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Short Circuit: Towards an Anarchist Approach to Gentrification

Two Toronto Members

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Gentrification
06/12/2003

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Contents

I. Defining Gentrification	5
II. The Multiple Stages Theories of Gentrification	8
III. The Economics of Gentrification	14
Changes in the structures of the city	15
From boom to bust	17
Looking into the future	18
IV. Anarchist Responses to Gentrification	21
Conceptualizing an Anarchist Intervention Against Gentrification	22
Conclusion	28

structures of neighbourhood class power, we delineate physical territorial gains that can be defended from further capitalist incursions, and which can inspire others facing similar conditions. Gentrification is a relatively ubiquitous phenomenon within the developed world, and so it represents a potential entry point of anti-capitalist resistance for almost anybody. As these struggles proliferate, grounding themselves in different neighbourhoods, they can network together, thereby increasing their participants' collective capacity to attack and defend.

Anti-gentrification struggles elucidate the connection between the macrocosmic economic forces of capitalism and the microcosmic experiences of everyday life in our neighbourhoods. In this way, struggling against gentrification can represent a negotiation between the global and the local that ought to prefigure all anarchist thought and praxis. The fight against the transformation city into a desert of capital grounds us in a place and time: we struggle where we live, but this itself is a contingent fact. In cities, towns, slums and neighbourhoods across the planet, the same struggles are being enacted by the same class, differing only in minutiae like zoning regulations or height restrictions. In electrical engineering, a short circuit is a connection between nodes that results in an overcharge of energy, possibly causing damage, fire, etc. We believe that anti-gentrification work can prove a short circuit to the smooth functioning of capital, a coming together of atomized people and neighbourhoods to assert their power collectively and provide the small spark, the brief flare, that can place the entire system in jeopardy.

for community members under attack, while serving as intermediary building blocks for producing larger-scale grassroots structures. Over the past twenty years in North America, many groups have sprung up that mirror this trajectory. In New York City, Movement for Justice in El Barrio is an immigrant-led anti-gentrification group that has organized with tenants in Spanish Harlem via *encuentros*, which are open assemblies designed to listen to residents' concerns about and form plans of action to see that they are addressed. This format has produced a large, diverse movement against the ongoing gentrification of East Harlem that has won several major victories against landlords and developers, all the while emphasizing the root of the process as being neoliberal capitalism. Less specifically, the solidarity network (solnet) model also broadly reflects this understanding, offering the flexibility to respond to various neighbourhood struggles while forging ties among participants. Seen in this light, the solnet format has great possibilities for anti-gentrification struggles. Resistance to a phenomenon as both distributed and localized as gentrification requires new forms of organizing and it is groups like the solnets or spaces like the *encuentro* that serve as necessary stepping stones for the broader, wider assemblies that could effectively contest the emerging neoliberal consensus that the cities and neighbourhoods we live in are just opportunities for investment and that we, as working-class residents, are merely impediments to the free movement of capital.

Conclusion

The macroeconomic forces that ultimately drive this gentrification are, at least for the moment, firmly beyond our reach: anarchists couldn't change interest rates, even if we wanted to. We can, however, contest these manifestations on the local level, and we should do so with urgency. By building local

I. Defining Gentrification

No matter how different the reasons may be, the result is everywhere the same: the scandalous alleys and lanes disappear to the accompaniment of lavish self-praise from the bourgeoisie on account of this tremendous success—but they appear again immediately somewhere else, and often in the immediate neighbourhood.

- Freidrich Engels, *The Housing Question*

Gentrification, etymologically speaking, is a relatively new word, coined in 1964 by the English Marxist sociologist Ruth Glass. Conceptually, some would claim that it has been a feature of urban life for hundreds of years. Between 1853 and 1870, for instance, the *Hausmannization* of Paris forced thousands of poor people from the centre of the city, where rents had traditionally been cheaper, to the urban periphery; these migrations were the forced results of structural changes Baron Hausmann had proposed to the city's urban geography, and rapidly increasing rents. We might anachronistically consider displacements such as these an example of gentrification, but, as we will explore below, the term has some specificity and nuance that such comparisons fail to capture.

Glass came up with the term gentrification to describe the growing displacement of residents of working-class neighbourhoods in London by middle-class property buyers, often under the auspice of "urban renewal". Much like in the United States, London witnessed a flight of monied residents from the city-centre to the suburbs following the second World War, precipitated by a boom in suburban housing stock. This boom was largely facilitated by the state: plans for the post-WWII reconstruction of London favoured the suburbs as the supposed fu-

ture of the city. High demand for housing in the city-proper led policy planners to envision a city population dispersed across a wider geographical area. Financial and infrastructural incentives, like those included in the U.K.'s 1946's New Towns Act and 1952's New Towns Development Act, provided developers with public capital to create new suburban areas designed to contain "overflow" from crowded urban centres. This meant that many older neighbourhoods in London quickly converted to multi-occupant dwellings; as monied residents moved to the newly expanding suburbs, the demand for housing in the city decreased and became more affordable for working-class people. Like it did in many other cities, this transformation involved converting dwellings that had previously been single family houses into rooming houses or shared accommodations.

The state, preoccupied with its vision of suburban expansion, relegated these increasingly working-class areas to decay and ruin. Repairs and renovation were considered unnecessary or wasteful and resources were funnelled into suburban development. Given these revisions, two major changes to many London neighbourhoods become salient to our discussion of gentrification: 1) Housing stock in these areas became affordable to working-class residents due to the migration of more affluent residents to the new towns and suburbs, thus creating predominantly working-class neighbourhoods; 2) The flight of more affluent residents also created a disinvestment in these new working-class areas: existing housing was repurposed but also fell into disrepair as necessary capital was now not available for maintenance uses (owing to a combination of state indifference and the migration of private capital).

Thus, by the time Glass was writing, portions of London were populated by working-class denizens who occupied architecturally older buildings that had often fallen into disrepair. This configuration of space meant that real estate in many of these neighbourhoods was cheap and often of historical or architectural significance. By the late 50's and early 60's,

tories and transpose it to the neighbourhood level; to accomplish this they built structures capable of addressing tenant grievances with direct action, in a manner similar to the way radical unions operated in the workplace. For the *Autonomia*, struggle could not be compartmentalized into neat divisions and so their project emphasized listening to their community and acting on their material needs, while injecting a broader program for political action. This led to several large scale occupations, rent strikes and other direct actions that both secured their neighbourhoods and advanced a radical anti-capitalist program. While not explicitly centred on anti-gentrification efforts, these struggles opened up the neighbourhood as a site of organization and contestation, a development necessary for successful anti-gentrification work.

It seems positively utopian to argue that such formations could quickly emerge in today's neoliberal metropolis. North American anarchist politics, especially as it applies to anti-gentrification, seems irreducibly tethered to either pole of the continuum. But, as the example of the Italian *Autonomia* demonstrates, the essential prerequisite for action that bridges this divide is the construction of a tenant or neighbourhood identity, just as effective action around labour struggles requires identification as a worker. In order to build a neighbourhood assembly, residents must both believe in a common identity and the capacity of collective action to address their material needs. The autonomist theory of the social factory provided this groundwork in the Italian context. Lacking that in post-industrial North America, the project of building neighbourhood assemblies becomes one of creating these foundational prerequisites in the communities we live in.

We would argue that community-focused direct action campaigns resulting from social research and lived participation in our communities (rent strikes, anti-police brutality campaigns, and actions taken to stop evictions and deportations) can both produce concrete gains and protect existing services

confront a Development Permit Board meeting on condo development.

As anarchists, we need to situate our efforts to resist gentrification between these two poles, developing a perspective that retains the social focus and flexibility of groups like the DNC but also acknowledging the necessity of extra-governmental resistance to gentrification proposed by formations like the AGF. We need structures that are accountable to and reflective of the neighbourhoods we struggle in, but that also develop a radical and comprehensive indictment of the broader capitalist forces that produce gentrification. In short, we need to develop structures in our communities that can effectively bridge the gap between “direct action” and “advocacy”. We would argue that the assembly form is the only structure that can viably incorporate these criticisms and function as an effective challenge to gentrification.

Understanding gentrification as a multifaceted process that encompasses many struggles, including work around police harassment and defence of immigrants, we need structures that are both flexible enough to respond to a variety of community issues while retaining a political perspective rooted in a sound understanding of how global forces shape our neighbourhoods and communities. Directly democratic neighbourhood assemblies can focus involvement in neighbourhood struggles, serving as both an impediment to unwanted investment (by serving as a viable conduit for collective action and a means of developing class consciousness and identity) and a tool for bettering the neighbourhood for current residents. This can be done by ensuring its composition reflects their needs and desires (social services, new development, etc.) of the local residents and mobilizing broad segments of the community to fight for them.

The possibilities for urban assemblies can be glimpsed by looking at the successes of events like the Milanese rent strikes of the 1970s. Tenant unions were formed by autonomists who sought to take the class consciousness of workers in the fac-

many middle-class professionals began to take an interest in these dwellings and neighbourhoods, purchasing cheap property and renovating it. These “pioneer” gentrifiers usually employed their own labour and capital, as government subsidies were still tied up in the New Towns plan and financial entities were reluctant to offer loans, as the neighbourhoods were considered risky investment prospects, on account of their primarily working-class composition. As more and more middle-class people adopted this strategy, rents rose as landlords and property owners realized that their existing properties could be more profitable if utilized by or sold to non-working-class residents. This led to the displacement of many working-class residents as their neighbourhoods became prohibitively expensive. By way of example, the Barnsbury neighbourhood of London witnessed a drop in unfurnished rental units from 61% of the housing stock in 1961 to just 6% in 1981.

For Glass, this shift represented the jumping off point for her definition of gentrification: the “rehabilitation” of working-class areas by middle-class property buyers and the subsequent displacement of the original tenants. Glass also emphasized the class element of this transformation; gentrification is a play on the English term gentry, used to denote the class of landowners and bourgeoisie immediately below the nobility in the social hierarchy. The affluent middle-class professionals who saw investment and housing opportunities in traditionally working-class areas were, according to Glass, the contemporary manifestation of the gentry. By this rationale, we may define the classical approach to gentrification as the displacement of poor people from areas and housing by the economic and social pressures brought on by having new residents with more access to social and financial capital move into their neighbourhood(s) and make substantial alterations to both the housing stock and demographics of the area. Or, in the words of English geographer Tom Slater, gentrification is “the neighbourhood expression of class inequality.”

II. The Multiple Stages Theories of Gentrification

Capital doesn't care if we feel at home somewhere. That feeling is a barrier to investment.

- Prole.info, *The Housing Monster*

Building on Glass' work in the mid 1960's, American urban theorist Philip Clay postulated a four-stage model of gentrification that aimed to describe its mechanics more substantially. Clay's work proved highly influential in shaping discourse around gentrification, illustrating, in part, how neighbourhoods actually become gentrified. This was a contrast to Glass' classical approach, which was more a descriptive theory of a process already well underway by the time she was writing. Clay's four-stage model was broken down as follows:

Stage one: Pioneering gentrification — New residents of a neighbourhood, often with more access to financial resources and cultural/social capital, move into traditionally working-class neighbourhoods. They renovate property, usually using private capital because mortgages are unavailable due to the perceived risk of the area. Little or no displacement occurs at this stage, as existing properties are often vacant and new properties are built on unused land.

Stage two: Expanding gentrification — Word spreads about the emerging "viability" of the neighbourhood; perceptive realtors begin offering property in and around the area. The associated financial risk implicit in stage one is minimized, but not eliminated: large scale developers are still wary of injecting capital into the area. Displacement begins, as the stock of avail-

eral other neighbourhood groups, including the Downtown East Resident's Association (DERA). The DNC has done much to highlight the gentrification of the DTES, including publishing reports and studies on the impact of gentrification and organizing meetings and town halls for residents to discuss and strategize around gentrification issues. The DNC is open to all residents of the DTES who agree with its organizing principles and constitution, and has a broader focus that many anti-gentrification groups, engaging in work around harm reduction and anti-colonialism, among other issues. In contrast to the AGF, the DNC actively engages in the political process, even having a member of its Board of Directors on the Local Area Planning Process (LAPP) committee—a City of Vancouver-run project to produce a development plan for the "revitalization" of the DTES. The DNC receives funding from several other community organizations and donors, including the Vancity credit union.

The approach to gentrification presupposed by the DNC understands resistance to gentrification as a communal effort, but also creates some confusion regarding the scope and limits of their activities. By accepting a role in official discourse around development, the DNC largely focuses on advocacy and research. The ties between the city, businesses and non-profits like DNC also create a web of associations that serve to obfuscate the way gentrification actually proceeds, painting it as a process to be managed, with the participation of anti-gentrification groups like DNC serving as means to legitimate this perspective. Additionally, the flow of funding, resources and legitimacy that organizations like the DNC rely on from outside entities can diminish the effectiveness of the organization, linking them to those that may seek to influence their politics. For example, in 2012, DNC member Ivan Drury was removed from a seat on LAPP when the city manager accused him of being "threatening" and "bullying" for employing direct action tactics by leading a neighbourhood delegation to

of responses, two of which typify both the strengths and weaknesses of the continuum proposed above.

The Anti-Gentrification Front (AGF) is a moniker used by several anonymous individuals who have staged acts of targeted property destruction and propaganda, usually in the form of communiqués posted on the internet. These attacks on businesses and developers, including the destruction of a new pizza restaurant's windows in late 2012, have attracted enormous media attention and placed questions around the gentrification of the DTES at the forefront of discussions around development in Vancouver. In some ways, the AGF's choice of tactics demonstrates a relatively sophisticated, if incomplete, understanding of gentrification. AGF actions seem to be designed to increase investor trepidation by ensuring the neighbourhood remains "risky". Its actions demonstrate that members of the DTES community will continue to resist ongoing gentrification with direct action.

Conversely, however, the very nature of these tactical choices ensures that the AGF will remain small and largely anonymous. This risks creating a vanguardist clique, where "effective" resistance to gentrification remains the province of a small, politically homogenous group that may not reflect the broader wishes of the neighbourhood they claim to act for. Small group formations like the AGF are, by their nature, largely politically unaccountable and do not articulate an alternate vision for the area. Seen in this light, anti-gentrification work is an inherently negative political project: it opposes, but does not propose. The limitations of this perspective are already apparent, as AGF actions are recuperated and depoliticized by those eager to paint their resistance as the work of mere criminals and agitators—a trope that has been front and centre in media and popular discussions of AGF actions, and has limited broader public support for their work.

The Downtown Eastside Neighbourhood Council (DNC) is a community group formed in 2009, out of the ashes of sev-

able housing falls and rents begin to increase. Small mortgages start becoming available and renovation may expand to adjacent blocks. Buildings may be held for purposes of real estate speculation, as landlords and property owners see emergent changes to the area.

Stage three: Adolescent gentrification — More risk-averse people may start moving into the neighbourhood, as there now exists a growing consensus that the area is a "safe investment." Gentrifiers, old and new, may band together into associations to exert additional political/social pressure to further the gentrifying process (i.e. Neighbourhood associations, business improvement associations, historical preservation societies, etc.). Rents increase dramatically at this point and class struggle between gentrifiers and older residents becomes most pronounced. Media attention may develop as physical changes to the area become more evident and external private capital (loans, mortgages, etc.) becomes more easily available.

Stage four: Mature gentrification — The area is considered safe, trendy, a good investment; homeowners may begin to see themselves displaced; major developers and financial institutions may begin to profit off the area. Buildings held for speculation now appear on the market. Interestingly, even the first wave of gentrifiers may be displaced at this stage, as even wealthier people decide to move in and financial entities see land in the area as a profitable investment site.

Clay's model is both a strength and weakness for gentrification theorists. On the one hand, as noted above, it provides a relatively concrete picture of how neighbourhoods actually become gentrified. It is useful both as historical metric for examining how gentrification has affected an area and, simultaneously, as a tool to evaluate possible interventions in the process: for example, if a neighbourhood exhibits characteristics typical of stage three or four, actions appropriate to stage one would be counter-productive.

Conversely, Clay's model is very much a microcosmic theory: it focuses on the process of how a specific neighbourhood undergoes gentrification, but offers little insight into the broader forces that drive the process; it emphasizes "how" at the expense of "why". Perhaps the most useful feature of Clay's model, from an anti-capitalist perspective, is the treatment of gentrification as the progressive reduction in risk for outside investors. Movement between the various stages of Clay's model describe how barriers to outside investment are gradually removed; from a financial point of view, a gentrified neighbourhood is a safe neighbourhood. But, in the absence of a broader account of the functioning of capitalism, this analysis is incomplete. Subsequent models, like those discussed below, attempt to address these deficits by linking the transformation of neighbourhoods to the larger operation of globalized capitalism or, put another way, to add a macrocosmic dimension to the microcosmic particulars of Clay's stage model.

Owing to several of the weaknesses cited above, two noted urban sociologists, Neil Smith and Jason Hackworth, proposed a model that takes into account the broader processes that create the conditions that make gentrification possible. Consisting of three stages punctuated by recessions, the Hackworth and Smith model views gentrification as a cycle of investment and disinvestment, and is a useful counterpoint to the narrower focus of Clay's four-stage model.

Stage one: Sporadic and State-Led (1950–1973) — Smith and Hackworth identify this early stage of gentrification as something of a successor to Clay's stage one. In contrast to Clay, they emphasize the role of the state in providing the impetus for further gentrification. Between 1950 and 1973, in both North America and much of Western Europe, gentrification was a relatively isolated phenomenon, largely confined to smaller neighbourhoods in larger cities. As noted by Clay's model, pioneer gentrifiers employed their own capital and sweat equity to redevelop existing housing stock. Spurred by

Both of these approaches have individual strengths and weaknesses but, broadly speaking, most neighbourhood responses to encroaching gentrification seem to fall somewhere on a continuum between the two. On the one hand, acts of property destruction, sabotage and propaganda are usually enacted by individuals or small groups, working alone and often isolated from larger political projects or neighbourhood engagement. On the other, the emphasis on organizing tenant or neighbourhood committees necessitates a wider focus and often employs tactics like door-knocking, social research and lobbying. The primary difference between the two poles of this hypothetical continuum is where the effective locus for resistance is located: the "direct action" pole locates the site of resistance as the individual or small group, whereas the "advocacy" pole situates the network or group as primarily important.

It is important to note that no individual or group that we know has taken a hardline stance that either the social or the individual is the sole force capable of attacking gentrification. We have divided actions along this continuum not to caricature perspectives on struggle, but to talk about how energy and resources are expended in anti-gentrification work and to foreground how both poles presuppose perspectives on gentrification that are problematic and incomplete. To further develop this distinction, we will look at two recent approaches to anti-gentrification work that have coexisted in the same geographic area, Vancouver's Downtown East Side (DTES).

Vancouver's DTES is often colloquially referred to as "Canada's poorest area code". Recent years, however, have seen an influx of gentrifying capital in neighbourhoods like China Town and Gastown, with the attendant new condos and businesses familiar to the process. The rapid changes in the neighbourhood have seen longtime residents displaced and necessary social services rendered inaccessible. The volume of people affected by the DTES' gentrification has produced a range

developers and city counsellors: manifestations of the ruling class banding together to collectively assert their class power. Struggling against gentrification thus means struggling against the spread of this repressive apparatus and a chance to sharpen our skills while defying the collaborative efforts of capitalists and the state.

Finally, neighbourhood-level struggles against gentrification can build a capacity to assert our own class power by spreading confidence in the possibilities of collective action. The violence of gentrification pulls back the veil of capitalism, showing it plainly for what it truly is: a contest between classes with mutually opposing interests. The state's willing collaboration in this process, be it through the blatant doublespeak of city counsellors or the eagerness of police to defend the private property rights of absentee landlords, can make our neighbours increasingly receptive to anarchist ideas, as they become validated through lived experience.

Conceptualizing an Anarchist Intervention Against Gentrification

Resistance to gentrification is a pervasive feature of the gentrification process. The form such resistance takes, however, is nowhere near universal and varies widely from neighbourhood to neighbourhood. In some places, acts of property destruction, sabotage and propaganda assume a place of prominence; in others, neighbourhood groups or associations form in order to exert organized political and economic pressure on gentrifiers and their agents. Historically speaking, concerted anti-authoritarian responses to gentrification have been limited and have usually been closer to the former approach, as borne out by numerous historical examples (Mission Yuppie Eradication Project in San Francisco; the Anti-Gentrification Front in Vancouver; and the Toronto Solidarity Cell in Toronto).

successes in this regard, the state began to see gentrification as a shorthand, cheaper means of accomplishing “urban renewal” projects. Limited federal funding became available after early pioneer attempts at gentrification proved successful, often in the form of grants and subsidies for the renovation of damaged or unused buildings. By controlling these funding streams, especially given the initial reluctance of private sector investment, the state exercised a primary role in determining the course that gentrification took.

1973–1977: Recession — An emerging global economic recession created a situation where the state sought to move capital from unproductive to productive sectors, favouring investment in areas that actively produced surplus value. This discouraged tendencies at play in stage one: money used for grants and subsidies was redirected towards sectors of the economy that provided a higher return on investment.

Stage two: Expansion and Resistance (1970's and 80's) — Within this stage, gentrification took on both a cultural and financial dimension. Recovering from the recession, cities began to view gentrification not so much an occasion for urban renewal, but as an opportunity for investment. The state, still reeling from the recession, began to take a more cautious approach, realizing the necessity of creating new investment opportunities, but still reluctant to actively subsidize gentrification as it once had. In this light, state funding for gentrification took a more laissez-faire approach, trying to prod the private sector into further investment. As a consequence of these developments, gentrification became much more widely dispersed: in order to attract the investment necessary to further urban restructuring, cities began investing in cultural and commercial centres adjacent to potential gentrifying neighbourhoods (museums, promenades, stadiums, galleries, etc). These cultural centres, in the words of Smith and Hackworth, “smoothed the flow of capital.” And, as globalization continued apace, links between local urban restructuring and international finance

became more tangible; the state sought to attract globalized capital, with gentrification as a primary target of investment. This loosening of global capital on disinvested neighbourhoods created much more rapid, ruthless, unchecked pace of gentrification, which was often resisted by the residents facing displacement.

Early 1990's: Recession – Another, smaller global economic recession led several theorists to postulate “degentrification” as many neighbourhoods saw the process ground to a halt or severely clawed back, indicating general post-recession skittishness from investors.

Stage three: Further Expansion (1990's-2000's) – Rebounding from the recession, this third wave of gentrification again witnessed a shift in strategy. States and corporate powers began much more actively colluding in the process of gentrification. Gentrification became viewed, by both parties, as a strategy of generalized capital accumulation. In contrast to the casual laissez-faire support of stage two, the state was now actively partnering with larger corporate entities to further gentrification—often as development partners. Concurrent to these developments, this attitude of viewing neighbourhoods solely as sites for potential global investment and development saw gentrification branch out from its traditional roots in disinherited urban areas to many other parts of the city. Also, developers now began to play a much more active process, supplanting pioneer gentrifiers as the primary engine of gentrification. Finally, this stage also saw effective community resistance to gentrification minimized or ignored because the approach to space encoded within gentrification – that of an internationally distributed network of financial capital tied to the state's urban planning policies – became viewed as something close to inevitable or “common-sense”. Gentrification had become, in many places, something akin to a hegemony of urban space, something healthy cities aspired to, as inevitable and regular as the tides. History has now reached a point where gentrification

IV. Anarchist Responses to Gentrification

Houses are ours because we build them and need them, and for that reason we're going to have them!

-Rent Strike Participant, Milan, 1970

Anarchists understandably feel an intrinsic and visceral opposition to gentrification. It represents a capitalist attack on our neighbourhoods and homes, a destructive expression of state and corporate power that uproots entire communities. Perhaps most of all, it enrages us because it so often seems largely beyond our control, watching landlords and speculators mould neighbourhoods as they will, with the firm support of the state. As disgusting as this situation is on its own, there are also several reasons that anarchists should oppose gentrification from a purely strategic point of view.

As we have noted, gentrification is both a process of transforming the city to reflect changes in the global economy and a restructuring of urban space to meet the constantly expanding needs of capital investment: this effectively makes gentrification the urban front line of capitalism. If we can halt the incursion of gentrification into a neighbourhood, we are effectively halting capitalism's expansion, and denying capital the chance to reproduce itself at our expense.

Gentrification brings with it increased repression through the installation of additional CCTV surveillance cameras, the further commodification of public space, a broken window approach to policing and the spread of private security. It is a process perpetuated by local business and resident associations,

generation of slumlords, who could seek to increase their profits by neglecting to carry out required repairs. No matter how this plays out, in a decade or two these high-rise condominiums, currently epitomized as the status symbols of the urban “middle-class” and the cutting edge of gentrification, are fated to become the slums of the future

is no longer merely middle or upper-class buyers displacing working-class people, but an approach to space that privileges existing class relations and props up global capitalism in very real and tangible ways.

Developing a coherent picture of a phenomenon as complicated and multifaceted as gentrification requires both large-scale and small-scale analysis. We need to be able to both identify what is happening in our communities and link it to what is happening the world over. In this light, the works of Glass, Clay, Smith and Hackworth should be seen as broadly complementary. The next section of this article will explore in greater detail some of the bigger economic questions at play within gentrification and how they relate to debates on the use of the city.

III. The Economics of Gentrification

With the upheaval of the market economy, we begin to recognize the monuments of the bourgeoisie as ruins even before they have crumbled.

-Walter Benjamin

The 1970s witnessed a number of critical theoretical contributions to the field of urban studies that challenged the dominant assumption that changes to urban demographics and geography were reflections of the sovereignty of consumer choice — a belief which framed the long-standing influence of the Chicago School of Sociology on the study of urban development. An important contribution to emerge from this shift was the Rent Gap Theory pioneered by Neil Smith (of the Smith and Hackworth model). This theory has not been without its critics, but it remains one of the best means of understanding the individual incentives that lead landowners to contribute to gentrification.

Land is a unique form of commodity, in that its exchange value is entirely dependent on its potential use value. In an urban setting, the use value of land is a social construction based primarily on its location — the general desirability of a surrounding neighbourhood, proximity to transportation corridors, public parks, shopping centres etc. Landowners and developers capitalize on property's latent use value through the addition of labour and investments of further capital, whether the end result assumes the form of an economic venture (a factory, theme park, etc), owner-occupant housing or a multi-

coming in the form of punishing austerity measures. While it is impossible to predict how this will play out in the urban environment, there are some things that we know for sure.

Much of the growth that has occurred during this bubble has been concentrated in Canada's two most overpriced housing markets: Toronto and Vancouver. Both cities have witnessed a flurry of high-rise condo development that has accelerated the displacement of low-income residents from their respective downtown cores. These condominium towers are being built quickly, en masse—and often on the cheap. In an article entitled *Faulty Towers*, journalist Philip Preville spoke to a number of recent condo buyers in Toronto, who pointed out some of the structural issues they discovered soon after moving into their shiny new homes. These problems included, but were not limited to: collapsing glass balconies, faulty ventilation and drainage systems, cracks in the foundation, poor insulation, thin walls, cheap cement coating on steel rebar, improperly installed floor-to-ceiling windows and leaky sprinklers. Maintenance costs for these buildings typically begin to skyrocket within the first two years, as the “owners” of the building are forced to pay for repairs to the initial shoddy construction, and install more energy efficient water heaters, air conditioning units and fluorescent lighting systems.

When these buildings, facing the divestment cycle outlined in Smith's Rent Gap Theory, begin to decay, they will pose unique obstacles to reinvestment, owing to their diverse per-unit ownership structure. As these condo units become more and more dilapidated amidst the context of a collapsing real estate market, their value will drastically plummet. Owners of these condos will be faced with the choice of either continuing to live in them, while paying ever mounting maintenance fees, selling them at a loss, or converting them into rental units. As many current condo owners will likely have no interest in becoming landlords, these units could foreseeably be subcontracted out to rental agencies or sold off in blocks to a new

selves. Toxic subprime mortgages, hidden from balance sheets through the use of securitized debt instruments, were now spread throughout the global financial system; the result was the international economic crisis of 2007- 2008, which was quickly followed by several rounds of successive bank bailouts and the prescribed solution to the fiscal deficits created by this swindle—austerity.

Looking into the future

Alone among G8 nations, Canada emerged from the global economic crisis in relatively good shape. A stricter financial regulatory system in the lead up to the crisis had barred Canadian banks from engaging in some of the riskier practices of their US counterparts and kept them from overexposing themselves, unlike their European counterparts, to the turmoil of the credit derivatives market. Following a short downturn in 2008, the housing market soon stabilized and continued its expansion. But problems in the Canadian market were brewing, even then. Financial deregulation introduced by the Harper administration in 2006 subsequently led to the rapid creation of a large subprime housing market where none had existed before: persistently low interest rates have flooded the balance sheets of the Canadian Housing Mortgage Corporation (CHMC) to nearly \$600 billion; and rising housing prices have led to exponential growth in Home Equity Lines of Credit (HELOCs), leading to a corresponding explosion in household debt levels. And over the past year, housing sales have finally begun to decline, causing many financial analysts to declare that the bubble is about to burst. Because the loans insured by the CHMC are backed up by the Canadian taxpayer, a mortgage crisis triggered by a housing collapse will automatically lead to bank bailouts and massive federal deficits, thus requiring the implementation of further neoliberal restructuring, almost certainly

tenant apartment building. The type of fixed capital investment pursued by the landowner will vary, depending on zoning regulations and the maximized potential for profit derived from the use of the land — a factor that Smith described as Potential Ground Rent. However, this capital investment, once completed, becomes a barrier to further investment; once a building has been constructed, the land cannot be used for anything else. At this point, the land's Potential Ground Rent materializes into Capitalized Ground Rent, in the form of a steady income stream (in the case of rent) or a lump sum (in the case of sale), while finance capital moves off in search of new opportunities for investment. This cycle of investment/divestment explains why areas of the city face staggered waves of development.

As time passes, technological and architectural innovations, coupled with changes to the surrounding neighbourhood combine with the inevitable deterioration of the buildings and corresponding rise in maintenance costs. This creates a gap between Capitalized Ground Rent, and the Potential Ground Rent that could be actualized by the redevelopment of the property. The more time passes, the larger this gap grows, and the stronger the incentive for redevelopment. Once the rent gap reaches a certain threshold, it becomes more profitable for a landlord to let their property sink into an abject state of disrepair than to continue paying for its active upkeep; they thus give up on the “hard work” of being a landlord and become a speculator — biding their time for the right opportunity to sell their land to developers eager to capitalize on its Potential Ground Rent. And so the cycle continues.

Changes in the structures of the city

As capitalism has transformed itself through the neoliberal restructuring of global production, cities have undergone a parallel process of urban restructuring. In developing regions, this

change has manifested most clearly in the spread of Export Processing Zones (EPZs)—concentrated industrial trading hubs designed for the manufacture and transportation of cheap goods, on a mass scale, to global consumer markets. In developed regions, on the other hand, this shift has been marked by the transition to a post-industrial economy characterized by the growth of finance, advertising and service sector jobs, and the relative downgrading of the manufacturing sector. Cities, traditionally built to house workers in close proximity to large factories, nowadays reflect an economic environment in which the working class has been dispersed among a much larger number of companies, each composed of smaller, more flexible workforces.

The shift to a post-industrial, information-based economy has also forced a recomposition of the working class itself. Large metropolitan cities have become the managerial epicentres of global commerce, with wealth creation dependent on a new technocratic class based in finance, insurance, real estate, marketing and I.T. This swarm of white-collar workers is attended to by an even larger contingent of service and hospitality workers in the food and beverage, customer service and retail sectors — types of employment marked by their precarious nature and low wages. The decline in the traditional manufacturing sector has been mitigated by a corresponding rise in construction jobs, largely tied to the cyclical boom and bust nature of urban restructuring.

This shift in demographics hides the true economic forces that drive the process, as influxes of yuppies come to be seen as the cause, rather than the symptom, of gentrification. This perception is most palpable in neighbourhoods where increased condo development is synonymous with urban displacement. Yet this situation is not without historical precedent; the social and economic divisions between those who benefit from the new, higher-paying jobs of the postindustrial economy and the more precarious segments of the class echo earlier divisions be-

tween so-called “skilled” and “unskilled” labourers of the late nineteenth century. Now, as then, the primary agent of capitalist restructuring remains the capitalist class.

From boom to bust

Emerging from the economic recession of 2000–2001—a crisis triggered by the bursting of the dot-com stock market bubble—the period of 2000–2007 was characterized by massive growth in the housing sectors of many developed nations. A mixture of low interest rates and financial deregulation combined to produce unprecedented housing bubbles in the United States, Ireland, and Spain, with significant price increases also occurring in Britain, China, Australia, France, Italy, Belgium, Denmark, Sweden, Norway and Canada. By 2005, *the Economist* was reporting that the combined value of all residential property in the world’s developed economies had shot up by an estimated \$30 trillion over the previous five years — an increase that not only dwarfed any previous housing boom, but was also larger (as a percentage of GDP) than the stock market booms of the 1920s and early 1990s, effectively making it the biggest asset bubble in human history.

These grossly inflated housing prices spurred a frenzy of new home construction. Between 1996–2005, there were 553,267 new houses built in Ireland (a country with a population of 4.5 million); while the three years of 2004–2006 saw over 1.8 million new homes built in Spain, and over 5.7 million in the United States. This glut of new construction produced an incredible windfall for the banking sector, which profited both from the financing of development projects and the corresponding explosion in home mortgages.

We all know what happened next. As the housing bubble in the United States burst, it soon became clear that the banks financing the boom had seriously over-leveraged them-