Chicago's Near South Side

Revisiting the South Loop and South Armour Square, 2001

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Acronyms

CCH	Chicago Coalition for the Homeless
CHA	Chicago Housing Authority
FHA	Federal Housing Administration
MBS	mortgage-backed securities
NAFTA	North American Free Trade Agreement
S&L	savings and loan
SAP	structural adjustment programme
SASNC	South Armour Square Neighborhood Coalition
SHAC	Statewide Housing Action Coalition
SRO	single room occupancy
TIF	tax increment financing
VA	Veterans Administration
UNRISD	United Nations Research Institute for Social Development
UNV	United Nations Volunteers
WGRMC	Wentworth Gardens Resident Management Corporation
WTO	World Trade Organization

Summary/Résumé/Resumen

Summary

The Housing Act of 1949 established as national policy the intent to realize "as soon as feasible... the goal of a decent home and a suitable living environment for every American family". Over the next quarter of a century, cities and states in the United States built hundreds of thousands of housing units for low-income families, many of them funded from federal grants. In this paper, David C. Ranney and Patricia A. Wright argue that such large social investments could be sustained only through the steady, rapid growth of the economy of the United States (US), and a political agreement among business, labour and government that the proceeds of such growth would be shared equitably.

According to the authors, an important source of economic growth for the US economy came via the Bretton Woods agreement of 1944, which played a crucial role in guiding Europe's reconstruction after the Second World War and channelled economic stimulus across the Atlantic. As European reconstruction drew to a close and its stimulus began to weaken, the industrial democracies lapsed into slow growth and high unemployment. By the 1970s, a new consensus began to emerge that regulation, a hallmark of the Bretton Woods era (1944–1971), had become the main enemy of growth. In the neoliberal revolution that was to follow, housing policy and particularly the viability of publicly funded housing for low-income groups came under attack.

This paper chronicles the interplay of global and local economic forces and the political responses to them that have led to the loss of low-income/affordable housing near the central business district in Chicago, Illinois, in the United States. An important conclusion of the paper is that financing for urban development—whether for infrastructure, transportation or housing—is now integrated into global capital markets, and that the supply of these urban goods, including affordable housing, is determined by the returns these investments offer creditors seeking opportunities in a globally integrated market. Because of these pressures, local governments, even when committed to reversing historical social inequalities, have little leeway in working with socially progressive forces to accomplish such ends.

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Résumé

La loi de 1949 sur le logement a érigé en politique nationale l'intention de "réaliser dès que possible…l'objectif d'un logement décent et d'un cadre de vie adapté pour toutes les familles américaines". Pendant les 25 ans qui ont suivi, villes et Etats des Etats-Unis ont construit des centaines de milliers de logements pour les familles économiquement faibles, dont beaucoup sont financés par des subventions de l'Etat fédéral. Dans cette étude, David C. Ranney et Patricia A. Wright font valoir que des investissements sociaux d'une telle ampleur n'ont pu être consentis que grâce à la croissance ferme et rapide de l'économie américaine et à un accord politique entre entreprises, syndicats et gouvernement sur la nécessité de partager équitablement le produit d'une telle croissance.

Selon les auteurs, l'économie des Etats-Unis devait en grande partie sa croissance à l'accord de Bretton Woods de 1944, qui a joué un rôle crucial en guidant la reconstruction de l'Europe après la Seconde Guerre mondiale et en dopant l'économie outre-Atlantique. Lorsque, la reconstruction de l'Europe presque achevée, l'effet dopant a commencé à faiblir, les démocraties in-

dustrialisées ont connu une croissance molle et un chômage élevé. Dans les années 70, l'idée que la réglementation, la marque de l'ère de Bretton Woods (1944–1971), était devenue le principal ennemi de la croissance, s'est mise à gagner du terrain. Dans la révolution néolibérale qui a suivi, la politique du logement, et surtout la viabilité d'une solution consistant à utiliser des fonds publics pour construire des logements pour les groupes économiquement faibles, est devenue la cible d'attaques.

Cette étude retrace l'interaction des forces mondiales et locales à l'œuvre dans l'économie et expose les réponses politiques qu'elles ont suscitées et qui ont entraîné la perte de logements abordables pour les économiquement faibles près du quartier central des affaires à Chicago, Illinois, aux Etats-Unis. Les auteurs concluent notamment que le financement de l'urbanisation, que ce soit pour l'infrastructure, les transports ou le logement, est maintenant intégré aux marchés mondiaux des capitaux et que l'offre de ces mêmes biens en ville, notamment des logements abordables, est déterminée par le rendement que ces placements offrent aux investisseurs à la recherche de bonnes affaires sur le marché mondial. En raison de ces pressions, les gouvernements locaux, même lorsqu'ils ont la volonté de corriger des inégalités sociales historiques, ont peu de latitude pour s'allier aux forces sociales progressistes et atteindre leurs objectifs.

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Resumen

La Ley de la vivienda de 1949 estableció como política nacional el propósito de lograr "cuanto antes…el objetivo de un hogar decente y de un entorno de vida adecuado para cada familia estadounidense". Durante el cuarto de siglo siguiente, en los estados y ciudades de Estados Unidos se construyeron cientos de miles de viviendas para familias de bajos ingresos, muchas de ellas financiadas con fondos federales. En este documento, David C. Ranney y Patricia A. Wright sostienen que estas grandes inversiones sociales sólo podían sostenerse a través del crecimiento rápido y estable de la economía de Estados Unidos, y de un acuerdo político entre las empresas, los trabajadores y el gobierno, que estipulara el reparto equitativo de los beneficios de dicho crecimiento.

Los autores señalan que el acuerdo de Bretton Woods de 1944 significó un importante elemento de crecimiento económico para los Estados Unidos. Desempeñó un papel fundamental al ofrecer orientación para la reconstrucción de Europa tras la Segunda Guerra Mundial, y encauzó el estímulo económico a través del Atlántico. A medida que la reconstrucción del Viejo Continente llegaba a su fin, y que su motivación comenzó a flaquear, las democracias industriales empezaron a registrar un lento crecimiento y una elevada tasa de desempleo. En el decenio de 1970, se llegó al consenso de que la regulación, sello distintivo de la era de Bretton Woods (1944–1971), se había convertido en el principal enemigo del crecimiento. En la revolución neoliberal que tendría lugar a continuación, la política relativa a la vivienda y, en particular, la viabilidad de la vivienda sostenida por fondos públicos para los grupos de bajos ingresos; se vieron amenazadas.

En este documento se describe la interacción de las fuerzas económicas locales y mundiales, y las respuestas políticas a las mismas que han conducido a la pérdida de la vivienda de bajos ingresos/asequible cerca del distrito comercial central en Chicago, Illinois (Estados Unidos). Una conclusión importante es, que la financiación para el desarrollo urbano—ya sea para la infraestructura, el transporte o la vivienda—está integrada actualmente en mercados de capital mundiales, y que la oferta de estos bienes urbanos, incluida la vivienda asequible, está determinada por los beneficios que estas inversiones reportan a los acreedores que buscan oportunidades en un mercado mundialmente integrado. En vista de estas presiones, los gobier-

nos locales, aun cuando se hayan comprometido a erradicar las desigualdades sociales históricas, tienen poca libertad de acción al colaborar con fuerzas socialmente progresivas para lograr tales objetivos.

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Introduction

In June 1996, we participated in the writing and presentation of a study of Chicago's Near South Side as part of a project, co-sponsored by the United Nations Research Institute for Social Development (UNRISD) and the United Nations Volunteers (UNV), called *Volunteer Action and Local Democracy: A Partnership for a Better Urban Future*. The goal of the project was "to identify the successes of, and constraints on, collaborations between community based organizations and volunteer organizations on the one hand, and local governments on the other, in designing, implementing and evaluating social and economic policy at the local level, and to use this information to initiate and inform a dialogue among local actors about concrete ways of enhancing future collaborations of this kind" (Westendorff 2001). Our paper (Ranney et al. 1997) was prepared as a contribution to the Second United Nations Conference on Human Settlements (Habitat II) held in Istanbul in June 1996. The three Chicago case studies included in the paper were among 20 such studies conducted in São Paulo, Brazil; Mumbai, India; Lima, Peru; Johannesburg-Soweto, South Africa; Jinja, Uganda; East St. Louis, United States; and Ho Chi Minh City, Viet Nam. The present paper is an effort to examine the case of Chicago five years later and determine what additional lessons can be learned.

Our original paper examined three case studies around the development of a part of Chicago that is just south of its central business district. In each case, citizen groups were seeking to influence the direction of that development to accommodate the needs of poor people for a decent place to live. These included (i) efforts of citizen groups to preserve affordable housing in an area known as the South Loop; (ii) the struggle of public housing residents to stop the development of a baseball stadium that threatened to displace many residents of their community and lower the quality of life for those who remained; and (iii) attempts of the Chinese residents to gain recognition for the development of their community. In this paper we return to the South Loop and the public housing cases.

The South Loop case involved an area undergoing rapid development of housing units that were priced at levels that were affordable to only very wealthy or upper-middle-income people. Poor people living in the area faced a dwindling stock of affordable units and were being pushed out through this process, known as gentrification. Government subsidies to real estate developers spurred this development. In the late 1980s, two coalitions—the Chicago Coalition for the Homeless (CCH) and the Chicago Affordable Housing Coalition—began working together and demanded that scarce resources be directed toward the needs of low-income families rather than to subsidize luxury housing. This was eventually articulated into a major campaign known as the South Loop Development without Displacement Campaign. The campaign included a citizen planning process that organized working groups on housing, jobs, economic development, schools and social services and was aimed at maintaining the low-income people in the area. The campaign also included direct actions—marches, rallies, vigils—that targeted developers, real estate promoters and the mayor. The campaign led to negotiations with city hall that unfortunately ended in deadlock. The campaign also demanded the preservation of single room occupancy (SRO) hotels, a major source of affordable housing. The city's plan included razing a number of these hotels. Again, the city rejected the campaign's demands but did agree to provide some funding for two new hotels, a partial victory for the campaign.

The second case we revisit in this paper involved the residents of South Armour Square, a small black community located next to a professional baseball stadium. Prior to 1986, the community included nearly 1,000 public (mostly low-income) housing units whose residents were black families and the elderly. The neighbourhood also included 11 small businesses. However, this well-kept, tightly knit community became a target for redevelopment because of the desire of a professional baseball team, the Chicago White Sox, to build a new stadium there. The redevelopment plan would destroy 89 private residential buildings that housed over 500 families, and all of the commercial establishments that provided 300 jobs. It would break up a community with strong bonds and the proximity of the stadium to the remaining units would seriously compromise the quality of life in the area. The governor of the state of Illinois and the

mayor of Chicago signed a law creating a special sports authority that had legal authority to take property after offering just compensation. Residents formed the South Armour Square Neighborhood Coalition (SASNC)[1] to fight the plan. After several protests, the new sports authority agreed to negotiate. They proposed a generous buyout package for middle-income homeowners in the area, but left the lower-income people isolated. The remaining residents sued on the grounds that the plan was a form of racial discrimination. Residents sought damages that would allow them to implement a community plan for a small shopping centre to employ and serve community residents. Meanwhile, the building of the stadium went ahead. The case lingered in the courts for eight years, after which a judge threatened residents with liability for legal costs if they pursued an appeal. Only about half of the plaintiffs continued the appeal, as the others had no assets to pay legal fees. Again the judge turned them down, and their legal remedies were exhausted.

In the next section of this paper, we update the status of the efforts of low-income residents to defend their right to live and work in the South Loop and South Armour Square. The results of their struggles have been disappointing. Despite their high level of mobilization and technical support from highly skilled and dedicated professionals in the affordable housing movement, the low-income residents of the South Loop and South Armour Square are losing the battle against gentrification, and eventually they will be forced to find housing elsewhere as affordable units become ever more scarce.

Having come to this conclusion, as urban planners and housing activists we have been forced to try to better understand the larger social and economic forces that are squeezing the city's urban poor and lower-middle classes from the neighbourhoods where they want to live and work. These forces have been evolving for several decades in tandem with local politics, with national politics and, more recently, with the increasing impact of economic globalization on the manufacturing base of the city of Chicago. We highlighted some of these issues in our first UNRISD/UNV case study (Ranney et al. 1997). At that time, however, we had yet to fully perceive the negative influence of the integration of financing for local urban development into international financial markets. This paper presents our analysis of the implications of global economic integration for urban development finance.

Following our summary of the situation of the South Loop and South Armour Square neighbourhoods up to mid-2001, we discuss in two separate sections crucial changes in roles and capacities of local government in guiding urban development in Chicago. We then review the causes and consequences of replacing the domestic cooperation between government, corporations and labour and its corollary of managed international trade among the major trading powers that marked the Bretton Woods era as a means of achieving national development goals with deregulated market mechanisms prescribed by neoliberal economics.

Particularly important are the local impacts of economic restructuring driven by globalization. On the one hand, living-wage[2] employment in the Chicago metropolitan region has been disappearing rapidly, reducing the capacity of formerly lower- and lower-middle-income households to afford decent housing available at market prices. On the other hand, the integration of urban development finance into global financial markets reduces the supply of affordable housing in locations where it is most needed. Where city government sees its role as a facilitator of market-led development, and the federal government increasingly washes its hands of responsibility for promoting affordable housing, the number of vulnerable families grows in step.

1 The SASNC was a coalition of residents who had been previously displaced, "senior citizens" (the elderly) living in a church-based housing development and residents of the nearby Wentworth Gardens public housing project.

2 The notion of a living wage is based on minimal purchases needed by a single-parent family with two children.

I. South Loop and South Armour Square

South Loop + five years

From 1996[3] to 2001, the South Loop continued to develop as an upper-income residential area. There was a boom in construction projects. Based on a list compiled by consultants working on the third issuance of the tax increment financing (TIF) bonds in 1999, there were 18 private residential projects and 17 public development (streetscapes, sewers, etc.) projects completed, 18 private residential projects under construction, and five private residential and 10 public works projects proposed within the TIF district. As of December 2000, the TIF district had a debt of $50 million.[4] (See the discussion of large-scale urban development finance in section IV, below, for a brief description of the development of TIFs.)

It was estimated that as of 2000, as many as 4,500 housing units could be built in the South Loop by 2004–2005.[5] Commercial development has followed the residential development with new restaurants, art galleries and a large grocery store chain that opened prior to May 2001. Residential sales have steadily increased with 366 sales in 1997, 451 in 1998 and 670 in 1999. Most of the developments were either condominium apartments or townhouses. At the end of 1999, the median housing price in the area was $208,250, about a 12 per cent increase from the previous year, according to the real estate Multiple Listing Service of Illinois. However, many of the townhouses were geared to the luxury-housing buyer with prices as high as $750,000.

However, as a result of the South Loop Development without Displacement Campaign, there has also been some low-income housing developed in the area. Since 1996, the primary success of the campaign has been the construction of three SRO hotels, which were financed by the government through the Chicago Department of Housing and are owned and managed by not-for-profit groups. Before the redevelopment of the South Loop as a luxury high-income area, it had been an area of SRO hotels and other low-income housing that provided much-needed housing to service workers in the downtown area. In 1990, there were seven SRO hotels with 700 units (University of Illinois at Chicago 1990), yet since 1996 two of these hotels have been demolished with a loss of 354 units. Thus, while newly constructed SRO units have been added to the area, there has been an overall loss of units.

Similarly, the public housing development in the area has decreased. The Hilliard Homes public housing development located on the far south edge of the South Loop has been sold to a private developer. This development's 707 units will be converted to 654 units, of which 305 will be allocated to low-income households. In all, 402 units of public housing will be lost. This redevelopment is being financed through public housing loans, tax-exempt multifamily mortgage revenue bonds, TIF proceeds, and tax credits facilitated by the Chicago Department of Housing (Chicago Department of Housing 2001).

While the South Loop Development without Displacement Campaign has had very limited impact on maintaining affordable housing units in the South Loop itself, the campaign organizers have been able to use their experiences in the campaign to pass reform legislation at the state level. This reform legislation has improved the TIF financing process to guarantee substantial relocation assistance to low-income residents displaced from a TIF district, and obligates the municipality to locate replacement housing within or as near as possible to the affected district. The law also expands the amount of TIF funds a municipality may grant a developer of low-income housing. Finally, the law contains numerous provisions for increasing community participation and the information available to residents about the TIF process. The governor of Illinois signed this legislation into law in August 1999. Since its passage, both the CCH and the Statewide Housing Action Coalition (SHAC) have worked with numerous community organizations in improving the TIF process and ensuring that fewer low-income households are ad-

3 For a detailed discussion up to 1996, see Ranney et al. (1997).

4 Data from the Statewide Housing Action Coalition (SHAC) in 2001.

5 See *Chicago Tribune*, 7 May 2000.

versely affected by the use of TIF to redevelop areas for higher-income households. Within the city of Chicago, the Department of Planning and Development and the Department of Housing have agreed to set aside 20 per cent as a goal to work toward in any TIF districts that include residential development.

South Armour Square + five years

In the fall of 1996,[6] the South Armour Square residents exhausted their legal options in the federal court related to their racial discrimination suit against the Chicago White Sox baseball team, the Illinois Sports Facilities Authority and the city of Chicago. The lawsuit claimed that the South Armour residents had been discriminated against because they were a low-income black community. They argued that the process of relocating the White Sox stadium and destroying their community was undertaken on the assumption that as a poor black community they had little or no power to oppose this development. Consequently, they maintained that the usual public review and open meeting processes were not followed, as they would have been in a higher-income non-black community.

Once the legal options were exhausted, the SASNC moved to take advantage of other programmes to rebuild their area. One of the goals of the lawsuit was to obtain funds to rebuild some of the community amenities that had been destroyed by the relocation of the White Sox stadium. For example, the local grocery store, laundromat and restaurant had been torn down to make way for the new stadium. The SASNC worked with the University of Illinois at Chicago Voorhees Neighborhood Center and the City Design Center to develop a proposal to build a small shopping centre to replace these lost businesses. The SASNC submitted the proposal to the city in hopes of receiving a grant from the $100 million the city of Chicago received under the newly created federal Empowerment Zone program.[7] If funded, the SASNC's $1.5 million proposal was to allow the community to build and manage a local shopping centre and support job and business training for local residents. The Chicago Department of Planning and Development gave the SASNC proposal top ranking and recommended the funding. However, despite several meetings with a concerned official, the SASNC was unable to gain political support and the proposal was turned down. Not long thereafter the shopping centre project died. With the collapse of the lawsuit and the failure to gain funding for the shopping centre, the SASNC lost its momentum, failed to meet regularly and eventually dissolved in 1997.

Even before the SASNC disbanded, the public housing residents of Wentworth Gardens—who had been members of the SASNC—were already facing threats to their continued residency in the South Armour neighbourhood. In 1996, the United States Congress passed the Omnibus Consolidated Rescissions and Appropriations Act, Section 202, requiring public housing agencies to identify and evaluate "distressed public housing developments". This legislation began the process of dismantling the federal government's commitment to public housing that is described in more detail below. Federal support was first withdrawn from the high-rise public housing developments that contained at least 300 units and had at least 10 per cent vacancy rates. This did not immediately affect Wentworth Gardens because it was a low-rise row house development with a low vacancy rate. However, Wentworth Gardens and other smaller housing projects felt the impact of federal cutbacks through reductions in operating support and other public housing programmes.

As part of the evaluation mandated by the Section 202 legislation, each public housing development had to undertake a strategic planning process. Wentworth Gardens residents participated in one of their own between 1997 and 1999, assisted by consultants selected and managed by the Chicago Housing Authority (CHA). Several of these consultants urged Wentworth Gardens residents to consider buying the development and turning it into a housing cooperative for themselves. In the words of a consultant, "three prior strategic plans each recommended large-

6 For a detailed discussion up to 1996, see Ranney et al. (1997).

7 Chicago was among the first set of six cities to be selected to receive the grants. The intention was to spend the $100 million tranche over 10 years "to revitalize distressed neighborhoods".

scale home ownership as a way of increasing resident control over their lives and breaking the cycle of pathology and poverty".[8]

However, the new plan estimated that "as many as 40 per cent of current residents would not be asked to be part of the homeownership programme due to behavioural issues of one sort or another".[9] In addition, the plan emphasized that the many elderly and disabled residents of Wentworth Gardens would not be able to afford the mortgage payments. Subsidies would have to be identified to assist these households, of which as many as 76 per cent were at that time dependent on either social security, welfare payments, food stamps, Temporary Assistance for Needy Families or other kinds of assistance. It was thus unclear how any of these households would be able to buy their homes. While the plan did discuss economic development projects to assist Wentworth Gardens residents to increase their incomes, it assumed that many families would "need four to seven years…for incomes to increase enough for many of the households to comfortably afford to become homeowners".[10]

By mid-2001, while attempting to understand the latest changes in public housing policy with the newly elected Republican administration, the resident-leaders of Wentworth Gardens had decided to postpone further efforts to convert their homes to a cooperative. And although Wentworth Gardens was unable to realize this plan, residents were able to gain more control of the management of the complex, thanks to their participation in a resident management programme instituted under the administration of President Ronald Reagan and maintained by his successor, George H.W. Bush. Despite the dismantling of the programme during the administration of President Bill Clinton, the residents—with the help of the CHA—were able to form the Wentworth Gardens Resident Management Corporation (WGRMC), which subsequently took over some aspects of the management of the development in 2000. However, this did not provide a long-term solution for all tenants.

In May 2001, the CHA planned to administer a housing choice survey to the residents of Wentworth Gardens as part of the redevelopment process mandated by the federal government. The survey asked residents if they wanted to stay at Wentworth Gardens, move to another public housing development or take a Section 8 voucher and move to the private housing market.[11] Tenants whose rent payments were not up to date or who had otherwise not fulfilled the terms of their lease were ineligible to fill out the survey and make these choices. The WGRMC has been working with tenants to make them lease compliant—that is, pay arrears in rent—or to change behaviour that would prevent them from being assessed as "good neighbours".

Since mid-2001, the WGRMC has been working with residents to prepare their own plans to give either to the CHA or to the private developer who is designated to undertake the redevelopment. Whether it is accepted will be a moot point for those residents who are not allowed to remain in the complex because of rent arrears or "behavioural problems". For them, the number of affordable choices in the city is shrinking, if not already non-existent.

Forces limiting collaboration

The examination of our case studies after five years leads us to look more deeply at some of the contextual elements we described in our original paper (Ranney et al. 1997). We want to comment here on three factors. One is to extend our depiction of class bias in the development process to examine the role of local government more generally. We argue that external forces, which today are intertwined with the increasing globalization of the economy, largely determine local governments' tasks. As a consequence of this first point, we argue that rapid changes in housing pol-

8 According to the Wentworth Gardens Strategic Planning Initiative of Ace Partnership, Ltd. and Farr Associates in September 1999.

9 According to the Wentworth Gardens Strategic Planning Initiative of Ace Partnership, Ltd. and Farr Associates in September 1999.

10 According to the Wentworth Gardens Strategic Planning Initiative of Ace Partnership, Ltd. and Farr Associates in September 1999.

11 Section 8 refers to a federally funded rental subsidy programme administered by local authorities. Recipients must qualify according to income criteria, usually at least 30 per cent below the median income of the locality. Qualifying families receive a subsidy (voucher) designed to close the gap between the cost of private housing and the rent the family can afford.

icy—especially the destruction of public housing—has put groups that advocate for affordable housing in a defensive posture. While new and broader alliances have formed as a result, positive collaboration with local government is not a realistic possibility. Finally, we explain how these external forces have amplified and qualitatively changed the nature of gentrification, which is rapidly eliminating affordable housing units.

II. The Changing Role of Local Government, Part One

The state is a key forum through which individuals, groups and classes of people can contest the way the system affects them. Each era of capitalist development presents the state with new tasks and new sets of demands from citizens. This construction of the role of the state is a way to view the role of all levels of government, including city government and its politics.

In the United States, the period extending from the end of the First World War to the mid-1970s was marked by rapidly expanding industrial production that was stimulated by the post–Second World War reconstruction and based on the premise that corporations, government and labour unions would cooperate. Corporations agreed to share the vast profits that rising incomes, a global market and cheap raw materials from the developing world would bring. In the United States, organized labour agreed to guarantee labour peace (that is, minimal overt conflict between labour and management), production continuity and support for US foreign policy in return for a share of these profits. Whereas the federal government mediated the conflicts that arose in the course of implementing the bargain, the local governments of large industrial cities such as Chicago also played a key role in the process.

Chicago was well positioned at the end of the Second Word War to be a major player in the development of the new era. It had an infrastructure of railroads, highways and waterways that could serve industrial production. It had an economic base that was strong in producers' goods—steel, fabricated metals, industrial machinery, transportation equipment—that were needed for all other forms of industrial production. It was also a centre for producing, processing and marketing agricultural products. Chicago produced agricultural machinery, processed food products and played a major role in marketing agricultural commodities through the Chicago Board of Trade and the Chicago Mercantile Exchange. As a centre of finance in the Midwest, Chicago geared itself to channelling investment into the industrial expansion that was under way. Chicago was also the home of both the corporate headquarters of many of the country's biggest manufacturers and of a skilled, experienced and highly organized workforce.

But from the very beginning of the era, Chicago and similar industrial cities manifested many of the contradictions of the era itself. The higher wages enjoyed by some workers stimulated a demand for better housing and schools. The federal government responded with finance programmes and by building transportation facilities that enabled white workers to live in new homes outside of the city. Retail trade followed this population to the suburbs. The search for room to build modern manufacturing establishments, which were needed for industrial expansion, caused the dispersal of Chicago's factories. Fordism generated a need for horizontal space that was not always available in the central city. Thus, some manufacturing establishments left the city for the suburbs or for other regions of the country where land was plentiful and relatively cheap.

At the same time, the jobs and wages available in industrial centres like Chicago also attracted new migrants. At the end of the Second World War, Chicago experienced a third major wave of African-American migrants from the southern United States. As whites left the city for the suburbs, African-Americans entered. Thus, their numbers grew both absolutely and relative to the white population remaining in the city of Chicago. There was also a smaller yet significant wave of Puerto Ricans and Mexicans. These groups did not receive the same level of benefits from the post–Second World War deal as whites. Their jobs had lower pay and benefits and they were confined to segregated and inferior housing and schools.

This dynamic strained the city of Chicago's tax base and hence its ability to provide basic services. This point is critical to understanding Chicago's politics during this period and the role that local government ultimately played in urban development. Chicago, like other major cities in the United States, depends heavily on a tax on real estate to provide services. This tax is levied on the assessed valuation of the property within the boundaries of the city. In Chicago, seven separate political jurisdictions levy taxes on this value. In addition to the city of Chicago, which receives approximately 25 per cent of the taxes residents pay on their property, the Board of Education receives 46 per cent, the county government 12 per cent, the Park District 8 per cent and the city colleges 5 per cent. A special School Finance Authority and a Forest Preserve District receive the remaining 4 per cent. The mayor of Chicago appoints those who administer all of these jurisdictions except for the county government. About half of the Board of Education revenues and 20 per cent of municipal revenues for the city of Chicago come from this source. Property owners generally pass this tax on to tenants; thus, the tax affects rent levels. This has two kinds of political ramifications. Since the taxes are substantial, the increased property tax burden is often a lightening rod at election time. And the tax issue also significantly affects the quality of local government services—especially education.

The mayor of Chicago is the key figure in managing local politics. A Democratic Party political machine built on patronage, personal services and favours has prevailed in Chicago since the mid-1930s when Mayor Edward J. Kelly reigned. The city is divided into 50 wards, each represented by an alderman. The aldermen dispense the patronage—jobs, special city services, personal favours—that is the lifeblood of the machine. Their job is to turn out support for the mayor and other machine-backed politicians at election time. The mayor, in turn, uses zoning powers, construction projects and urban improvement efforts to benefit the wards of the mayor's aldermen. The mayor also gives these aldermen city jobs to distribute and allows them to use city services to remain in office.

The migration of manufacturing and commercial establishments to the suburbs during the 1950s represented a tremendous loss of revenue to the political jurisdictions that depended on the tax revenues from property in the city. White families moving to the suburbs, a process initiated as part of the postwar deal with white workers, also had an impact. As whites left the city, they abandoned neighbourhoods that were increasingly occupied by the growing African-American and Latino populations. Realtors took advantage of the situation by encouraging panic selling by whites remaining in these neighbourhoods. They did this by playing on racism, fomenting the fear that the value of their property would decline. They then offered to buy the homes of white residents at low prices. Absentee landlords subsequently divided some properties into apartments that were allowed to deteriorate, causing property values to fall and promoting further panic selling. Whites who remained in the city treated their neighbourhoods as white fortresses and used their political power in local government—and violence when politics failed—to keep others out.

Yet the central city remained a centre for the management of the global system defined by the Bretton Woods Agreement and continued to be a very important location for industrial production and corporate headquarters. Thus, something needed to be done to soften these contradictions and stem the fiscal, social and political crisis that emerged. The solution for most major industrial cities was found in what is termed the "pro-growth alliance", an agreement among city government, a variety of business interests and some elements of organized labour. The basic idea was to build the tax base of the city through investment in the central business district and by "smokestack chasing"—that is, offering tax incentives and land cost write-downs to corporations that would locate their factories and corporate headquarters within the city limits. In the city of Chicago, the pro-growth alliance took a specific form.

Richard J. Daley, the mayor of Chicago during most of the Bretton Woods era, served more than five four-year terms from 1955 to 1976. He died in office while serving an unprecedented sixth term. When Mayor Daley assumed power, the legacy of the early years of the postwar era was a city plagued by a deteriorating infrastructure, the ongoing departure of people and economic

activity, and the in-migration of people of colour. These dynamics, in turn, exacerbated racial conflict that on occasion boiled over into racially motivated violence. His approach to the pro-growth alliance was defined by the particular forms that the contradictions of the era took in Chicago and by the chaos caused when the era ended and began its evolution toward a new world order.[12] During the 21-year reign of Daley, the city of Chicago enjoyed an image of a "city that works". That image was built on Chicago's version of the pro-growth strategy, which had four key features. One was to promote building in the city's central area known as "the Loop". Second, federal government funds and borrowing were used to clear slums and create upscale neighbourhoods to stem or reverse white flight to the suburbs. Third, the creation of separate taxing authorities under the control of Daley's Democratic machine were combined with the full use of the city and related taxing districts' borrowing power to soften and obscure the fiscal crisis. Finally, Daley managed racial conflict both by creating a separate yet subservient African-American political machine and by forcing the city's growing African-American population into segregated neighbourhoods and schools.

These four pillars of the Daley years were implemented through the use of patronage to buy political loyalty from aldermen and other Democratic Party regulars, and through the assembly of a coalition of key business and labour leaders. These included banks (Continental Bank, First National Bank), Marshall Field's and other major department stores, major utilities (Consolidated Edison, People's Gas), the *Chicago Tribune* and other newspapers, major real estate developers, key architectural firms, corporations with downtown headquarters and members of the Chicago Federation of Labor—especially the building trades and public employees unions (Clavel and Wiewel 1991:8). The coalition was formally constituted in a number of organizations including The Commercial Club, Chicago United and the Central Area Committee.

These organizations joined the mayor in the implementation of a major downtown building boom that changed the city skyline. It included corporate headquarters buildings for Sears Roebuck, Prudential Insurance, Inland Steel and Amoco. The mayor and the *Chicago Tribune* backed a project to use government bonds to build a major exposition centre, which was named after the *Tribune's* founder, Robert R. McCormick. There was also a boom in office construction in the Loop. In each of the years 1958, 1961 and 1963, over one million square feet of office space were added to the area. The Loop was made even more accessible by the development of transportation facilities. The mayor was responsible for the construction of over 500 miles (over 800 kilometres) of freeways and O'Hare Airport, using his political clout to annex suburban territory to do it (Biles 1995:48–50).

The effort to clear slums and upgrade areas of the city to halt the flight of middle- and upper-income people to the suburbs was likewise extensive and backed by the pro-growth alliance. The mayor and the city council built thousands of public housing units and relocated many of the displaced families—mainly people of colour and especially African-Americans and Latinos—into them. Dearborn Park I and II, Printer's Row and the University of Illinois at Chicago are three urban redevelopment projects that displaced thousands of people and hundreds of businesses, resulting in upscale white neighbourhoods and one new university.

Between 1955 and 1966, 51 public housing developments were constructed, nearly all in African-American neighbourhoods. By 1959, 85 per cent of the residents of Chicago public housing were African-American (Biles 1995:88–90). That same year the US Commission on Civil Rights released a report citing Chicago as the most residentially segregated city in the nation. Large groups of public housing units known as Stateway Gardens and Robert Taylor Homes that housed over 40,000 low-income African-Americans were constructed between 1962 and 1968 in an area a quarter of a mile deep and two miles long on the south side of the lakeshore. In addition, Daley built a 14-lane expressway that separated these housing units from the white

[12] The new world order is the alignment of political and economic forces, often described as the Washington consensus, that is progressively undermining the mixed economy, managed trade and rising living standards coupled with social supports and economic security of the Bretton Woods era.

communities to the west, including his own neighbourhood of Bridgeport. Originally, the highway had been designed to go from the southeast side of Chicago to the northwest, but the route was altered to go straight north in order to divide the white neighbourhoods from public housing (Biles 1995:90). The highway was completed in 1967.

Daley's racial policies and his emphasis on central business district development were generated by the Bretton Woods Agreement, in as much as it gave the United States a leading role in generating profits by rebuilding Europe, developing its markets and exploiting the natural resources of the developing world. Sharing the largesse generated by this form of "global agreement" with labour was a necessary domestic political tactic to avoid labour's opposition. But the sharing was unequal and based on race.

The postwar arrangements set in place at Bretton Woods began to deteriorate in the late 1960s and collapsed in the early 1970s when President Richard Nixon first took the US dollar off of the gold standard and later allowed the value of the dollar to float relative to other national currencies. While the causes of this collapse are many, and it is beyond the scope of this paper to discuss them in full, among the most important factors were economic and political crises in the developed capitalist world, the loss of the Viet Nam War and the rise of movements for national liberation that challenged the ability of the United States and other capitalist powers to extract primary products from the developing world on their terms. The loss of the Viet Nam War also exposed the military weakness of the United States. These international challenges had domestic counterparts in the United States in a strong movement for civil rights and an anti-war movement.

If local government's role was to handle the contradictions evolving from international and national systems, the disintegration of the immediate postwar economic and political arrangements and its reflection in national politics had its counterpart at the local level in cities like Chicago, where the pro-growth alliance and its policy of racial containment required resources that were generated in the postwar expansion. It was also based on a national-level arrangement with US white labour that required local-level policies of racial containment.

As noted in our previous paper, the American Civil Rights Movement came to Chicago in the mid-1960s and pushed for open housing. It also mounted a legal challenge to the practice of segregated public housing—for example, the 1969 *Gatreaux v. Chicago Housing Authority*—resulting in a ruling that all future public housing would have to be built in white areas. In response, Daley simply stopped building public housing and the CHA stopped maintaining the existing units. Civil rights organizations, however, also challenged segregated schools. After the death of Martin Luther King Jr. and a local leader of the Black Panther Party, racial antagonism reached a boiling point, resulting in widespread urban rebellion. Eventually Daley could no longer apply his strategy of racial containment. When he died in office in 1976, he was greatly weakened politically. His successors as mayor, Michael Bilandic (1977–1979) and Jane Byrne (1979–1983), attempted to carry on his tradition but failed miserably. A black reform mayor, Harold Washington, took office in 1983. We noted in our previous paper that despite his best efforts, the direction of policy changed very little—though there was more of an honest effort at collaboration with local citizen groups. Municipal authorities also attempted to address local manifestations of inequality.

Yet, as the cases of the South Loop and South Armour Square demonstrate, the pro-growth alliance continued to pursue its strategies in spite of the mayor and, as a result, the city remained badly divided. In our previous paper we explained this in terms of the limits of the power of local government. We maintain this argument. But in addition, we have come to the view that the major purpose of local government is to deal with the contradictions generated by the broader political-economic system of which it is a part. During the postwar era, that purpose took the form of economic and demographic decentralization in a context of rapid economic growth and rising profits. As growth slowed and profits stagnated, the global postwar arrangements began to unravel, leaving in their wake a city that was badly divided along racial lines and without resources to maintain the four pillars of the political programme of the Daley regime. Mayor Washington

attempted to operate as if those resources were still there. He wanted to direct federal dollars and corporate resources to meet the needs of the working class, and especially people of colour, in the city of Chicago. He railed against President Reagan's "war on cities" as funds for urban America dried up. But the fact is that economic resources from higher wages and corporate profits generated by the rebuilding of Europe after the Second World War and the extraction of cheap primary products from the developing world were no longer as plentiful. And Reagan's "war on cities" was in part a reflection of dwindling resources. Thus, not only did Mayor Washington meet political resistance; in order to run the city, he was forced to make compromises with those who had access to new sources of capital, and this included acceding to measures that would increase property values in order to increase tax revenues.

What was not clearly understood during the time of the Washington administration and not developed in our previous paper is that the years from 1983 to 1987 were a period of transition between the old Bretton Woods–era arrangements and a new period, which President George H.W. Bush eventually called a new world order. After Mayor Washington died unexpectedly, another black mayor, Eugene Sawyer, filled the remaining two years of his term. Then, in 1989, Daley's son, Richard M. Daley, was elected mayor and has governed ever since. It is our view that Richard M. Daley has adapted well to the new world order, but that adaptation has effectively eliminated meaningful collaboration with local citizen groups. To understand this fully, it is necessary to outline briefly what we believe to be the key features of the present system, which some call "globalization".

III. Globalization of a New World Order

A full discussion of the terms of the present global system is clearly beyond the scope of this paper. However, in order to assert what we believe, it is necessary to use these terms to accurately describe the underpinnings of the political-economic conditions in Chicago. As the Bretton Woods system collapsed, there was economic and political crisis throughout much of the world. In a weakened condition, the United States and its allies responded in a number of ways. One was to use the original Bretton Woods institutions (particularly the World Bank), the multinational banks and government treasuries to lend large sums of money to the developing nations that needed capital for development. This bought the United States some influence and was initially profitable to the banks. As a result, between 1973 and 1984 debt in the developing world expanded from $100 billion to $900 billion, and the continued economic crisis led to a large-scale debt repayment crisis. In response, another Bretton Woods institution, the International Monetary Fund, as well as some governments—including that of the United States—refinanced the loans in return for the countries' agreement to adopt structural adjustment programmes (SAPs). Continual restructuring of this debt has caused debt in the developing world to increase to over $2.2 trillion.

SAPs have become further institutionalized in the form of "free trade agreements". Another Bretton Woods institution, the General Agreement on Tariffs and Trade is now the World Trade Organization (WTO) and in the Americas there is the North American Free Trade Agreement (NAFTA) as well as a proposal to include all the nations of this hemisphere in a Free Trade Area of the Americas. There are numerous multilateral agreements among nations, and national economic policies including those in the United States, that are geared toward adapting to the dominant political-economic model included in the SAPs. This model is in fact a strategy to accumulate and distribute profits of the global capitalist system on a global scale. This strategy represents an effort to cheapen production costs through a regime of cheap and "flexible" labour that is achieved in part through unrestricted mobility of goods and capital. The new system, moreover, is fuelled by ongoing credit expansion that is maintained by speculation. The global rules contained within the SAPs and agreements like NAFTA and those of the WTO are institutionalizing the system just as the Bretton Woods institutions did in the previous era.

The key role of credit expansion in this system needs to be emphasized because it has profound implications for local political economies. This era was born out of crisis. In 1973, high unem-

ployment and inflation were jointly threatening global capitalism. With the accumulation based on the postwar boom gone and resources drained from the United States by the Viet Nam War, there was a need for a vehicle to "jump-start" the new system. Thus "fictitious" capital was created that could be used to get things going. But the use of credit had within it a fundamental contradiction. The new system was built on cheap labour, with most of it coming from the developing world. In the United States and other developed nations, wages were stagnating as living-wage jobs were disappearing. National economic policies in the industrialized countries were more concerned with fighting inflation than with raising employment levels through growth policies. Living standards were thus compromised.

Yet, cheaper production yields higher profits only if people buy products, and it is credit that makes this possible. Credit is thus a permanent feature in the new world order—in the developing world as well as in the developed world. In the developed world, people supplement incomes with credit cards and corporations use credit to finance the movement of capital overseas, to finance mergers and to create investment portfolios that drive up stock prices and add to paper profits. Most importantly, the system of continuing credit expansion is sustained by speculation. This is accomplished by the global trading of debt. Holders of debt that fluctuates in value can now lock in a price or value today by hedging on it at some future time because speculators buy the debt at that future price on the assumption that it will be worth more. This system has been spread through a process of securitization. Debt on everything—from the debt of a particular nation to a car loan and even local real estate—is packaged and traded on global capital markets. The political power of financiers has never been greater due to the key role of credit and speculation in the global economy. Public policies at all levels of government are geared to protect their incomes through anti-inflationary economic polices and the system of continuous credit expansion itself through the deregulation of capital markets.

The simultaneous deregulation of commodity and capital markets has not only led to the rise of financiers and their political power, it has also generated the development of export assembly industries in a number of less developed nations, where revenues are used to pay off external debt. Deregulation of markets and the widespread availability of export assembly/processing areas have created a demand for three kinds of global firms. First, there are global marketers like Nike, which do not manufacture any products themselves, but instead seek foreign manufacturers to produce products to their specifications at very low cost. Second, there are global retailers like Wal-Mart, which source the goods they sell in the export processing areas of the world. And third, there are global producers that may or may not be part of global assembly lines, but can easily move their production around the world to minimize their costs.

IV. The Changing Role of Local Government, Part Two

This new system has produced a number of contradictions that must be dealt with by local governments. We discuss some that have appeared in Chicago and which help explain the recent developments in our cases studies. One of these has been the loss of living-wage jobs, with firms moving away from cities as global capital and commodity markets opened up. During the entire period Washington was in office, unionized manufacturing jobs left the Chicago area at a rapid rate. In the 1980s, the Chicago area suffered a net loss of 150,000 manufacturing jobs, 60 per cent of which simultaneously reappeared abroad as corporate parents expanded operations there. Trade unions also lost power, both locally and nationally. In 1982, when Reagan fired striking air traffic controllers and permanently replaced them, he sent a message to unions and corporations alike that the former postwar deal with labour was at an end. Mobile firms, without the impediment of strong unions, also attacked labour by crushing strikes and moving capital. Outsourcing both abroad and locally became commonplace. As a result, jobs at the lower end of the labour market lost wages, and full-time jobs with benefits were replaced by temporary and part-time jobs.

In Chicago, temporary and part-time jobs have grown faster than any other part of the labour market. A study by the Federal Reserve Bank of Chicago revealed that temporary workers offset half of the decline in manufacturing employment in the Chicago area between 1991 and 1993 (Segal and Sullivan 1995). This study also showed that temporary workers were paid lower wages than permanent full-time workers doing similar work. Only 25 per cent of temporary workers received health benefits when they worked at establishments with more than 100 workers, but 80 per cent of the permanent workers at those establishments received health benefits. Also, temporary workers were twice as likely as permanent workers to be unemployed a year after they were hired. Nationally, part-time workers—who were not included in the temporary worker numbers—constituted 16 per cent of the workforce or over 23 million people (Bureau of Labor Statistics 1996b, 1995). In the fastest growing sectors of the economy—service and retail industries—part-time workers constituted 30 per cent of the workforce. Wages and benefits tended to be lower for part-time workers. Women part-timers, for example, earned 23.7 per cent less per hour than women full-timers, and only 25 per cent of them received health benefits. As a result, many workers held more than one job. Some of these were part-time or temporary, others full-time and permanent (Bureau of Labor Statistics 1996a).

In Illinois there are significant trends showing that temporary and part-time workers and multiple job holders are replacing those in permanent living-wage jobs. Since 1990, the number of employees working in temporary jobs through the personnel supply industry increased by over 65 per cent. In 1995, there were 125,000 workers in that industry. Of all jobs gained in Illinois between 1991 and 1994, 28 per cent—nearly 65,000—were temporary jobs through the personnel supply industry.[13] In 1994, over one million Illinois workers, constituting 23 per cent of all employed workers, were part-time. Of these workers, 20 per cent were African-American, 13 per cent Latino and 40 per cent women (Bureau of Labor Statistics 1995). In 1995, in the Chicago metropolitan area there were 150,000 part-time and temporary workers who earned less than a living wage (Theodore 1995; Shankman 1995). These Chicago-area workers were disproportionately African-American and Latino. Although these two groups constituted only 26 per cent of all workers in the area, they represented 55 per cent of low-income contingent workers.

Between the mid-1980s and the mid-1990s, the number of day-labour agencies in Chicago that serve the low end of the temporary help industry increased by 70 per cent, and by 1998 there were over 300 such agencies clustered around the city's poorest neighbourhoods (Peck and Theodore 1998:656–658). Peck and Theodore, who surveyed the managers of these agencies, described the working conditions as

> shabby offices with boarded-up windows, beyond the reach of formal regulation. … Workers are subjected to a process of 'hyper-commodification' in the sense that they are traded on a price-oriented basis almost as if they were an undifferentiated, industrially produced commodity. … Unequivocally, the main task for the temp agencies in this most exploitative segment of the market is to 'meet the order'. Satisfying clients' needs, preferences and even prejudices, is paramount (1998:658).

Workers line up in these hiring halls at 05:00 or earlier and are dispatched by 06:00. Those not hired often wait around hoping for something to show up, as there is often another rush for second shift work around noon. Some may work a few hours, others for weeks. They are at the mercy of the employer for more work through a given agency. Many agencies send a card with their workers asking if the employer wants the worker back. If the answer is no, whatever the explanation, the worker will not be placed through the agency again and must seek out another one. All of this is a very different picture from that painted by those who claim the economy is booming and that workers are in short supply. In this segment of the market, the worker is vulnerable and expendable.

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[13] Calculated by the authors from data contained in the summer 1995 *Illinois Labor Market Review* (IDES 1995).

A survey at Chicago homeless shelters shows an important connection between temporary work and poverty (Theodore 2000). The survey covered 510 homeless women and men staying at shelters on a single night in October 1999. Of the people interviewed, 75 per cent had worked as temporary workers during the year and 82 per cent made less than $5.50 per hour at their most recent job. Those who worked regularly earned less than $9,000 per year. Nearly all of those surveyed stated that this was the only type of job they could get, although they would prefer a regularly scheduled job.

Despite a decade of rapid economic growth, there is a shortage of entry-level jobs that pay a living wage in Chicago and many other large cities. Research in Chicago has estimated living wages by calculating a minimal family budget for a single parent with two children—the situation of the average person on public assistance. The annual living wage was estimated to be $27,415 or roughly $14 per hour (Shankman 1995). This is far above the official "poverty level wage" of $11,522 or $5.75 per hour. While entry-level jobs at all wage levels are in short supply, the shortages become even greater if society wants people to earn enough to live on. There are more than 200 potential workers for every job opening that pays a living wage. And even at the official poverty wage rate, there are seven potential workers for each available job (Carlson and Theodore 1997:11). The new federal public welfare "reform" laws are placing more people into the low end of the labour market. Individuals and families on welfare have been given a limited time to get jobs or lose all benefits. Surveys conducted of Illinois welfare recipients who were forced off of the welfare rolls as of January 1999 as part of welfare reform reveal that 64 per cent were living on incomes below the official federal poverty level and 33 per cent were living in "extreme poverty", which is only half of the official federal poverty level (Armato et al. 2000).

The result of all of these developments has been greater income polarization during the past two decades. This has been true for the United States as a whole but also for Illinois and presumably Chicago, which dominates state statistics. Data on income distribution reveal that the wealthiest members of the population have done extremely well, while the income of the least well off has stagnated or declined. The income of the richest 5 per cent of Illinois families gained 42 per cent during the past two decades, while the richest 20 per cent gained 26 per cent. But the poorest 20 per cent lost 1 per cent of their income. As a result, the top 20 per cent of the population has 43 per cent of the state's income, while the lowest 20 per cent has only 5 per cent (Mishel et al. 1999). This polarization is reflected in the very rich who have done well under the new system, since their presence (residence) in the city has pushed up property values, which along with the urban properties that are in the business of managing the global economy, are at the heart of the property tax base.

This is the context for a new local political economy that was not recognizable to Mayor Washington, but which remains central to urban politics under the present regime of the second Mayor Daley. The political shift began in the mid-1970s and continued into the 1980s when there were a series of deep recessions accompanied by high inflation. These crises caused many of Chicago's workers to be laid off from their jobs, even as double-digit inflation ate away at their standard of living. The crises were followed by the period of deindustrialization described earlier. The economic crises gave rise to the need for more resources to improve the living conditions of Chicago's residents—particularly poor people of colour. But the aim of the new world order development strategy was to cheapen production costs. In cities like Chicago, that took the form of both deindustrialization and the reduction of federal government programmes to help the urban poor. Mayor Washington responded by attacking Reagan's "war on cities" and calling on all Chicago citizens to demand their fair share of federal assistance. But the efforts of Washington's administration to keep living-wage manufacturing jobs in Chicago and to gain more federal government resources ran counter to the thrust of the new world order.

Meanwhile, the old pro-growth alliance was attempting to force the Washington administration to return to its agenda. The city's evolving fiscal crisis and the subsequent need for credit strengthened the hand of the alliance. Sources of municipal credit, moreover, were increasingly in the hands of large institutional investors and private individuals. This increased the importance of the

business climate, which in turn worked to the political advantage of the pro-growth alliance. The influence of the pro-growth alliance grew in proportion to the threat of increasingly mobile corporations that loosened their ties to the city as a place of production and conducting business. Thus the Washington administration was forced to compromise, and attempted to do so by placing pro-growth interests in key policy development roles. While there were new citizen faces in city hall and on the various task forces and boards that Washington created to develop his initiatives, impacts were limited by the dominance of those who could more likely enhance the business climate. Even if the mayor continued to give higher priority to neighbourhood development than to strengthening the Loop, he could not entirely relinquish political control to the neighbourhoods. Ultimate control was always in the hands of pro-growth forces, and this explains why his proposal for neighbourhood planning districts to administer planning and development in their areas never came to fruition (Hollander 1991:128–131).

Moreover, the African-Americans and Latinos, whose own interests were closely aligned with the imperatives of the business climate, increasingly dominated the task force representatives from the mayor's core constituency and this widened the class-based divisions within the core constituency. This division was illustrated by our two case studies. The White Sox stadium revealed such divisions on two levels. The Illinois Sports Facilities Authority was a multiracial entity whose interests were contradictory to those of the residents of South Armour Square. In addition, the Illinois Sports Facility Authority was able to exploit and widen the division within the neighbourhood between homeowners and the residents of publicly assisted housing. Moreover, developers as well as residents of the South Loop were multiracial.

Thus, in order to meet the imperatives of the new global political-economic reality, new alliances were built during the Washington administration that included professional and affluent African-Americans and Latinos, as well as traditional pro-growth alliance members. They amplified pre-existing divisions based on both race and class. They were, perhaps, unintended by-products of the administration's efforts to change the political thrust of machine politics built by the first Mayor Daley. Since the Washington administration was genuinely attempting to offer an alternative to what Daley had built, these alliances represent the limits placed on local government and politics by the broader system of capital accumulation. Interestingly, the ability of the new alliances to adapt to the strategic thrust of the new world order made them attractive to subsequent administrations. Indeed, they were honed to perfection once the second Daley took office.

V. Housing Policy and Gentrification in the New World Order

Housing policy of the present era emphasizes private market deregulation, privatization of many government services and an enhanced mobility of goods, services and capital. In part, this emphasis has been implemented by combining market liberalization—elimination of capital controls, tariffs and so-called "non-tariff barriers" to trade—with the undermining of public sector activity. The latter includes privatizing public services, including housing, and balancing government budgets through massive cuts in spending on social programmes. The system is fuelled by the expansion of credit and speculation. Under this regime, housing policy in the United States has shifted in three important ways.

1. Government has severely cut back on publicly owned housing; government programmes now maximize the use of the private market.
2. There has been a shift away from viewing housing as a social good. Maintaining an adequate housing stock, a goal of housing policy during the Fordist era, was a goal for American society as a whole. The shift that has become a part of the evolution of the new world order stresses individual competitiveness in housing markets and encourages individual home ownership. This emphasis on individuals has also effectively shifted the risks—both financial and those related to losing adequate housing—from financial intermediaries and government to households.

The burden of this shift falls disproportionately on the poor (Dymski and Isenberg 1998:219–239).

3. The provision of housing is driven by the expansion of credit and speculation. The new world order credit mechanisms benefit financiers, speculators, developers, wealthy households and some moderate-income families, but they leave out the poor.

These three shifts in public policy and private sector practice help explain the present state of affairs in Chicago in general terms, and more specifically in the ongoing gentrification of the South Loop as well as the continued neglect of the residents of South Armour Square. In the following subsection of our paper, we focus on how the general political-economic underpinnings of Richard M. Daley's power base relate to gentrification both in the South Loop and in the city as a whole. It is our view that gentrification today is different than it was under his father's administration. The three shifts in housing policy listed above affect the supply of housing at different prices. The shifts in income distribution described earlier affect the demand side of the housing market. We now look at each of these in turn.

Shifts in housing policy

The effort to halt gentrification in the South Loop and elsewhere is also an effort to gain affordable housing for those who need it. In 1937, a commitment to provide a decent home for everyone was the essence of the public housing programme that was used so cynically by Richard J. Daley to achieve his own political agenda. But beginning in the mid-1980s with the new era, that commitment was abandoned. It began under Reagan with the removal of the existing support for the maintenance of public housing. Then came privatization programmes that gave vouchers to people needing housing, directing them to try their luck in the private market. President Clinton's Quality Housing and Work Responsibility Act of 1998 institutionalized the withdrawal from the commitment to a decent home for everyone. Under this act, public housing areas are required to have a mix of incomes. As few as 40 per cent of residents need to be considered poor, meaning that most low-income residents applying for public housing will be passed over for higher-income families or individuals. This act also eliminates a provision in former laws that any public housing unit demolished must be replaced. Further, residents are obligated to either enter the job market or do eight hours of unpaid public service each month. Expanding the number of reasons for terminating leases and limiting relocation rights have also curtailed residents' rights.

This policy shift gave rise in Chicago to an aggressive campaign to eliminate much of the remaining public housing and to turn former public housing developments into "mixed income" communities. Public housing in Chicago was at its height in 1983 when the CHA owned and operated 40,781 units with a vacancy rate of 4 per cent. By 1999, the number had dropped to 38,717 with a vacancy rate of 35 per cent, reflecting the lack of maintenance of existing units. At the time of writing in 2001, CHA buildings were being torn down at lightning speed. These trends reflect a stated plan by the CHA to eliminate 16,000 units, reducing public housing to a total of 24,400 units with only 15,000 for families and the remainder for senior citizens. While 6,150 families were to be relocated, many others would be evicted or simply disappear from public view and concern. Furthermore, the campaign came at a time when there were more than two lower-income families for every affordable unit. Many activists felt that this would result in greater homelessness.

It is for these reasons that the coalition that was attempting to halt the gentrification of the South Loop has turned its attention to the public housing issue. Residents of one public housing development attempted to stop the destruction of their homes with a lawsuit, but the case was ultimately settled to the disadvantage of the residents. Other efforts to resist eviction have also failed.

Housing as an "individual responsibility"

One political and ideological aspect of the shift in policy is the notion that housing, rather than being a social objective—the United States has never considered it a right—is now declared to be

an "individual responsibility". This notion is in keeping with the broader market deregulation of the new world order and is also a convenient ploy to deal politically with the fact that while many low-income neighbourhoods are being eliminated, resulting in a low-income housing shortage, there is an increase in units that are available and affordable to the more well-off. The "solution" is an individual one: get a better job with better pay, and you will have "earned" a better home. The so-called mixed income community is supposed to offer role models and social support so that the lower-income people who are still in the mix can eventually be self-sufficient. As we pointed out in our earlier paper, these notions are purely ideological. But the result of that ideology, and the policy based on it, has been to turn housing from a place primarily meant to meet a basic human need into a commodity that can be seen as an investment—something that can be exchanged at a greater value. Housing markets are thus private rather than public. Therefore, Daley's core constituency consists of those who live in upscale housing developments, who trade them to make money, and who make money through their development and the extension of credit to build and buy them. As a centre of finance and real estate, Chicago plays a significant role in managing the global economy. Thus, not only does the shift in the policy and politics of housing result in increased property values that help finance city services, it also helps to feed global capital markets that are a central feature of the new world order itself. Yet, these forces are also contributing to the rapid gentrification of Chicago—and specifically the South Loop where one of our cases was focused. And it continues to raise the question we asked in our initial paper: Where are the poor supposed to live?

Gentrification in the new world order

To expand our understanding of this question (but not to answer it), we want to go a little deeper into the nature of gentrification. Virtually everyone we talk to looks at the South Loop and the many other areas undergoing a similar process throughout the city and asks: How can this be happening? Who is able to afford a $500,000 townhouse? Where do these people work? Where is the financing coming from? These questions are vital to building movements directed at providing decent citizen housing. The total breakdown of any semblance of collaboration between city and citizen is partly explained by this unchecked process. The mayor seems to feel that he does not really have to negotiate. We do not have all the answers here, but we want to lay out some of the connections between this phenomenon and the new world order because it is our view that organizing strategies that can force negotiations must be linked to the broader context of the new world order within which shifts in housing policy, politics and ideology have occurred.

The demand for high-priced housing and the economic inability of people of modest means and the urban poor to resist the gentrification of their neighbourhoods is in part explained by the growing upward redistribution of income and wealth. The statistics cited earlier—of the growing income of the upper 5 per cent and 20 per cent of the Illinois population, combined with the income loss or stagnation of those on the lower end and the substitution of living-wage manufacturing jobs with contingent low-wage jobs—offer an important picture of the demand side of the city real estate market. And this polarization is in part driven by the changes in the global economy we have described.

In addition, we can point to the growth of credit as a fuel for both the demand for upscale housing as well as its supply. For this reason, we turn to a discussion of housing finance. Government also continues to be involved in housing finance, but in a very different way than in the previous era. The fact that expanded credit and speculation feed the new world order has had a profound impact on housing. We contend that the global system of finance has had an impact on government's role in housing finance and on its political stance that housing is the responsibility of "competitive" individuals. Below we develop this position through three points.

1. Mortgages that are used to finance housing have become more and more integrated with other financial markets, primarily international ones. This means that money to buy housing is dependent on the returns to lenders

who estimate potential financial gain relative to a growing array of other investment opportunities all over the world.

2. Money to finance large-scale urban redevelopment has shifted from federal to local government, which must borrow these funds by competing in the same integrated financial markets for investors.
3. These developments politically generate the policy shifts described above and also skew the distribution of housing resources from the poor to the wealthy.

Integration of financial markets

The integration of financial markets is a major factor driving the changes in the housing market and the gentrification of many cities. For this reason, we will spend some time explaining what we mean by the concept of financial market integration. Financial products—for example, stocks, government and corporate bonds, foreign currencies—are bought and sold in financial markets. Broadly speaking, there are two kinds of markets—those where the life of the product is less than one year (money markets) and those that are longer term (capital markets). People and institutions—such as pension funds or mutual funds—that invest in either of these markets consider the range of products available to them with the purpose of maximizing potential returns relative to the risk involved. This kind of activity has become essential to the functioning of the new world order. When investors weigh different financial products relative to others in this manner, the individual markets for the products are considered integrated. When the investors are from different countries, the integrated markets are internationalized as well.

Real estate markets are relative newcomers to these integrated financial markets. Their entry is a part of the process of credit expansion and speculation that feeds the new world order. A popular real estate textbook in the United States discusses the meaning of this recent integration from the perspective of potential investors. It states very clearly the relationship between international capital markets and local property values.

> In recent years (since the late 1980s), real estate markets have become much more integrated with the general capital markets. Investors compare the risk and return available from real estate investment with the risk and return of alternative real estate and non–real estate investments (common stocks, corporate bonds, Treasury securities, etc.) resulting in a decision process that considers a portfolio of investment alternatives. … Although tenants and landlords interact in decidedly local markets to determine rental rates, *property values are increasingly being determined by the risks and returns available in national and international capital markets* [our emphasis] (Corgel et al. 1998:vi–vii).

The remainder of this section discusses exactly how international capital markets determine local property values, thus becoming the driving force of the housing market and creating a new form of gentrification.

When an individual or a corporation wants to buy residential property to live in or to rent to others, it is possible to obtain a special type of loan called a mortgage that is secured by the property. The lender, in a process known as underwriting, assesses the value of the property and the potential ability of the borrower to pay, and makes a decision about whether to give the mortgage financing or not. Up to the late 1970s, savings and loan (S&L) associations or commercial banks provided most mortgages to potential homeowners in the United States. Interest rates on mortgages were set at a level that was competitive with other lenders and depended, in part, on the length of time—the amortization period—that the lender needed to pay off the loan. Mortgages generally ran from 10 to 30 years. Extra fees known as points were charged to offset potential risks perceived by the underwriter. The S&L association or the commercial bank held the mortgage until the borrower paid it off. Their profit came from the interest and points generated by their mortgages. Money could also be made in real estate by buying properties and

selling them at a profit. That process, too, was mediated by the need to obtain mortgages for the properties involved.

As the Bretton Woods system gained strength after the Second World War, demand grew in the United States for single-family homes. The federal government used two programmes to stimulate mortgage financing by providing lenders with a guarantee that the mortgage would be paid. These were an expanded role for the Federal Housing Administration (FHA), which had been created in 1934 to maintain a national mortgage market during the depression, and a new programme within the Veterans Administration (VA) to focus on the need for housing of returning military personnel. As these programmes grew, the government was increasingly involved in the underwriting process and mortgage guarantees.

Only banking institutions and the government were allowed by law to be involved in real estate finance. Because of this, as well as the facts that individual mortgage applications had to be evaluated separately and that mortgages had different characteristics, mortgage markets were separate from other capital markets. But several things happened to change this. As the Bretton Woods system began to crumble in the mid-1970s, S&Ls and some commercial banks that were holding too many bad mortgages began to weaken. The federal government stepped in and changed some aspects of banking regulation by enforcing three banking acts in 1980, 1982 and 1989 (Dymski and Isenberg 1998:225). The first two acts essentially deregulated the industry and allowed S&L associations to engage in other kinds of lending beyond mortgages. In addition, non-banking institutions were now allowed to invest in real estate to give the S&Ls competition. However, the S&L crisis beginning in 1982 caused the government to put more restrictions on them in 1989.

While banking acts in the 1980s opened real estate to different kinds of institutions, the fact that each individual mortgage had to be evaluated separately by potential investors limited the kinds of investors who might have an interest in real estate. With the demand for mortgages high compared to the supply of mortgage funds, the government again stepped in and helped facilitate the development of what are known as secondary mortgage markets. A process was established through which lenders could sell their mortgages to investors, freeing up funds that could then be lent to other mortgage seekers. The effect was to greatly expand the amount of credit available for real estate and, at the same time, integrate real estate with a growing number of other financial products that constituted the capital markets.

Special firms were created, initially government institutions known as "conduits", which were responsible for facilitating the movement of mortgages from the lender to the portfolios of investors such as pension funds and mutual funds. A conduit did this by pooling a group of mortgages with similar characteristics—interest rates, amortization period, type of property, financial capacity of the borrower—and used this pool to back a security, which could be bought and sold in securities markets like stock exchanges. The actual legal documents for each individual property were placed in a trust until the mortgages were paid off to the investors holding the securities. These mortgage-backed securities (MBSs) could be bought and sold like any stock or bond. Once this innovation was developed, the growth of MBSs was phenomenal. By 1995, the value of outstanding MBSs in the United States was $1.8 trillion, an amount 30 per cent greater than the value of all corporate bonds (Corgel et al. 1998:445). Real estate had become a big player in the capital markets.

Secondary mortgage markets are not new, but their size, the range of market players and their role in local housing markets began to grow significantly in the early 1980s. Three key institutions are the conduits for these markets in the United States: Fannie Mae, Ginnie Mae and Freddie Mac. The Federal National Mortgage Association, known as Fannie Mae, was established in 1935 as part of President Franklin D. Roosevelt's New Deal. It was part of the Reconstruction Finance Corporation, which had been created during the administration of President Herbert Hoover, but was the finance arm of a variety of New Deal recovery programmes. However, Fannie Mae failed in its effort to use secondary mortgage markets to

stimulate housing and in 1950 it was transferred to the Housing and Home Finance Agency of the federal government, which was the predecessor to the Department of Housing and Urban Development. Its secondary market activity was limited to remote rural areas that were strapped for capital in local housing markets. In 1954, Fannie Mae was rechartered with an expanded role. FHA and VA mortgages kept interest rates relatively low and when rates began to rise, holders of FHA and VA mortgages moved their capital to other more profitable ventures. Fannie Mae's secondary market activity was designed to offset negative impacts on FHA and VA mortgages: it issued government securities to buy FHA and VA mortgages when interest rates were rising in order to replenish capital to lenders. Fannie Mae then sold these mortgages at a profit when interest rates fell and used this to pay off the debts generated by the initial purchases.

The Housing and Urban Development Act of 1968 included provisions that constituted a major breakthrough in integrating FHA and VA mortgages with broader capital markets. Fannie Mae was privatized into a public corporation that could issue stock and included the participation of many of the players in the financial markets. The 1968 act also created a second institution: the General National Mortgage Association known as Ginnie Mae. Ginnie Mae does not actually buy mortgages; rather, it guarantees the mortgage pools created by Fannie Mae. Although the federal government guarantees the FHA and VA mortgages that underlie these pools, a default meant a long delay for the holders of the MBSs generated by the pool of mortgages that the defaulting party belonged to. The cash flow problems that resulted made these MBSs relatively unattractive to many investors. By removing this risk, Ginnie Mae caused a virtual explosion in the FHA/VA secondary market (Brueggeman and Fisher 1993:719). In 1970, a third private institution organized by the federal government expanded the potential of the secondary market even further. The Federal Home Loan Mortgage Corporation, known as Freddie Mac, was established to do in the conventional mortgage market what Fannie Mae had been doing with FHA and VA mortgages. Because nearly 80 per cent of all mortgages are conventional rather than FHA or VA, this development greatly expanded the scope of secondary market activity.

The creation of a secondary mortgage market through the establishment of Fannie Mae, Ginnie Mae and Freddie Mac, although created prior to the evolution of the new world order, provided the necessary precondition for the full integration of local real estate mortgages into the international capital markets. The new world order–era deregulation of the banking industry in the 1980s greatly expanded the number of players in the mortgage markets, as did the rise of credit and speculation. By the mid-1990s, Fannie Mae and Freddie Mac held over $1 trillion in outstanding mortgages. In 1995, Fannie Mae made a profit on its secondary market operations of $2.1 billion.

At this level, profit potential and risk aversion on the part of big investors become the key considerations for local housing development. The full integration of housing into global capital markets brings the market power of these big investors to bear on local housing markets. The deployment of this market power causes the balance between the need for housing and the need for credit to shift toward the latter. Thus, it is the supply and demand for housing development funds—rather than the supply and demand for housing itself—that determines the value of local properties. With the government's withdrawal from the direct provision of housing, the very idea of housing as a human need, let alone a human right, is subsumed by the drive of international finance for profits with minimal risk. But this is not the entire story. The full picture must include the local property developer. It is our contention that property developers and their local political allies have adapted well to the new system. And this fact will further substantiate our claim that housing markets and gentrification under the regime of the new world order are different from the past.

Large-scale urban development finance

A large-scale urban development project technically involves two stages. The first stage is land development, where land is purchased and improved to make it suitable for the second stage: project development. Project development is the building of new structures on the improved land. A land developer will borrow money to make the needed improvements and then sell the

improved land at a profit to one or more project developers. In a residential project, the project developers borrow money to build homes on the land and sell them to private individuals. In an urban redevelopment project these two stages are often combined with the active participation of local government. Land development involves clearing the land of old structures, building or improving needed streets and utility hook-ups, and sometimes providing parks, open space or even schools.

In the early years of the Federal Urban Renewal Program (created by Title I of the Housing Act of 1949), a local redevelopment agency that was part of the local government usually acted as the land developer. The agency purchased the land, using powers of eminent domain to force owners to sell at a fair market price. The agency then relocated the residents, cleared off the old structures, made needed site improvements and sold the land to a project developer. But instead of making a profit, the land was sold at a price that was below its market value. This land write-down made the land attractive to local project developers. The federal government paid much of the cost, which the local municipality supplemented with funds secured from municipal bonds. Thus, the land write-down amounted to a tax-supported subsidy to the developer. This is the way the urban renewal programmes in Chicago were carried out in the 1950s and 1960s in such neighbourhoods as Hyde Park near the University of Chicago, the Near West Side near the University of Illinois at Chicago and Sandburg Village on the near north lakefront.

Today's urban redevelopment works differently. Federal legislation in 1968 and 1974 eliminated multiple-year commitments of funds for land clearance and improvements. This meant that in order to attract private developers for large-scale projects another funding mechanism was needed, since projects required a flow of public funds over a period of many years. The new mechanism, TIF, which has been adopted by most states, including Illinois, was pioneered in Minnesota in 1947 and in California in 1952. Though its use was minimal until 1975, since then 47 states have adopted TIF legislation. Illinois enacted a TIF law in 1977. TIF allows a municipality to designate districts for redevelopment and sell bonds to raise the capital needed to clear and improve land to be redeveloped. The bonds are repaid by the added property tax and, sometimes, by sales and utility tax revenues that are generated by the increased values of redeveloped land and by the more intense use of that land. Because the debt is to be repaid by the tax revenues generated by the project, these bonds do not count as part of the municipality's debt limit. Since the funds are used to redevelop "blighted" land, most TIF bonds are exempt from federal income tax, which makes them attractive to investors. Funds that do not qualify for tax exemption must pay much higher interest rates to attract investors. A feature common to all TIF bonds that differs from the bonds used under the old urban renewal programmes is that the municipality does not have to go to the voters to issue TIF bonds. Instead, there is an advisory TIF public hearing, which is usually held during the day and scantily advertised.

Large-scale urban redevelopment using TIF combines land development and project development through public-private partnerships. While projects work differently, a common model is for a developer to borrow money to purchase large tracts of blighted urban land. The developer then submits a redevelopment plan to the local government and requests that the redevelopment area be declared a TIF district. Sometimes it is necessary for the city to purchase some of the land, using its eminent domain powers. Once the district is established, the city sells TIF bonds and uses the proceeds to make the improvements needed for the developer to implement the plan. In theory, TIF can and has been used to develop low-cost housing or to develop job-producing commercial and industrial areas. Municipalities can initiate TIF–funded projects according to a city plan. In practice, however, developers often generate TIF projects, and public planning is piecemeal at best. Because of the greater profit potential of higher-income development, such projects fuel gentrification. This has clearly been the case in Chicago, due to the political and economic context in which they are used.

The present system of large-scale urban development based on TIF facilitates the developer's desire to maximize profit potential and minimize risks in several ways. Unlike the old urban renewal programmes, the developer often has title to much of the land for proposed projects from

the start. Developers initiate the planning so that they, not the city, propose the kind of development they want for the land. Second, since the value of the land at the time of purchase is much lower than after redevelopment, part of the profit potential lies in the rising property values throughout the development process itself. The city's share of those extra values is used to retire TIF bonds, which were used to improve the land to begin with. Thus, in essence, much of the city's share of rising land values brought about by the redevelopment project goes to the developer. The developer also gets a share of those rising values when the land is sold and improvements go to private individuals. Third, since public funds are being used for the land development phase, TIF constitutes a public subsidy to the developer, which is a further source of profit.

However, developers and city administrations now depend on TIF. Furthermore, like MBSs, TIF bonds are part of global capital markets. Consequently, developers and city administrations do not have the power to determine on their own what is and what is not a "good project". Keeping the markets happy is thus a critical feature of local real estate development. Furthermore, TIF bonds must be sold and traded in international capital markets, which gives the players in those markets a say in local development priorities.

TIF bonds used for the gentrification of an area presently occupied by a major Chicago public housing project demonstrates how this can work. After the city declared the area a TIF district, it began the process of selling TIF bonds so the project could get under way.[14] Large institutional investors such as Allstate Insurance, Kemper Insurance and Novine Mutual Fund had purchased TIF bonds in the past. These and other large firms add and delete investments from their portfolios in order to maximize return and minimize risk for their investors. But in this case, residents were resisting the developer's proposal and had initiated a lawsuit to stop the process. This introduced an unacceptable degree of uncertainty for these bonds and, as a result, they would not sell. However, the city very much wanted the money to begin the project so that the deal with the developer would not turn sour. What they did demonstrates just how far the system of credit expansion and speculation through the international capital markets can go.

A financial services firm that did the underwriting for the city, Mesirow Corporation, sought bids to obtain a letter of credit from a bank that would guarantee repayment of the bonds. Different financial institutions bid on the letter of credit by stating the terms under which they would assume this risk. A part of these terms was a certain amount of money off the top of the sale of the bonds. The lowest bidder on the letter of credit was the Imperial Bank of Canada, which wanted a guarantee of a fixed interest rate to diminish their risk. To meet these terms, Mesirow let out bids for a bond insurance programme with the idea that the successful bidder would guarantee a fixed interest rate on the TIF bonds in return for the rights to lend out the cash flow from tax increments generated by the development project. There were five bidders. The best proposal came from Nations Bank in California—formerly Bank of America—a large international banking corporation. Nations Bank guaranteed an agreed-upon rate of interest for the TIF bonds and also paid the city of Chicago a fee. According to a Chicago Finance Department spokesperson, the fee was sufficient not only to offset the fee paid to the Imperial Bank of Canada for the letter of credit, but also to provide the city with a profit on the deal. The agreement with Nations Bank stipulated that once the redevelopment began to produce tax increments, Nations Bank would receive the money and could invest it in short-term (seven-day to 15-year) fixed-rate investments. They used the profits from these investments to pay off the TIF bondholders while making a handsome profit for themselves.

Developers and investors are always trying to avoid risks, and one of these is the potential risk of rising interest rates. The Imperial Bank of Canada sought a hedge against this risk, which was met through the bond insurance programme. But developers wish to avoid this sort of risk as well, which gives them a further stake in global capital markets. Money borrowed to purchase land and build housing or make other improvements carries flexible interest rates. If the

[14] This section is based on personal interviews with representatives of the Chicago Finance Department and Mesirow Corporation, the firm that did the underwriting for this project.

rates go up before the developer can sell the property and repay the loans, the costs of the project will be greater than anticipated. Developers today commonly use various methods to hedge this risk (Brueggeman and Fisher 1993:632–634). One method is to buy financial products whose interest rates correlate with those of development loans in the financial futures markets. It works like this. When the developer takes out a development loan to purchase land or build structures on it, the developer also sells a future of some financial product whose interest rates tend to move with those of the loan. Because it is a future, the sale locks in the existing interest rate on that product. When the loan is paid off, the developer purchases an identical futures product to close out his position in the markets. Often the developer will negotiate a loan where the lender will agree to tie flexible loan rates to the particular futures product being used for the hedge. The most common futures products used to hedge property development and construction loans are either short-term US Treasury bills or notes, or MBS futures from Ginnie Mae or Freddie Mac. Developers can also now hedge on interest rate fluctuation through the use of interest rate swaps, similar to what the city of Chicago negotiated with Nations Bank. There are also interest rate caps where the developer purchases an agreement from another party in which the other party agrees to pay the difference between the existing interest rate and any increase during the life of the developer's project. The seller of interest rate caps is speculating that the costs of interest rate increases will be less than the amount the developer paid for the cap.

Conclusion

Revisiting the cases of Chicago's South Loop and South Armour Square five years after the initial research was carried out (1996 and 2001), we are struck both by the continued deterioration of citizen-government collaboration, and by the increased pace of gentrification combined with the elimination of housing for the poor. In this paper, our explanation for this dismal state of affairs has included a deeper examination of the relationship between local government and the broader global context within which it operates. The first Mayor Daley and the political-economic strategies he pursued were generated by contradictions of the Bretton Woods system. His son, the current mayor of Chicago, is responding to a different set of forces that leave little room for collaboration at the local level and feed the gentrification process in a new way.

Gentrification today is driven, on the one hand, by the polarization of income that is a by-product of the new world order. On the demand side of housing markets, those with very high incomes can push those whose incomes have stagnated out of the market. Expanded credit has also benefited those whose incomes are expanding, increasing the demand for upscale housing. On the supply side, we have stressed the explosion of credit mechanisms available to both developers and those who trade in real estate. Our analysis of the complexity of the financial instruments and their integration into a whole global system of capital markets suggests there is little room for collaboration. Those who operate in the realm of these markets are not accountable and their market power is critical to the functioning of local governments themselves, which undermines democracy at the local level.

The question of what to do is complicated and beyond the scope of this paper. But we propose the following brief points as a bridge to further discussion. First, it is important to restore the social dimension to urban conflict. Although class interests still exist, politics and policy are increasingly becoming individualized, making organizing difficult. Second, the breadth of forces that we have described that affect the conditions of life at the grassroots are both a problem and an opportunity. Their vastness is a problem because such things as global capital markets can seem out of reach. The opportunity is that the class dimension within these forces is increasingly clear; it thus becomes possible to consider building social movements based on a concept of "an injury to one is an injury to all". And the "all" in this case is becoming a fairly large segment of the population that transcends national borders. Building such a movement, however, requires a concept of organizing that considers people as the subjects rather than the objects of the organizing project. The ideas and experiences of those being organized, in other words, must be instrumental in defining the nature of the organizing project itself. Finally, there must

be a redefinition of the spatial dimension of organizing. The cases of urban gentrification discussed above show clearly that a single neighbourhood cannot fight off these forces by itself. And since these forces are partly global in nature, there must be an international dimension to grassroots work. This suggests an important role for popular educators who can help people link their own experiences to this bigger picture and, through this process, bring out the various organizing implications described above.

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