

*What Do We Know About Economic Development? What Do We Know About Cities and Networks? How Are They Linked?*

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**Peter Gordon** is Professor Emeritus at the University of Southern California's Price School of Public Policy, where he taught and conducted research for 43 years until his retirement at the end of 2013. Gordon's research interests are in applied urban economics. Gordon and his colleagues developed various economic impact models which they applied to the study of the effects of infrastructure investments or disruptions from natural events or terrorist attacks. In addition, he continues to be interested in urban structure and how it relates to economic growth along with the associated policy implications. Peter Gordon has published in most of the major urban planning, urban

transportation and regional science journals. He is a Fellow of the Regional Science Association International. He has consulted for local, state and federal agencies, the World Bank, the United Nations and many private groups. Gordon received the Ph.D. from the University of Pennsylvania in 1971.

**Abstract**

The biggest question in economics is still the one Adam Smith asked over 200 years ago: Why are some countries rich and why are some poor? What accounts for their economic growth differences? "Once you start thinking about them [international differences in living standards], it's hard to think about anything else" Robert Lucas (2002). Growth is the most powerful anti-poverty device.

Cities must be part of the story. We owe our prosperity to Smithian exchange and Schumpeterian entrepreneurialism. Both involve the formation of complex supply chains. Both are facilitated by the *evolution* of Coasian transactions costs. This involves the *evolution* of cities and networking opportunities. Spatial organization is part of industrial organization. Labor and capital move to cities for reasons of transaction cost economies. There are concurrently economies from externalities internalized.

Cities compete. Successful cities manage to make significant economies available to very large numbers of people and firms. Jane Jacobs noted that *continuous* and profitable interaction opportunities must be available; this is how people in cities interact and learn from each other. "Their intricate order – a manifestation of the freedom of countless numbers of people to make and carry out countless plans – is in many ways a wonder" Jane Jacobs (1961).