20. The creative destruction and recovery of cities

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According to the Austrian economist Joseph Schumpeter, capitalism is a continuous process of creative destruction. Economic growth is driven by innovation, as entrepreneurs continually create new products. However, these new products replace existing products and manufacturing processes, resulting in capitalist society being in a constant process of innovative destruction.

As hubs of economic activity, cities are particularly affected by these processes of profound capitalist transformation. Time and again, economic activities – or entire sectors – disappear from the scene, with cities finding themselves needing to recover from the fallout. How they do this varies greatly from one city to the next, as does the degree to which government policy is able to make a successful contribution to economic recovery. Some local authorities endeavour for years to help their city recover from the disappearance of an entire industry – a sad fate that has befallen the cities of Liège, Lille, Liverpool and the cities in the German Ruhr Area, for example. Others are relatively quick to bounce back after one of these economic shocks, sometimes by deliberately changing tack to a completely different sector. By attracting companies in a targeted way, Rennes was able to build up a pharmaceutical business community, a sector which had not been represented at all in the city previously. In the case of Brussels, coincidence and location were key. The city was able to more than compensate for the loss of its role as an inland port and distribution centre when a host of different European bodies decided to make it their home.
The ability to adapt

A city’s ability to adapt is determined by a range of very diverse factors. Obviously, cities with a central location and varied functions are quick to recover. You could say that London, for example, is in a constant process of transformation. Certain activities are lost and replaced by others seemingly effortlessly. Even recovering from the substantial bomb damage of the Blitz caused no significant upheaval. With a similar combination of a central location, a role as the seat of central government and high-quality services, Paris is also highly adaptable. However, the latter was unable to compensate sufficiently for the loss of its labour-intensive business sectors, like the automotive industry, which resulted in the establishment of suburbs with high unemployment rates and deep-rooted social problems. Location can make a city very resilient. Both Rotterdam and Hamburg were relatively quick to recover after the bomb damage of the Second World War thanks to their strong connections with the hinterland – in contrast with Coventry, where the process took a lot more time and effort because this city was also struggling with encroaching industrial decline. However, location alone is not enough. Liverpool’s location – roughly comparable to those of Rotterdam and Hamburg – did not do the city much good when the process of de-industrialisation began to gather pace in England in the 1960s.

In order to arrive at a good understanding of these processes of creative destruction and recovery, then, we are better off studying cities which do not have clear advantages in terms of location or a key central function. Take Bonn, for example, which is still feverishly attempting to compensate for the departure of the German central government to Berlin, by establishing a number of brand-new conference facilities among other things. Amsterdam also fits into this category of cities which do not boast any obvious advantages.
Amsterdam

Amsterdam likes to see itself as the centre of the world, or at least of the Netherlands. But, of course, it is not. Truth be told, Amsterdam's off-centre location is logistically impractical, which means that the city is forced to rely on other, less clearly identifiable factors, such as the position it has established for itself, its social and economic infrastructure or its range of appealing cultural attractions. This introduces a certain amount of unpredictability into the pattern of urban economic development.

There have been a number of significant periods in Amsterdam's history in which existing patterns of activity disappeared and new ones had to be found to replace them. The interesting thing about studying these periods is that they do not provide an unequivocal answer to the question as to how exactly the city recovered from these processes of creative destruction. The same thing that achieved results in one period barely made a difference, or even had a detrimental effect, in the next. Sometimes the government was required to provide a significant impetus to the economy, while at other times the economy bounced back more or less of its own accord. Where in one sector substantial investments by local authorities yielded little or no returns, other sectors thrived and flourished without any significant financial intervention at all.

The final quarter of the 17th century is a good example of the city successfully managing to adapt to changing circumstances as a result of joint efforts between the local authorities and the business community. At the time, more and more international trade was withdrawing – partly as a result of protectionism abroad and partly because the emerging competition elsewhere saw the Amsterdam warehouse as a detour. French wine was no longer carried across the Baltic Sea primarily on Dutch ships, but on French, English, German or Danish ones instead. Instead of continuing to trade goods themselves, merchants diversified into supplying a highly-developed, comprehensive package of services – encompassing transportation, insurance and commercial
credit – to their foreign customers. Due to specialisation and volume, those services were much cheaper in Amsterdam than elsewhere. This transition enabled foreign trade to remain very buoyant until the final quarter of the 18th century. The local government contributed to this success by giving the Bank of Amsterdam the new role of seamlessly supporting the merchants in their endeavours.

**Government policy and Amsterdam’s adaptability**

A comparable shift at the beginning of the 19th century failed, when trade had to be built up from scratch after the Batavian-French era (1795-1813). The cause of this can be found in the conflicting views that existed about the city’s economic future. Merchants were bending over backwards attempting to win back Amsterdam’s function as the distributor within Europe, but it had been lost forever. At the same time, King William I was pushing through a series of measures which, while well-intended, incited animosity within the city and its business community, as they were either superfluous or counterproductive: the establishment of De Nederlandsche Bank in 1814, the Netherlands Trading Society in 1824 and the construction of the Entrepotdok warehouse complex in 1827. In all, it took more than two decades, until roughly 1835, before the Amsterdam economy began to get back on its feet and new forms of economic activity, such as mechanical engineering, steam-powered sugar refining and mechanical rice husking, began to emerge.

Amsterdam has found itself at loggerheads with central government on many occasions since then, but in these cases it has usually been about money or the allocation of financial resources, rather than over a fundamental difference of economic opinion. However, a consensus of opinion does not necessarily make policy more effective. During the 1960s, the city and central government agreed on the necessity of large-scale planning, urban development and getting the population to move to new
housing in peripheral municipalities. However, in trying to implement these plans, they were faced with dogged opposition from residents, with the result that the city ended up retaining its unique, small-scale, historic character. In the meantime, persistent attempts to establish a petrochemical cluster at the Port of Amsterdam fell flat, again partly due to opposition from local citizens, and partly because the industry ultimately did not consider this a viable move.

The economic downturn of the 1970s marked the beginning of a difficult period for Amsterdam. The local authorities tried their best to prevent the loss of labour-intensive industries like shipbuilding and automotive manufacturing, but they ended up disappearing all the same, and without new industries taking their place. Due to problems with accessibility, more and more businesses opted for a location outside of the city. The city centre visibly deteriorated as a result, as high unemployment and depopulation meant that the middle classes had insufficient disposable incomes. It was only in the mid-80s that the tide finally began to turn, partly thanks to municipal policy. Under the powerful leadership of Alderman Jan Schaefer, an urban regeneration programme once again made Amsterdam an attractive place in which to live and situate your business, and the development of a new, large-scale office zone on the southern outskirts of the city brought about the necessary expansion in capacity for internationally oriented financial service providers.

However, it is striking that key developments that contributed to this economic recovery were not, or were only barely, the result of municipal policy. Schiphol Airport became a major source of employment in the region without the local authorities having to do much at all. In addition, the combination of frequent links to all corners of the world and the improved urban environment led a number of major multinationals to decide to move their head offices to Amsterdam, as it enabled them to offer their world-class staff the kind of working environment that places like Eindhoven, Arnhem or Zaandam
lacked. As a result, the population’s purchasing power began to grow, which in turn stimulated the emergence of a highly varied retail and hospitality sector. This also drew day trippers from the surrounding area, as Amsterdam now once again had something unique and distinctive to offer. While the City Council injected millions into the Port of Amsterdam – with varying success – the city owed its economic recovery in part to the intimate urban fabric that had almost been destroyed thirty years before. The expensive container terminal was a flop, and the innovation ended up coming from the existing, partly historical urban facilities. Bearing this in mind, the billions that Amsterdam is seeking to invest in new locks on the North Sea could perhaps be better spent on developing and fortifying those facilities.

Conclusion

Processes of creative destruction are completely unpredictable. Once it has become clear that a struggling industry can no longer be salvaged, even the entrepreneurs that are driving innovation are often unsure what direction things will go in next. Microsoft founder Bill Gates did not initially think that the internet had much of a future, even during the height of its boom. Steve Jobs dismissed smartphone apps as a fun extra and initially failed to recognise their tremendous economic potential for Apple. That is why it is often very difficult for cities to replace lost economic activity, especially if it concerns a city that boasts no clearly identifiable benefits. What works in one period yields no effect in the next, though the reason behind this subsequent failure remains unclear. One thing, however, is clear. Cities, like entrepreneurs, need to tirelessly search for economic innovation and accept the fact that some of these efforts will be fruitless – without being able to know which from the outset. After all, sitting still is even more fruitless, and much riskier from a social point of view as well.
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Further reading


