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Class-Monopoly Rent, Finance Capital and the Urban Revolution

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The thesis that this "secondary circuit of capital" is supplanting "the primary circuit of capital in production" is startling in its implications and obviously requires very careful consideration before being accepted or rejected. In this paper, therefore, I shall attempt to shed some light on Lefebvre's hypotheses by examining how rent, and in particular class-monopoly rent, arises in the context of the urbanization process.

1. THE CONCEPT OF RENT IN AN URBANIZED WORLD

I take it as axiomatic that value arises out of those processes that convert naturally occurring materials and forces into objects and powers of utility to individuals in specific social and natural environments. In its simplest form, we can say that value arises out of production and is realized in consumption (MARX, 1967 edn.). But production and distribution cannot take place...
without (1) an elaborate social structure (encompassing the division of labour, the provision of socially necessary services, and so on), (2) a structure of social institutions through which individual and group activities can be coordinated, and (3) a certain minimum of physical infrastructure (communication links, utilities and the like). Any system of production and distribution requires, consequently, certain transfer payments to be made out of value produced to support socially necessary institutions, services and physical infrastructures.

The history of the rental concept is strewn with arguments for and against the legitimacy of the transfer payment that rent represents (Keiper et al., 1961). In recent years, however, many appear to have been persuaded that rent is a kind of rationing device through which a scarce factor of production—land and its associated resources—is rationally and efficiently allocated to meet the productive needs of society (Wicksteed, 1894). Rent is justified, according to this view, as a necessary coordinating device for the efficient production of value. The problem with this neoclassical argument is, however, that rent is regarded as a payment to a scarce “factor” (which is a “thing” concept) rather than as an actual payment to people. This reification may be convenient for purposes of analysis but actual payments are made to real live people and not to pieces of land. Tenants are not easily convinced that the rent collector merely represents a scarce factor of production. The social consequences of rent are important and cannot be ignored simply because rent appears so innocently in the neoclassical doctrine of social harmony through competition (Barnbrook, 1974).

There is a further point to be considered. In order for payments to be made certain basic institutions are required. In our own society, private property arrangements are crucial; rent is, in effect, a transfer payment realized through the monopoly power over land and resources conferred by the institution of private property. Consequently, any examination of how rent originates and is realized cannot proceed without evaluating the performance of these supportive institutions.

But what is rent a payment for? The simplest answer is that it is a payment made by a user for the privilege of using a scarce productive resource which is owned by somebody else. But how does scarcity arise? Ever since production began to be organized systematically, human societies have recognized that many natural resources (understood as technical and cultural evaluations of nature (Firby, 1960; Spoehr, 1956)) are limited. There is a tendency, therefore, to think of scarcity as something inherent in nature and on this basis we may be willing to concede that more should be charged for the use of productive fields and mines than for fields and mines of average productivity. On reflection, however, this conception of “natural wealth” and “scarcity” appears less satisfactory. There is little “natural wealth” that has not been prepared prior to production—the field has to be cleared and the mineshaft has to be dug. Relatively permanent improvements—such as the terracing of hillsides, the building up of soil fertility and the draining of marshlands, may with time come to be regarded as “natural” resources for human use. In an urbanized world this problem becomes even more serious. Urbanization creates relatively permanent, man-made resource systems (Harvey, 1973, Chapter 2). Human effort is, as it were, incorporated into the land as fixed and immobile capital assets that may last hundreds of years. Consequently, the high rent for a piece of land in the centre of London may be due to its higher productivity, but that productivity has been created by the construction of the vast man-made resource system that is London. Because these relatively permanent fixed capital assets are highly localized in their distribution, the urbanization process has created scarcity where there was none before. If rent is a transfer payment to a scarce factor of production, then the urbanization process has also multiplied the opportunities for realizing rent.

The blurring of the distinction between natural and artificially created scarcity, makes it difficult to distinguish between rent and profit. Are houses, for example, to be regarded as relatively permanent improvements incorporated into the value of the land or are they better regarded as commodities commanding a profit on the capital outlay required to produce them? The answer to this question depends on what is meant by “relatively permanent”. Housing has to be produced and it has to be paid for as a commodity. Once this is done, however, the house may be regarded as a relatively permanent improvement incorporated into the value of the land. Buckingham Palace is a permanent improvement whereas the suburban house just built is not yet in that happy state. It seems reasonable to think in similar fashion about other elements in the built form of the city—offices, shops, transport links, and so on.

The distinction between a mere transfer payment—rent—and profit on productive capital investment is difficult to keep in mind. The individual investor does not particularly care about the distinction; the overall rate of return on financial outlays is what matters. Money is put,
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therefore, where the rate of return is highest irrespective of whether productive activity is involved or not. If rates or return are high in the real estate and property markets, then investment will shift from the primary productive circuit of capital to this secondary circuit in a manner that would be consistent with Lefebvre’s thesis. From the investor’s point of view there is nothing to prevent such a shift. What has to be explained, however, is how returns can be higher on the secondary circuit over any length of time. For the fact that the distinction between productive and unproductive investment has disappeared from the investor’s calculus does not negate the significance of such a distinction as a social fact. If all capital chases rent and no capital goes into production, then no value will be produced out of which the transfer payment that rent represents can come.

2. CLASS-MONOPOLY RENT, URBANIZATION AND CLASS-MONOPOLY POWER

Rent can be charged for a variety of reasons. Marx’s categories of differential, absolute and monopoly rent, to which Walker has recently added redistributive rent, are useful if only because they force us to consider the different kinds of situations out of which rent can arise (Harvey, 1973, Chapter 5; Walker, 1974). In this paper I will be concerned with what I shall call “class-monopoly rent”. Whether this form of rent should be included in Marx’s categories of absolute or monopoly rent is not clear. The resolution of this question depends upon the solution of the celebrated “transformation problem” which arises out of the relationship between values and prices in the Marxian schema.* I am of the opinion that class-monopoly rent is best treated as one form of absolute rent. But since this is a contentious and as-yet unresolved problem I will stick to the neutral term “class-monopoly rent” in what follows.

Class-monopoly rents arise because there exists a class of owners of “resource units”—the land and the relatively permanent improvements incorporated in it—who are willing to release the units under their command only if they receive a positive return above some arbitrary level (Marx, 1967 edn., Chapter 45). As a class these owners have the power always to achieve some minimum rate of return. The key concept here is class power. If landlords could not or would not behave in accordance with a well-defined class interest, then class-monopoly rents would not be realized. Landlords gain their class power in part from the fact that individually they can survive quite well without releasing all of the resource units under their command.

In nineteenth century Europe landlord power was essentially a residual from feudalism. Marx observed that it would be very much in the interest of the capitalist class to bring land and other productive resources under state ownership since this would relieve the capitalist of the obligation of making any transfer payment to landed property (Marx, 1968 edn., Part 2). It was unlikely, however, that capitalists would challenge the private property arrangements that allowed rent to be realized (and which provided the basis for the class power of landlords) since these arrangements also provided the necessary legal framework for entrepreneurial activity. But in an urbanized world, the distinction between capitalist and landlord has blurred concomitantly with the blurring of the distinctions between land and capital and rent and profit. We need, therefore, to adapt our categories to deal with the new complexities of extensive man-made resource systems. But the same questions arise: are there owners of resource units (be they natural or artificial) who can and do behave so as to make it possible to realize rent? If so, what is the basis of their class power, how are they defining “class interest” and how are we to interpret their role in relation to the structure of social class in society as a whole? We can begin to answer these questions by examining two examples that clarify the meaning of “class interest” in the sense in which that term is being used here.†

(a) Landlords versus low-income tenants

Suppose there exists a class of people who, by virtue of their income, social status, credit-worthiness and eligibility for public assistance, are incapable of finding accommodation as homeowners or as residents in public housing. The existence of such a class is readily demonstrable in any large American or European city. This class of people has no alternative but to seek accommodation in the low-income rental market; they are trapped within a particular housing sub-market. The needs of this class are provided for by a class interested in securing “class-monopoly rent”.

† It may be objected to that I am using the concepts “class” and “class interest” far too freely and loosely. In what follows I will use these concepts to refer to any group that has a clearly defined common interest in the struggle to command scarce resources in society. I will use the phrase social class or class structure when referring to more general concepts of class in society. The notion of class-monopoly is made use of by Marx (1967 edn., Vol. 3, pp. 194-195).
of landlords. Landlordism varies, of course, from the old lady who rents an attic to the large scale professional business operation. For purposes of exposition, let us assume that all rental accommodation is provided by a class of professional landlord-managers. This class has certain options as to where it puts its money but much of its capital exists in the form of housing. On the basis of the potential yield of money on the capital market, professional landlords may set their expected rate of return on the estimated market value of their fixed capital assets at, say, 15 per cent per annum. Suppose there is an abundance of low-income units in a particular city for some reason and that rates of return are in fact as low as 5 per cent. A rational landlord strategy is to reduce maintenance, milk properties of value and actively disinvest, using the money so extracted on the capital market where it earns, say, 15 per cent. With declining maintenance, the housing deteriorates in quality and eventually the worst units will be taken out of use—scarcity is successfully produced. Rents will gradually rise until the 15 per cent rate of return is obtained (and there is nothing to stop rents going higher if circumstances allow). The class interest of the landlord is to obtain a minimum of 15 per cent or else to find some way to get out of the market.

The class interests of landlord and tenant are clearly opposed to each other. If the quality of housing deteriorates and rents rise, tenants may seek accommodation elsewhere, but since they are, for the most part, trapped in this sub-market their power is limited in this respect. If they have some political power, they may seek to offset the class-monopoly power of landlords by imposing minimum housing standards or rent controls. If the effect of such legislation is to reduce landlord profits, landlords will respond by trying to transform the fixed capital (the house) into money to be used on the capital market. If prices are low it will not be worthwhile to sell. Social, legal and political pressures may make it difficult for the landlord to disinvest without severe social and fiscal penalties. Under these conditions the landlord may well compromise and settle for a much lower rate of return. The tenants will then have achieved some kind of partial victory vis-a-vis the class-monopoly power of landlords. If, on the other hand, tenants are politically weak, there is a shortage of suitable accommodation (because of in-migration or redevelopment) and if landlords can easily sell or transform to different uses (e.g. upper-income tenancies), then the landlord class will have very considerable power and will be able to raise their rate of return to well above 15 per cent. With rising rents eating into an already limited disposable income, low-income tenants can respond only by subdividing space with the inevitable consequences—over-crowding and slum formation.

Class-interest conflict of this sort between tenants and landlords can be documented in any capitalist city (Chatterjee, 1973; Sternlieb, 1966; Milner-Holland Report, 1965). The rate of return set through the working out of this conflict is best interpreted as a class-monopoly rent even though the landlord usually thinks of it as a rate of return on capital investment. The realization of this rent depends upon the ability of one class-interest group to exercise its power over another class-interest group and thereby to assure for itself a certain minimum rate of return.

(b) Speculator-developers and suburban middle- and upper-income groups

We now turn to a case that is rather more complex but which indicates that class-monopoly rents can be realized in all sectors of the housing market. Upper-income groups have a wide range of choice of housing as far as their income is concerned. But if their sense of social status and prestige is highly developed, then the producers of housing (who actively promote such thoughts on the part of the buyer) have an opportunity to realize a class-monopoly rent as these consumers vie with each other for prestigious housing in the “right” neighborhoods. Middle-income groups may have less choice. In many American cities, for example, they have moved to suburbia in part because they were hooked on the suburban dream, but also because social changes in the city—the influx of a low-income “lumpen-proletariat”, the decline of city services, falling property values, the withdrawal of financial support for whole neighbourhoods, and declining employment opportunities—have given them a hefty push by a process that I have elsewhere dubbed “blow-out” (Harvey, 1973, Chapter 5).

The realization of a class-monopoly rent depends, however, on the existence of a class of speculator-developers who have the power to capture it.* In a free market economy, speculator developers perform a positive service. They promote an optimal timing of land-use change, ensure that the current value of land and housing

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* The term “speculator-developer” is here used generically to refer to all those individuals and institutions that operate in the land and property markets with a view to realizing gains through ultimate sale or change in land use. In practice there may be considerable division of labour in this activity, while different institutions operate under different constraints (see, for example, the difference between entrepreneurs and the relics of the feudal order—the Crown, the Church, etc.—described in CIS Anti-Report on the Property Developers, 1973, The Recurrent Crisis of London (London)).
reflects expected future returns, seek to organize externalities to enhance the value of their existing developments, and generally perform a co-ordinating and stabilizing function in the face of considerable market uncertainty (Neutze, 1968; Hall et al., 1973). The role of speculator-developer is, in fact, integral and essential to the workings of a capitalist economy. Since the urbanization process relates to economic growth in general, the speculator-developer who is, in effect, the promoter of urbanization, plays a vital role in promoting economic growth. Certain institutional supports are necessary, however, if this role is to be performed effectively. The exact nature of these supports will vary from country to country but they must do two things: (1) they must reduce the uncertainty in land-use competition usually through some form of governmental regulation—planning or zoning controls, provision of infrastructure, etc.; and (2) they must encourage wealthy groups—those who can afford to wait for land to “ripen”—to participate as speculator-developers usually by offering convenient and advantageous tax arrangements. The first support permits speculator-developers to form reasonable expectations about the future, while the second ensures that only people with sufficient resources undertake the task of co-ordinating and stabilizing land-use change.

Class-monopoly rents can be realized by speculator-developers only if they possess mechanisms for expressing their collective class interest. The necessary institutional supports in fact provide these mechanisms. In the United States, for example, speculator-developers usually realize monopoly-rents through the manipulation of zoning decisions. Political control of suburban jurisdictions by speculator-developers is quite general in the United States; as Gaffney notes, suburban jurisdictions provide one of the most effective of all cartel arrangements with respect to land-use decisions (Gaffney, 1973). Political corruption also plays a role which, in a market economy, can be viewed positively since it frequently loosens up the supply of land from the excessive rigidities of land-use regulation by bureaucratic fiat. Without a certain minimum of governmental regulation and institutional support, however, the speculator-developer could not perform the vital function of promoter, co-ordinator and stabilizer of land-use change. Without such an interest group to perform these functions, suburban development would degenerate into chaos and finance capital would be forced to withdraw investment from the suburbanization process. The effect of such a withdrawal upon economic growth in general, effective demand in general and the capitalist market system as a whole would, of course, be catastrophic.

The level of class-monopoly rent realized by speculator-developers depends upon the outcome of the conflict of interest between them and the various consumer groups who confront them in the market. If the speculator-developer can persuade upper-income groups of the virtues of a certain kind of housing in a particular neighbourhood, gain complete control over the political process, and so on, then the advantage lies with the speculator-developer. If consumers are unimpressed by the blandishments of the speculator-developers and have firm control over the political mechanisms for land-use regulation and the provision of infrastructure, then the class-monopoly power of the speculator-developers will be contained. But if certain minimum rates of return are not realized, the speculator-developer will pull out of the business until rates of return rise. What the minimum must be is difficult to say—but in the United States a 40 per cent rate of return is not regarded as abnormal.

The two cases we have examined—the landlord versus the low-income tenant and the speculator-developer versus the middle- and upper-income consumer—provide us with certain insights into the meaning of class-monopoly rent and class-monopoly power in the context of urbanization. Firstly, this form of rent appears inevitable in capitalistically organized land and housing markets. Second, the transfer payments that result from class-monopoly rents are structured in certain important respects. Suppose the landlord lives in suburbia and as a resident there gives up a class-monopoly rent to the speculator-developer? Notice, that the rent realized from a low-income tenant has been passed on, in this example, to the speculator-developer via the landlord. It is unlikely, bordering on the impossible, for rent realized by the speculator-developer to be passed on to the low-income tenant. It seems reasonable to postulate, therefore, an hierarchical structure of some sort through which class-monopoly rents percolate upwards but not downwards. At the top of this hierarchy sit the financial institutions. And so the question arises, how does this hierarchy arise and what is its raison d'être?

3. THE HIERARCHICAL INSTITUTIONAL FRAMEWORK FOR CO-ORDINATING ACTIVITIES IN THE HOUSING MARKET

I shall begin by stating a general proposition: the hierarchical institutional structure through which class-monopoly rents are realized is a
necessity if housing market activity is to be co-ordinated in a way that helps to avoid economic crisis. The problem with seeking to validate this proposition is that institutional arrangements vary markedly from country to country. But all capitalist economies must, of necessity, possess elaborate devices to integrate national and local aspects of economies, to integrate individual decisions with the needs of society as a whole. Any society must possess, in short, formalized human practices which resolve the social aggregation problem (Harvey and Chatterjee, 1974). These formalized human practices are manifest in a structure of financial and governmental institutions which, I shall argue, create the basis for class-monopoly power in the land and property markets. To explore this proposition I will examine institutional structures in the United States and consider how these affect events in Baltimore in particular.

National institutions of government and finance do not operate without a purpose; they seek, by and large, to ensure the reproduction of society and to deal with any problems that may arise in an orderly and non-disruptive manner. In a capitalist society this means a policy directed towards the orderly accumulation of capital, economic growth and the reproduction of the basic social and political relationships of a capitalist society. In the housing market these general concerns are translated into three typical concerns for national housing policy:

1. To ensure orderly relationships between construction, economic growth and new household formation;
2. To ensure short-run stability and iron out cyclical swings in the economy at large by using the construction industry and the housing sector as a partial Keynesian regulator; and
3. To ensure domestic peace and tranquility by managing the distribution of welfare in society through the provision of housing.

In the United States these concerns have been embedded in policy goals which have, by and large, been successfully met since 1930.* Economic growth has been accompanied and to some degree accomplished by rapid suburbanization—a process that has been facilitated by national housing policies conducted through the Federal Housing Administration. Much of the growth in GNP, both absolute and per capita, since the 1930s has been wrapped up in the suburbanization process (taking into account the construction of highways and utilities, housing, the effective demand for automobiles, gasoline and so on). Cyclical swings in the economy have been broadly contained since the 1930s and the construction industry appears to have functioned effectively as a major counter-cyclical tool. The evident social discontent of the 1930s has largely been defused by a government policy which has created a large wedge of middle-income people who are now "debt-encumbered homeowners" and consequently unlikely to rock the boat. The discontent of the 1960s exhibited by the blacks and the urban poor, provoked a similar political response in the housing sector—a response that has not provided a "decent house in a decent living environment" (as Congressional legislation perennially puts it) for many of the poor but which has successfully created a debt-encumbered class of black homeowners; the social instability of the 1960s certainly appears to have been defused. It appears, then, that national policies are designed to maintain the existing structure of society intact in its basic configurations, while facilitating economic growth and capitalist accumulation, eliminating cyclical influences and defusing social discontent.

How are these national policies transmitted to the locality and how do individuals come to incorporate them into their decisions? Federal, State and local government form a three-tiered political hierarchy and an independent bureaucracy is attached to each level. The Federal bureaucracy is itself hierarchically organized, however, so that it is in a position to relate national policies to local housing markets. The Federal Housing Administration (FHA) administers a wide range of government programmes and operates autonomously from bureaucracies created at the State and local levels. But in the United States the main mechanism for co-ordinating national and local, individual and societal activities lies in the hierarchical structure of financial institutions operating under governmental regulation. This structure is exceedingly complex and I shall not attempt to detail it here.† It is important to note one feature of it, however. Certain kinds of institution—the State and Federally chartered savings and loan institutions — operate solely in the housing sector. They were initially designed to "promote the thrift of people locally to finance their own homes and the homes of their neighbours".‡ Some of these institutions are community-based, depositor controlled and operate on a non-profit basis. They are, of course, affected by money market con-

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* The views expressed in this paragraph can be documented in detail from The Douglas Commission Report (1968).

† More detail is provided in Harvey and Chatterjee, (1974).
tions and government regulation. These institutions contrast with the mortgage banks, savings banks and commercial banks which are oriented to profits or to the expansion of their business. All of these institutions, however, operate together to relate national policies to local and individual decisions and, in the process create localized structures within which class-monopoly rents can be realized.

The Baltimore situation demonstrates the point. The metropolitan area has a population of approximately two million; 900,000 live in Baltimore City and 600,000 live in the largest suburban jurisdiction—Baltimore County—which surrounds Baltimore City on almost all sides. The political machine in Baltimore County has been dominated by speculator-developer interests who have, until recently, been able to manipulate the zoning laws more or less at will in order to realize speculative gains. Political corruption is usual (Agnew was once County Executive). All that is necessary for the realization of class-monopoly rents is some generally sustained demand for new housing (through population increase or new household formation). There is a further point to be considered, however. The investment climate is radically different in Baltimore County and Baltimore City. All of the institutions look collectively on the former as an area of growth and expansion compared to the City which is looked upon as an area that is at best stable and at worst in the process of rapid decline. The consequent channelling of investment funds to the County and the general reluctance to invest in the City turns out to be a self-fulfilling prediction to which middle-income groups are forced to respond by migrating from the City to the County, where the speculator-developer eagerly awaits them. In this fashion the conflict between city and suburb in the United States contributes to the realization of class-monopoly rents on the suburban fringe.

But there is also a geographical structure to the housing market in Baltimore City which further contributes to the potential for realizing class-monopoly rents. This geographical structure is produced by the interacting policies of financial and governmental institutions. To demonstrate this point Baltimore City is divided into 13 sub-markets which can be further aggregated into eight sub-market types (see Fig. 1). Data concerning the financing of housing in each of these sub-markets, together with some socio-economic information, is presented in Tables 1 and 2. It is evident that the housing market in Baltimore City is highly structured geographically with respect to the type of institutional involvement as well as with respect to the insurance of home purchases by the Federal Housing Administration (FHA). Let us consider the main features of this structure.

(i) The inner city is dominated by cash and private loan transactions with scarcely a vestige of institutional or governmental involvement in the used housing market. This sub-market is the locus of that conflict between landlord and low-income tenant to which we have already alluded. There is currently a surplus of housing in this sub-market which is leading to active disinvestment (there are several thousand vacant structures in this sub-market). Professional landlords are anxious to disinvest but they still manage to get a rate of return around 13 per cent (Chatterjee, 1973). The tenants are low-income and for the most part black. They are poorly organized, exercise little political control and are effectively trapped in this sub-market. Class-monopoly rents are here realized by professional landlords who calculate their rate of return to match the opportunity cost of their capital.

(ii) The white ethnic areas are dominated by home-ownership which is financed mainly by small community-based, savings and loan institutions which operate without a strong profit orientation and which really do offer a community service. As a consequence little class-monopoly rent is realized in this sub-market and reasonably good housing is obtained at fairly low purchase price, considering the fairly low incomes of the residents.

(iii) The black residential area of West Baltimore was essentially a creation of the 1960s. Low- to moderate-income blacks did not possess local savings and loan associations, were regarded with suspicion by all other financial institutions and in the early 1960s were discriminated against by the FHA. The only way in which this group could become homeowners was by way of something called a “land-instalment contract” which works as follows. A speculative purchases a house for, say, $7000, adds a purchase and sales commission, various financing charges and overhead costs, renovates and redecorates the property and finally adds a gross profit margin of, say, 20 per cent. The house is then sold for, say, $13,000. To finance the transaction, the speculator interpolates his credit rating between that of the purchaser and the financial institutions, takes out a conventional mortgage up to the appraised value of the house (say, $9000), borrows another $4000, and then packages a $13,000 loan for the buyer. The speculator retains title to the property to secure the risk but permits the “buyer” immediate possession. The monthly payments cover the
interest charges on the $13,000 plus the administrative charges and a small part is put to redeeming the principle. When the purchaser has redeemed $4000 (after, say, 10 or 15 years) a conventional mortgage at the appraised value of $9000 may be obtained. At that juncture the purchaser will get title and can start to build equity in the house.*

This procedure is perfectly legal and it was in effect the only way in which low- or moderate-income blacks could become home-owners in the early 1960s. There were many transactions of this sort in West Baltimore. The problem was that a comparable house sold to a person in a comparable income bracket in white ethnic areas cost $7000 compared to the $13,000 registered in the black community. Blacks consequently regarded themselves as exploited and paying “the black tax”, which was nothing more nor less than class-monopoly rent realized by speculators as they took advantage of a particular mix of financial and governmental policies compounded by problems of racial discrimination. But a new sub-market was formed in West Baltimore by means of the land-instalment contract; and in the process strong pressures were exerted on white middle class groups to move to suburbia where the speculator developers waited, all too willing and able to accommodate them.

The political conflict over the use of the land-instalment contract in Baltimore came to a head in the late 1960s. In the process the black communities learned that the speculator was creeping in where financial and governmental institutions refused to tread and that the problems

* The details of this are explained in Gangsby et al. (1971, Chapter 6).
## Table 1. Housing sub-markets—Baltimore City, 1970

<table>
<thead>
<tr>
<th>Sub-market</th>
<th>Total houses sold</th>
<th>Sales % properties</th>
<th>Cash</th>
<th>Pvt</th>
<th>S. &amp; I.</th>
<th>Federal Mortgage</th>
<th>Community Savings</th>
<th>Bank</th>
<th>Other</th>
<th>FHA</th>
<th>VA</th>
<th>Average sale price ($)†</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inner city</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1. East</td>
<td>1199</td>
<td>1.86</td>
<td>65.7</td>
<td>15.0</td>
<td>2.2</td>
<td>12.0</td>
<td>2.2</td>
<td>0.5</td>
<td>0.2</td>
<td>1.7</td>
<td>2.9</td>
<td>3498</td>
</tr>
<tr>
<td>2. West</td>
<td>646</td>
<td>2.33</td>
<td>64.7</td>
<td>15.0</td>
<td>2.2</td>
<td>14.3</td>
<td>2.2</td>
<td>0.5</td>
<td>0.1</td>
<td>1.2</td>
<td>3.4</td>
<td>3437</td>
</tr>
</tbody>
</table>

| ETHNIC           |                   |                    |      |     |         |                  |                  |      |       |     |    |                        |
| 1. East Baltimore| 579               | 3.40               | 39.7 | 4.8 | 5.5     | 43.2             | 20.0             | 0.8  | 0.9   | 2.2 | 2.6| 6372                  |
| 2. South Baltimore| 181              | 3.20               | 40.5 | 7.7 | 7.7     | 41.4             | 0.6              | —    | —     | 2.2 | 0.6| 5102                  |

| **Hampden**      |                   |                    |      |     |         |                  |                  |      |       |     |    |                        |
| 1. East          | 99                | 2.40               | 40.4 | 8.1 | 18.2    | 26.3             | 4.0              | —    | —     | 3.0 | 14.1| 7059                  |

| **West Baltimore**|                 |                    |      |     |         |                  |                  |      |       |     |    |                        |
|                  | 497              | 2.32               | 30.6 | 12.5| 12.1    | 11.7             | 22.3             | 1.6  | 3.1   | 6.0 | 25.8| 8664                  |

| **South Baltimore**|                 |                    |      |     |         |                  |                  |      |       |     |    |                        |
|                  | 322              | 3.16               | 28.3 | 7.4 | 22.7    | 13.4             | 13.4             | 1.9  | 4.0   | 9.0 | 22.7| 8751                  |

| **High turnover**|                   |                    |      |     |         |                  |                  |      |       |     |    |                        |
| 1. North-West    | 2072             | 5.28               | 19.1 | 6.1 | 13.6    | 14.9             | 32.8             | 1.2  | 5.7   | 6.2 | 38.2| 9.5                  |
| 2. North-East    | 1071             | 5.42               | 20.0 | 7.2 | 9.7     | 13.8             | 40.9             | 1.1  | 2.9   | 4.5 | 46.8| 7.4                  |
| 3. North         | 693              | 5.47               | 20.6 | 6.4 | 14.5    | 16.5             | 29.0             | 1.4  | 5.6   | 5.9 | 34.5| 10.2                 |

| **Middle income**|                   |                    |      |     |         |                  |                  |      |       |     |    |                        |
| 1. South-West    | 308              | 5.35               | 12.7 | 1.4 | 25.3    | 18.1             | 13.3             | 0.7  | 15.9  | 12.7| 31.5| 15.5                 |
| 2. North-East    | 1077             | 3.15               | 20.8 | 4.4 | 29.8    | 17.0             | 8.6              | 1.9  | 8.7   | 9.0 | 17.7| 11.1                 |

| **Upper income** |                   |                    |      |     |         |                  |                  |      |       |     |    |                        |
| 1. South-West    | 361              | 3.84               | 19.4 | 6.9 | 23.5    | 10.5             | 8.6              | 7.2  | 21.1  | 2.8 | 11.9| 27,413                |
| 2. North-East    | 865              | 3.09               | 21.7 | 3.8 | 30.0    | 19.2             | 7.0              | 2.0  | 8.2   | 8.2 | 14.7| 9.7                  |

* Assumed mortgages and subject to mortgage.
† Ground rent is sometimes included in the sale price and this distorts the averages in certain respects. The relative differentials between the sub-markets are of the right order however.

Source: City Planning Department Tabulations from Lusk Reports.
Table 2. Housing sub-markets—Baltimore City, 1970 (Census Data)

<table>
<thead>
<tr>
<th>Sub-market</th>
<th>Median income*</th>
<th>% Black occupied d.u.'s</th>
<th>% Units occupied</th>
<th>Mean $ value of owner occupied</th>
<th>% Renter occupied</th>
<th>Mean monthly rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner city</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. East</td>
<td>6259</td>
<td>72.2</td>
<td>28.5</td>
<td>6259</td>
<td>71.5</td>
<td>77.5</td>
</tr>
<tr>
<td>2. West</td>
<td>6297</td>
<td>76.9</td>
<td>27.9</td>
<td>6963</td>
<td>72.1</td>
<td>78.9</td>
</tr>
<tr>
<td>Ethnic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. East Baltimore</td>
<td>8822</td>
<td>1.0</td>
<td>66.0</td>
<td>8005</td>
<td>34.0</td>
<td>76.8</td>
</tr>
<tr>
<td>2. South Baltimore</td>
<td>8785</td>
<td>0.2</td>
<td>64.7</td>
<td>6504</td>
<td>35.3</td>
<td>69.6</td>
</tr>
<tr>
<td>Hampden</td>
<td>8730</td>
<td>0.3</td>
<td>58.8</td>
<td>7860</td>
<td>41.2</td>
<td>76.8</td>
</tr>
<tr>
<td>West Baltimore</td>
<td>9566</td>
<td>84.1</td>
<td>50.0</td>
<td>13,842</td>
<td>50.0</td>
<td>103.7</td>
</tr>
<tr>
<td>South Baltimore</td>
<td>8941</td>
<td>0.1</td>
<td>56.9</td>
<td>9741</td>
<td>43.1</td>
<td>82.0</td>
</tr>
<tr>
<td>High turnover</td>
<td>10,413</td>
<td>34.3</td>
<td>53.5</td>
<td>11,886</td>
<td>46.5</td>
<td>113.8</td>
</tr>
<tr>
<td>1. North-East-West</td>
<td>9483</td>
<td>55.4</td>
<td>49.3</td>
<td>11,867</td>
<td>50.7</td>
<td>110.6</td>
</tr>
<tr>
<td>2. North-East</td>
<td>10,753</td>
<td>30.4</td>
<td>58.5</td>
<td>11,533</td>
<td>41.5</td>
<td>111.5</td>
</tr>
<tr>
<td>3. North</td>
<td>11,510</td>
<td>1.3</td>
<td>49.0</td>
<td>12,726</td>
<td>51.0</td>
<td>125.1</td>
</tr>
<tr>
<td>Middle income</td>
<td>10,639</td>
<td>2.8</td>
<td>62.6</td>
<td>13,221</td>
<td>37.5</td>
<td>104.1</td>
</tr>
<tr>
<td>1. South-West</td>
<td>10,655</td>
<td>4.4</td>
<td>48.8</td>
<td>13,470</td>
<td>51.2</td>
<td>108.1</td>
</tr>
<tr>
<td>2. North-East</td>
<td>10,634</td>
<td>2.3</td>
<td>66.2</td>
<td>13,174</td>
<td>33.8</td>
<td>103.0</td>
</tr>
<tr>
<td>Upper income</td>
<td>17,577</td>
<td>1.7</td>
<td>50.8</td>
<td>27,097</td>
<td>49.2</td>
<td>141.4</td>
</tr>
</tbody>
</table>

*Weighted average of median incomes for census tracts in sub-market.


of speculation could not be divorced from the activities of the financial and governmental institutions. Since the 1960s the land-instalment contract has declined as a form of financing. But the speculator has not disappeared from the scene; rather, he now has other instrumentalities at his disposal.

(iv) The areas of High Turnover are serviced mainly by a combination of mortgage banker finance and FHA insurance which were doing in 1970 what the land instalment contract did in the 1960s. Various programmes were initiated in the late 1960s to try and create a debt-encumbered, socially stable class of home-owners amongst the black and the urban poor. These programmes, together with administrative directives to end discriminatory practices against blacks, led to the creation of an FHA insured, mainly black, fairly low income, housing sub-market. The main tool in Baltimore was the FHA 221 (d) (2) programme (D2s) which permits the financing of home-ownership for low- or moderate-income groups who have no money for a down-payment. FHA insurance in Baltimore in 1970 was, for the most part, of the D2 variety (see Table 1).

In the high turnover sub-markets created by these programmes there are plenty of opportunities for the speculator to realize a class-monopoly rent. Operating through the D2 programmes makes it less easy to extract the "black tax" but if whites move (as they are likely to do if a low-income black family moves in), speculators can pick up houses cheaper than appraised value, put in some cosmetic repairs to meet FHA quality standards, and sell through the D2 programme. If FHA quality control standards are poor (or if speculators can corrupt the administration of them) then class-monopoly rents can be realized as a white "exit tax" and a black or low-income "entry tax". In some cities, such as Detroit, New York and Philadelphia, the windfall profits to speculators have been enormous largely through the corruption of FHA programmes (Boyer, 1973). In Baltimore, the sub-market created by the land-instalment contract in the 1960s is now being extended in areas of high turnover by speculator activity in conjunction with mortgage banker finance and the FHA D2 programmes.

(v) The middle-income sub-markets of North-East and South-West Baltimore are typically the creation of the FHA programmes of the 1930s. By the 1960s home-ownership was being financed conventionally by Federal savings and loan institutions and some of the smaller ethnic savings and loan institutions which have helped to finance migration from the older ethnic areas of the city to the newer housing of North-East Baltimore. The inner edge of this sub-market is under some pressure, however, and financial institutions are extremely sensitive about risks in these areas. As a consequence they tend to withdraw support from an area if they perceive it to be threatened in any way. By so doing they create a vacuum in housing finance into which the speculator moves backed by the FHA pro-
grammes and mortgage banker finance. There is a good deal of political friction in these boundary zones and a political struggle to preserve the middle-income sub-markets from erosion at the edges—an erosion that inevitably leads middle-income groups to search for housing opportunities in the suburbs.

(vi) The more affluent groups make use of savings banks and commercial banks to much greater degree and rarely resort to FHA guarantees. Such groups usually have the political and economic power to fend off speculative incursions and it is unlikely that they will move except as the result of their own changing preferences or from declining services. Class-monopoly rents are realized in this sub-market largely because of prestige and status considerations.

This geographical structure of sub-markets in Baltimore forms a decision environment in the context of which individual households make housing choices. These choices are likely, by and large, to conform to the structure and to reinforce it. The structure itself is a product of history. In the long-run we find that the geographic structure of the city is continuously being transformed by conflicts and struggles generated by the ebb and flow of market forces, the operations of speculators, landlords and developers, the changing policies of governmental and financial institutions, changing tastes, and the like. But in the short run the geographic structure is rather fixed and it is this rigidity which permits class-monopoly rents to be realized within sub-markets (as classes of providers face classes of consumers) and between sub-markets as a variety of processes seek to erode the boundaries of the sub-markets themselves (every sub-market has its speculator-developer fringe). In some parts of the city these conflicts may be dormant at times—boundaries may be stabilized (often with the help of natural or artificial barriers) and accommodation between opposing forces may be reached within sub-markets. But it would be rare indeed to find a city in which no such conflicts were occurring.

4. CLASS-MONOPOLY RENT, ABSOLUTE SPACE AND URBAN STRUCTURE

Class-monopoly rents arise because the owners of resource units have the power always to exact a positive return. Ricardo thought that absolute rent could exist only on an island where all resource units were employed and on which there was an absolute scarcity. The Baltimore materials indicate that the man-made resource system created by urbanization is, in effect, a series of man-made islands on which class monopolies produce absolute scarcities. Absolute spaces, created by human practices, are essential, it seems, to the realization of class-monopoly rent. Absolute spaces can be constructed by dividing space up into parcels and segments each of which can then be regarded as a "thing in itself" independent of other things (Harvey, 1973, Chapter 5). The private property relation is, of course, the most basic institution by means of which absolute spaces are formally created. Political jurisdictions define collective absolute spaces which may then be carved up by the bureaucratic regulation of land use. All of these forms of absolute space create the possibility to realize class-monopoly rents. But it is primarily through the informally structured absolute spaces of sub-markets that such rents are realized.

The implications of this for residential structure are of interest. Residential differentiation in urban areas has long been explained in terms of social ecological processes, consumer preferences, utility-maximizing behaviours on the part of individuals, and the like. The Baltimore evidence suggests that financial and governmental institutions play an active role in shaping residential differentiation and that the active agent in the process is an investor seeking to realize a class-monopoly rent. The relationship between traditional explanations of urban residential differentiation and this interpretation is complex. The small neighbourhood savings and loan institution in Baltimore, for example, is in effect a community institution that fits neatly into a social ecological view of urban community structure. But most housing finance comes from institutions seeking profits or the expansion of business. Faced with a choice between supporting a risk-absorbing landlord operation and a vulnerable home-owner in the inner city, business rationality dictates support of the former at the expense of the latter. Not all financial institutions exhibit a totally cold market rationality—they will grant personal favours (usually to people of the same social class, however) and they will sometimes actively support neighbourhoods (often to procure a desirable stability in a particular sub-market). But the options of the profit-maximizing or expansion-conscious financial institution are limited. The hidden hand, and in particular the prospects for realizing class-monopoly rents, will inexorably guide them in certain directions. And as a result these institutions become a fundamental force in shaping the residential structure of the city.

This is not to say that considerations of race and ethnicity, social status and prestige, life-style...
aspirations, community and neighbourhood solidarity, and the like, are irrelevant to understanding residential differentiation. Ironically, all of these features increase the potential for realizing class-monopoly rent because they help to maintain the island-like structure, to create the absolute space of the parochially-minded community. Indeed, a strong case can be made for regarding consumer preferences as being produced systematically rather than as arising spontaneously (as neo-classical economic doctrines appear to envisage via the myth of consumer sovereignty). The simplest manifestation of this is the use of techniques of persuasion to convince upper-income people of the virtues of living in a “smart” house in the “right” neighbourhood. But there is a deeper process at work. Financial institutions and government manage the urbanization process to achieve economic growth, economic stability and to defuse social discontent (see Section 3). If these aims are to be realized, then new modes of consumption and new social wants and needs will have to be produced whether people like it or not. If these new modes of consumption and new social wants and needs do not arise spontaneously, in a manner that fits with the overall necessities of capitalist society, then people will have to be forced or cajoled to accept them. The urbanization process achieves this end quite successfully. By structuring and re-structuring the choices open to people, by creating distinctive decision environments, the urbanization process forces new kinds of choice independently of spontaneously arising predilections.

If the dynamic of urbanization is powered by financial and governmental institutions, mediated by speculator-developers and speculative-landlords in pursuit of class-monopoly rent, and necessitated by the over-riding requirement to reproduce the capitalist order, then it may not be too fanciful to suggest that distinctive “consumption classes”, “distributive groupings”, or even “housing classes” may be produced at the same time (see Giddens, 1973; Rex and Moore, 1967). Individuals can, of course, strive or choose to join one or other “distributive grouping” or shift (if they can) from one “consumption class” to another. In like manner they can strive or choose (depending on their circumstances) to move from one housing sub-market to another. What individuals cannot choose, however, is the structure of the distributive grouping or the structure of the housing sub-markets—these are dictated by forces far removed from the realms of consumer sovereignty. The general proposition we are here led to is an intriguing one: in producing new modes of consumption and new social wants and needs, the urbanization process concomitantly produces new distributive groupings or consumption classes which may crystallize into distinctive communities within the overall urban structure. This topic will be taken up again in Section 5.

The Baltimore materials suggest another startling conclusion. The class-monopoly rent gained in one sub-market is not independent of its realization elsewhere and certain strong multiplier effects can be detected. Suppose, for example, that there is a speculative boom in the inner city through which new sub-markets are formed out of existing neighbourhoods and that the old residents of these neighbourhoods are forced to seek housing opportunities in suburbia. Then, the greater the class-monopoly rent earned by the inner-city speculator, the greater the opportunity to realize rent on the suburban fringe. Multiplier effects of this sort may be captured by the same financial institutions or, in some cases, by the same entrepreneur. If there is no conscious collusion to generate the multiplier effect, the calculus of profits and losses, of expectations and perceived risks, will function as a hidden-hand regulator to achieve the same results.

These conclusions are, of course, geographically and institutionally specific to Baltimore and the United States. But a cursory examination of the literature suggests that they may be generalized to all advanced capitalist nations. Whether or not this is the case must be proved by future research.

These conclusions are, of course, geographically and institutionally specific to Baltimore and the United States. But a cursory examination of the literature suggests that they may be generalized to all advanced capitalist nations. Whether or not this is the case must be proved by future research. It seems likely, however, that the processes are general but that the manifestations are particular because the institutional, geographical, cultural and historical situations vary a great deal from place to place. In other words, the processes are general, but the circumstances are unique to each case and so, consequently, are the results.

If the multiplier effects to the realization of class-monopoly rents are general, then we have a partial explanation of how investment can shift continuously over time from the primary to the secondary circuit of capital as Lefebvre hypothesizes. Governmental and financial institutions are forced to operate in certain ways if individual behaviours are to be co-ordinated and integrated with national and societal requirements.

* For comparable materials on London see, for example, Hall et al. (1973), The Milner-Holland Report (1965), Pahl (1970), C.I.S. (1973) and Marriott (1967). The point here is, of course, that the large number of vacant houses in the centre of Baltimore is a vivid contrast with the situation in London; but the process of “gentrification” in London is as much a manifestation of the process of realizing class-monopoly rent as is the land-instalment contract and speculation with the D2’s in Baltimore.
Urbanization, itself a product of these requirements, creates islands of opportunities for realizing class monopoly rents. And the quest for this rent generates a multiplier effect that makes it even more profitable in the short run to shift investment into the land, housing and property markets. Such a shift helps to explain the industrial stagnation, particularly evident since the late 1960s, in the advanced capitalist nations as investment shifts from the production of value to the attempt to realize it. In the short run such a shift is possible because it is possible to milk value produced in past periods for purposes of current realization (which means, however, a continuous decay in the quality of urban environments). But in the long run such a shift is doomed to failure for if value is not produced, then how can it possibly be realized?

5. CLASS SYSTEM, CLASS STRUCTURE
CLASS INTEREST IN THE POLITICAL ECONOMY OF URBANISM

We will now consider the relationship between the concept of class interest as it arises in the context of urbanization (and as it is used in this paper) and more general concepts of class structure and class antagonism. It is useful to distinguish at the outset between the concept of subjective class which describes the consciousness which different groups have of their position within a social structure and the concept of objective class which, in Marx's schema, describes a basic division within capitalism between a class of producers and a class of appropriators of surplus value (for a recent discussion on this topic, see GIDDENS, 1973). The former class includes both productive labour and that labour which is socially necessary but unproductive (for example, labour contributing to circulation, realization, administration and the provision of socially necessary services). The meaning attached to class interest in this paper stems from the fact of certain conflicts around the realization of class-monopoly rent. We are, therefore, working at the level of subjective class interest and the task is to relate these diverse class interests to the concept of objective class.

Traditionally, rent is viewed as a transfer payment from capitalist producers to a rentier class which gains its power as a residual of feudalism. But we are here concerned with rent extracted from the community out of the consumption process rather than out of the production process. This extraction generates a species of community conflict which has become widespread with the progress of urbanization in advanced capitalist countries. This kind of conflict contrasts, superficially at least, with the more traditional work-based conflicts over the immediate production of value. We can observe as a consequence some curious dichotomies. Community-based organizations rarely offer support in a work-based conflict (such as a strike) and work-based organizations (such as the trade unions) rarely offer active support to community groups in conflict over, for example, the realization of class-monopoly rent. Individuals may in fact switch roles with respect to such conflicts—a work-based radical may be a community-based conservative (and vice versa). The place of work also tends to be male-dominated space compared with the female-dominated residential space. Sex roles may get intertwined as a male work-based radical acts conservatively with respect to a female community-based radical. Such conflicts may be internalized within the family. The geography of human activity within large metropolitan areas appears to generate curious transformations and inversions to create a complex geography of subjective class consciousness. The expression of class interest around community issues cannot, therefore, be interpreted as a simple reflection of class interest at the point of production.

Yet class interest can be equally strong and express analogous goals at the point of production and within the community. Workers may seek for worker-control while residents may seek for community control. Both goals express a basic felt need on the part of individuals to control the social conditions of their existence. But under urbanization the two goals become divorced from each other. A far more cohesive basis for political power exists when community-based and work-based interests coincide (for example, in mining communities and in other situations characterized by industrial rather than advanced urban forms of social organization). Marx thought that large concentrations of population would heighten class-awareness. But under urbanization class-consciousness appears to have become fragmented.

Community-based class interest always tends to be parochialist in its perspectives. The community is regarded as a "thing-in-itself" independent of other things—it is regarded as an absolute space, as something to be preserved and defended against external threat. From such a standpoint flows a form of community conflict which is essentially internecine—it pits community against community so that the average condition of communities is not altered one wit. What one community gains another loses. The sequence of wins and losses merely
serves to perpetuate the defensiveness and competitiveness of the communities concerned—a situation which permits even more class-monopoly rents to be realized since speculators so easily feed off community antagonisms. Parochialist community-based class interest can never be an adequate surrogate for objective social class for it ignores the essential fact that the survival of the community depends, given the enormous complexity in the division of labour, upon commodity exchanges on a global scale and because it ignores the links in the production and circulation of value in society.

Yet certain kinds of community-conflict lead to the formation of non-parochialist horizons. In Baltimore, for example, community groups enraged at the use of the land-instalment contract, gradually came to realize that financial institutions, by denying conventional mortgage funds while financing speculator-landlords, were the controlling influence in the situation. The community group began to unravel the skein of argument presented in this paper through a process of political exploration. And at the end of the road, the community came face to face with what appears to be the dominant power of finance capital.

Curiously enough, there are hints that work-based conflict may lead to the same confrontation. The traditional conflict between worker and industrialist is being ameliorated in certain sectors by the growing integration of workers into management leading, perhaps, to worker control under certain conditions. But worker control over the factory, brings the worker face to face with the power of finance capital to exercise an external control over the activities of industrial enterprise. In much the same way that Marx thought it possible (but unlikely) that land and resources could be brought under state ownership to the advantage of the capitalist, so it appears possible (but unlikely) to nationalize industrial production, introduce decentralized worker control, without in any way necessarily touching or diminishing the power of finance capital. Worker control has to be viewed, therefore, as a transitional step that fails unless finance capital is also controlled.

The conclusion from the standpoint of both the community and the work place is that the ultimate power to organize the production and realization of value in society lies in the hands of finance capital. To sustain this conclusion, however, we have to show the necessity for an inner transformation of capitalism such that finance capital comes to exercise a hegemonic power over industrial production as well as all other aspects of life. All that I have space to do here, is to provide some clues as to where we might look for the logic of such an inner transformation.

The changing role of money itself provides one such clue. Without money there could be no integrated commodity production, no elaborate division of labour, no price-fixing markets, no universalized exchange values, no medium for the accumulation of capital, no urbanization, and so on. Money in its role of mediator of exchange consequently mediates all significant social interactions. Marx argued that:

"The need for exchange and for the transformation of product into pure exchange value progresses in step with the division of labour, i.e. with the increasingly social character of production. But as the latter grows, so grows the power of money, i.e. the exchange relation establishes itself as a power external to and independent of producers. What originally appeared as a means to promote production becomes a relation alien to producers. As the producers become more dependent on exchange, exchange appears to become independent of them, and the gap between the product as product and the product as exchange value appears to widen. Money does not create these antitheses and contradictions; it is, rather, the development of these antitheses and antitheses which creates the transcendental power of money." (Marx, 1973 edn. The Grundrisse).

The "increasingly social character of production" (the increasingly complex division of labour), the constant expansion of capitalist social relations and the increasing integration of society on a world-wide basis, have, since Marx’s time, greatly increased the "transcendental power of money". But this power, if it is to be exercised, requires an institutional framework for its expression and a class of people willing and able to make use of it. Marx again provides a clue to the former when he argues that the joint stock company is an institutional response to the inherent instability of competitive capitalism—an instability which required the concentration of first, industrial, and later, finance capital. This new arrangement transforms "the actually functioning capitalist into a mere manager, administrator of other people’s capital and . . . the owner of capital into a mere owner, a mere money capitalist". (Marx, 1967 edn., Vol. 3, p. 436). As a result, interest—"the mere compensation for owning capital that now is entirely divorced from the actual process of reproduction"—is substituted for profit. Marx saw all this creating a transitional mode of production in which new institutions would be increasingly social in character:

"This is the abolition of the capitalist mode of production within the capitalist mode of production itself, and hence a self-dissolving contradiction, which prima facie represents a mere phase of transition to a new form of production. . . . It establishes a monopoly in certain spheres and thereby requires state interference. It reproduces a new financial aristocracy, a new variety of parasites, in the shape of promoters, speculators, and
simply nominal directors... It is private production without the control of private property." (Marx, 1967 edn., Volume 3, p. 438).

Marx did not elaborate much on these remarks but history has. Industrial corporations have attempted to maintain their independence of financial institutions by generating funds internally, but this has led them to diversify and to take on many characteristics of financial institutions—ITT is almost purely a financial holding company now and General Motors is steadily moving in that direction. Financial institutions equal and perhaps surpass the industrial corporations in economic power (U.S. House of Representatives, 1968, 1971; Herman, 1973). State power has grown remarkably and functions to support, by appropriate budgetary, fiscal and monetary policies, the operations of finance capital. The State is also active in managing both production and consumption (Miliband, 1969). Finance capital, operating through State, corporate and financial institutions, effectively co-ordinates all social activity into one coherent whole. An industrial capitalism based merely on the immediate production of goods has evolved to a finance form of capitalism which seeks to create and appropriate value through the production, not only of goods, but of new modes of production and new social wants and needs (see the important passages on this point in Marx, 1973 edn., p. 92). But in so doing, new institutions are founded on the power of money, which is the appearance but not the substance of wealth. Hence arises, in Marx's view, the contradictory character of finance capitalism and its historical necessity as a transitional form.

Financial institutions can accumulate by a variety of techniques. Operating competitively they frequently try to accumulate off each other (by takeovers, asset-stripping and the like). In aggregate, however, finance capital accumulates out of production in the immediate sense (a work-based exploitation), out of the production of new modes of consumption and the production of new social wants and needs (both of which lead to community-based exploitation). And as finance capital seeks to manage and control the totality of the production process so there emerges a certain indifference as to whether accumulation takes place by keeping wages down in the immediate production process or by manipulations in the consumption sphere (varying from the manipulation of pension funds to accumulation by means of the processes described in this paper).

We have already suggested (Sections 3 and 4) that urbanization serves to produce new modes of consumption and new social wants and needs. The roles of speculator-landlord and speculator-developer are crucial to the dynamics of urbanization and therefore to the maintenance of effective demand; and a structure of sub-markets through which class-monopoly rents can be realized provides the necessary incentive to play these roles with profit. But at the same time the potential to realize these rents provides the possibility for rapid accumulation of capital out of the land and property markets when the occasion demands it. When industrial demand lags and industrial profits decline, financial institutions will compensate by moving into the land and property markets (ITT has extracted millions out of the Florida real estate boom, for example). But many communities will resist these external forces controlling the conditions of their existence—hence the community conflict typical of advanced urban societies. This analysis suggests a certain underlying unity to community-based and work-based conflict and herein may lie a clue to the definition of objective classes under advanced urbanization. If objective classes are still to be defined in terms of the production and appropriation of surplus value, then it is now production as a totality (including the production of new modes of consumption and new social wants and needs) rather than immediate production which defines the division between producers and appropriators of surplus value. Marx's theory of surplus value is founded in the analysis of immediate production (with modes of consumption and wants and needs held constant) (see Marx, 1973 edn., Vol. 1). Exploitation can arise out of the creation of new modes of consumption and the imposition of new social wants and needs—whether or not this exploitation can be interpreted in terms of the surplus value concept or not is a matter of debate (I am inclined to the view that the theory of surplus value ought to be embedded in a general theory of exploitation). But we are on safer ground when we assert that the growing hegemonic power of finance capital over the totality of production, circulation and realization of value in society, produces a dichotomy between work-based and community-based conflict at the same time as it demonstrates its underlying unity.

This view is reinforced when we turn back to the possibility, broached in Section 4, that the processes described in this paper also serve to generate specific "distributive groupings" or "consumption classes" which in turn define community characteristics in housing sub-markets. It is also the case that the production and reproduction of labour power occurs in the community (Giddens, 1973, pp. 109–110; Bunge, 1973). The reproduction of the social relations of
capitalism requires the production of a population which, from the standpoint of employment opportunities and the wages system, will ultimately become fragmented into subjective classes, each prepared to take on certain social roles and to acquire certain technical skills, appropriate to its particular position within the overall social structure of a constantly expanding capitalist society. The structure of "consumption classes" and "distributive groupings" may, in this fashion, become related to the production of a stratified labour force. All urban areas exhibit considerable variation in opportunity to acquire education, social status, social services, and the like (to acquire what GIDDENS calls "market capacity") (1973, pp. 103-110). And while there may be considerable individual mobility, it appears that the structure of sub-markets which we have identified and the distinctive distributive groupings that occupy them, when combined with the differential distribution of resources to acquire market capacity within the urban system,* function to reproduce the social relations of labour under capitalism. These social relations achieve a greater stability precisely because communities, differentiated by social relations, become self-replicating. Objective classes have to be defined, therefore, in terms of a totality of the production process which includes (1) the immediate production of value, (2) the production of new modes of consumption, (3) the production of new social wants and needs, (4) the production and reproduction of labour power, and (5) the production and reproduction of the social relations of capitalism.

6. FINANCE CAPITAL AND THE URBAN REVOLUTION—A CONCLUSION

We are now in a position to reflect back upon Lefebvre's fundamental thesis. We can provide a comprehensive inner logic for Lefebvre's "ensemble of transformations" through which industrial society comes to be superceded by urban society. In the early years of capitalism, production in particular (the organization of industrial production) was the main focus of attention. In late capitalism, production in all of its facets predictably becomes more and more important. Since the industrialist is adept at immediate production but has little control over the totality of production, finance capital (operating through industrial, financial and governmental institutions) has emerged as the hegemonic force in advanced capitalist societies. Urbanism has consequently been transformed from an expression of the production needs of the industrialist to an expression of the controlled power of finance capital, backed by the power of the State, over the totality of the production process. Herein lies the significance of urbanization as a mode of consumption and as a producer of new social wants and needs. Concomitantly, the urban realm becomes the locus for the controlled reproduction of the social relations of capitalism. But there also emerges a new definition of objective class interest which is manifest both in work-based and community-based conflicts. In the community these conflicts are over the production of new modes of consumption, new social wants and needs, and over the production and reproduction of both labour power and the social relations of capitalism. It seems, however, that the finance form of capitalism, which has emerged as a response to the inherent contradictions in the competitive industrial form, is itself unstable and beset by contradictory tendencies. Of necessity, it treats money as a "thing in itself" and thereby constantly tends to undermine the production of value in pursuit of the form rather than the substance of wealth. The alien but "transcendental" power of money and the institutions created to facilitate the operation of finance capital are not tied to the production of value and hence we may explain the shift of investment into the secondary circuit of capital at the expense of the primary productive circuit. The perpetual tendency to try to realize value without producing it is, in fact, the central contradiction of the finance form of capitalism. And the tangible manifestations of this central contradiction are writ large in the urban landscapes of the advanced capitalist nations.

The ensemble of transformations of which Lefebvre speaks are far more complex than he imagines. But then so also are the processes of transformation in capitalist society when compared to our ability to grasp them. This complexity cannot be used as an excuse, however, for our almost studied ignorance on the crucial interconnections between the processes of urbanization, economic growth and capitalist accumulation and the structuring of social classes in advanced capitalist societies. This gap in our thinking is quite odd when the literature on the Third World is so explicit in its dealing with these kinds of relationships. It is rather as if we have succumbed to the illusion that because we are both "advanced" and "urbanized" there is no need to examine the crucial relations through which we arrived in our contemporary state and which also serve to sustain us in it. To make these relations more explicit is an urgent task to which this paper seeks to make a modest beginning.

* For more on these points, see HARVEY (1973, Chapter 2).
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