are likely to be the nation's capital and educational and religious centers. Primacy also provides a summary measure by which cities can be compared (e.g., Santiago is more primate than Rome), though the different configurations of national urban systems often detract from primacy's value in comparing cities.[2]

During the last decades of the twentieth century, the transnational linkages of cities grew in importance. Imports and exports, for example, comprised a steadily growing proportion of the economies of the world. This was part of a long-term trend toward more global trade that has characterized the past 200 years, though it has been periodically interrupted by wars and recessions. Consider the cereal that people eat for breakfast as an illustration. The sugar and wheat it contains have long been international commodities in the sense that, since 1800, the production and distribution of sugar and wheat have been strongly affected by global market forces. Other products, such as many of the fresh fruits people eat in the morning, did not become global commodities until they could be transported more quickly. Thus, the average breakfast, eaten anywhere in the world, became more globalized during the last third of the twentieth century, though portions of it had been globalized for many years.[3]

The closest approximation to the pure form of a global economy is probably provided by the world's financial markets. They consist of networks of banks and other traders that buy and sell currencies, options, and other securities. The traders are in dispersed locations around the world, but electronic information technologies link them together as though they were in a single place. The system would be truly global, or globally inclusive, if exchanges were completely unimpeded by national boundaries. While such a system may be established in the future, at the start of the twenty-first century these markets were still based on "trading bridgeheads" in the financial centers of a few major global cities.[4]

GLOBAL CLASSIFICATIONS

As international economic and financial linkages grew in importance, social scientists turned to the question of how cities could best be ranked and classified in a global framework. Primacy was not particularly useful once analysts began trying to describe the relationships among cities apart from their national contexts. The size of cities could probably best be used only to identify world city "nominees" from specific nations. For example, Janet Abu-Lughod selected the three largest cities in the United States—New York, Los Angeles, and Chicago—when she wanted to describe a small sample of the presumably most global cities in the United States.[5]

It is impossible to state, unambiguously, where contemporary, nondemographic analyses of cities in the global economy began. A good case might be made for Peter Hall's 1966 book, in which he proposed that world cities, such as London and New York, were those in which a large percentage of the world's business was conducted.[6] Few studies immediately followed Hall's lead, then after about 1980 there were a host of publications. Of particular importance, as noted in Chapter 1, were several articles by John Friedman that attempted to synthesize the growing body of literature on world cities and to suggest several directions that future research should follow.

While Friedman acknowledged that it might be premature, in 1986, he nevertheless thought it important to present at least an initial hierarchy of world cities based loosely on the amount of international capital they contained and the number of multinational corporations headquartered within them.[7] Nine years later Friedman presented another hierarchy, again based on what he termed "rough notions."[8] Some of the categories he employed were different, making exact comparisons difficult, but there appeared to be both continuity and change in the rankings. London, New York, and Tokyo were among the top cities at both times, and Friedman referred to them as "the command and control centres of the global economy" (p. 23). On the other hand, there were some marked changes. For example, Rotterdam was in the highest category in the 1986 paper, but was not included in any of the top four categories in 1995.

While we expect some changes in the rankings of cities to occur over time, a decade is probably too short a period for changes of this magnitude actually to occur. Perhaps a portion of the excessive change occurred in error, due to Friedman's use of "rough notions." More likely, much of the excessive variation was due to the fact that different indicators yield different results. For example, the concentration of wealth and capital in a city is an important consideration. It could be measured by the location of leading banks or by financial institutions more broadly defined to include insurance companies, stock and bond brokers, and related firms. Which is the better measure? In the absence of other information it is difficult to say which is better, but which one is used certainly does matter. There are marked differences in the ranking of cities each of these different measures produce. New York is first when wealth and capital are measured more broadly, but fifth in terms of banks only. Paris ranks second on leading banks, but eighth on the more inclusive measure.[9]

It is not surprising then, that when investigators use a single indicator of a city's global rank, there are especially marked divergences in their findings. Kunzmann illustrates this principle by noting that between 1986 and 1996 four different studies each presented a list of Europe's leading world cities and each was based on different economic indicators. The only cities all four studies agreed on were London and Paris. Seven other urban areas appeared in at least one of the studies, but five of the seven were included in only one.[10] Such variations in findings provide a strong argument for relying on multiple indicators, that is, the use of a number of separate indicators combined into a single index. When indicators are combined, the idiosyncracies of specific indicators are reduced and one probably gets closest to the heart of the matter.

In this chapter we examine the global rankings of cities that are produced by several sets of indicators: stock exchanges, banking and finance, multinational corporations and foreign direct investment, and corporate services. The locations of these firms and activities help define the most important centers of the global economy and several also provide a picture of linkages among these urban hubs. Some of these indicators partially overlap, but that is not necessarily a problem.[11] Each reflects a somewhat different aspect of how the international economy is hinged on the most important global cities and, as we shall see, using fewer indicators would result in missed nuances in the urban hierarchy. It is also important to recognize that, although these indicators are being separately discussed, they are often interdependent. For example, the development of Tokyo's stock exchange in the 1960s was an important impetus to attracting large banks, financial institutions, multinational corporations, and financial services firms to the city.[12] The conclusion to this chapter presents a single global economic hierarchy based on the combined index.

LOCATION OF STOCK EXCHANGES

The major stock exchanges are special types of markets in which individuals and firms buy and sell several types of stocks, or shares, in publicly traded corporations. (Most of the largest corporations in the world are publicly traded.) In addition, most exchanges offer bonds, mutual funds, and a variety of specialized financial mediums, such as "options" (contracts to make purchases in the future at a designated price). Some exchanges also operate commodity markets, in which supply and demand fix the price of items such as cattle or cotton. In the larger exchanges, over half of all trading involves foreign entities, such as the stocks of corporations located in countries other than the exchange's.

The major exchanges can be viewed, first, as centers of world capital where the major corporations of the world go to raise equity, or loan capital. Thus, whether or not a business enterprise in Italy can raise the funds required to expand its operations into Poland may depend on the willingness of investors to buy shares of the Italian company when it is offered for sale on the Tokyo stock market. The second way to view exchanges is as marketplaces where the price of everything from soybeans to a government's bonds is continuously set. Thus, the price of oranges grown in Brazil for shipment to London is set by transactions that occur on the New York Stock Exchange. The cities in which these major exchanges are located can therefore be viewed as cornerstones of the world's economy in the sense that they house the activities that set the conditions under which economies and businesses operate across the entire world. It is important also to note that a major exchange acts like a magnet, attracting financial service firms and a variety of investors, advisors, and so on. Thus, the presence of a stock exchange also indicates a likely concentration of financial activity.

The world's oldest stock market is in London, England, but the largest by far, in terms of shares traded or the market value of the listed corporations, is the New York Stock Exchange. NASDAQ, roughly tied for second place with the Tokyo exchange, is also in New York, giving that city a clearly preeminent position in the world. (Until late 2000, NASDAQ was alone in second place, but then it began a long decline because the price of many technology companies it listed moved lower.) The London exchange, in fourth place, is close behind the NASDAQ and Tokyo exchanges in size. Before electronic trading opened much of the world to twenty-four-hour trading, the exchanges in these three cities, given their time zones, made a worldwide, around-the-clock market possible because the exchange in Tokyo opens just when New York's closes, and it closes as the London exchange opens.

An international ranking of stock exchanges, arranged according to the market value of the corporations whose shares are traded on them, is presented in Table 4.1. However, these rankings are subject to change as a result of:

1. mergers and joint ventures among exchanges in process across the entire globe,
2. new Internet companies offering electronic trading across national boundaries.

TABLE 4.1 Location of World's Largest Stock Exchanges

Market Capitalization	Headquarter City
Over $10 Trillion	New York (NYSE)
$1 to $3 Trillion	Frankfurt*, London, New York (NASDAQ), Paris†, and Tokyo
$½ to $⅔ Trillion	Hong Kong, Milan, Osaka††, Toronto, and Zurich§

* This exchange is also referred to by the name of its parent company, Duetsche Borse. It offers the world's largest market for trading derivatives, financial contracts based on assets such as stocks and bonds.
† Amsterdam and Brussels are joined to this exchange, formally known as Euronext.
†† Also linked to NASDAQ in 2000.
§ Basle and Geneva are also linked to the Swiss Exchange.

In addition, as individual stocks vary, there are fluctuations in the values of shares traded on an exchange. To iron out these short-term variations, Table 4.1 presents a ranking of cities averaged by total market size in 1998, 1999, and 2000.[13]

Trailing in size behind the world's leading exchanges, as noted in Table 4.1, are a number of secondary exchanges, beginning with Chicago's. That city houses the largest exchange in the United States outside of those in New York, and it also contains its nation's major agricultural commodities and futures markets—for cattle and hogs, corn and wheat, and so on—and these agricultural products still comprise the largest export category of the United States. In addition, a subsidiary of the Chicago Mercantile Exchange sets international prices for silver and the future U.S. rates of exchange for most foreign currencies.[14]

In the same general range as Chicago's are stock exchanges located in Madrid, Stockholm, and Sydney. Finally, there are several other exchanges located in "emerging market" nations. They are still relatively small, with market capitalization in billions rather than trillions, but any or all of these exchanges may be of substantial global consequence in the near future. The largest in this group, in order of market capitalization, are the exchanges in Taipei, Seoul, Mexico City, and São Paulo.

INTERNATIONAL BANKING AND FINANCE

International banking began in the thirteenth century, when commercial establishments in Italy, based in Florence, opened branches and subsidiaries in several European nations. The banks' primary objective was to assure local representation of their interests as they financed the silk and wool cloth trade across Europe. Pursuing similar objectives, over the following centuries banks in other cities followed suit. The first major change in the nature of international banking occurred in the nineteenth century, when the predominant activity became raising loans for foreign governments and investing in foreign nations. (The United States was a major recipient.) At this time, large banks in London were the world's leading arrangers, underwriters, and holders of foreign bonds.

The economic rise of the United States in the early twentieth century was associated with the expansion of U.S. banks. The U.S. dollar replaced the U.K. sterling in international trade, and New York took London's place as the world's financial center. However, international finance remained relatively small compared to domestic finance until the 1970s, when another major change occurred in conjunction with the growth of transnational corporations. The banks followed their corporate customers, and soon realized it would be even more profitable to service the local market in the host country at the same time they handled the transnationals' accounts. Modern telecommunications also played a role, making it increasingly easy to transfer funds, arrange loans, and convert currencies between a parent bank and its distant branches or among bank affiliates thousands of miles apart.[15] Although of major significance, commercial and investment banks are only part of the modern financial services complex. Also included are financial advisors, insurance and stock brokers, and the like.

There have been accelerating mergers and linkages among firms in the financial services complex, cutting across both business sectors and national boundaries. The purchases in the United States by the giant Swiss bank UBS A.G. are illustrative. During 1997 and 1998, the bank acquired three specialized money management and corporate advisory firms in New York and Chicago, and then in 2000 purchased PaineWebber, the fifth largest brokerage house in the United States. The bank could then directly provide and manage a wide array of services to corporations and wealthy individuals in Zurich, New York, Chicago, and so on.[16]

The financial service firms in the major world centers have the advantage of what Sassen terms "global connectivity." Their staff members know how to

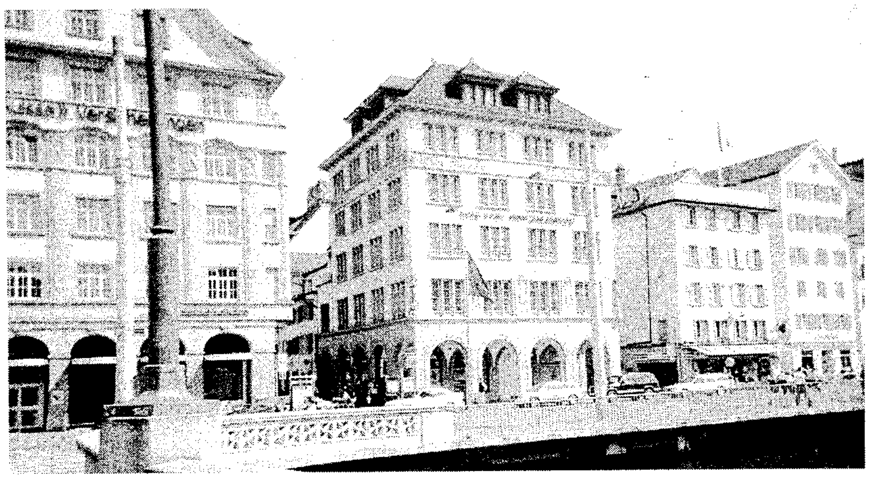

Figure 4.1 Banks from all over the world are part of the financial concentrations of global cities. (Pictured is the Arb Bank in Zurich, 2001.)

execute major international deals. With modern telecommunications, firms in cities like Dayton, Ohio, or Palermo, Italy, know the day's closing prices on the New York Stock Exchange the same time as everyone else in the world. They may not fully understand its significance, though. What the staff members of firms in the major financial centers uniquely possess is the expertise to interpret what those closing prices will likely mean for future investments and to guide a client by assessing the risks of specific crossnational ventures.[17]

An excellent example of a firm with this type of specialized knowledge is Goldman Sachs, a leading New York investment bank that has concentrated on global communications. During the 1990s, when government-owned telephone and telecommunications companies in Europe and Asia either became private or offered shares to the public, Goldman Sachs was often their advisor. The firm was the lead banker for billion-dollar public stock offerings in Denmark, Hong Kong, and Japan, and was consultant to giant telecommunications mergers in England, Germany, and the United States. One industry observer described the highly successful Goldman Sachs strategy for its client companies as: "If it was owned by the government, take it private. If it is private, take it public. Then merge it. They are a transaction machine."[18] And each transaction meant a fee for Goldman Sachs.

Many of the most successful of these international firms have contacts to open doors in the capitals of the world. For example, the Carlyle Group is a private equity firm based in Washington, D.C. Its specialty is buying and selling companies, often across national lines. The funds used in Carlyle Group's purchases come from such diverse sources as pension funds in Texas and California and oil money from Saudi Arabia. The advisors and directors of the Carlyle Group include former president George H. Bush and former presidents or prime ministers of Britain, Thailand, South Korea, and elsewhere. Specializing in the purchase of foreign companies regulated by their governments, the Carlyle Group has used its connections to learn when there will be shifts in government spending that could affect the value of companies in the future.[19]

In order to illuminate the general place and role of banking and finance in the global economy, it is instructive to examine the Bank of New York (BNY), a large institution that was especially successful in attracting foreign clients, particularly from Eastern Europe. As Russia, Poland, and other Eastern European nations moved into a capitalistic mode during the last decades of the twentieth century, cooperative arrangements with U.S. banks became especially critical. For example, most of the foreign suppliers to Russian companies wanted payment only in U.S. dollars. This required that the companies' Russian banks establish "dollar settlement accounts" in American banks. In addition, to increase their capitalization, a number of Russian banks wanted to be listed on U.S. stock exchanges and needed the expertise of American financial specialists to arrange it. Large banks in cities with major stock exchanges, like New York, have departments that specialize in stock capitalization.

Many U.S. banks were eager to do business with the Russians, but because of their locational advantage, New York banks, especially BNY, were able to obtain most Russian business. Banks were interested because it meant new clients who, in addition to paying commissions for special services, could be billed for transaction fees on their accounts. Even though each transaction (e.g., a deposit, withdrawal, transfer) involved only a nominal fee (typically about $3), many of these accounts had extremely high volume. For example, in a six-month period between October 1998 and March 1999, one BNY account that linked firms in New York and Moscow had 10,000 transactions. Unfortunately for the bank and several of its chief executives, this account was apparently used to move profits from illegal activities in Moscow to a "front" company's account at BNY. The money then was sent to banks in England, Italy, and Switzerland before being returned—its origins moot, hence "laundered"—to a bank in Russia.

The BNY money laundering scandal was a criminal corruption of the international banking system and a deviant exception to the way the system normally operates. However, it is instructive to examine the BNY fiasco because criminal, or deviant, behavior typically provides insight into the societal (or intersocietal) arrangements in which it occurs. The same Internet technology that makes it possible for distant friends to stay in touch via e-mail messages also improves the access of child molesters to kiddie porn. In the future scientists wishing to study our current technology would learn much by studying the actions of those convicted of transmitting or receiving illegal images of children. To illustrate further, criminal groups—mafias, *La Cosa Nostras*, and so on—have usually organized following the same forms (e.g., familial or bureaucratic) that predominated in legitimate sectors of society. Thus, one could gain insight into a wide range of legitimate business operations by studying how criminal syndicates were organized. In a parallel way, money laundering through BNY helps us understand many conventional aspects of international banking.

The central figure in the story was Natasha Gurfinkel Kagolovsky. Russian born, Princeton educated, Kagolovsky was a senior vice president at the BNY's main office in New York, in charge of the bank's Eastern European Division. Her husband, who lived mostly in Russia, was a banker and oil executive and Russia's former representative to the International Monetary Fund (IMF). He was apparently of great help in steering corporate clients in Russia to BNY. (U.S. investigators later accused him also of diverting $200 million in IMF loans through the bank.) Reporting to Ms. Kagolovsky and working as head of the Eastern European Division in the bank's London office was another Russian-born executive, Ludmila Edwards. Her husband, living mostly in New York, opened the BNY accounts to which the Russian funds flowed. The source of most of the money, according to the FBI, was the Russian mob's profits from drugs, extortion, arms traffic, and prostitution. From New York, Mr. Edwards moved the funds to European banks and eventually the laundered funds returned to Russia. There was apparently enough money for everyone to make out nicely. Ms. Kagolovsky purchased a condominium in Manhattan in 1997 for $796,000 and Ludmila Edwards bought a $500,000 apartment in central London—and both paid cash.[20]

The importance of U.S. dollars to world trade made it likely that Russian money laundering would involve changing local currencies into U.S. dollars. New York's role as the leading financial center in the United States made it likely that a bank located in New York would be involved. The amount of money crossing borders is so great, making the potential for bank profits so large, that normal safeguards are sometimes relaxed. BNY is not alone in this regard. Its problems would be less interesting to us if they were unique. Thus, at the same time that key officials at BNY were being indicted, a congressional committee began to examine Citibank of New York which, during the 1990s, became the preferred banker for elite families in Asia. That probe focused on illegal transfers between Citibank's corporate parent in New York and its Hong Kong branch.[21]

There are at least two indicators that can be employed to focus on the concentration of capital in major financial centers:

1. the location of the largest banks in the world as defined by their total assets,
2. the location of the world's largest financial service institutions, as reflected by market capitalization (i.e., the value of their common stock). Included in the latter category are banks, plus insurance companies, brokerage firms, holding companies, and the like. Both measures reflect the presence of extensive capital in a city, and the likely availability of financial expertise to go with it, though as noted in the introduction to this chapter, each indicator yields a somewhat different ranking of cities. It is important, therefore, to examine both indicators, and the two sets of findings—involving the thirty largest banks and one hundred largest financial institutions—are presented in Table 4.2.[22]

TABLE 4.2 Location of Leading Financial Firms*

City	World's Thirty Largest Banks (%)	Top One Hundred Financial Institutions (%)
Tokyo	27	9
Paris	13	2
London	10	10
Frankfurt	10	6
Bejing	7	1
New York	7	14
Osaka	7	2
Munich	3	4
Zurich	3	4
Chicago	0	4
Total	**87**	**56**

* This table includes only the ten cities that house 2 percent or more of either type of firm. For this reason, neither of the columns totals 100 percent.

From Table 4.2, we can see that the location of the largest banks is especially highly concentrated: 60 percent of the total are in the four principal centers: Tokyo, Paris, London, and Frankfurt. Add Bejing, New York, and Osaka, and the seven principal centers contain over 80 percent of the world's total. The location of the leading financial institutions is more dispersed, though still quite concentrated, as the seven leading cities contain over half of the world's total.

Several other cities contain some of the largest banks or financial institutions, but fewer than the leading cities listed in Table 4.2. The most important of these cities to consider are Amsterdam, Dusseldorf, and Geneva.

MULTINATIONAL CORPORATIONS AND FOREIGN INVESTMENT

Perhaps the most significant form of conglomeration in the major global cities involves multinational (or transnational) corporations. Included here is any corporation that engages in economic activity in nations other than the one in which its headquarters is located. The largest of these corporations are involved in production and sales across much of the world. The vast resources controlled by the largest multinationals make them an enormous asset to the city and nation in which they are housed.

Many of the largest multinational corporations are household names, familiar to people everywhere in the world. Others have less public recognition either because their products are not sold to the general public (e.g., industrial chemicals) or because they have brought together a number of product lines that are marketed separately, so many people do not recognize their vast consolidation of ownership in the marketplace. For example, the Diageo Corporation is a consumer goods company whose size is interesting precisely because it is *not* among the top fifty multinationals in yearly income or total assets. It is a London-based corporation that many people have never heard of but almost everyone is familiar with some of their products. Diageo's holdings fall into three categories[23]:

1. spirits and wine, labeled under such names as Johnnie Walker and J&B (the two best-selling brands of scotch in the world), Smirnoff, Baileys, and Guiness beer and ale
2. packaged foods, under the following labels: Pillsbury dough products, Green Giant vegetables, Old El Paso Mexican foods, and Häagen Dazs ice cream
3. fast foods: Burger King

Most of the products sold by the various divisions of Diageo Corporation are virtually identical throughout the world. Among Burger King Whoppers, for example, there is essentially no variation. However, like many multinationals, Diageo subsidiaries also make some concessions to local tastes. In Japan, for example, the second leading Häagen Dazs ice cream flavor, after vanilla, is

green tea, and it is only marketed in Asia. (This type of localization is not unique to Diageo. Domino's best-selling pizza in England is topped with sweet corn and tuna.)

Throughout the world, one can find salesrooms for the same automobiles or television sets and franchised restaurants serving the same food, but about 90 percent of the headquarters of multinational corporations tend to be concentrated in a few of the economically most advanced nations. The United States, the United Kingdom, Germany, France, and Japan are the leading nations in this regard. If one looks at all corporations conducting business in more than one nation, then Germany is found to house the most parent corporations and the United States is in fourth place.[24] When the size of firms—and indirectly, therefore, their wealth and importance—is taken into account, the headquarters of firms is even more highly concentrated in a small number of nations and the hegemony of the United States becomes more apparent. To illustrate, Table 4.3 focuses solely on the headquarters of the one hundred largest multinational industrial corporations. (If other types of companies had been utilized, the specific numbers would change, but the overall pattern would remain the same.) Table 4.3 makes it clear that, although the United States has lost some of its large share of the top global firms, mostly to Japan, it nevertheless headquartered the greatest percentage of the largest firms throughout the twentieth century.[25]

The small group of nations (and cities within them) that house the multinational corporations (see Table 1.1 in Chapter 1) are highly advantaged because extremely large amounts of capital flow *to* the headquarters nations, and enormous influence over decisions made throughout the world emanates *out* from the national homes of multinational corporations. The largest transnationals are, in fact, richer (and probably exert more influence in the world) than many moderately well-off nations. To illustrate, in 2000, a typical year, Exxon-Mobil and General Motors Corporation both exceeded entire nations such as Peru, New Zealand, and Hungary in wealth.[26]

As noted earlier, one reason firms establish production facilities outside of their headquarters nation is to find relatively cheap labor and raw materials.

TABLE 4.3 Headquarters of Top Global Industrial Firms

Country	1912 (%)	1995 (%)
United States	52	40
United Kingdom	15	13
Germany	14	7
France	6	5
Japan	0	21
Rest of Europe	6	12
Rest of Non-European World	7	2
Total	100	100

Within the Diageo Corporation, for example, Guiness established a brewery in Tanzania (Africa) and Pillsbury operated a plant in Irapuato (Mexico). Other reasons for transnational investments are access to new markets, especially when trade barriers discourage imports, and for economies of scale. The latter has been especially important in recent years to firms experienced in foreign operations. To illustrate, consider the recent investments of the French automaker Renault. Recognizing that its factories in France were old and inefficient, and hoping to expand sales outside of France, the company sought to diversify its products and production facilities. During 1999 and 2000, Renault purchased a 37 percent share in Nissan (of Japan), a 51 percent share in Dacia (of Romania), and a 70 percent share of Samsung Motor (of Korea). With these investments, Renault expected to be able to coordinate production and operation facilities throughout much of the world.[27] It remained for a board of directors meeting in Paris to later decide which of the facilities in Japan, Korea, and Romania might eventually be closed, expanded, or merged with others.

When a subsidiary of the Diageo Corporation builds a brewery in Africa or Renault purchases an automobile factory in Romania it entails Foreign Direct Investment (FDI). The current definition of FDI, according to the International Monetary Fund, requires the purchase of at least 10 percent of the equity of the firm receiving the funds.[28] That criterion is employed to assure that the foreign investor will have a voice in the management of the company. The ownership of most large transnational firms is spread among thousands of small, separate investors. A holding as small as 10 percent is often sufficient, therefore, to accord a single owner a substantial amount of control.

Since about 1970, the worldwide volume of FDI has multiplied many times over. To be exact, total investment abroad by transnational corporations was less than $50 billion in the early 1970s. By the late 1990s it exceeded $350 billion, and over the past quarter century, it grew much faster than other components of the world's gross domestic product, providing another reflection of increased internationalization.[29] In recent decades, there have been two major flows of FDI. The first has gone from firms in economically advantaged nations, such as the United States and the United Kingdom, to firms in less economically advantaged countries. Most of the latter have been located in either Asia (notably Cambodia and Vietnam) or Latin America and the Caribbean (notably Columbia, Trinidad and Tobago). In addition, a growing proportion of FDI to these nations has tended to exceed the 10 percent criterion and, in fact, results in majority control for the foreign investors. The second major FDI flow has occurred among firms within economically advantaged nations, and has been less likely, than the first flow, to result in majority control for the investing firm.

Table 4.4 describes nations and cities according to the sum of FDI flowing outward from firms within them. The first column indicates the total amount of such funds invested in 1996, and shows that the United States, and to a lesser extent, the United Kingdom were in their own categories, that is, without equals. Moving down the first column to lower levels of investment, the number of more or less similar nations increases in number. When a number of na-

TABLE 4.4 FDI Outflows and Multinational Headquarters

Billions Invested (U.S.$)	Nations	Cities with at Least 10% of Top Global Firms	Cities with Between 1% and 5% of Firms
Over 80	United States	New York	Chicago, Los Angeles, San Francisco
Over 50	United Kingdom	London	
20–30	France	Paris	
	Germany		Dusseldorf, Frankfurt, Munich, Stuttgart
	Hong Kong*		Hong Kong
	Japan	Tokyo	Osaka
	Netherlands		Amsterdam
6–10	Belgium		
	Canada		Toronto, Montreal†
	Italy		††
	Switzerland		Zurich
3–5	Korea		Seoul
	Singapore		Singapore
	Sweden		Stockholm
	Taiwan		Taipei

* Hong Kong is an "administrative region" of Mainland China with its own economy. Almost all of its population resides in Victoria, the capital of Hong Kong Island.

† Unlike other cities within nations that are presented alphabetically, Toronto is presented first to call attention to the fact that it has more corporate headquarters than Montreal and scores higher on all of the other economic indicators.

†† Both Milan and Rome barely missed inclusion.

tions are in the same category (column two), they are presented alphabetically because from year to year small increases or decreases in their FDI change the rankings among nations within (but not between) these categories. Columns three and four indicate the cities in these nations in which the transnational corporations making the bulk of foreign investments are located. Specifically, column three notes the major headquarter cities, each of which houses 10 percent or more of the top global firms. The final column includes the next largest set of headquarter cities, each of which houses between 1 percent and 5 percent of the leading firms in the world. There were no cities or metropolitan areas in which between 6 percent and 9 percent of the top global firms were located. This absence of intermediate cases suggests the fruitfulness of placing cities into these two categories, as in Table 4.4, rather than trying to view them along a continuum.

In the table, the investments noted in column one pertain to nations, and these figures are straightforward. Obtaining information about the nations' cities in which the investing firms are located is more difficult. Two kinds of information can be used. First, there are a number of listings of leading international corporations. Some rankings, such as *Fortune's* Global Five Hundred, are based solely on the firm's total revenue for the preceding year. To use this list to indicate city locations, one must assume that a firm's total revenue reflects its volume of nondomestic activity, which is true more often than not, but not necessarily the case. Another type of measure attempts to focus more specifically on firms' degrees of internationalization. For example, Ietto-Gillies has combined the percent of a firms' total assets, sales, and employment that are foreign into a single index, and then employed this index to identify the one hundred most transnational firms. Despite a few differences in the corporations that are included with each measure, the urban areas in which either set of firms are located are remarkably similar. Columns three and four in table 4.4 rely on both of these indicators.

Whether cities are in the higher (10 percent) or lower (1–5 percent) categories in terms of FDI outflows is a function of their nation's urban configuration and FDI volume. The total FDI outflows from the United States are so large that the nation can contain one major world center of corporate headquarters, New York, as well as three secondary world centers, in Chicago, Los Angeles, and San Francisco. France, in contrast, has only one major world center, following a classic primate city pattern in which a single metropolitan area, Paris, dominates as the nation's headquarters for transnational corporations. Although Paris has historically been its nation's most dominant city, its share of France's international economic activity increased over the last quarter of the twentieth century, mostly at the expense of Lyon and Marseilles.

In other nations, such as Canada and Germany, there is a more even distribution of headquarters locations among two or more metropolitan areas. In Germany there are two sets of cities that have expanded into important conurbations: the Rhine–Maine conurbation, with Frankfurt as its "global urban flagship,"[31] and the Rhine–Ruhr conurbation, in which no one city stands out. Even though these nations score relatively high in FDI outflows, they contain no single urban area among the world's top headquarters cities—which would not be the case if they followed the primate city pattern.

CORPORATE SERVICE FIRMS

As economic activity became more global, the scale and complexity of transactions increased, prompting the growth of specialized service firms to provide diverse types of assistance to corporate headquarters. Decision making in the home offices of multinational corporations requires diverse expertise in international banking and finance, advertising, accounting, and law. The firms that provide these services to the headquarters of multinationals provide the infrastructure necessary to run "the advanced corporate economy."[32] They do not, of course, provide entirely new services that suddenly appeared with globalization. What has changed is the increase in demand for such specialized services and it has led to enormous growth in their scale and scope. Because service firms bill resource-rich home offices, they have been particularly profitable and

are able to afford desirable office space near the center of midtown Manhattan, the City of London, and elsewhere.[33] In fact, by the turn of this century, service firms accounted for about 40 percent of all employment in the central business districts of many global cities.

In recent years corporate service firms have tended toward increasing scale to accommodate the multinational corporations whose accounts are large, hence highly valued. The service firms have had to reorganize to prevent the appearance of conflict that could arise if they maintained as clients companies that competed with each other. For example, when a manufacturing company buys a retail food chain, the law firm that has been billing the manufacturing company would likely want the business of the food chain as well. In fact, not handling the food chain's legal matters could threaten the loss of the parent (manufacturing) company's business. But what if the law firm previously accepted a retainer from a rival food chain? Each client might be uncomfortable if the law firm attempted to represent the other. The same potential problems arise for firms providing accounting, advertising, and other services.

To illustrate how service firms have realigned themselves to handle potential interclient conflicts, consider True North Advertising. One of the top-ten ad agencies in the world with a roster of huge clients, in 1999 it moved all of its component parts into one of two renamed agencies, Bozell and FCB. To enhance their image as separate agencies, separate management teams were put into place. Bozell was able to service the Bank of America account, while FCB handled Chase Manhattan, and neither client had reason to object; Bozell then took Bell Atlantic Mobil, while FCB serviced AT&T, and so on.[34]

To better understand how large corporate service firms have expanded around the world, the research of a group of geographers at Loughborough University in England is illuminating. For the past several years, this research group (known as GaWC for "globalization and world cities") has been tracking the growth and connections among corporate service firms. Focusing upon the intercity linkages of the firms 'is on strong grounds theoretically, given the widespread conception that globalization entails an increasingly dense network of cities and that the command and control functions of world cities is best expressed via exchanges among cities.[35]

In one study, the GaWC group examined large U.S. law firms. Such firms clearly represent a specialized, knowledge-based producer service, though national jurisdictions over legal codes have somewhat discouraged the transnational growth of law firms. They were almost always local until around 1965, when they began to follow their multinational clients across national boundaries, despite the fact that most legal systems remained state based. The firms were still able to offer clients information and advice unavailable in most places and they hired local lawyers to complement their international specialists.

Many of the largest of the law firms are now found in several principal cities of the world. Baker and McKenzie, originally a Chicago firm, is the largest in the world and the most global. It provides foreign investment advice to 150,000 clients and employs 1,800 lawyers outside of the United States. Baker and McKenzie now denies that Chicago, or anywhere else, is its headquarters. It has become global to the point of becoming "homeless." As one might expect, New York is the U.S. city in which the most law firms with foreign offices are located. It is home to a third of these international U.S.-based firms. (Chicago is a distant second.) The foreign city in which these law firms are most likely to be present is London, followed by Hong Kong, Paris, and Tokyo.[36]

Of particular relevance to our interests here, the GaWC research group studied sixty-nine major multinational firms in four sectors: law, advertising, accounting, and banking and finance. Within each of the four sectors, cities were given scores ranging from 0 (no office was present) to 3 (meaning it was the corporate headquarters). Intermediate scores (i.e., 1 or 2) reflected the size and importance of nonheadquarter, affiliated offices. Summing across all sectors, city scores ranged from 0 to 12 (i.e., scores of 3 on each of the four sectors). Cities in the three highest categories—involving scores of 12, 10, and 9 (no city had a score of 11)—are presented in Table 4.5.[37] Only four cities had perfect scores (i.e., 12), and they are the same cities that were found at or very near the top of all of the previously considered world economic indicators. Most of the cities in the second and third groups (i.e., scores of 10 and 9, respectively) are also in familiar positions on global economic hierarchies. The GaWC research group's findings also suggest a fourth tier of cities with significant numbers of global service firms, but fewer than those noted in Table 4.5. Included in the fourth tier are Brussels, Madrid, and Washington, D.C.

The importance of basing ratings on multiple indicators is reinforced by the observation that some cities that scored highly on the other economic measures did not score highly on service firm locations. Especially notable is Osaka, the sight of a major stock exchange and home to a concentration of the world's largest banks. Its service firm score is only 6, however, putting it in a category that includes Jakarta, Prague, Santiago, and a number of other cities that do not score highly on any world economic indicators. If one relied solely upon the GaWC index, the international economic standing of Osaka would be seriously underestimated. That is also true for other cities, such Stockholm (which scored 5, even lower than Osaka). On the other hand, several cities had much higher scores on this linkage measure than any other economic indicator.

THE ECONOMIC HIERARCHY

Our objective now is to combine the four specific indicators discussed in this chapter into a single index that can be used to describe the global urban economic hierarchy. Any city's score on this composite index may be interpreted as providing the best measure of that city's place in the global hierarchy. To combine indicators it is helpful to assign numerical values to the cases (i.e., cities) because they can readily be added. We will proceed by assigning a score of 10 to cities that were placed at, or near, the apex of any indicator. Cities in the next highest group will be given a score of 7, and cities in the third tier will be given a score of 4. Those other cities noted in addition to the leading cities will be given a score of 1. To illustrate, Table 4.1 described the location of the world's largest stock exchanges. New York, in the highest category by itself, receives a score of 10 on this indicator. Frankfurt and three other cities in the second rung each receive a score of 7. Hong Kong is the first of five cities in the next category, and each of them receives a score of 4. Finally, Chicago, Madrid, and Sydney were noted as three cities with sizeable stock exchanges, but below the leading cities included in Table 4.1. Each is given a score of 1. This is, of course, an arbitrary set of numbers. One could just as readily assign cities scores of 80, 40, 20, and 10, for example, or 4, 3, 2, 1. It is important, therefore, not to exaggerate the significance of small differences between cities' scores.

TABLE 4.5 Cities with Highest Concentrations of Global Service Firms

Service Firm Scores	Cities
12	London, New York, Paris, Tokyo
10	Chicago, Frankfurt, Hong Kong, Los Angeles, Milan, Singapore
9	San Francisco, Sydney, Toronto, Zurich

Table 4.6 presents, in column one, all the cities among the world's leaders on any of the economic indicators discussed in this chapter. The next four columns present all of the cities' scores on each of the indicators. (A dash indicates that the city was not among the world leaders on that indicator.) The final column shows the total scores on the composite index.

New York (with a total of 40) has the highest score. It could be placed alone at the apex because it was the only city that received the maximum score on every indicator. On the other hand, the difference between New York and London, Paris, and Tokyo, all of which had scores between 34 and 37, may be too small to treat as significant. Therefore, an equally plausible argument could be made for placing these four cities in the same category and regarding all of them as the leading cities in the global economy. The latter interpretation, as noted in the introduction to this chapter, is what most analysts have done. It was behind this top group that we saw a lack of consensus. Indeed, we noted that the different indicators employed here sometimes produced very different rankings. Frankfurt, with a score of 28, has the next highest score on the composite index. It seems too far behind the leading cities to be included with them in the top category. On the other hand, there are no cities immediately behind it. Thus, Frankfurt is a unique economic center in a class by itself, but closer to the top category than to the group below it.

Below Frankfurt, with composite scores of 15 or 16, are four cities that may be regarded as comprising the second tier of cities in the global economy. Included here are Chicago and Osaka, historically "second cities" in their nations, and Hong Kong and Zurich. Then there are six cities with scores between 8 and 12 that may be considered tertiary cities in the global economy. This category includes Los Angeles, Milan, Munich, San Francisco, Singapore, and Toronto. The entire hierarchy is summarized in Table 4.7.

At the bottom of the hierarchy are seven cities with scores of 4 or 5. All of their scores are primarily due to the fact that they housed significant numbers

TABLE 4.6 Global Cities Composite Economic Index

City	Stock Exchanges	Banks and Financial Institutions*	Multinational Corporations	Services Firms	Total
Amsterdam	—	1	4	—	5
Beijing	—	7	—	—	7
Brussels	—	—	—	1	1
Chicago	1	4	4	7	16
Dusseldorf	—	1	4	—	5
Frankfurt	7	10	4	7	28
Geneva	—	1	—	—	1
Hong Kong	4	—	4	7	15
London	7	10	10	10	37
Los Angeles	—	—	4	7	11
Madrid	1	—	—	1	2
Milan	4	—	1	7	12
Montreal	—	—	4	—	4
Munich	—	4	4	—	8
New York	10	10	10	10	40
Osaka	4	7	4	—	15
Paris	7	7	10	10	34
Rome	—	—	1	—	1
San Francisco	—	—	4	4	8
Seoul	—	—	4	—	4
Singapore	—	—	4	7	11
Stockholm	1	—	4	—	5
Stuttgart	—	—	4	—	4
Sydney	1	—	—	—	1
Taipei	—	—	4	—	4
Tokyo	7	10	10	10	37
Toronto	4	—	4	4	12
Washington, D.C.	—	—	—	1	1
Zurich	4	4	4	4	16

of multinational corporations. This was the "weakest" of the four indicators in that more of the cities in Table 4.6 received a positive score for multinational corporations than for any of the other indicators. Only six of the twenty-nine included cities failed to receive any points for multinational corporations, and five of the six were among the cities with the lowest scores on the composite index. Thus, we can surmise that housing multinational corporations may often be the first step toward becoming an economically important global city. The indicator with the next greatest number of positive scores is the location of professional services firms, and it would make theoretical sense to think of a progression in which cities become entry-level nodes in the global economy by virtue first of housing multinational corporations, and that these corporations

TABLE 4.7 The Global Economic Hierarchy

Score	City
40	New York
34–37	London, Paris, Tokyo
28	Frankfurt
15–16	Chicago, Hong Kong, Osaka, Zurich
11–12	Los Angeles, Milan, Singapore, Toronto
7–8	Beijing, Munich, San Francisco
4–5	Amsterdam, Dusseldorf, Montreal, Seoul, Stockholm, Stuttgart, Taipei

then attract professional service firms, thereby enhancing the global significance of the city.

In Chapter 7 we will present a different composite index based on whether the world's cultural industries are headquartered in a city. In Chapter 8, the economic hierarchy presented here and the cultural hierarchy presented in Chapter 7 will be compared, and it will then be possible to further differentiate among global cities according to whether they house economic or cultural concentrations, or both.

In addition to thinking about global cities arranged in an economic hierarchy, it is important to conceptualize them as a network within which information is exchanged, funds flow, and personnel are transferred. The relationships among many of these global cities is so well established that one city could drop out of the loop without necessarily disrupting the entire system because firms and activities located in other cities can be utilized as equivalents. The best case in point was provided in the immediate aftermath of the terrorist attack on the World Trade Center in New York. The large banks and specialized services firms that had been housed in the Twin Towers before September 11, 2001, were suddenly paralyzed. Many had satellite offices in other U.S. cities, such as Boston and Washington, but instead turned to their affiliates in London.

The investment firm of Cantor Fitzgerald, for example, was missing two thirds of its New York staff in the week following the terrorist attack. Its communication lines were also severed. (Those lines had been used to price over half of all trades in U.S. government bonds.) At the London office of the firm, employees worked around the clock for a week until they had Cantor Fitzgerald's electronic trading platform running smoothly. Traders and investors faced a time-zone gap as a result of New York's absence, though. In response, London employees extended their shifts until midnight, local time, when their colleagues in Tokyo could then take over (midnight in the United Kingdom is 9 A.M. in Japan). Thus, around-the-clock trading in securities was quickly reinstituted.[38]

POSTSCRIPT: SEPARATING PRODUCTS AND PLACES

Multinational corporations are, as we have seen, cornerstones of the world economy. The concentration of their headquarters in select cities contributes to a global structure in which wealth flows to the cities (and nations) at the top of the hierarchy, while influence and control emanate down. However, many multinationals have gone to great lengths to obscure their headquarters location in order to present themselves as "local"; in other words, to be seen as "genuine" parts of every place they are sold. The result is that people's mental images often do not correspond with the underlying economic structure.

We can begin with the obvious point that the products of large multinational corporations are necessarily "foreign" in most of the countries in which they are consumed. In order not to appear foreign, home corporations often attempt to identify their products with local icons. That is designed to increase sales, of course, but blending also helps to insulate the company from nationalistic backlashes against foreign domination. In advertising its beer products in the United States, for example, London's Diageo Corporation has often pictured their Guinness beer in the hand of the Statue of Liberty. To illustrate further, consider corporate advertising at Expo 2000, held in Hanover, Germany, in June 2000. As a World's Fair, the Expo had exhibits from many nations, but not from the United States. The U.S. Congress forbade the use of government funds, so the U.S. commissioner for the fair tried unsuccessfully to raise private funds for an American pavilion. U.S. corporations simply refused to contribute to a national site at the fair because they did not want to be associated with any particular nation. Coca Cola, for example, contributed $5 million in return for rights to advertise using the Expo logo, but did not want the logo to be connected to an American flag or under the roof of a building associated with the United States.[39]

When multinational corporations are able to separate their products from their locations in people's minds, the result is an amorphous conception of commodities that are not identified with real places or with the underlying interurban economic structure. A suggestive study of this effect was reported by Roper Polling in 1999. In thirty nations, representative samples of people were first asked to rate which products were best from among a large number of international brands that included Disney, McDonald's, Mercedes, Sony, and more. After people identified which they thought were best, the pollsters asked them the country with which they associated the best product. Most interesting from our perspective is the finding that nearly half of all the international respondents stated that the best brands did not belong to any country—they were simply regarded as global products, lacking any national connection. Among younger, better educated, and more traveled respondents, the percentage of respondents that tied the best products to the world rather than a specific nation was over 50 percent.[40]

CASE STUDY: McDONALD'S

McDonald's Corporation, headquartered in suburban Chicago, leads the world in number of franchises. Its golden arches may be the most widely recognized corporate icon in the world. For that reason, McDonald's could be a frequent

target of antifranchise, anticapitalistic, or anti-American demonstrations. The "anti" sentiments are widespread, but do not lead to mobilization until they are galvanized. An interesting example is provided by the French farmer who led a group of protestors in an attack on a local McDonald's restaurant. Prior to mobilizing a band of followers, he had no organization, few long-term allies, and no real long-term strategy. However, his criticisms of McDonald's tapped into a widespread antagonism to the franchise in his country once he represented it as an agent of external intrusion ("McDomination") and many French citizens began to agree that fast food—both in its preparation and consumption—was decidedly out of place in their culture. One sociologist equated people's embarrassment at being seen coming out of a McDonald's in France with being "caught leaving an X-rated movie" in the United States.[41]

During the farmer's trial, thousands of supporters showed up: teenagers with green hair, middle-aged men with ponytails, and retirees, many wearing T-shirts with the slogan, "The world is not merchandise, and I'm not either."[42] This is the kind of mobilization—cutting across age, class, and lifestyle lines—that multinational corporations may most fear, and it provides an important part of the explanation for why corporations have often gone to great lengths to make themselves less conspicuous. The sporadic protests in France notwithstanding, McDonald's has been highly successful at blending with local settings.

The twenty-four McDonald's restaurants in India provide a good illustration of how the corporation weaves itself into any milieu. Most of the population in India is Hindu, hence they hold cows to be sacred and condemn their slaughter. Because they would never eat the meat of a cow, it is difficult to sell hamburgers in India. The restaurant's solution was the "Maharaja Mac," made of chicken and mutton. In every McDonald's in India a sign is posted stating, "No beef or beef products sold in this restaurant."[43] At the new McDonald's in Delhi, the Maharaja Mac is now popular with Indians on their way to the Taj Mahal. Once this flagship sandwich becomes connected in people's minds with an authentic aspect of local culture (such as the Taj Mahal), the blending is complete.

However, the McDonald's in the former Yugoslavia must surely provide the most dramatic example of how a corporation can fit in anywhere and become part of local culture. During spring 1999, American planes and bombs were conspicuously involved in NATO air strikes on parts of former Yugoslavia. (The bombing was designed to stop Serbian atrocities.) When air raids began, McDonald's franchises in Belgrade and other cities were vandalized by nationalistic protesters who smashed windows and scribbled insults on walls. The restaurants were targeted because they represented a conspicuously American icon. Even though every one of the franchises in the former Yugoslavia was entirely owned by McDonald's, the local head of operations launched a successful strategy to get Serbs to view the company as their own. Toward this end, the restaurants closed for a few days while they redesigned the familiar golden arches logo to include the traditional Serbian cap over one of the arches, and this redesigned logo was set against the colors of the Serbian flag. McDonald's printed thousands of banners and lapel buttons with the new logo and distributed them when the restaurants reopened.

As the NATO bombing continued, McDonald's passed out thousands of free cheeseburgers to the participants at anti-NATO rallies. They convinced Serbs that—in relation to bombs falling from the sky—they were all in the same boat. Hence, McDonald's was as Serbian as the dinar people used to pay for their fries. At McDonald's headquarters in suburban Chicago, a spokesperson argued that the local strategy should not be interpreted in national or international terms because it was the plan of the Yugoslav manager who was "functioning as a hamburger guy and not as a politician."[44]

NOTES

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2. Saskia Sassen, *Cities in a World Economy* (Thousand Oaks, Calif.: Pine Forge Press, 2000).
3. I have adopted this example from Chase-Dunn et al. They pose it as question at the beginning of their paper, however, while I have presented it as a statement, indicated by their results. See Christopher Chase-Dunn, Yukio Kawano, and Benjamin D. Brewer, "Trade Globalization Since 1795," *American Sociological Review*, 65, no. 1 (2000):77–95.
4. In addition to describing international financial markets, an insightful application of microsocial theories to the interactions among these electronically connected traders is presented in Karin K. Cetina and Urs Bruegger, "Global Macrostructures," *American Journal of Sociology*, 107(2002):905–50.
5. Janet L. Abu-Lughod, *New York, Chicago, Los Angeles: America's Global Cities* (Minneapolis: University of Minnesota Press, 1999). For further discussion of the limitations of demographic measures, see David A. Smith and Michael Timberlake, "Cities in Global Matrices," in *World Cities in a World System*, ed. Paul L. Knox and Peter J. Taylor (Cambridge: Cambridge University Press, 1995), 79–97.
6. Peter Hall, *The World Cities* (London: Werdenfeld and Nicolson, 1966).
7. John Friedman, "The World City Hypothesis," *Development and Change*, 17(1986): 69–84.
8. John Friedman, "Where We Stand: A Decade of World City Research," in *World Cities in a World-System*, ed. Paul L. Knox and Peter J. Taylor (Cambridge: Cambridge University Press, 1995), 21–47.
9. Figures from Sassen, *Cities in a World Economy.*
10. Klaus R. Kunzmann, "World City Regions in Europe." in *Globalization and the World of Large Cities*, ed. Fu-chen Lo and Yue-man Yeung (Tokyo: United Nations Press, 1998), 37–75.
11. For example, corporate services include finance, already included in banking, but three other specialized services are also included in this category (law, accounting, and advertising). So, the measures are only partially redundant.
12. Masahiko Honjo, "The Growth of Tokyo as a World City," in *Globalization and the World of Large Cities*, ed. Fu-chen Lo and Yue-man Yeung, 109–31.
13. For recent figures on market capitalization, see "Floating in the Air," *The Economist*, 26 May 2001, p. 11.

14. Janet Lippman Abu-Lughod, "Comparing Chicago, New York and Los Angeles," in *World Cities in a World-System*, ed. Paul L. Knox and Peter J. Taylor (Cambridge: Cambridge University Press, 1995), 171–91.
15. For further discussion, see Alfred Lewis and Gioia Prescetto, *EU and US Banking in the 1990s* (London: Academic Press, 1996).
16. Edmund L. Andrews, "Swiss Acquirer Has Had Plenty of Its Own Problems," *New York Times*, 13 July 2000, p. C4.
17. Sassen, *Cities in a World Economy.*
18. Laura M. Holson and Andrew R. Sorkin, "Telecommunications Powerhouse," *New York Times*, 13 December 1999, p. C10.
19. Leslie Wayne, "Elder Bush in Big G.O.P. Cast Toiling for Top Equity Firm," *New York Times*, 5 March 2000, p. 1.
20. Timothy L. O'Brien with Raymond Bonner, "Jury Charges 3, One a Bank Aide, in Russian Case," *New York Times*, 6 October 1999, p. A1. Edwards and her husband were also accused of looting assets from a now-defunct Russian bank by systematically transferring funds from that bank to BNY. Bloomberg News, "Bank of New York Suit Revived," *New York Times*, 15 January 2002, p. C7.
21. Jeff Gerth, "Under Scrutiny: Citibank's Handling of High-Profile Foreigners' Accounts," *New York Times*, 27 July 1999, p. A6.
22. Data on financial institutions are from Thompson/Polk, *Bank Industry Statistics* (Skokie, Ill.: Thompson Financial Publishing, 1998). Data on banks are from Sassen, *Cities in a World Economy.*
23. This information, and the following, about Diageo Corporation is taken from its *1998 Annual Review* (London: 1999). As of the summer 2001, Diageo was in talks to sell its nonbeverage holdings and purchase other companies in the beverage industry. However, its holdings were as presented here in summer 2002.
24. See the annual *World Investment Reports* prepared by the United Nations Conference on Trade and Development. Geneva: United Nations.
25. All figures in Table 4.3 are from Leslie Hannah, "Survival and Size Mobility among the World's Largest 100 Industrial Corporations, 1912–1995," *American Economic Review*, 37(1998), 19–31.
26. United Nations Conference on Trade and Development, *World Investment Report* (Geneva: United Nations, 2002).
27. John Tagliabue, "Volvo Buying Renault Truck and Bus Unit for $1.5 Billion," *New York Times*, 26 April 2000, p. C4.
28. International Finance Corporation, *Foreign Direct Investment* (Washington, D.C.: World Bank, 1997).
29. "World Investment Report 1997," *Transnational Corporations*, 6, no. 2(1997): 127–69.
30. *1999 Fortune Global Five Hundred;* (2000) New York: *Fortune* and Grazio Ietto-Gillies, "Different Conceptual Frameworks for Internationalization," *Transnational Corporations*, 7, no. 1(1998):17–39.
31. Klaus R. Kunzmann, "World City Regions in Europe," in Lo and Yeung, *Globalization and the World of Large Cities*, 41.
32. Saskia Sassen, "On Concentration and Centrality in the Global City," in Knox and Taylor *World Cities in a World System*, p. 63.
33. Sassen, "On Concentration and Centrality." These employment figures are for producer service firms, which also includes insurance and real estate.
34. Stuart Elliot, "Advertising," *New York Times*, 10 September 1999, p. C4.

35. This view is presented by David Meyer, "World Cities as Financial Centres," in Lo and Yeung, *Globalization and the World of Large Cities,* 410–32; and Sassen, "On Concentration and Centrality."
36. J. V. Beaverstock, Peter J. Taylor, and D. R. F. Walker, "United States Law Firms in World Cities," *Urban Geography,* 21(2000):95–119.
37. Peter J. Taylor, D. R. Walker, and J. V. Beaverstock, "Introducing GaWC," in *Global Cities: The Impact of Transnationalism and Telematics,* ed. Saskia Sassen (Tokyo: United Nations University, in press).
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41. Suzanne Daley, "French See a Hero in War on 'McDomination'," *New York Times,* 12 October 1999, p. A4.
42. Ibid.
43. On the other hand, some critics insist that McDonald's will always represent "American patterns of consumption" and that its food will remain "Un-Indian." Nevertheless, there were twenty-four McDonald's in India at the end of 2000, and a total of eighty were planned. Luke Harding, "Lunch in India: A Big Mac, But Hold the beef," *Journal Inquirer,* 20 December 2000, p. 21. (Scripps Howard News Service, published in Manchester, Conn.)
44. Robert Block, "How Big Mac Survived NATO's Attack on Yugoslavia," *Wall Street Journal,* 3 September 1999, p. 3.

FIVE

Inequality

Since the 1980s, when studies began systematically to try to catalog the distinguishing features of global cities, one of the most emphasized characteristics has been differences in the wealth of the highest and lowest segments in these cities. Some analysts designated it income inequality while others referred to it as class polarization, but all were offering essentially the same diagnosis. After several decades in which the middle class had grown substantially, especially in the most economically advanced nations, observers believed it might be receding and that the highest and lowest classes were expanding. As a result, they hypothesized that the overall distribution of wealth, or income, in the global cities might be moving toward the shape of an hourglass. Friedmann and Wolff, in one of the earliest studies, used the metaphors of the "citadel" and the "ghetto" to describe the expanding classes at the top and the bottom.[1] They selected terms with an ecological referent to highlight the fact that they were not only describing strata within a hierarchy, but groupings that were segregated spatially from each other as well.

If the hypothesis about increased inequality being a concomitant of global city development turns out to be correct, it would portend serious future difficulties because inequality eventually results in multiple social and political problems. When there is a high degree of inequality in a city or nation, it can be difficult to maintain civic order and security, seek justice, provide needed welfare, and so on.[2] Of course there is nowhere, other than a fanciful utopia, in which everyone has the identical amount of whatever it is that people value. Some difference is ubiquitous. It is a high degree of inequality that creates special problems, as described later in this chapter's case study of São Paulo, Brazil.

In the following pages we will examine income inequality in both global cities and in nations. Although our primary interest is in cities, it is important to consider nations also because some of the inequality in any city is a result of national policies. The degree to which access to education is left to the marketplace, for example, will have a profound effect on opportunities for intergener-