THE URBAN ROOTS OF FINANCIAL CRISES: RECLAIMING THE CITY FOR ANTI-CAPITALIST STRUGGLE

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In an article in the New York Times on 5 February 2011, entitled ‘Housing Bubbles Are Few and Far Between’, Robert Shiller, the economist who many consider the great housing expert given his role in the construction of the Case-Shiller index of housing prices in the United States, reassured everyone that the recent housing bubble was a ‘rare event, not to be repeated for many decades’. The ‘enormous housing bubble’ of the early 2000s ‘isn’t comparable to any national or international housing cycle in history. Previous bubbles have been smaller and more regional’. The only reasonable parallels, he asserted, were the land bubbles that occurred in the United States way back in the late 1830s and the 1850s.¹ This is, as I shall show, an astonishingly inaccurate reading of capitalist history. The fact that it passed so unremarked testifies to a serious blind spot in contemporary economic thinking. Unfortunately, it also turns out to be an equally blind spot in Marxist political economy.

Conventional economics routinely treats investment in the built environment along with urbanization as some sidebar to the more important affairs that go on in some fictional entity called ‘the national economy’. The subfield of ‘urban economics’ is, thus, the arena where inferior economists go while the big guns ply their macro-economic trading skills elsewhere. Even when the latter notice urban processes, they make it seem as if spatial reorganizations, regional development and the building of cities are merely some on-the-ground outcome of larger scale processes that remain unaffected by that which they produce. Thus, in the 2009 World Bank Development Report, which, for the first time ever, took economic geography seriously, the authors did so without a hint that anything could possibly go so catastrophically wrong in urban and regional development as to spark a crisis in the economy as a whole. Written wholly by economists...
(without consulting geographers, historians or urban sociologists) the aim was supposedly to explore the ‘influence of geography on economic opportunity’ and to elevate ‘space and place from mere undercurrents in policy to a major focus’.

The authors were actually out to show how the application of the usual nostrums of neoliberal economics to urban affairs (like getting the state out of the business of any serious regulation of land and property markets and minimizing the interventions of urban, regional and spatial planning) was the best way to augment economic growth (i.e., capital accumulation). Though they did have the decency to ‘regret’ that they did not have the time or space to explore in detail the social and environmental consequences of their proposals, they did plainly believe that cities that provide ‘fluid land and property markets and other supportive institutions – such as protecting property rights, enforcing contracts, and financing housing – will more likely flourish over time as the needs of the market change. Successful cities have relaxed zoning laws to allow higher-value users to bid for the valuable land – and have adopted land use regulations to adapt to their changing roles over time’.2

But land is not a commodity in the ordinary sense. It is a fictitious form of capital that derives from expectations of future rents. Maximizing its yield has driven low- or even moderate-income households out of Manhattan and central London over the last few years, with catastrophic effects on class disparities and the well-being of underprivileged populations. This is what is putting such intense pressure on the high-value land of Dharavi in Mumbai (a so-called slum that the report correctly depicts as a productive human ecosystem). The World Bank report advocates, in short, the kind of free-market fundamentalism that has spawned both macro-economic disruptions such as the crisis of 2007-09 alongside urban social movements of opposition to gentrification, neighbourhood destruction and the eviction of low-income populations to make way for higher value land uses.

Since the mid-1980s, neoliberal urban policy (applied, for example, across the European Union) concluded that redistributing wealth to less advantaged neighbourhoods, cities and regions was futile and that resources should instead be channelled to dynamic ‘entrepreneurial’ growth poles. A spatial version of ‘trickle down’ would then in the proverbial long run (which never comes) take care of all those pesky regional, spatial and urban inequalities. Turning the city over to the developers and speculative financiers redounds to the benefit of all! If only the Chinese had liberated land uses in their cities to free market forces, the World Bank Report argued, their economy would have grown even faster than it did!
The World Bank plainly favours speculative capital and not people. The idea that a city can do well (in terms of capital accumulation) while its people (apart from a privileged class) and the environment do badly is never examined. Even worse, the report is deeply complicit with the policies that lay at the root of the crisis of 2007-09. This is particularly odd, given that the report was published six months after the Lehman bankruptcy and nearly two years after the US housing market turned sour and the foreclosure tsunami was clearly identifiable. We are told, for example, without a hint of critical commentary, that:

since the deregulation of financial systems in the second half of the 1980s, market-based housing financing has expanded rapidly. Residential mortgage markets are now equivalent to more than 40 percent of gross domestic product (GDP) in developed countries, but those in developing countries are much smaller, averaging less than 10 percent of GDP. The public role should be to stimulate well-regulated private involvement... Establishing the legal foundations for simple, enforceable, and prudent mortgage contracts is a good start. When a country’s system is more developed and mature, the public sector can encourage a secondary mortgage market, develop financial innovations, and expand the securitization of mortgages. Occupant-owned housing, usually a household’s largest single asset by far, is important in wealth creation, social security and politics. People who own their house or who have secure tenure have a larger stake in their community and thus are more likely to lobby for less crime, stronger governance, and better local environmental conditions.³

These statements are nothing short of astonishing given recent events. Roll-on the sub-prime mortgage business, fuelled by palbum myths about the benefits of homeownership for all and the filing away of toxic mortgages in highly rated CDOs to be sold to unsuspecting investors! Roll-on endless suburbanization that is both land and energy consuming way beyond what is reasonable for the sustained use of planet earth for human habitation! The authors might plausibly maintain that they had no remit to connect their thinking about urbanization with issues of global warming. Along with Alan Greenspan, they could also argue that they were blind-sided by the events of 2007-09, and that they could not be expected to have anticipated anything troubling about the rosy scenario they painted. By inserting the words ‘prudent’ and ‘well-regulated’ into the argument they had, as it were,
hedged’ against potential criticism.

But since they cite innumerable ‘prudentially chosen’ historical examples to bolster their neoliberal nostrums, how come they missed that the crisis of 1973 originated in a global property market crash that brought down several banks? Did they not notice that the end of the Japanese boom in 1990 corresponded to a collapse of land prices (still ongoing); that the Swedish banking system had to be nationalized in 1992 because of excesses in property markets; that one of the triggers for the collapse in East and Southeast Asia in 1997–98 was excessive urban development in Thailand; that the commercial property-led Savings and Loan Crisis of 1987–90 in the United States saw several hundred financial institutions go belly-up at the cost of some US$200 billion to the US taxpayers (a situation that so exercised William Isaacs, then Chairman of the Federal Deposit Insurance Corporation, that in 1987 he threatened the American Bankers Association with nationalization unless they mended their ways)?

Where were the World Bank economists when all this was going on? There have been hundreds of financial crises since 1973 (compared to very few prior to that) and quite a few of them have been property or urban development led. And it was pretty clear to almost anyone who thought about it, including, it turns out, Robert Shiller, that something was going badly wrong in US housing markets after 2000 or so. But he saw it as exceptional rather than systemic. Shiller could well claim, of course, that all of the above examples were merely regional events. But then so, from the standpoint of the people of Brazil or China, was the crisis of 2007–09. The geographical epicentre was the US Southwest and Florida (with some spillover in Georgia) along with a few other hot spots (the grumbling foreclosure crises that began as early as 2005 in poor areas in older cities like Baltimore and Cleveland were too local and ‘unimportant’ because those affected were African-Americans and minorities). Internationally, Spain and Ireland were badly caught out, as was also, though to a lesser extent, Britain. But there were no serious problems in the property markets in France, Germany, the Netherlands, Poland or, at that time, throughout Asia.

A regional crisis centred in the United States went global, to be sure, in ways that did not happen in the cases of, say, Japan or Sweden in the early 1990s. But the Savings & Loan crisis centred on 1987 (the year of a serious stock crash that is still viewed as a totally separate incident) had global ramifications. The same was true of the much-neglected global property market crash of early 1973. Conventional wisdom has it that only the oil price-hike in the fall of 1973 mattered. But it turned out that the property crash preceded the oil price hike by six months or more and the recession
was well under way by the fall. The boom can be measured by the fact that Real Estate Investment Trust Assets in the US grew from $2 billion in 1969 to $20 billion in 1973 and that commercial bank mortgage loans increased from $66.7 billion to $113.6 billion over the same period. The property market crash that then followed in the spring of 1973 spilled over (for obvious revenue reasons) into the fiscal crisis of local states (which would not have happened had the recession been only about oil prices). The subsequent New York City fiscal crisis of 1975 was hugely important because at that time it controlled one of the largest public budgets in the world (prompting pleas from the French President and the West German Chancellor to bail New York City out to avoid a global implosion in financial markets). New York then became the centre for the invention of neoliberal practices of gifting moral hazard to the banks and making the people pay up through the restructuring of municipal contracts and services. The impact of the most recent property market crash has also carried over into the virtual bankruptcy of states like California, creating huge stresses in state and municipal government finance and government employment almost everywhere in the US. The story of the New York City fiscal crisis of the 1970s eerily resembles that of the state of California, which today has the eighth largest public budget in the world.\textsuperscript{6}

The National Bureau of Economic Research has recently unearthed yet another example of the role of property booms in sparking deep crises of capitalism. From a study of real estate data in the 1920s, Goetzmann and Newman ‘conclude that publically issued real estate securities affected real estate construction activity in the 1920s and the breakdown in their valuation, through the mechanism of the collateral cycle, may have led to the subsequent stock market crash of 1929-30’. With respect to housing, Florida, then as now, was an intense centre of speculative development with the nominal value of a building permit increasing by 8,000 per cent between 1919 and 1925. Nationally, the estimates of increases in housing values were around 400 per cent over roughly the same period. But this was a sideshow compared to commercial development which was almost entirely centred on New York and Chicago, where all manner of financial supports and securitization procedures were concocted to fuel a boom ‘matched only in the mid-2000s’. Even more telling is the graph Goetzmann and Newman compile on tall-building construction in New York City. The property booms that preceded the crash of 1929, 1973, 1987 and 2000, stand out like a pikestaff. The buildings we see around us in New York City, they poignantly note, represent ‘more than an architectural movement; they were largely the manifestation of a widespread financial phenomenon’. Noting that
real estate securities in the 1920s were every bit as ‘toxic as they are now’, they went on to conclude: ‘The New York skyline is a stark reminder of securitization’s ability to connect capital from a speculative public to building ventures. An increased understanding of the early real estate securities market has the potential to provide a valuable input when modelling for worst-case scenarios in the future. Optimism in financial markets has the power to raise steel, but it does not make a building pay.’

Property market booms and busts are, clearly, inextricably intertwined with speculative financial flows and these booms and busts have serious consequences for the macro-economy in general as well as all manner of externality effects upon resource depletion and environmental degradation. Furthermore, the greater the share of property markets in GDP, then the more significant the connection between financing and investment in the built environment becomes as a potential source of macro crises. In the case of developing countries such as Thailand, where housing mortgages, if the World Bank Report is right, are equivalent to only 10 per cent of GDP, a property crash could certainly contribute to but not totally power a macro-economic collapse (of the sort that occurred in 1997-98), whereas in the United States, where housing mortgage debt is equivalent to 40 per cent of GDP, then it most certainly could – and did in fact generate the crisis of 2007-09.

THE MARXIST PERSPECTIVE

With bourgeois theory, if not totally blind, at best lacking in insights relating urban developments to macroeconomic disruptions, one would have thought that Marxist critics with their vaunted historical materialist methods would have had a field day with fierce denunciations of soaring rents and the savage dispossession characteristic of what Marx and Engels referred to as the secondary forms of exploitation visited upon the working classes in their living places by merchant capitalists and landlords. They would have set the appropriation of space within the city through gentrification, high-end condo construction and ‘disneyfication’, against the barbaric homelessness, lack of affordable housing and degrading urban environments (both physical, as in air quality, and social, as in crumbling schools and so-called ‘benign neglect’ of education) for the mass of the population. There has been some of that in a restricted circle of Marxist urbanists (I count myself one). But in fact the structure of thinking within Marxism generally is distressingly similar to that within bourgeois economics. The urbanists are viewed as specialists while the truly significant core of macro-economic Marxist theorizing lies elsewhere. Again the fiction of a national economy takes precedence
because that is where the data can most easily be found and, to be fair, some of the major policy decisions are taken. The role of the property market in creating the crisis conditions of 2007–9 and its aftermath of unemployment and austerity (much of it administered at the local and municipal level) is not well understood, because there has been no serious attempt to integrate an understanding of processes of urbanization and built environment formation into the general theory of the laws of motion of capital. As a consequence, many Marxist theorists, who love crises to death, tend to treat the recent crash as an obvious manifestation of their favoured version of Marxist crisis theory (be it falling rates of profit, underconsumption or whatever).

Marx is to some degree himself to blame, though unwittingly so, for this state of affairs. In the introduction to the *Grundrisse*, he states his objective in writing *Capital* is to explicate the general laws of motion of capital. This meant concentrating exclusively on the production and realization of surplus value while abstracting from and excluding what he called the ‘particularities’ of distribution (interest, rents, taxes and even actual wage and profit rates) since these were accidental, conjunctural and of the moment in space and time. He also abstracted from the specificities of exchange relations, such as supply and demand and the state of competition. When demand and supply are in equilibrium, he argued, they cease to explain anything while the coercive laws of competition function as the enforcer rather than the determinant of the general laws of motion of capital. This immediately provokes the thought of what happens when the enforcement mechanism is lacking, as happens under conditions of monopolization, and what happens when we include spatial competition in our thinking, which is, as has long been known, always a form of monopolistic competition (as in the case of inter-urban competition).

Finally, Marx depicts consumption as a ‘singularity’ (a very Spinoza-like conception that Hardt and Negri have been at pains recently to revive). As such it is chaotic, unpredictable and uncontrollable, and, therefore, in Marx’s view, generally outside of the field of political economy (the study of use values, he declares on the first page of *Capital*, is the business of history and not of political economy). Marx also identified another level, that of the metabolic relation to nature, which is a universal condition of all forms of human society and therefore broadly irrelevant to an understanding of the general laws of motion of capital understood as a specific social and historical construct. Environmental issues have a shadowy presence throughout *Capital* for this reason (which does not imply that Marx thought them unimportant or insignificant, any more than he dismissed consumption as irrelevant in the grander scheme of things).

Throughout most of *Capital*, Marx pretty
much sticks to the framework outlined in the *Grundrisse*. He lasers in on the generality of production of surplus value and excludes everything else. He recognizes from time to time that there are problems of so doing. There is, he notes, some ‘double positing’ going on – land, labour, money, commodities are crucial facts of production while interest, rents, wages and profits are excluded from the analysis as particularities of distribution!

The virtue of Marx’s approach is that it allows a very clear account of the general laws of motion of capital to be constructed in a way that abstracts from the specific and particular conditions of his time (such as the crises of 1847-48 and 1857-58). This is why we can still read him today in ways that are relevant to our own times. But this approach imposes costs. To begin with, Marx makes clear that the analysis of an actually existing capitalist society/situation requires a dialectical integration of the universal, the general, the particular, and the singular aspects of a society construed as a working organic totality. We cannot hope, therefore, to explain actual events (such as the crisis of 2007-09) simply in terms of the general laws of motion of capital (this is one of my objections to those who try to cram the facts of the present crisis into some theory of the falling rate of profit). But, conversely, we cannot attempt such an explanation without reference to the general laws of motion either (though Marx himself appears to do so in his account in *Capital* of the ‘independent and autonomous’ financial and commercial crisis of 1847-48 or even more dramatically in his historical studies of the *Eighteenth Brumaire* and *Class Struggles in France*, where the general laws of motion of capital are never mentioned).9

Secondly, the abstractions within Marx’s chosen level of generality start to fracture as the argument in *Capital* progresses. There are many examples of this, but the one that is most conspicuous and in any case most germane to the argument here, relates to Marx’s handling of the credit system. Several times in volume 1 and repeatedly in volume 2, Marx invokes the credit system only to lay it aside as a fact of distribution that he is not prepared yet to confront. The general laws of motion he studies in volume 2, particularly those of fixed capital circulation and working periods, production periods, circulation times and turnover times, all end up not only invoking but necessitating the credit system. He gets very explicit on this point. When commenting on how the money capital advanced must always be greater than that applied in surplus value production in order to deal with differential turnover times, he notes how changes in turnover times can ‘set free’ some of the money earlier advanced. ‘This money capital that is set free by the mechanism of the turnover movement (together with the money capital set free by the successive reflux of the fixed capital and that needed for
variable capital in every labour process) must play a significant role, as soon as the credit system has developed, and must also form one of the foundations for this.\textsuperscript{10} From this and other similar comments it becomes clear that the credit system becomes absolutely necessary for capital circulation and that some accounting of the credit system has to be incorporated into the general laws of motion of capital. This poses a serious problem because when we get to the analysis of the credit system in volume 3, we find that the interest rate is set by supply and demand and by the state of competition, two specificities that have been earlier totally excluded from the theoretical level of generality at which Marx works.

I mention this because the significance of the rules that Marx imposed upon his enquiries in \textit{Capital} has largely been ignored. When these rules necessarily get not only bent but broken, as happens in the case of credit and interest, then new prospects for theorizing are opened up that go beyond the insights that Marx has already produced. Marx actually recognizes this might happen at the very outset of his endeavours. In the \textit{Grundrisse}, he thus says of consumption, the most recalcitrant of his categories for analysis given the singularities involved, that while it, like the study of use values, ‘actually belongs outside of economics’ the possibility exists for consumption to react ‘in turn upon the point of departure (production) and initiate the whole process anew’.\textsuperscript{11} This is particularly the case with productive consumption, the labour process itself. Tronti and those who followed in his footsteps, such as Negri, are therefore perfectly correct to see the labour process as itself constituted as a singularity – chaotic, hard to discipline, unpredictable and therefore always potentially dangerous for capital – internalized within the general laws of motion of capital!\textsuperscript{12} The legendary difficulties faced by capitalists as they seek to mobilize the ‘animal spirits’ of the workers to produce surplus value signals the existence of this singularity in the heart of the production process (this is nowhere more obvious than in the construction industry, as we will see). Internalizing the credit system and the relation between the rate of interest and the rate of profit within the general laws of production, circulation and realization of capital, is likewise a disruptive necessity if we are to bring Marx’s theoretical apparatus more acutely to bear on actual events.

The integration of credit into the general theory has to be carefully done, however, in ways that preserve, albeit in a transformed state, the theoretical insights already gained. With regards to the credit system, for example, we cannot treat it simply as an entity in itself, a kind of efflorescence located on Wall Street or in the City of London that is free floating above the grounded activities on Main Street. A lot of credit-based activity may indeed
be speculative froth and a disgusting excrescence of human lust for gold and pure money power. But much of it is fundamental and absolutely necessary to the functioning of capital. The boundaries between what is necessary and what is (a) necessarily fictitious (as in the case of state and mortgage debt) and (b) pure excess, are not easy to define.

Clearly, to try to analyze the dynamics of the recent crisis and its aftermath without reference to the credit system (with mortgages standing at 40 per cent of GDP in the US), consumerism (70 per cent of the driving force in the US economy compared to 35 per cent in China) and the state of competition (monopoly power in financial, real estate, retailing and many other markets) would be a ridiculous enterprise. $1.4 trillion in mortgages, many of them toxic, are sitting on the secondary markets of Fannie Mae and Freddy Mac in the United States thus forcing the government to allocate $400 billion to a potential rescue effort (with around $142 billion already spent). To understand this, we need to unpack what Marx might mean by the category of ‘fictitious capital’ and its connectivity to land and property markets. We need a way to understand how securitization, as Goetzmann and Newman put it, connects ‘capital from a speculative public to building ventures’. For was it not speculation in the values of land and housing prices and rents that played a fundamental role in the formation of this crisis?

Fictitious capital, for Marx, is not a figment of some Wall Street trader’s cocaine addled brain. It is a fetish construct which means, given Marx’s characterization of fetishism in volume 1 of *Capital*, that it is real enough but that it is a surface phenomenon that disguises something important about underlying social relations. When a bank lends to the state and receives interest in return, it appears as if there is something productive going on within the state that is actually producing value when most (but not all, as I shall shortly show) of what goes on within the state (like fighting wars) has nothing to do with value production. When the bank lends to a consumer to buy a house and receives a flow of interest in return, it makes it seem as if something is going on in the house that is directly producing value when that is not the case. When banks take up bond issues to construct hospitals, universities, schools and the like in return for interest it seems as if value is being directly produced in those institutions when it is not. When banks lend to purchase land and property in search of extracting rents, then the distributive category of rent becomes absorbed into the flow of fictitious capital circulation. When banks lend to other banks or when the Central Bank lends to the commercial banks who lend to land speculators looking to appropriate rents, then fictitious capital looks more and more like an infinite regression of fictions built upon fictions. These are all examples of fictitious
capital flows. And it is these flows that convert real into unreal estate.

Marx’s point is that the interest that is paid comes from somewhere else – taxation or direct extractions on surplus value production or levies on revenues (wages and profits). And for Marx, of course, the only place where value and surplus value is created is in the labour process of production. What goes on in fictitious capital circulation may be socially necessary to sustaining capitalism. It may be part of the necessary costs of production and reproduction. Secondary forms of surplus value can be extracted by capitalist enterprises through the exploitation of workers employed by retailers, banks and hedge funds. But Marx’s point is that if there is no value and surplus value being produced in production in general, then these sectors cannot exist by themselves. If no shirts and shoes are produced what would retailers sell?

There is, however, a caveat that is terribly important. Some of the flow of fictitious capital can indeed be associated with value creation. When I convert my mortgaged house into a sweatshop employing illegal immigrants, the house becomes fixed capital in production. When the state builds roads and other infrastructures that function as collective means of production for capital, then these have to be categorized as ‘productive state expenditures’. When the hospital or university becomes the site for innovation and design of new drugs, equipment and the like, it becomes a site of production. Marx would not be fazed by these caveats at all. As he says of fixed capital, whether something functions as fixed capital or not depends upon its use and not upon its physical qualities. Fixed capital declines when textile lofts are converted into condominiums while micro-finance converts peasant huts into (far cheaper) fixed capital of production!

Much of the value and surplus value created in production is siphoned off to pass, by all manner of complicated paths, through fictitious channels. And when banks lend to other banks, it is clear that all manner of both socially unnecessary side-payments and speculative movements become possible, built upon the perpetually shifting terrain of fluctuating asset values. Those asset values depend upon a critical process of ‘capitalization’. A revenue stream from some asset, such as land, property, a stock, or whatever, is assigned a capital value at which it can be traded, depending upon the interest and discount rates determined by supply and demand conditions in the money market. How to value such assets when there is no market for them became a huge problem in 2008 and it has not gone away. The question of how toxic the assets held by Fannie Mae really are gives almost everyone a headache (there is an important echo here of the capital value controversy that erupted and got promptly buried, like all manner of other inconvenient
truths, in conventional economic theory in the early 1970s).\textsuperscript{15}

The problem that the credit system poses is that it is vital to the production, circulation and realization of capital flows at the same time as it is the pinnacle of all manner of speculative and other ‘insane forms’. It is this that led Marx to characterize Isaac Pereire, who, with his brother Emile, was one of the masters of the speculative reconstruction of urban Paris under Haussmann, as having ‘the nicely mixed character of swindler and prophet’.\textsuperscript{16}

**CAPITAL ACCUMULATION THROUGH URBANIZATION**

I have argued at length elsewhere that urbanization has been a key means for the absorption of capital and labour surpluses throughout capitalism’s history.\textsuperscript{17} I have long argued it has a very particular relation to the absorption of overaccumulating capital for very specific reasons that have to do with the long working periods, turnover times and the lifetimes of investments in the built environment. It also has a geographical specificity such that the production of space and of spatial monopolies becomes integral to the dynamics of accumulation, not simply by virtue of the changing patterns of commodity flows over space but also by virtue of the very nature of the created and produced spaces and places over which such movements occur. But precisely because all of this activity – which, by the way, is a hugely important site for value and surplus value production – is so long term, it calls for some combination of finance capital and state engagements as absolutely fundamental to its functioning. This activity is clearly speculative in the long term and always runs the risk of replicating, at a much later date and on a magnified scale, the very overaccumulation conditions that it initially helps relieve. Hence the crisis-prone character of urban and other forms of physical infrastructural investments (transcontinental railroads and highways, dams, and the like).

The cyclical character of such investments has been well documented for the nineteenth century in the meticulous work of Brinley Thomas.\textsuperscript{18} But the theory of construction business cycles became neglected after 1945 or so, in part because state-led Keynesian style interventions were deemed effective in flattening them out. The construction business cycle (circa 18 years in the USA) effectively disappeared.\textsuperscript{19} But the gradual breakdown of systemic Keynesian contra-cyclical interventions after the mid-1970s would suggest that a return to construction business cycles was more than a little likely. The data suggest that while fluctuations in construction have remained muted, asset value bubbles have become much more volatile than in the past (though the NBER accounts of the 1920s might be taken as contrary evidence to that view). The cyclical movements have also come to exhibit
a more complicated geographical configuration, even within countries (e.g. the US South and West exhibiting different rhythms to the Northeast and Midwest).

Without a general perspective of this sort, we cannot even begin to understand the dynamics that led into the catastrophe of housing markets and urbanization in 2008 in certain regions and cities of the United States as well as in Spain, Ireland and the United Kingdom. By the same token we cannot understand some of the paths that are currently being taken, particularly in China, to get out of the mess that was fundamentally produced elsewhere. For in the same way that Brinley Thomas documents contra-cyclical movements between Britain and the United States in the nineteenth century, such that a boom in residential construction in one place was balanced by a crash in the other, so we now see a crash in construction in the United States and much of Europe being counterbalanced by a huge urbanization and infrastructural investment boom centred in China (with several offshoots elsewhere, particularly in the so-called BRIC countries). And just to get the macro-picture connection right, we should immediately note that the United States and Europe are mired in low growth while China is registering a 10 per cent growth rate (with the other BRIC countries not far behind).

The pressure for the housing market and urban development in the United States to absorb overaccumulating capital through speculative activity began to build in the mid 1990s and fiercely accelerated after the end of the high-tech bubble and the stock market crash of 2001. The political pressures put on respectable financial institutions, including Fannie Mae and Freddie Mac, to lower their lending standards to accommodate the housing boom, coupled with the low interest rates favoured by Greenspan at the Fed, unquestionably fuelled the boom. But as Groezmann and Newman remark, finance (backed by the state) can build cities and suburbs but they cannot necessarily make them pay. So what fuelled the demand?

To understand the dynamics we have to understand how productive and fictitious capital circulation combine within the credit system in the context of property markets. Financial institutions lend to developers, landowners and construction companies to build, say, suburban tract housing around San Diego or condos in Florida and Southern Spain. In boom times, construction accounts directly for some 7 per cent of employment and more than double that when building materials suppliers and all the legal/financial services that rotate around the real estate industry are counted in. The viability of this sector presumes, however, that value can be realized. This is where fictitious capital comes in. Money is lent to purchasers who presumably have the ability to pay out of their revenues (wages or profits).
The financial system thus regulates to a considerable degree both the supply of and demand for tract housing and condos. This difference is similar to that between what Marx identifies in *Capital* as ‘loan capital’ for production and the discounting of bills of exchange which facilitates the realization of values in the market. In the case of housing in Southern California, the same finance company often furnished the finance to build and the finance to buy what had been built. As happens with labour markets, capital has the power to manipulate both supply and demand (which is totally at odds with the idea of the freely functioning markets that the World Bank Report supposes to be in place).

But the relationship is lopsided. While bankers, developers and construction companies easily combine to forge a class alliance (one that often dominates what is called ‘the urban growth machine’ both politically and economically), consumer mortgages are singular and dispersed and often involve loans to those who occupy a different class or, particularly in the United States but not in Ireland, racial or ethnic position. With securitization of mortgages, the finance company could simply pass any risk on to someone else, which is, of course precisely what they did, after having creamed off all the origination and legal fees that they could. If the financier has to choose between the bankruptcy of a developer because of failures of realization or the bankruptcy and foreclosure on the purchaser of housing (particularly if the purchaser is from the lower classes or from a racial or ethnic minority) then it is fairly clear which way the financial system will lean. Class and racial prejudices are invariably involved.

Furthermore, the asset markets constituted by housing and land inevitably have a Ponzi character even without a Bernie Madoff at the top. I buy a property and the property prices go up and a rising market encourages others to buy. When the pool of truly credit-worthy buyers dries up, then why not go further down the income layers to higher risk consumers ending up with no income and no asset buyers who might gain by flipping the property as prices rise? And so it goes until the bubble pops. Financial institutions have tremendous incentives to sustain the bubble as long as they can. The problem is that they often can’t get off the train before it wrecks because the train is accelerating so quickly. This is where the disparate turnover times, which Marx so cannily analyses in volume 2 of *Capital*, also become crucial. Contracts that finance construction are drawn up long before sales can begin. The time-lags are often substantial. The Empire State Building in New York opened on May Day 1931, almost two years after the stock market crash and more than three years after the real estate crash. The Twin Towers opened shortly after the crash of 1973 (and for years could find no
private tenants) and now the downtown rebuilding on the 9/11 site is about to come on line when commercial property values are depressed! Since the realization of the values produced is so crucial to the recuperation of the initial loans then finance companies will go to any lengths to stimulate the market beyond its real capacity.

But there are longer-term issues here that also need to be taken into account. If the NBER papers are correct, the collapse of the construction boom after 1928, which was manifest as a $2 billion drop off (huge for the time) in housing construction and a collapse of housing starts to less than 10 per cent of their former volume in the larger cities, played an important but still not well-understood role in the 1929 crash. A Wikipedia entry notes: ‘devastating was the disappearance of 2 million high paying jobs in the construction trades, plus the loss of profits and rents that humbled many landlords and real estate investors’. This surely had implications for confidence in the stock market more generally. Small wonder that there were desperate subsequent attempts by the Roosevelt administration to revive the housing sector. To that end a raft of reforms in housing mortgage finance was implemented culminating in the creation of a secondary mortgage market through the founding of the Federal National Mortgage Association (Fannie Mae) in 1938. The task of Fannie Mae was to insure mortgages and to allow banks and other lenders to pass the mortgages on, thus providing much needed liquidity to the housing market. These institutional reforms were later to play a vital role in financing the suburbanization of the United States after World War II.

While necessary, they were not sufficient to put housing construction onto a different plane in US economic development. All sorts of tax incentives (such as the mortgage interest tax deduction) along with the GI Bill and a very positive housing act of 1947, which declared the right of all Americans to live in ‘decent housing in a decent living environment’, were devised to promote home ownership for political as well as economic reasons. Homeownership was widely promoted as central to the ‘American Dream’ and it rose from just above 40 per cent of the population in the 1940s to more than 60 per cent by the 1960s and close to 70 per cent at its peak in 2004 (as of 2010 it had fallen to 66 per cent). Home ownership may be a deeply held cultural value in the United States but cultural values of this sort always flourish best when promoted and subsidized by state policies. The stated reasons for such policies are all those that the World Bank Report cites. But the political reason is rarely now acknowledged: as was openly noted in the 1930s, debt encumbered homeowners do not go on strike! The military personnel returning from service in World War II would have...
constituted a social and political threat had they returned to unemployment and depression. What better way to kill two birds with one stone: revive the economy through massive housing construction and suburbanization and co-opt the better paid workers into conservative politics by homeownership!

During the 1950s and the 1960s these policies worked, both from the political and the macro-economic viewpoints, since they underpinned two decades of very strong growth in the United States and the effects of that growth spilled over globally. The problem was that the urbanization process was as geographically uneven as were the income streams that flowed to different segments of the working class. While the suburbs flourished, the inner cities stagnated and declined. While the white working class flourished, in relative terms the impacted inner city minorities – African-American in particular – did not. The result was a whole sequence of inner-city uprisings – Detroit, Watts, culminating in spontaneous uprisings in some forty cities across the United States in the wake of the assassination of Martin Luther King in 1968. Something that came to be known as ‘the urban crisis’ was there for all to see and easily name (even though it was not from the macro-economic standpoint, a crisis of urbanization). Massive federal funds were released to deal with it after 1968 until Nixon declared the crisis over (for fiscal reasons) in the recession of 1973.26

The side-bar to all of this, was that Fannie Mae became a government sponsored private enterprise in 1968 and, after it was provided with a ‘competitor’, the Federal Home Mortgage Corporation (Freddie Mac) in 1972, both institutions played a hugely important and eventually destructive role in promoting home ownership and sustaining housing construction over nearly fifty years. Home mortgage debt now accounts for some 40 per cent of the accumulated private debt of the United States, much of which, as we have seen, is toxic. And both Fannie Mae and Freddie Mac have passed back into government control. What to do about them is an intensely debated political question (as are the subsidies to home ownership) in relation to US indebtedness more generally. Whatever happens will have major consequences for the future of the housing sector in particular and urbanization more generally in relation to capital accumulation within the United States.

The current signs in the United States are not encouraging. The housing sector is not reviving. There are signs it is heading for a dreaded ‘double-dip’ recession as Federal moneys dry up and unemployment remains high. Housing starts have plunged for the first time to below pre-1940s levels. As of March 2011, the unemployment rate in construction stood above 20 per cent compared to a rate of 9.7 per cent in manufacturing that was very
close to the national average. In the Great Depression, more than a quarter of construction workers remained unemployed as late as 1939. Getting them back to work was a crucial target for public interventions (such as the WPA). Attempts by the Obama Administration to create a stimulus package for infrastructural investments have largely been frustrated by Republican opposition. To make matters worse, the condition of state and local finances in the US is so dire as to result in lay-offs and furloughs as well as savage cuts in urban services. The collapse of the housing market and the fall of housing prices by 20 per cent or more nation-wide have put a huge dent in local finances which rely heavily on property taxes. An urban fiscal crisis is brewing as state and municipal governments cut back and construction languishes.

On top of all this comes a class politics of austerity that is being pursued for political and not for economic reasons. Radical right wing Republican administrations at the state and local levels are using the so-called debt crisis to savage government programmes and reduce state and local government employment. This has, of course, been a long-standing tactic of a capital-inspired assault on government programmes more generally. Reagan cut taxes on the wealthy from 72 per cent to around 30 per cent and launched a debt-financed arms race with the Soviet Union. The debt soared under Reagan as a result. As his budget director, David Stockman, later noted, running up the debt became a convenient excuse to go after government regulation (e.g. the environment) and social programmes, in effect externalizing the costs of environmental degradation and social reproduction. President Bush Jnr. faithfully followed suit, with his Vice-President, Dick Cheney, proclaiming that ‘Reagan taught us that deficits do not matter’. Tax cuts for the rich, two unfunded wars in Iraq and Afghanistan, and a huge gift to big pharma through a state funded prescription drug programme, turned what has been a budget surplus under Clinton into a sea of red ink, enabling the Republican party and conservative Democrats later to do big capital’s bidding, and go as far as possible in externalizing those costs that capital never wants to bear: the costs of environmental degradation and social reproduction.

The assault on the environment and the well-being of the people is palpable and it is taking place for political and class, not economic reasons. It is inducing, as David Stockman has very recently noted, a state of plain class war. As Warren Buffett also put it, ‘sure there is class war, and it is my class, the rich, who are making it and we are winning’. The only question is: when will the people start to wage class war back? And one of the places to start would be to focus on the rapidly degrading qualities of urban life, through foreclosures, the persistence of predatory practices in urban housing
markets, reductions in services and above all the lack of viable employment opportunities in urban labour markets almost everywhere, with some cities (Detroit being the sad poster child) utterly bereft of employment prospects. The crisis now is as much an urban crisis as it ever was.

PREDATORY URBAN PRACTICES.

In *The Communist Manifesto*, Marx and Engels note in passing that no sooner does the worker receive ‘his wages in cash, than he is set upon by the other portions of the bourgeoisie, the landlord, the shopkeeper, the pawnbroker, etc.’. Marxists have traditionally relegated such forms of exploitation, and the class struggles (for such they are) that inevitably arise around them, to the shadows of their theorizing as well as to the margins of their politics. But I here want to argue that they constitute, at least in the advanced capitalist economies, a vast terrain of accumulation by dispossession through which money is sucked up into the circulation of fictitious capital to underpin the vast fortunes made from within the financial system.

The predatory practices that were omnipresent within the sub-prime lending field before the crash were legendary in their proportions. Before the crisis broke, the low income African-American population of the United States was estimated to have lost somewhere between $71 and $93 billion in asset values through predatory sub-prime practices. Contemporaneously, the bonuses on Wall Street were soaring on unheard of profit rates from pure financial manipulations, particularly those associated with the securitization of mortgages. The inference is that by various hidden channels massive transfers of wealth from the poor to the rich were occurring, beyond those since documented in the plainly shady practices of mortgage companies like Countrywide, through financial manipulations in housing markets.

What has happened since is even more astonishing. Many of the foreclosures (over a million during the last year) turn out to have been illegal if not downright fraudulent, leading a Congressman from Florida to write to the Florida Supreme Court Justice that ‘if the reports I am hearing are true, the illegal foreclosures taking place represent the largest seizure of private property ever attempted by banks and government entities’. Attorneys General in all fifty states are now investigating the problem, but, (as might be expected) they all seem anxious to close out the investigations in as summary a way as possible at the price of a few financial settlements (but no restitutions of illegally seized properties). Certainly, no one is likely to go to jail for it, even though there is clear evidence of systematic forgery of legal documents.

Predatory practices of this sort have been longstanding. So let me give
some instances from Baltimore. Shortly after arriving in the city in 1969, I became involved in a study of inner city housing provision that focused on the role of different actors – landlords, tenants and homeowners, the brokers and lenders, the FHA, the city authorities (Housing Code Enforcement in particular) – in the production of the terrifying rat-infested inner-city living conditions in the areas wracked by uprisings in the wake of the assassination of Martin Luther King. The vestiges of redlining of areas of low-income African-American populations denied credit was etched into the map of the city, but exclusions were by then justified as a legitimate response to high credit risk and not supposedly to race. In several areas of the city, active blockbusting practices were to be found. This generated high profits for ruthless real estate companies. But for this to work, African-Americans had also to somehow acquire access to mortgage finance when they were all lumped together as a high credit risk population. This could be done by way of something called the ‘Land Installment Contract’. In effect, African-Americans were ‘helped’ by property owners who acted as intermediaries to the credit markets and took out a mortgage in their own names. After a few years when some of the principle plus the interest had been paid down, thus proving the family’s credit worthiness, the title was supposed to be passed on to the resident with help from the friendly property owner and local mortgage institution. Some takers made it (though usually in neighbourhoods that were declining in value) but in unscrupulous hands (and there were many in Baltimore though not, it appears, so many in Chicago where this system was also common) this could be a particularly predatory form of accumulation by dispossession.\(^{32}\) The property owner was permitted to charge fees to cover property taxes, administrative and legal costs, and the like. These fees (sometimes exorbitant) could be added to the principal of the mortgage. After years of steady payment, many families found they owed more on the principal on the house than they did at the start. If they failed once to pay the higher payments after interest rates rose, the contract was voided and families were evicted. Such practices caused something of a scandal. A civil rights action was started against the worst landlord offenders. But it failed because those who had signed on to the land installment contract had simply not read the small print or had their own lawyer (which poor people rarely have) to read it for them (the small print is in any case incomprehensible to ordinary mortals – have you ever read the small print on your credit card?).

Predatory practices of this sort never went away. The land-installment contract was displaced by practices of ‘flipping’ in the 1980s (a property dealer would buy a run-down house cheaply, put in a few cosmetic repairs – much overvalued – and arrange ‘favourable’ mortgage finance for the
unsuspecting buyer who lived in the house only so long as the roof did not fall in or the furnace blow up). And when the sub-prime market began to form in the 1990s, cities like Baltimore, Cleveland, Detroit, Buffalo and the like, became major centres for a growing wave of accumulation by dispossession ($70 billion or more nationwide). Baltimore eventually launched a Civil Rights lawsuit after the crash of 2008 against Wells Fargo over its discriminatory sub-prime lending practices (reverse redlining in which people were steered into taking sub-prime rather than conventional loans) in which African-Americans and single-headed households – women – were systematically exploited. Almost certainly the suit will fail (although at the third iteration it has been allowed to go forward in the courts) since it will be almost impossible to prove intent based on race as opposed to credit risk. As usual, the incomprehensible small print allows for a lot (consumers beware!). Cleveland took a more nuanced path: sue the finance companies for the creation of a public nuisance because the landscape was littered with foreclosed houses that required city action to board them up!

THE CHINA STORY

In so far as there has been any exit from the crisis this time, it is notable that the housing and property boom in China along with a huge wave of debt-financed infrastructural investments there have taken a leading role not only in stimulating their internal market (and mopping up unemployment in the export industries) but also in stimulating the economies that are tightly integrated into the China trade such as Australia and Chile with their raw materials and Germany with its high speed rail and automotive exports. (In the United States, on the other hand, construction has been slow to revive with the unemployment rate in construction, as I earlier noted, more than twice the national average.) Urban investments typically take a long time to produce and an even longer time to mature. It is always difficult to determine, therefore, when an overaccumulation of capital has been or is about to be transformed into an overaccumulation of investments in the built environment. The likelihood of overshooting, as regularly happened with the railways in the nineteenth century and as the long history of building cycles and crashes shows, is very high.

The fearlessness of the pell-mell urbanization and infrastructural investment boom that is completely reconfiguring the geography of the Chinese national space rest in part on the ability of the central government to intervene arbitrarily in the banking system if anything goes wrong. A relatively mild (by comparison) recession in property markets in the late 1990s in leading cities such as Shanghai, left the banks holding title to a vast
array of ‘non-earning assets’ (‘toxic’ we call them). Unofficially, estimates ran as high as 40 per cent of bank loans were non-earning.\(^\text{33}\) The response of the central government was to use their abundant foreign exchange reserves to re-capitalise the banks (a Chinese version of what later became known as the controversial Troubled Asset Relief Program – TARP – in the United States). It is known that the state used some $45 billion of its foreign exchange reserves for this purpose in the late 1990s and it may have indirectly used much more. But as China’s institutions evolve in ways more consistent with global financial markets, so it becomes harder for the central government to control what is happening in the financial sector.

The reports now available from China make it seem rather too similar for comfort to the American Southwest and Florida in the 2000s, or Florida in the 1920s. Since the general privatization of housing in China in 1998, housing construction has taken off in a spectacular (and speculative) fashion. Housing prices are reported to have risen 140 per cent nationwide since 2007 and as much as 800 per cent in the main cities such as Beijing and Shanghai over the last five years. In the latter city property prices are reputed to have doubled over the last year alone. The average apartment price there now stands at $500,000 and even in second tier cities a typical home ‘costs about 25 times the average income of residents’, which is clearly unsustainable.

One consequence is the emergence of strong inflationary pressures. ‘Too much of the country’s growth continues to be tied to inflationary spending on real estate development and government investment in roads, railways and other multibillion dollar infrastructure projects. In the first quarter of 2011, fixed asset investment – a broad measure of building activity – jumped 25 per cent from the period a year earlier, and real estate investment soared 37 per cent’ according to government statements.\(^\text{34}\)

Extensive land acquisitions and displacements of legendary proportions in some of the major cities (as many as 3 million people displaced in Beijing over the last ten years) indicate an active economy of dispossession booming alongside this huge urbanization push throughout the whole of China. The forced displacements and dispossessions are probably the single most important cause of a rising tide of popular and sometimes violent protests. On the other hand, the land sales to developers have been providing a lucrative cash cow to fill local government coffers. Only in early 2011 did the central government demand they be curbed in order to stifle what many commentators saw as the out-of-control property market. The result, however, was to plunge many municipalities into fiscal difficulties.

Whole new cities, with hardly any residents or real activities as yet, can now be found in the Chinese interior, prompting a curious advertising programme
in the United States business press to attract investors and companies to this new urban frontier of global capitalism. And as happened in the post-World War II suburbanization boom in the United States, when all the ancillary housing appliances and appurtenances are added in, it becomes clear that the Chinese urbanization boom is playing a highly significant if not driving role in stimulating the revival of global economic growth. ‘By some estimates, China consumes up to 50 per cent of key global commodities and materials such as cement, iron ore, steel and coal, and Chinese real estate is the main driver of that demand’. Since at least half of the steel consumption ends up in the built environment, this means that a quarter of the global steel output is now absorbed by this activity alone. China is not the only place where such a property boom can be identified. All of the so-called BRIC countries seem to be following suit. Property prices thus doubled in both Sao Paulo and Rio last year and in India and Russia similar conditions prevail. But all of these countries are experiencing high aggregate growth rates.

Attempts by the Chinese central government to control their boom and quell inflationary pressures by raising step-wise the reserve requirements of the banks have not been too successful. A ‘shadow-banking system’ is rumoured to have emerged, strongly connected to land and property investments. The result of accelerating inflation has been proliferating unrest. Reports are now coming in of work actions by taxi drivers and truckers (in Shanghai), alongside sudden full-blown factory strikes in the industrial areas of Guangdong in response to low wages, poor working conditions and escalating prices. Official reports of unrest have risen dramatically and wage adjustments have been occurring along with government policies designed to confront the swelling unrest, and, perhaps, stimulate the internal market as a substitute for riskier and stagnant export markets (Chinese consumerism currently accounts for only 35 per cent of GDP as opposed to 70 per cent in the United States).

All of this has to be understood, however, against the background of the concrete steps the Chinese government took to deal with the crisis of 2007–09. The main impact of the crisis on China was the sudden collapse of export markets (particularly that of the United States) and a 20 per cent fall off in exports in early 2008. Several reasonably reliable estimates put the number of jobs lost in the export sector in the 20 million range over a very short period in 2008. Yet the IMF could report that the net job loss in China as of fall 2009 was only 3 million. Some of the difference between gross and net job losses may have been due to the return of unemployed urban migrants to their rural base. But the rest of it was almost certainly due to the government’s implementation of a massive Keynesian-style stimulus
programme of urban and infrastructural investment. Nearly $600 billion was made available by the central government while the centrally-controlled banks were instructed to lend extensively to all manner of local development projects (including the property sector) as a way to mop up surplus labour. This massive programme was designed to lead the way towards economic recovery. And it appears to have been at least minimally successful in its immediate objectives if the IMF figures on net job loss are correct.

The big question, of course, is whether or not these state expenditures fall in the category of ‘productive’ or not, and, if so, productive of what and for whom? There is no question that the Chinese national space could benefit from deeper and more efficient spatial integration and on the surface at least the vast wave of infrastructural investments and urbanization projects would appear to do just that, linking the interior to the wealthier coastal regions and the North with the South. At the metropolitan level, the processes of urban growth and urban regeneration would also appear to bring modernist techniques to urbanization along with a diversification of activities (including all the mandatory cultural and knowledge industry institutions, exemplified by the spectacular Shanghai Expo, that are so characteristic of neoliberal urbanization in the United States and Europe). The absorption of surplus liquidity and overaccumulated capital at a time when profitable opportunities are otherwise hard to come by has certainly sustained capital accumulation, not only in China but also around much of the rest of the globe.

In some ways, China’s development mimics that of the post–World–War–II United States, where the interstate highway system integrated the South and the West and this, coupled with suburbanization, then played a crucial role in sustaining both employment and capital accumulation. But the parallel is instructive in other ways. United States development after 1945 was not only profligate in its use of energy and land, but it also generated, as we have seen, a distinctive crisis for marginalized and excluded urban populations, that elicited a raft of policy responses during the late 1960s. All of this faded after the crash of 1973, when President Nixon declared in his State of the Union Address that the urban crisis was over and that federal funding would be withdrawn. The effect at the municipal level was to create a crisis in urban services with all of the terrifying consequences of degeneration in public schooling, public health and the availability of affordable housing from the late 1970s onwards.

The investment strategy in China is in danger also of falling into such a lop-sided path. A high-speed train between Shanghai and Beijing is fine for the business people and the upper middle class but it does not constitute the kind of affordable transport system to take workers back to their rural origins
for the Chinese New Year. Similarly, high-rise apartment blocks, gated communities and golf courses for the rich along with high-end shopping malls do not really help to re-constitute an adequate daily life for the impoverished masses. The same question is arising in India as well as in the innumerable cities around the world where there are high concentrations of marginalized populations, from the restive suburbs of Paris to social movements agitating in Argentina, South Africa or throughout North Africa. In fact the issue of how to deal with impoverished, insecure and excluded workers that now constitute a majoritarian and putatively dominant power block in many capitalist cities could (and in some instances has already) become a major political problem, so much so that military planning is now highly focused on how to deal with restive and potentially revolutionary urban-based movements.

But in the Chinese case there is one interesting wrinkle to this narrative. In some respects the trajectory of development since liberalization began in 1979, rests on a simple thesis that decentralization is one of the best ways to exercise centralized control. The idea was to liberate regional, local and even villages and townships to seek their own betterment within a framework of centralized control and market coordinations. Successful solutions arrived at through local initiatives then became the basis for the re-formation of central government policies. Reports emanating from China suggest that the power transition anticipated for 2012 is faced with an intriguing choice. Attention is focused on the city of Chongqing, where a shift away from market-based policies back onto a path of state-led redistribution has been under way for some time, accompanied by ‘an arsenal of Maoist slogans’. In this model ‘everything links back to the issue of poverty and inequality’, as the municipal government ‘has turned the market profits of state-owned enterprises toward traditional socialist projects, using their revenues to fund the construction of affordable housing and transportation infrastructure’. The housing initiative entails a massive construction programme designed to provide cheap apartments to a third of the 30 million residents in the city region, where 20 satellite towns are expected to be built, each with a population of 300,000, of which 50,000 people will live in state-subsidized housing. The aim (contrary to World Bank advice) is to reduce the spiralling social inequalities that have arisen over the last two decades across China. It is an antidote to the private developer led projects of gated communities for the rich. This turn back to a socialist redistributive agenda, using the private sector for public purposes, is now providing a model for the central government to follow. It neatly solves the capital surplus absorption problem at the same time as it offers a way to both further urbanize the rural population
and to dispel popular discontent by offering reasonable housing security to the less well off. There are echoes of US urban policies after 1945. Keep economic growth on track while co-opting potentially restive populations. The scale of land acquisition entailed in such a programme is, however, already sparking unrest and opposition from those being displaced.

Rival market-based paths exist elsewhere, particularly in the coastal and southern cities, such as Shenzhen. Here the emphasis is more upon political liberalization and what sounds like bourgeois urban democracy alongside a deepening of free-market initiatives. In this case, rising social inequality is accepted as a necessary cost of sustained economic growth and competitiveness. Which way the central government will lean is impossible at this point to predict. But the key point is the role of urban-based initiatives in pioneering the way towards different futures. How then might the left in general relate – both in theory and in political practices – to such a prospect?

TOWARDS URBAN REVOLUTION?
The city is a terrain where anti-capitalist struggles have always flourished. The history of such struggles, from the Paris Commune through the Shanghai Commune, the Seattle General Strike, The Tucuman uprising and the Prague Spring to the more general urban-based movements of 1968 (which we now see faintly echoed in Cairo and Madison) is stunning. But it is a history that is also troubled by political and tactical complications that have led many on the left to underestimate and misunderstand the potential and the potency of urban-based movements, to often see them as separate from class struggle and therefore devoid of revolutionary potential. And when such events do take on iconic status, as in the case of the Paris Commune, they are typically claimed as one of ‘the greatest proletarian uprisings’ in world history, even as they were as much about reclaiming the right to the city as they were about revolutionizing class relations in production.

Anti-capitalist struggle is about the abolition of that class relation between capital and labour in production that permits the production and appropriation of surplus value by capital. The ultimate aim of anti-capitalist struggle is, quite simply, the abolition of that class relation. Even and particularly when this struggle has to be seen, as it invariably does, through the prisms of race, ethnicity, sexuality and gender, it must eventually reach into the very guts of what a capitalist system is about and wrench out the cancerous tumour of class relations at its very centre.

It would be a truthful caricature to say that the Marxist left has long privileged the industrial workers of the world as the vanguard agent that leads class struggle through the dictatorship of the proletariat to a world
where state and class whither away. It is also a truthful caricature to say that things have never worked out that way. Marx argued that the class relation of domination had to be displaced by the associated workers controlling their own production processes and protocols. From this derives a long history of political pursuit of worker control, autogestion, worker cooperatives and the like. Most attempts of this sort have not proven viable in the long run, in spite of the noble efforts and sacrifices that kept them going in the face of often fierce hostilities and active repressions. The main reason for the long-run failure of these initiatives is simple enough. As Marx shows in the second volume of *Capital*, the circulation of capital comprises three distinctive circulatory processes, those of money, productive and commodity capitals. No one circulatory process can survive or even exist without the others: they intermingle and co-determine each other. By the same token, no one circulation process can be changed without changing the others. Workers control in relatively isolated production units can rarely survive, in spite of all the hopeful autonomista and autogestion rhetoric, in the face of a hostile credit system and the predatory practices of merchant capital. The power of merchant capital (the Wal-Mart phenomena) has been particularly resurgent in recent years (another arena of much neglected analysis in Marxist theory).

Recognizing this difficulty, much of the left came to the view that struggle for proletarian command over the state apparatus was the only other path to communism. The state would be the agent to control the three circuits of capital and to tame the institutions, powers and class agents that managed the flows that supported the perpetuation of the class relation in production. The problem has always been, of course, that the lifeblood of the state comes from facilitating and tapping into the very flows that the state is supposed to control. That is as true for the socialist state as for the capitalist state. Centralized and top-down management does not work except by way of some liberation of the flows (as the Chinese have proven so expert at doing). And once the flows are liberated, all hell breaks loose because the capitalist genie is out of the bottle. So what are the political prospects for finding a middle path between autogestion and centralized state control when neither of them on their own work effectively as antidotes to the power of capital?

The problem with worker control has been that the focus of struggle has been the factory as a privileged site of production of surplus value and the privileging of the industrial working class as the vanguard of the proletariat, the main revolutionary agent. But it was not factory workers who produced the Paris Commune. So there is a dissident view of that event that says it was not a proletarian uprising or a class-based movement but an urban social
movement that was reclaiming the right to the city rather than seeking a revolutionary path towards the building of an anti-capitalist alternative. But why could it not be both? Urbanization is itself produced. Thousands of workers are engaged in its production and their work is productive of value and of surplus value. Why not reconceptualize the site of surplus value production as the city rather than as the factory? The Paris Commune can then be reconceptualized in terms of that proletariat that produced the city seeking to claim back the right to have and control that which they had produced. This is (and in the Paris Commune case was) a very different kind of proletariat to that which Marxists have typically favoured. But at this point in the history of those parts of the world characterized as advanced capitalism, the factory proletariat has been radically diminished. So we have a choice: mourn the passing of the possibility of revolution or change our conception of the proletariat to that of the hordes of unorganized urbanization producers and explore their distinctive revolutionary capacities and powers.

So who are these workers who produce the city? The city builders, the construction workers in particular, are the most obvious candidate, even as they are not the only nor the largest labour force involved. As a political force the construction workers have in recent times in the United States (and possibly elsewhere) all too often been supportive of the large-scale and class-biased developmentalism that keeps them employed. They do not have to be so. The masons and builders played an important role in the Paris Commune. The ‘Green Ban’ construction union movement in New South Wales in the early 1970s banned working on projects they deemed environmentally unsound and were successful in much of what they did. They were ultimately destroyed by a combination of concerted state power and their own Maoist national leadership who considered environmental issues a manifestation of flabby bourgeois sentimentality.

But there is a seamless connection between those who mine the iron ore that goes into the steel that goes into the construction of the bridges across which the trucks carrying commodities travel to their final destinations of factories and homes for consumption. All of these activities (including spatial movement) are, according to Marx, productive of value and of surplus value. And if, again as Marx argues, maintenance, repairs and replacements (often difficult to distinguish in practice) are all part of the value producing stream, then the vast army of workers involved in these activities in our cities is also contributing to value and surplus value producing investment in the physical infrastructures that make our cities what they are. If the flow of commodities from place of origin to final destination is productive of value, then so are the workers who are employed on the food chain that links rural producers.
to urban consumers. Organized, those workers would have the power to strangle the metabolism of the city. Strikes of transport workers (e.g. France over the last twenty years and now in Shanghai) are extremely effective political weapons (used negatively in Chile in the coup year of 1973). The Bus Riders Union in Los Angeles and the organization of taxi drivers in New York and LA are other examples.43

Consider the flows not only of food and other consumer goods, but also of energy, water and other necessities and their vulnerabilities to disruption too. The production and reproduction of urban life, while some of it can be ‘dismissed’ (an unfortunate word) as ‘unproductive’ in the Marxist canon, is nevertheless socially necessary, part of the ‘faux frais’ of the reproduction of the class relations between capital and labour. Much of this labour has always been temporary, insecure, itinerant and precarious. New forms of organizing are absolutely essential for this labour force that produces and sustains the city. The newly fledged Excluded Workers Congress in the United States is an example the forms that are emerging – an alliance of workers bedevilled by temporary and insecure conditions of employment who are often, as with domestic workers, spatially scattered throughout the urban system.44

It is in this light too that the history of the politics of conventional labour struggles requires a re-write. Most struggles that are depicted as focused solely on the factory-based worker turn out, on inspection, to have had a much broader base. Margaret Kohn complains, for example, how left historians of labour laud the Turin Factory Councils in the early twentieth century while totally ignoring the fact that it was in the ‘Houses of the People’ in the community that much of the politics was shaped and from which much of the logistical support flowed.45 E.P. Thompson depicts how the making of the English working class depended as much upon what happened in chapels and in neighbourhoods as in the work place. How successful would the Flint sit-down strike of 1937 have been were it not for the mass of unemployed people and the neighbourhood organizations outside the gates that unfailingly delivered their support, moral and material? And is it not interesting that in the British miners’ strikes of the 1970s and 1980s, the miners that lived in diffuse urbanized areas such as Nottingham were the first to cave in while the tightly-knit communities of Northumbria remained solidarious to the end? Organizing the community has been just as important in prosecuting labour struggles as has organizing the workplace. And to the degree that conventional workplaces are disappearing in many parts of the so-called advanced capitalist world (though not, of course, in China or Bangladesh), then organizing around work in the community appears to be even more important.
In all these instances, as we alter the lens on the social milieu in which struggle is occurring, then the sense of who the proletariat might be and what their aspirations might be gets transformed. The gender composition of oppositional politics looks very different when relations outside of the factory are placed firmly in the picture. The social dynamics of the workplace are not homologous with those in the living space. In the latter space distinctions based on gender, race, ethnicity, religion are frequently more deeply etched into the social fabric while issues of social reproduction play a more prominent, even dominant role, in the shaping of political subjectivities and consciousness. From this perspective the dynamics of class struggles along with the nature of political demands appear very different. But then when we look backward and reassess, we see that they always were rather different from how the Marxist imaginary wishfully depicted them.

Fletcher and Gapasin thus argue that the labour movement should pay more attention to geographical rather than sectoral forms of organization, that the movement should empower the central labour councils in cities in addition to organizing sectorally.

To the extent that labor speaks about matters of class, it should not see itself as separate from the community. The term labor should denote forms of organization with roots in the working class and with agendas that explicitly advance the class demands of the working class. In that sense, a community-based organization rooted in the working class (such as a workers’ centre) that addresses class-specific issues is a labor organization in the same way that a trade union is. To push the envelope a bit more, a trade union that addresses the interests of only one section of the working class (such as a white supremacist craft union) deserves the label labor organization less than does a community-based organization that assists the unemployed or the homeless.

They therefore propose a new approach to labour organizing that essentially defies current trade union practices in forming alliances and taking political action. Indeed, it has the following central premise: if class struggle is not restricted to the workplace, then neither should unions be. The strategic conclusion is that unions must think in terms of organizing cities rather than simply organizing workplaces (or industries). And organizing cities is possible only if unions work with allies in metropolitan social blocks.
‘How then’, they go on to ask, ‘does one organize a city?’ This, it seems to me, is one of the key questions that the left will have to answer if anti-capitalist struggle is to be revitalized in the years to come. And actually such struggles have a distinguished history. The inspiration drawn from ‘Red Bologna’ in the 1970s is a case in point. And it is one of those curious ironies of history that the French Communist Party distinguished itself far more in municipal administration (in part because it had no dogmatic theory or instructions from Moscow to guide it) than it did in other arenas of political life from the 1960s even up until the present day. The struggles fought by the municipalities in Britain against Thatcherism in the early 1980s were not only rearguard but, as in the case of the Greater London Council, potentially innovative until Thatcher abolished that whole layer of governance. Even in the United States, Milwaukee for many years had a socialist administration and it is worth remembering that the only socialist ever elected to the US Senate began his career and earned the people’s trust as mayor of Burlington, Vermont.

If the Parisian producers in the Commune were reclaiming their right to the city they had produced, then in what sense might we look to a slogan such as ‘the right to city’ as a ‘cry and a demand’ (as Lefebvre put it) around which political forces might rally as a key slogan for anti-capitalist struggle? The slogan is, of course, an empty signifier full of immanent but not transcendent possibilities. This does not mean it is irrelevant or politically impotent. Everything depends on who gets to fill the signifier with revolutionary as opposed to reformist immanent meaning. That is bound to be contested and then, as Marx once put it, ‘between equal rights force decides’.

It is indeed often difficult to distinguish between reformist and revolutionary initiatives in urban settings. Participatory budgeting in Porto Alegre, ecologically sensitive programmes in Curitiba or living wage campaigns in many US cities, appear on the surface to be merely reformist (and rather marginal at that). The Chongqing initiative may, despite the Maoist rhetoric, more resemble redistributive Nordic social democracy than a revolutionary movement. But as their influence spreads, so the initiatives reveal other deeper layers of possibility for more radical conceptions and actions at the metropolitan scale. A spreading rhetoric (from Zagreb to Hamburg to Los Angeles) over the right to the city, for example, seems to suggest something more revolutionary might be at stake. The measure of that possibility appears in the desperate attempts of existing political powers (e.g. the NGOs and international institutions, including the World Bank, assembled at the Rio World Urban Forum in 2010) to co-opt that language to their own purposes.
There is no point in complaining at the attempt to co-opt. The left should take it as a compliment and battle for our distinctive immanent meaning, which is simply that all those whose labours are engaged in producing and reproducing the city have a collective right not only to that which they produce but also to decide on what is to be produced where and how. Democratic vehicles (other than the existing democracy of money power) need to be constructed to decide how to revitalize urban life outside of dominant class relations and more after ‘our’ (the producers of urbanization and urbanism) heart’s desire.

One objection that immediately arises, of course, is why concentrate on the city when there are multiple rural, peasant and indigenous movements in motion that can also claim their own distinctive rights? In any case, has not the city as a physical object lost its meaning as an object of struggle? There is of course an obvious truth to these objections. Urbanization has produced a highly differentiated mosaic of communities and interactive spaces which are hard to bring together around any kind of coherent political project. Indeed, there is plenty of rivalry and conflict between the spaces that constitute the city. It was, I suspect, for this reason that Lefebvre changed his focus from the urban revolution to the broader terrain of the production of space, or as I might formulate it, to the production of uneven geographical development as the focus of theoretical analysis and political struggle.

In the pedestrian imaginations of literally-minded academics, such objections sometimes produce the conclusion that the city has disappeared and that pursuit of the right to the city is therefore the pursuit of a chimera. But political struggles are animated by visions as much as by practicalities. And the term ‘city’ has an iconic and symbolic history that is deeply embedded in the pursuit of political meanings. The city of God, the city on a hill, the city as an object of utopian desire, the relationship between city and citizenship, of a distinctive place of belonging within a perpetually shifting spatio-temporal order, all give it a political meaning that mobilizes a political imaginary that is lost in a slogan such as ‘the right to produce space’ or ‘the right to uneven geographical development’!

The right to the city is not an exclusive right but a focused right. It is inclusive not only of construction workers but also of all those who facilitate the reproduction of daily life: the care givers and teachers, the sewer and subway repair men, the plumbers and electricians, the hospital workers and the truck bus and taxi drivers, the restaurant workers and the entertainers, the bank clerks and the city administrators. It seeks a unity from within an incredible diversity of fragmented social spaces. And there are many putative forms of organization – from workers’ centres and regional...
worker’s assemblies (such as that of Toronto) to alliances (such as the Right to the City alliances and the Excluded Workers Congress and other forms of organization of precarious labour) that have this objective upon their political radar. This is the proletarian force that must be organized if the world is to change. This is how and where we have to begin if we wish to organize the whole city. The urban producers must rise up and reclaim their right to the city they collectively produce. The transformation of urban life and above all the abolition of the class relations in the production of urbanization will have to be one, if not the, path towards an anti-capitalist transition. This is what the left has to imagine as constituting the core of its political strategy in years to come.

NOTES


11 Marx, *Grundrisse*, p. 89.


16 Marx, *Capital*, Volume 3, p. 573. Both Isaac and Emile, incidentally, were part of the utopian Saint-Simonian movement prior to 1848.


34 David Barboza, ‘Inflation in China Poses Big Threat to Global Trade’, *New York


Anderlini, ‘Fate of Real Estate’.


Perhaps the single most important exception has been Mondragon. Founded under fascism in Spain in 1956 as a worker cooperative in the Basque country, it now has some 200 enterprises spreading throughout Spain and into Europe. In most of the enterprises the difference of remuneration has been limited until recently to 3 to 1 (compared to the 400 to 1 structure of most US corporations). Mondragon survived in part because it has not only been about production. It created its own credit structures and merchant capital outlets. Its strategy was to work across all three circuits. See George Cheney, Values at Work: Employee Participation Meets Market Pressures at Mondragon, Ithaca: ILR Press, 1999.


Ibid.


51 Henri Lefebvre, *Writings on Cities*. 