

THE PROCESS OF STATE INTERVENTION IN
THE URBAN SPACE ECONOMY

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by

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ABSTRACT

This paper focuses on the process of state intervention in the urban space economy. The circulation of capital in and its effect on urban space provide the context for the analysis of the intervention process. Particular attention is paid to the circulation of property capital and urban finance capital which are directly involved in capital formation in urban space. The model of the state formulated by Claus Offe forms the basis for establishing the relationship between the function and internal operation of the state and the conditions arising from capital circulation. By linking the model of capitalist urbanism with the model of the capitalist state a framework was created for the analysis and evaluation of state action. The components of the framework are capital circulation, the logic of urban planning and mechanisms governing the internal operation of the state. Socialized management and collective production are intervention strategies analyzed within the framework, and are shown to be sources of contradiction and crisis.

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CHAPTER ONE

INTRODUCTION

State intervention has had a significant impact on the structure and operation of the urban space economy, which in turn represents one of the most visible manifestations of state activity in capitalist society. The state provides key mechanisms for the operation of major urban processes, engages in capital formation and investment which shape the material base of the urban unit, and generally provides support for capitalist accumulation in the space economy of urbanism. Conventional wisdom attributes the pattern of urban spatial development (i.e., metropolitanization and suburbanization, spatial segregation of activities, and the processes of concentration and decentralization) to external economies including agglomeration, localization and scale economies. Other considerations include technological development in manufacturing, transportation and construction; market forces; and personal preferences and cultural factors. Although technological, economic and social factors have facilitated the development of contemporary urban spatial forms, they only tell part of the story. The extensive highway systems of contemporary urbanism, the mass production of housing, the new locational patterns of residential and commercial activities, and the increased spatial freedom of manufacturing plants reflect intervention by the state in the urban space economy. State intervention has

facilitated the kind of capital investment needed to accommodate the increased capital flow generated in the monopoly stage of capitalist development. Investment in highway construction has facilitated the material circulation of capital (goods, services, information, people), and spatial mobility. Mortgage finance programs, and research and development have made the mass production of housing feasible. The production of vital services such as water, power and communication systems, by the state, have generally proved beneficial to the operation of the urban space economy.

In spite of the impact of state intervention, its incorporation in the analysis of the urban space economy has been somewhat neglected. While the effects of judicial coding, (e.g., zoning, and taxation of urban processes) have received some attention, the effect of more direct state action has been treated exogenously in models of urban space. However, the increasing involvement of all levels of government in the urban space economy, and the pervasive impact of state action have triggered recent efforts to fully incorporate the state in the analysis of urban spatial processes (cf. Dear and Clark, 1978).

1.1 Research Goals and Objectives

The primary goal of this paper is to establish the rationale behind, and the mechanisms governing intervention by the capitalist state in the urban space economy. Therefore the first objective will be the establishment of a meaningful context for the analysis of state action. This is provided by the circulation of capital in urban space. The urban space economy provides a locus for the circulation of capital which

is a major process in capitalist accumulation. This makes capital circulation a major force shaping the space economy of capitalist urbanism.

A second objective is the examination of existing theories of the state in order to evaluate their relevance with respect to the research goal of the paper. In addition, since state intervention in the urban space economy is part of a wider process taking place in the capitalist economy, the understanding of intervention in this wider context is a prior condition for the analysis of state action in urban areas. The final objective is to link the model of capitalist urbanism with a model of the capitalist state, and thus provide a framework for the analysis and evaluation of strategies employed by the state in its intervention in the urban space economy.

Chapter Two analyzes capitalist urbanism in terms of the circulation of capital in the urban space economy. Thus, conceptually, capitalist urbanism is regarded as an expression of the logic of the circulation of production, commercial, property and urban finance capitals. Special attention is paid to the circulation of property capital and urban finance capitals which are directly involved in the production of the physical framework of the urban space economy. Chapter Three evaluates pluralist and marxist theories of the state. The model of the state formulated by Claus Offe (1975) is identified as providing both a theoretical understanding of the function of the state, and a framework for the analysis of the concrete reality of state actions. In Chapter Four the intervention strategies of socialized management and of collective production are analyzed. The evaluation of their effectiveness reveals the state as being a source of contradiction and crisis in the urban space economy.

Chapter Five, the final chapter, summarizes the results of the analysis of the process of state intervention, evaluates its merits, and identifies directions of future research.

CHAPTER TWO

THE URBAN SPACE ECONOMY

The forces shaping the urban space economy define the conditions under which state intervention takes place, and determine the context of state action. The circulation of capital, i.e. value and surplus value, in urban space is one of the major forces moulding the space economy of capitalist urbanism. Urban theorists have generally associated the concept of urbanism with the geographical concentration of a society's surplus, which is considered to be the amount of material resources over and above the subsistence requirements of that society (cf. Harvey, 1976: ch.2). In the market-exchange-dominated capitalist economies, the surplus is measured in value or money terms, and becomes surplus value. Value consists of the labour and means of production (machinery, technology, raw materials) utilized in the production of surplus value, which is the amount remaining after the value of labour and the means of production have been accounted for.

A transactional relationship exists between the urban space economy and capital in circulation. That is, urban space is shaped by the logic of capital, and at the same time constitutes a resource system for the latter's efficient circulation (cf. Harvey, 1977). Thus state intervention must take into consideration existing conditions in the urban resource system brought about by the circulation of capital, and also the conditions required for its valorization, i.e., its augmentation during

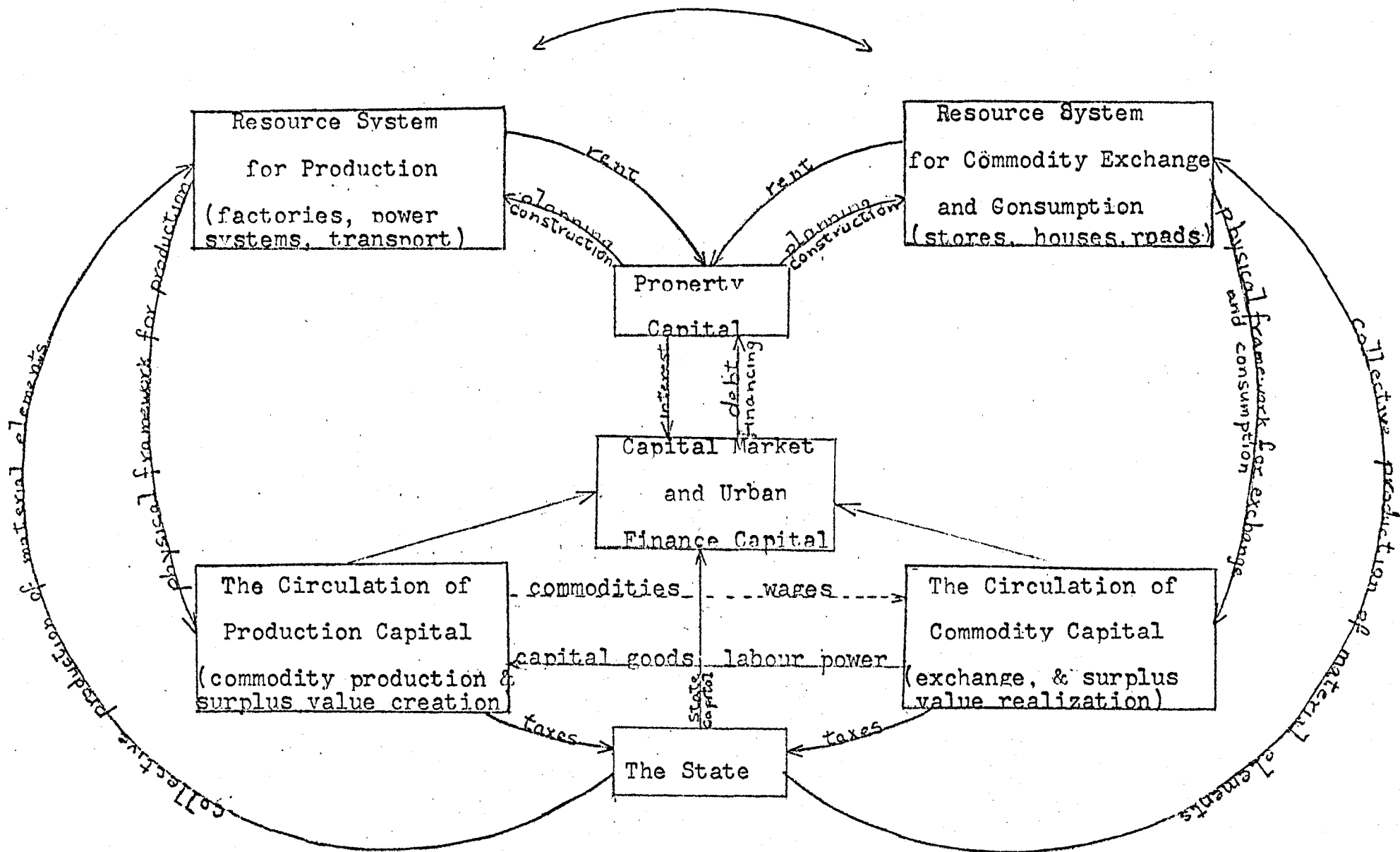
circulation. Of special importance to intervention in the built environment are the valorization rules of property and urban finance capitals, which specialize in the planning and financing of the material elements of the urban space economy. The dominance of capital in urbanism makes capital circulation and the contradictions associated with it central to the analysis of the logic of state intervention in the capitalist city. This chapter highlights the importance of the relationship between the circulation of capital and the urban resource system in determining conditions in the space economy of capitalist urbanism.

2.1 The Circulation of Capital in the Urban Space Economy

Capital circulation in the urban space economy consists of the circuits of production capital, of commodity capital and of urban capital. Production capital is capital directly involved in the production of commodities, while commodity capital facilitates the buying and selling of these commodities in the market place. Urban capital, which includes finance capital and property capital, engages in the financing, production and spatial organization of the material elements which accommodate the circulation of production and commodity capitals. Figure 2.1 illustrates the complex relations between the circuits of capital, within and with the urban resource system. Production, commodity exchange and consumption patterns dictate the nature of the material elements in the urban space economy, which provides a resource system for the realization and appropriation of rent, interest and profits.

The state facilitates the circulation of capital in the urban space economy by financing and producing those elements whose production

Figure 2.1. THE CIRCULATION OF CAPITAL IN THE URBAN SPACE ECONOMY.



Source: Adaptation of model by Harvey (1977).

by private capital has been limited, but which are vital to the circulation process. Housing, transportation facilities and urban infrastructure are examples of material elements financed and produced by the state. The state intervenes directly in the urban space economy by providing material elements for the urban resource system. Indirect intervention generally occurs through urban capital which specializes in the planning and equipping of urban space. Devalorized state capital (i.e., capital whose augmentation is zero, or below the average rate) obtained through the taxation of resources created and realized during the circulation of capital is utilized to finance state intervention. The theory of the state, the logic of state intervention and the contradictions arising from it are discussed in later chapters.

2.1.1 Productive Capital and Commodity Capital

The circuits of production and commodity capitals perform qualitatively and quantitatively different functions, and require different material supports (cf. Marx, 1967: v.2, p.45). The circulation of production capital facilitates the bringing together of labour power and the means of production for the purpose of commodity production. Simultaneously, the circulation of commodity capital (i.e., the exchange of commodities in the market place) leads to the transformation of the surplus value contained in commodities into the more flexible money form. Capitalist production and exchange are characterized by mechanization and the factory system, private property relations and market exchange, and a complex division of labour and a high degree of specialization. These characteristics have resulted in spatial specialization and the development of mono-

functional zones in the urban space economy. Mechanization and the factory system resulted in the spatial separation of residences and work places. The division of labour combined with the conditions under which space is appropriated (private property relations and market exchange) and the diverse rules governing the valorization of capital has led to the creation of specialized zones of activity and housing sub-markets distinguished by socio-economic status. As a result, the material elements supporting the circulation of production and of commodity capitals form specialized resource systems. See Figure 1.

Factories, roads, railways, ports, power networks and other infrastructure in the urban space economy provide a physical framework for the establishment of production relations between labour and capital, and the production of commodities. The appropriation and realization of surplus value depends on the existence of a permanent commodity supply (Marx, 1967: v. 2, p.138). Retail outlets, warehouses and other storage facilities make this possible, and provide a resource system for the circulation of commodity capital. Housing units facilitate consumption, and the reproduction of labour power, which is vital to the continued circulation of production and commodity capitals. Labour power is essential to the production of commodities and the creation of surplus value, and, labour satisfies many of its biological and social needs through the purchase of commodities (food, clothing, consumer durables) in the market place.

Some material elements act as supports for both production and consumption. For example, roads and highways accommodate the movement of goods, people and information giving labour and capital access to each

other and to commodity markets. Other elements, such as office buildings, are utilized for the performance of administrative functions which are common to both production and consumption.

2.1.2 Property Capital

The planning, co-ordination and construction of material elements to accomodate the circulation of production and of commodity capitals facilitate the circulation and valorization of property capital. The planning and equipping of the urban resource system, under conditions of private property relations, enables property capital to appropriate rent from activities occupying urban space. Rent represents payment for the advantages of occupying a particular unit of space in relation to other units and the totality of the urban resource system. The income-producing potential of material elements at fixed locations largely determines rent levels, and is affected by factors such as, location, access, building type and the nature of the activity to be accommodated (cf. Weimer and Hoyt, 1966: 110; Keiper et al., 1961). The close relationship between the productivity of a material element (measured in terms of the profitability of production, the volume of commodity exchange, or the quality of life) and rent levels is reflected in the practice of indexing the rent paid by tenants of commercial properties to the level of profits (Lamarche, 1976; Weimer and Hoyt, 1966). In the capitalist city, differential, monopoly and absolute rents are the main forms in which rent is appropriated (Walker, 1974; Harvey, 1976: ch.5).

Differential rent represents payment for the marginal productivity of a unit of space, as determined by its accessibility to commodity

markets, and urban services (police and fire protection) and facilities (highways, railways, water and gas mains, sewers, electrical and telephone lines). The valorization of property capital through the levying of differential rent has influenced the organization of the built environment, especially the built environment for production. Cost minimization with respect to labour and other commodity markets is an important strategy in the creation of surplus value. Thus the marginal productivity of a unit of space is a critical locational factor. Theories of industrial location emphasize its importance in the creation of the industrial environment. Even at a time when the homogenization of space, through the use of electrical power and technological innovation in transportation, has increased the locational freedom of industrial plants, their location continues to be constrained by the need for access to labour, and the kind of technological milieu necessary for production under modern conditions (Castells, 1977: ch.9). To a large extent, the organization of the urban space economy is oriented towards making labour and capital accessible to each other. Differential rent is appropriated from both labour and capital as payment for accessibility.

Competition for space within the context of private property relations inevitably leads to some form of spatial monopoly. The higher transportation costs incurred by more distant firms enables a firm to gain a spatial monopoly over its surrounding area (cf. Berry, 1967). *Monopoly rent* may be levied when spatial monopoly coincides with the emergence of oligopolistic firms, controlling large segments of a particular market, and of other barriers to strong price competition (Harvey, 1976: ch.5). In general, rent levels depend on prices, thus monopoly

pricing creates opportunities for the appropriation of monopoly rent (cf. Keiper et al., 1961; Harvey, 1976: ch.5). Monopoly rent seems to be an important consideration in the planning and equipping of retail space. Spatial monopoly is a major contributor to the valorization of commodity capital whose valorization depends on the fast turnover of commodities. Therefore market size and proximity to consumer generating activities are major concerns. In the retail sector, the growth of large firms monopolizing large parts of the market has increased spatial monopoly and opportunities for monopoly pricing. Property capital has accommodated and cashed in on this development, by planning and equipping multi-purpose shopping centres which exert influence over large areas in the urban space economy.

Unlike monopoly and differential rents, *absolute rent* ^{class monopoly} is independent of price levels and reflects the monopolistic power of owners of urban space (Walker, 1974; Harvey, 1976: ch.5). In addition to private property relations, the monopolistic power of owners of space is largely determined by technical and social conditions (Harvey, 1976: ch.5). In the modern capitalist city, rapid growth, capitalist development and modern conditions have enabled property capital to consolidate its monopolistic power. The rapidity of urban growth, and the increased demand for space have made the speculative withholding of land from development, in anticipation of large future returns, a profitable venture. Speculation creates an artificial barrier to the appropriation of urban space, and has been identified as a major factor contributing to urban sprawl and the leap-frogging of the development of the urban space economy. The growing division of labour, the creation of new social classes and the emergence of a variety of life styles, and technological development in the property industry

have created conditions for the appropriation of absolute rent. These developments have made possible the creation of man-made islands of absolute scarcity, in which the monopoly power of owners of space reaches a high level. This is reflected in the trend towards the production of large-scale, integrated sectors in the urban space economy. The residential sector has been particularly affected, and consists of areas of absolute scarcity differentiated by social status, life style, accessibility to complementary activities, and the general quality of the environment (cf. Harvey and Chatterjee, 1974; Harvey, 1974).

2.1.3 Finance Capital

The production and purchase of material elements of the urban resource system depend a great deal on the existence of a functioning capital market, which permits the flow of investment funds into the property market (see Figure 1). Financial institutions, into which are deposited the proportion of surplus value and wages not being utilized for capitalist and individual consumption, facilitate the organization of a capital market. However, the flow of funds into property development and consumption depends on the relative attractiveness of other forms of investment, such as government and private bond issues. The degree of risk involved, yield levels and liquidity in the face of a tight money supply are measures of the attractiveness of investments by finance capital (Weimer and Hoyt, 1966: 117). Before World War II, the flow of investment funds into the built environment was a mere trickle, but state intervention in the capital market in the post-war period resulted in a dramatic change in the situation. Mortgage insurance programs administered by the Federal Housing Administration (FHA) in the United States and by the Central Mortgage and

Housing Corporation (CMHC) in Canada, and the setting up of secondary mortgage markets have reversed the flow of investment funds in favour of the property market, by reducing risks and increasing the liquidity and yield of real estate mortgages. In the United States, the net mortgage acquisition of all major lenders was \$120 billion in 1972 (Starr, 1975: 12).

Debt financing is utilized by both producers and users of urban property, because of the large proportions of fixed, long term and large scale capital investment involved. This makes equity financing unfeasible, except in the case of financial institutions such as insurance companies, which engage in equity investment in income-producing residential and commercial properties (Weimer and Hoyt, 1966: 426). Equity financing is virtually impossible for the average household, since the purchase of a house may involve the expenditure of three to four times the amount of its annual income. Thus both producers and consumers rely on high loan-to-value loans and mortgages supplied by financial institutions like commercial banks, insurance companies, savings and loans associations, mortgage banks and trust companies. In return, finance capital profits from the interest paid by the borrowers, and increasingly from the actual development, with the sharing of finance capital in a percentage of the income flowing from income-producing properties.

The dependence of supply and demand in the property market on debt financing means that the investment decisions of finance capital will affect the quantity and quality of development. Operating under the principle of high returns on safe investments, finance capital is primarily concerned with the present and future value of a building in relation to

the loan amount, its economic life in relation to the loan term, and its income-producing ability (Weimer and Hoyt, 1966: 471). Value, economic life and income-producing ability are largely determined by location, access, use and building type. Thus financial institutions prefer to invest in income-producing commercial and industrial properties, high priced residential developments, high rise buildings, and in locations which ensure the maintenance of and increase in value. A study of the Baltimore housing market by Harvey and Chatterjee (1974) illustrates the effect of investment decisions, governed by the above considerations, on the formation of housing sub-markets. Financial institutions were found to have strong neighbourhood biases, which were revealed in the discriminatory 'red-lining' of black and low-income neighbourhoods. In addition, they exhibited a marked preference for financing the more expensive housing. Spatially differentiated housing sub-markets, with respect to the quality and type of physical structures, demonstrate the effects of the investment policies of finance capital on the urban space economy.

CHAPTER THREE

THEORIES OF THE STATE

Over the past several decades, capitalist countries such as Canada and the United States, have experienced a phenomenal increase in the quantity and scope of state intervention, especially in the economic sphere. Various explanations have been advanced to account for this increase in state activity. For example, it has been suggested that changing labour, raw material and fixed investment needs (a possible result of technological change, and the increased mechanization of capitalist production) call for inputs, such as transportation facilities, power networks, education etc., which cannot be supplied on private commodity markets, but are vital to the process of capitalist accumulation (cf. Offe, 1975: 129-30). Baran and Sweezy (1966) identify the growth of monopoly capitalism, and the appearance of new forms of competition, as the primary forces responsible for the massive intervention by the state in the capitalist economy. Other explanations attribute state action in modern capitalist society to the presence of inequalities produced by the 'free' operation of capitalist socio-economic institutions, and the consequent threat to social order, to the complexity of modern society and to the need for a co-ordinating body to facilitate its smooth operation. Whatever the complete and 'correct' explanation, an abundance of everyday and documented evidence provides indisputable proof of the intensification of

the quantity and scope of state intervention. This is manifested in the growth in state expenditure, which, in the United States, has risen from 7.7% in 1906 to over 30% in the 1970's in relation to the GNP (Dye, 1972: 186). In addition, state intervention has affected the operation of the labour market through the implementation of the right to strike, arbitration, the minimum wage, working regulations, and education and re-training.

The working model of the state is needed for the analysis of the intervention process. In this chapter, pluralist and marxist approaches to the theory of the state are examined. The model of the state formulated by Claus Offe is selected as a suitable basis for the analysis of intervention. This model facilitates the examination of the relation of both the function and structure of the state to conditions within capitalist society.

3.1 The Role of the State

A widely accepted view of the role of the state is that it creates and maintains general conditions of accumulation where these conditions are not produced by the automatic process of the economy (Dear and Clark, 1978). However, diverse opinions exist on the question of the way in which the state fulfills its role, and the method(s) of intervention employed. The pluralist and marxist viewpoints are two major perspectives on the role of the state. Pluralists regard the state as an arbiter regulating competition among interest groups in society, while marxists view it as broadly serving capitalist interests. The adoption of either viewpoint must necessarily affect the foci of the analysis of state intervention.

3.1.1 Pluralist Approach

Pluralism has gained wide acceptance as a model of the functioning of democratic capitalist states like Canada and the United States (cf. Lipset, 1963; Dahl, 1961). The basic thesis of this approach is that society is made up of a variety of competing interest groups (labour, business, agriculture, consumer, ethnic and religious groups) for which the state acts as the arbiter. Thus state action is determined by the anticipated outcomes of state-mediated competition. Pluralism assumes the presence of *organized* interest groups with access to the political system, which is the medium for the expression of support, or opposition for proposed measures (Presthus, 1964).

Consensus and conflict models represent two different interpretations of pluralism. The consensus or 'balance of power' interpretation regards interest groups as being co-equal, with the state providing a countervailing influence, and maintaining a rough balance by supervising and regulating the competition among them (Playford, 1968). Thus the state is presented as a neutral arbiter seeking to accommodate the interests of co-equal groups. Representative theories of democracy have been formulated in terms of rational voting behaviour, and the expression of real preferences to which the state responds (cf. Dear and Clark, 1978).

The alternative conflict-oriented interpretation of pluralism recognizes the unorganized nature of a large segment of society, the existence of a hierarchical societal structure, the unequal distribution of social power and consequently, the lack of equal access to the political system (Dahrendorf, 1959). For example, only a quarter of the American labour force is organized, and it has been demonstrated that the inarticulate

and unorganized members of the lower strata of society generally lack effective access to the political machine (Playford, 1968). Analyses of policy issues emphasise the importance of the knowledge of the operation of the political system in influencing state action (Bolan and Nuttall, 1975). In the urban space economy political clout influences the quantity and quality of public goods and services (Levy et al., 1974). The unequal power of interest groups implies that the state is not merely a neutral mediator, but must apply specific criteria e.g. criteria of social justice, economic rationality or political reality, in the resolution of conflicts. However the process whereby mediation criteria are selected remains unclear.

A major criticism of the consensus view of pluralism is the separation of the exercise of power from its source. Both consensus and conflict interpretations of pluralism attribute goals and objectives to personal desires expressed through the interest group; structural limitations and societal constraints are pushed into the background. The pluralist approach fails in the development of a well defined logic of the relation between the state and capitalist society, except on a very superficial level.

3.1.2 Marxist Theories of the State

Marxist interpretations of the role of the state are based on the belief that the state broadly serves the interests of the capitalist class, i.e., the owners of capital (Gold, Lo, and Wright, 1975). Interpretations of the state's role, based on this basic position, include the instrumentalist view that the state acts as the agent of the ruling class(es); the structuralist position that the structures of society largely determine the function of the state; and an ideological perspective in

which the state's role is to mystify the nature of power in capitalist society.

The *instrumentalist* approach examines the relationship between members of the capitalist class and the state elite, focusing on the composition and ideology of the latter (Miliband, 1973). This approach seeks to establish links between the state apparatus and individual capitalists, and equates state action with the class interests of the latter. This simplistic model of instrumental manipulation is similar to the pluralist approach, in its emphasis on the importance of the actions and strategies of groups and individuals, while neglecting to define the theoretical context in which such activity is taking place. Criticisms leveled at the pluralist approach on this point also apply here. Personal contacts, and the composition and interaction of various power elites do not adequately account for the fundamental connections between the state and capitalist class (Habermas, 1976).

According to the *structuralist* interpretation, the role of the state is to preserve the unity and stability of the structural totality of capitalist society (Poulantzas, 1973). Thus it focuses on the state's relation with the basic social and economic structures of society. The structuralist approach takes the analysis of the state out of the realm of conscious individual action into that of the unconscious operation of objective economic laws. Therefore the state is seen as serving the collective interests of the capitalist class by preserving and reproducing the totality of capitalist society. While this approach offers insights into the nature of state intervention (economic and non-economic), it fails to incorporate the policy shaping mechanisms utilized by the state as it responds to the needs of the system (Gold, Lo and Wright, 1975).

Thus it does not provide a basis for the analysis of the concrete reality of state action (Dear and Clark, 1978).

The *ideological* approach to the role of the state is mainly concerned with the issues of legitimacy, consciousness and ideology (Gold, Lo and Wright, 1975: 31). This is an abstract approach which focuses on the question of what is the state, and the state is considered to be a mystification and a means of obscuring the basic lines of class antagonism (Gold, Lo and Wright, 1975: 40). Little insight is offered into the logic of the relation between the state and society.

Although these approaches represent important contributions to the understanding of the relation between the state and society, none provides an adequate framework for the analysis of the concrete reality of state action. Claus Offe (1975) has formulated an alternative approach which incorporates the internal operation of the state apparatus. Some theories of the state have been primarily concerned with external determinants such as, manipulation by the ruling classes and conditions within capitalist society (Gold, Lo and Wright, 1975). However, while conditions within capitalist society have a significant impact on the nature (economic and non-economic) of state intervention, the internal operation of the state apparatus is a major determinant of public policy formation. That is, although the need to safeguard private property relations, maintain the rules of market exchange, and create exchange opportunities for labour and capital may be created by conditions in society, the way in which these tasks are performed is largely determined by the operation of the internal decision-making structures of the state (Offe, 1975).

The incorporation of the internal decision-making apparatus of

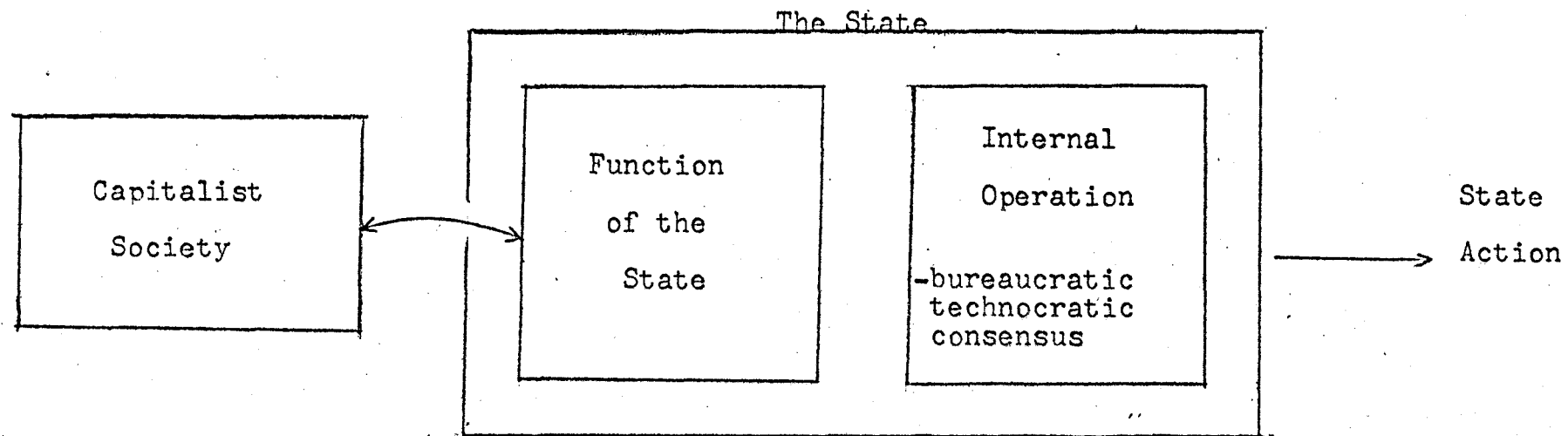
the state in the analysis of state action is a significant contribution. It provides a framework for the analysis of the concrete reality of state action, and more importantly offers insights into the effects of state intervention.

3.2 Public Policy Formation and the Internal Operation of the State Apparatus

The theory of the state developed by Offe constitutes an input/output model of public policy formation, and facilitates the analysis of state action through the examination of the interrelationship between the function of the state, the internal operation of the state apparatus, and conditions in society. See Figure 3.1. Various models have been formulated to explain the process of public policy formation. Among these are the rationalist approach, the incrementalist approach and the group-biased approach (Dye, 1972: ch.2). The *rationalist* approach regards public policy as being goal oriented, and directed towards efficient goal achievement. *Incrementalism* merely involves the modification of past policies, as opposed to the formation of entirely new ones. *Group-biased* policy making requires the balancing of the demands of various interests, and public policy reflects the equilibrium attained. By themselves these models may be utilized for descriptive purposes, but must be placed within the context of the functions of the state, capitalist development, and social and economic conditions in society, to form the basis of analysis.

The systems model of policy analysis which presents the state as an input/output system facilitates this to some extent. In this model, the political system responds to forces in the environment, and inputs received in the form of specific demands. Support is also an important

Figure:3.1. A MODEL OF POLICY FORMATION BY THE STATE



input, and legitimizes state action (Dye, 1972: 36-37). However, this model fails to incorporate the state's function which is a major element defining areas of state intervention, and giving direction to state policy.

A major point of departure in Offe's formulations is the central role played by the mechanisms utilized in the internal operation of the state in determining potential goals, solutions to problems, and the general response by the state to conditions in society, and economic and social demands. Bureaucratic, technocratic and consensus forms of decision-making are the main mechanisms utilized in the internal operation of the state apparatus. These mechanisms correspond to the incrementalist, rational and group biased methods of policy formation, respectively. However, within Offe's formulations, mechanisms of decision-making are not abstracted from the state as a capitalist entity, or from conditions in a modern capitalist society.

The *bureaucratic* decision-making structure is characterized by a hierarchy of authority, and a system of rules and regulations with universal application (Blau and Mayer, 1971). Bureaucratic structures are input oriented and tend to abstract events into 'cases' (Offe, 1975). This kind of decision-making structure accommodates the performance of the administrative tasks associated with incrementalism, e.g., welfare, and fiscal and monetary policies. Incremental policies are essentially variations of past policies, and are intended to maintain stability, and avoid the kind of conflict brought about by major policy shifts (Dye, 1972: 33). Bureaucratic mechanisms are generally utilized in those policy areas which respond positively to the universal application of predetermined rules.

Technocratic mechanisms provide rational policy making with a decision-making system which facilitates rationality in policy formation.

Rationality may be defined in social, economic and/or political terms, but within the technocratic decision-making system of the capitalist state rationality is defined in terms of economic effectiveness and technical efficiency. The technocratic mechanisms of the state apparatus attempt to duplicate the internal procedures of the capitalist firm (Offe, 1975: 135). Technological development, modern conditions and structural changes in capitalist accumulation have necessitated the involvement of the state in the production of physical inputs necessary for economic growth and capitalist accumulation, and in the provision of social consumption goods e.g., housing. The importance of these state activities to capitalist accumulation have led to the adoption of effectiveness and efficiency as criteria of rationality. Thus the utilization of technocratic procedures results in the tendency to define goals in terms of technical and economic performance, and to concentrate on those problems which are amenable to technical solutions, and whose solutions result in demonstrable benefits to capitalist accumulation.

Consensus mechanisms, e.g., elections, public hearings and commissions, provide filters for the input of interest groups, and members of social and economic classes. These mechanisms are designed to keep conflict at an acceptable level. The utilization of consensus mechanisms is largely determined by the nature of the good being produced by the state. The production of social goods and services is particularly responsive to this method of internal operation.

The effectiveness of intervention is determined to a large extent by the relations of decision-making mechanisms with each other, and with the functions of the state in capitalist society. Chapter Five shows how

these mechanisms may be a source of contradiction and crisis within the state and in capitalist society.

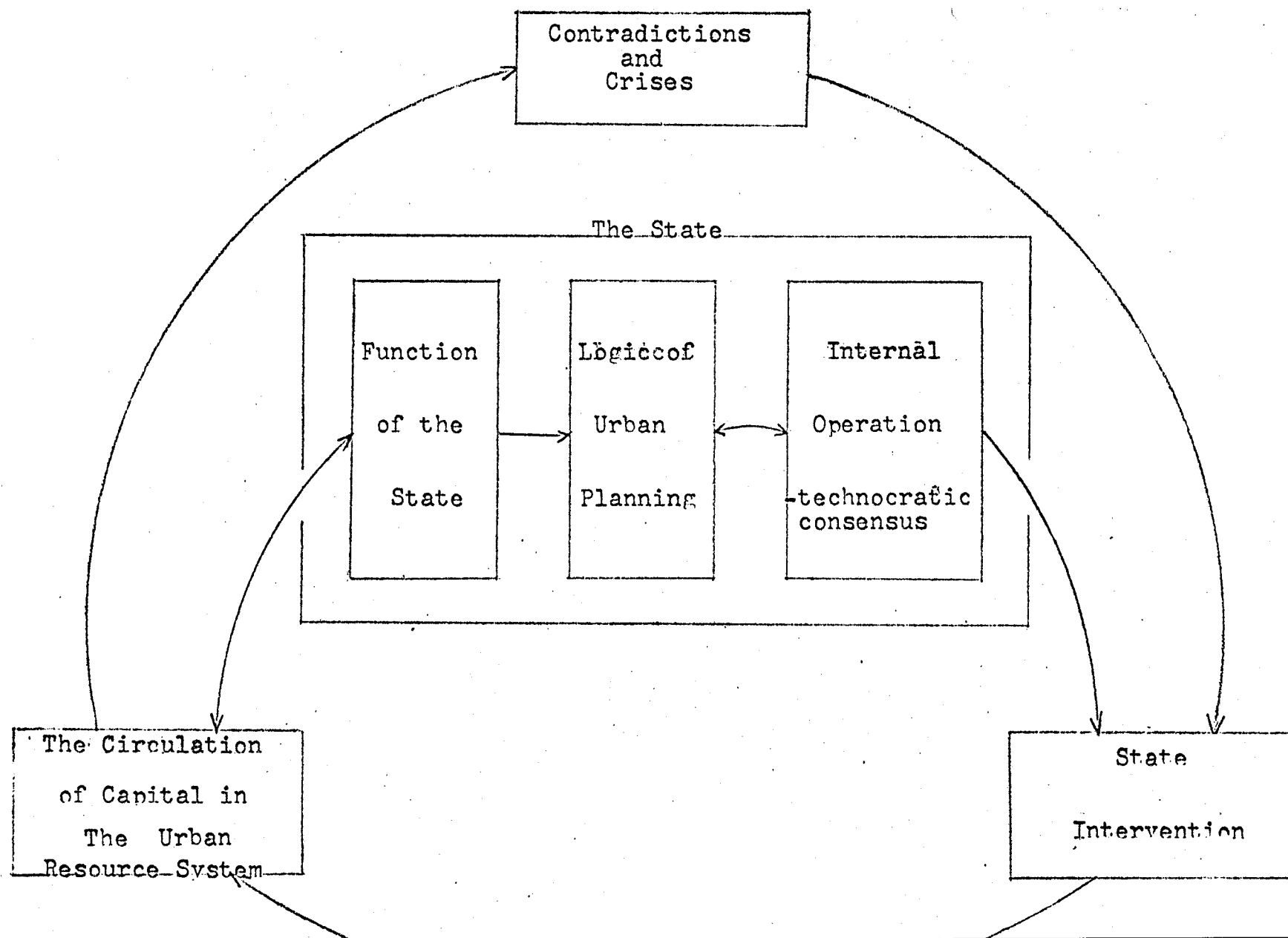
CHAPTER FOUR

STRATEGIES AND CONTRADICTIONS OF STATE INTERVENTION

State intervention in the urban space economy responds to the contradictions created by the circulation and valorization of capital. The actions of the state also spring from the nature of its function in capitalist society, and this in turn defines the areas of intervention, constraining state activity to those sectors capable of increasing the potential for commodity production and exchange, and affecting the level of social stability. Mechanisms of decision-making employed by the state influence policy formation and help determine the content of state action. Together the logic of capital circulation, the function of the state and the internal operation of the state apparatus constitute a framework for the analysis of strategies of intervention and the effectiveness of state action. See Figure 4.1. State action in the urban space economy is a reflection of the complex interrelationships between these elements.

The functional relationship between the state and the circulation of capital, i.e., the process of urban accumulation, leads to intervention by the state whose main aim is to create and maintain the conditions for accumulation. The creation and maintenance of conditions of accumulation in urbanism is not only vital to the functioning of the urban space economy, but also to the wider capitalist economy. Large quantities of wealth are tied up in the physical framework of the urban space economy, and any

Figure 4.1. STATE INTERVENTION IN THE URBAN SPACE ECONOMY



substantial decrease in the creation and/or the level of urban exchange values would also have serious effects on the wider economy. In the capitalist city, collective consumption of goods and services, and the nature of capital formation have necessitated intervention by the state (cf. Preteceille, 1976; Lojkine, 1976). The growing socialization of capital circulation with the intensification of the division of labour and the high degree of specialization has increased the importance of collective consumption. The socializing effect of urban space, due to the concentration of people and activities, is an urban characteristic which predates capitalism, but which has been reinforced by the nature of capital circulation (cf. Preteceille, 1976). As a result, collective consumption is a major distinguishing characteristic of capitalist urbanism (cf. Lojkine, 1976). Collective consumption aids the circulation of capital by minimizing indirect costs, and increasing the rate of rotation. However, private capital whose valorization depends on the individual appropriation of exchange values, is limited in its participation in the provision of collective goods and services. The state attempts to resolve this contradiction between the circulation of capital and collective consumption by providing those collective goods and services which are vital to urban accumulation and the reproduction of labour power, e.g., transportation facilities, infrastructure and urban services.

The large-scale, long-term nature of some urban investment, the risks and uncertainty involved, and below average rates of profit also limit the participation of private capital in certain areas of the urban economy (Castells, 1975: 77). The coincidence of the need for large amounts of fixed capital investment with below average rates of return,

due to discontinuous or weak demand, prohibits the full utilization of private capital in some capital formation, e.g., housing, mass transit and highway construction (cf. Lojkine, 1976: 133). Added to this, the rigidity of urban investment, due to fixed location and durability, makes capital formation vulnerable to the external effects which are characteristic of urban space. This increases the 'normal' risks of investment.

State intervention in those areas of the urban space economy from which the laws of the market exclude private capital, or limit its participation, is not indiscriminate. The state employs specific intervention strategies which are designed to accommodate urban accumulation within a climate of social stability, and to maintain the legitimacy of the state's authority.

4.1 Strategies of Intervention

In analyzing strategies of intervention, the focus will be on the process of capital formation which is a major element in the circulation of capital and the reproduction of labour power, and the moulding of the urban space economy. The valorization of property and of urban finance capitals is directly dependent on capital formation, which accommodates the circulation of production and of commodity capitals. Added to this, labour satisfies its biological and social needs through the use of material elements of the built environment, e.g., housing, community centres, parks, schools etc. In creating and maintaining conditions for capital formation and urban accumulation, the state employs strategies of socialized management and collective production. These strategies are not mutually exclusive, but their utilization overlaps in many policy areas, and may be coordinated to achieve a specific objective. The

analytical framework consisting of the function of the state, the internal operation of the state apparatus and the logic of capital circulation in the urban space economy provides a basis for the analysis of strategies of intervention and for an understanding of the rationale behind state action.

4.1.1 Socialized Management

The strategy of socialized management is characterized by state control over the financing of capital formation and the distribution of the material elements involved. It is generally utilized in order to accommodate the provision of social goods through mechanisms of private accumulation, i.e., market mechanisms. This strategy reflects the dominance of market exchange in the circulation of capital, the nature of the urban property market and the rules governing the valorization of urban capital, and the influence of rationality and of technocratic mechanisms on the internal operation of the state. The property market is distinguished from other markets by the high debt to equity financing necessary for the production and purchase of the property good. However, the risks and uncertainty associated with property investment have made it relatively unattractive except in those sectors where high returns are possible. The appropriation of rent and interest dominates the valorization of urban capital, and largely depends on the volume of money capital flowing into the property market. In socialized management, devalorized state capital is channelled into the property market to increase the flow of private capital and create opportunities for market exchange.

Technocratic decision-making mechanisms dominate the implementation of the strategy of socialized management. The technocratic method

of decision-making is governed by criteria of efficiency and effectiveness similar to those of the capitalist firm. This makes technocratic mechanisms suitable for the kind of market intervention which characterizes socialized management. The state lacks internal mechanisms, such as the market cues which govern the internal operation of the capitalist firm, for the automatic setting of operational goals and the measurement of efficiency and effectiveness. Therefore it must set goals and measure efficiency and effectiveness in terms of its success in enabling capital and labour to increase *their* efficiency and effectiveness. As a result, socialized management is a potentially effective way of serving the interests of the members of the capitalist class society without interrupting private accumulation.

Although technocratic mechanisms dominate socialized management, bureaucratic structures are required to process applications, establish eligibility, and generally facilitate the day-to-day administration of the policies formulated under this strategy. In addition, socialized management is group-biased. The utilization of the market as the main vehicle of intervention means that in deciding among conflicting demands, the state generally favours those groups with the resources to participate in market exchange.

The housing policies of the state provide an example of socialized management in action. The valorization rules of urban capital, the function of the state and the dominance of technocratic mechanisms of internal operation (a reflection of the dominance of commodity production and exchange in the circulation of capital) lead to the tendency to perceive problems in economic terms. Thus the housing problem has been attributed

mainly to the obstacle to accumulation in the housing market created by the lack of investment funds and consumer credit in the capital market for housing. In Canada and the United States various mortgage financing programs have been implemented. These programs are designed to increase the availability of debt financing, make residential development a more attractive venture and raise the level of effective demand. State capital infused into the housing market through financial institutions (see Figure 1), has decreased the risks associated with long-term fixed investment. In addition, a functioning secondary mortgage market has been set up, and has increased the liquidity of mortgages, making them a more attractive investment. For example, in the United States the Federal National Mortgage Association (FNMA), under private ownership since 1970, was established to purchase mortgages from private owners. The Government National Mortgage Association (GNMA) purchases high risk, low return mortgages not readily sold on the market, and is an important instrument in the financing of low-cost housing (Starr, 1975: 186).

Socialized management in the residential sector has enabled the state to exercise control over the terms of financing, and thus housing type, location and distribution. The infusion of state capital in the capital market for housing has helped to lower interest rates, raise the loan-to-value ratio and lengthen the amortization period. These easier terms have helped to raise effective demand, and encourage home ownership and the construction of single-family homes in suburban locations. In 1972, demand for mortgage capital in the United States exceeded the demand for all investment funds, and in Canada, over \$2 billion were loaned under the mortgage insurance program in 1972, and 50% of all housing starts are financed under the National Housing Act (Staff, 1975: 2;

Ontario Economic Council, 1976: 16; Spurr, 1976: 186].

The dominance of the market in socialized management is particularly demonstrated by attempts of the state to utilize the market as the principle means for the production of low-cost housing. Landlords and developers receive subsidies to encourage the provision of low-cost units, e.g., the Accelerated Family Rental Housing Program (1974) administered by the Province of Ontario (Canada). Under this program, first mortgage financing is provided at favourable interest rates by the Ontario Mortgage Corporation, to encourage developers to build and operate rental units for moderate-income households. Loans may cover up to 95% of construction costs, and are amortized over 50 years. Similar terms are available under the federal Low Rental Housing Assistance program (1968) (Housing Ontario, 1976: v.20, p.13, 31). By utilizing the market in socialized management, the state has largely restricted the distribution of the housing good to middle-income households. Thus although the terms of financing have been liberalized by the state's intervention, the cost of adequate shelter still places lower-income households at a disadvantage. However by increasing the flow of private capital into the housing market, socialized management enabled the state to achieve its goal of mass production of housing, and at the same time create conditions for the valorization of property and urban finance capital. That is socialized management in the housing sector facilitated both urban accumulation and the satisfaction of the social needs of an important sector of the population.

4.1.2 Collective Production

The importance of collective consumption in the urban space economy necessitates the collective production of those material elements whose

use values are appropriated and internalized by both labour and capital, increasing their exchange values, and giving them access to each other and commodity markets. Collective production is largely influenced by the logic of state intervention in the urban space economy, i.e., the logic of urban planning. The logic of urban planning is determined by the interrelation between the function of the state and the nature of capitalist urbanism, and orientates state action towards the reproduction of the urban space economy. Collective means of consumption constitute a bundle of complex use values which are essential to the efficient operation and reproduction of the urban space economy.

Collective production enables the state to control both the financing and production of collective means of consumption, and to define their characteristics according to the logic of urban planning (cf. Preteceille, 1976: 74). The importance of collective means of consumption to the circulation of capital, and their collective nature have led to the utilization of both technocratic and consensus mechanisms in the definition of their characteristics, e.g., type and location.

Transportation policies illustrate the working of collective production. Urban transportation facilities are collectively consumed, and facilitate market exchange and the circulation of capital by accommodating the movement of people, goods and information. In the United States, the federal government provides 90% of the financing for highway construction, which has been the focus of its transportation policies. The Federal Highway Act (1956) provides for the financing of highways, and until the passing of a new law in 1973 provided for the allocation of \$800 million over three years from the highway fund, similar financing did

not exist for mass transit. By this time, sixty times more had been spent on highway construction than on the development of mass transit (Bollens and Schmandt, 1975: 140-145; Castells, 1976: 6). The construction of highways not only facilitates access to jobs and urban facilities, but also opens land for development by property capital, and creates opportunities for the appropriation of accompanying use values and their inclusion in rent levels. Land values show a tendency to rise along major transportation corridors. In addition, highways encourage travel by private automobiles, creating a demand for them. The automobile industry is central to the continued growth of the economy of the United States, and to the circulation of production and commodity capitals, and the economic reproduction of labour power. Each year retail sales total more than \$124 billion and about one in every six wage earners is employed in automobile and related industries (Bollens and Schmandt, 1975: 139). The automobile industry dominates the economy of some cities, e.g., Detroit. The development of mass transit has generally been limited to the connection of the residence with the work place, in order to facilitate exchange relations between labour and capital. An examination of the peak hours observed by transit systems would reveal a coincidence with the work schedules of capitalist firms. Mass transit also creates opportunities for development by property capital, but on a limited scale.

While considerations of economic rationality and effectiveness are mainly responsible for the private definition of the transportation good, collective consumption makes some utilization of consensus mechanisms necessary to determine areas of location. Community and other interest groups provide input for the location decision, and the construction of

highways has become a focus for social struggle in the built environment. In some instances the utilization of consensus mechanisms has led to location decisions which were not in keeping with capitalist rationality, and more frequently have either delayed the implementation of rational policies, or prevented their execution.

Urban renewal programs illustrate the utilization of both socialized management and collective production in the creation and maintenance of conditions of urban accumulation and the reproduction of capitalist urbanism. Urban decay and disinvestment strategies by financial institutions jeopardized urban exchange values and constituted a potential threat to social stability. Ironically, the suburbanization process which created this situation was made feasible by state housing and transportation policies. State devalorized capital has been utilized to encourage the flow of private capital into urban renewal. For example, the National Housing Act (sections 220 and 221) in the United States, provides for the establishment of a special mortgage insurance program designed to encourage private development in renewal areas, and the construction of low-cost housing units for families displaced by the demolition of slums (Foard and Fefferman, 1968: 165). Added to this, the state engages in site improvement and the provision of urban services, and state capital is utilized in the acquisition and assembly of land for renewal. The federal government bears two-thirds of the net project costs, with the local government making up the remainder through non-cash grants-in-aid, e.g., parks, public facilities, or the donation of property (Sogg and Wertheimer, 1968: 135).

Urban renewal legislation in the United States contained a strong residential bias, and was intended to improve living conditions in areas

of urban decay. The use of technocratic mechanisms of internal operation placed the emphasis on private development, and has had a two-fold effect. The laws of the urban market dictated the construction of the 'highest and best' residential use, and led to the construction of luxury apartments as opposed to the badly needed low-cost units. In addition, the residential content of the renewal program conflicted with the operation of the market, and the legislation had to be modified to permit the utilization of state capital in the more profitable non-residential developments (cf. Foard and Fefferman, 1968). Urban renewal legislation also provided for the use of consensus mechanisms (e.g. public hearings) to define the specific characteristics of the material elements in the renewal area. However, this proved too disruptive to both accumulation and social stability, and the citizen participation measures contained in the legislation were abolished (cf. Mollenkopf, 1976: 127).

4.2 Contradiction and Crisis

The state as a source of contradiction and crisis in capitalist society is a crucial research issue connected with the expansion and intensification of state activity in the capitalist economy. It is generally accepted that state intervention is a corrective mechanism seeking to repress and reconcile contradictions within capitalist society. However, controversy surrounds the question of whether there are systematic contradictions at the level of state activity, itself, leading to crisis situations (cf. Offe, 1975b). The liberal position on this question is that the failure of state action to achieve stated goals is due to bureaucratic inefficiency, inadequate planning procedures, or insufficient input

from the people and activities affected. In contrast, the marxist position is that the ineffectiveness of state action is due to contradictions internal to the state. Thus in attempting to resolve the external contradictions of capitalist society, the state creates new contradictions which may develop into crises (Offe, 1975b; Habermas, 1976; O'Connor, 1973).

According to marxist interpretations, the contradictions existing at the level of state activity originate in the contradictory nature of the state's functions, and the imbalance between the internal operation of the state apparatus and its function as a capitalist state (O'Connor, 1973; Offe, 1975b). The strategies of intervention employed by the state reveal how, in serving the common interest of all members of the capitalist class society, and facilitating the reproduction of the capitalist system, the state finds it necessary to balance economic rationality with the pursuit of social goals and social crisis avoidance. In addition, the lack of operational cues internal to the state leads it to rely on capitalist cues, i.e., market forces, which, in themselves, are sources of contradiction. The utilization of the market to resolve contradictions created by its operation can only compound those contradictions. Intervention through the market also leads the state to assign to it tasks which it cannot perform. While market mechanisms are effective allocators according to purely economic criteria, they are not designed to carry out the long term social objectives that may be important to capitalist accumulation. In addition, the utilization of private mechanisms may lead to state action which in turn negates them. For example, the FHA mortgage financing program for low-income housing, leads to the exclusion of mortgages for

low-cost units from market exchange. These mortgages generally end up in the GNMA portfolio. The potentially disruptive nature of consensus mechanisms poses a threat to social stability, and consensus opens channels for 'excessive' demands on the resources of the state. Such demands deplete the state's reserves, (e.g., the fiscal crisis of the state) and affect its ability to serve other interests. Contradictions also exist between the mechanisms of internal operation utilized by the state. The successful application of technocratic mechanisms is dependent on the separation of planning and administration from the political forum, while the effectiveness of consensus mechanisms depends on their integration and the negation of the distinctions between the state and society (Offe, 1975). However, in order to perform its functions, the state requires a certain degree of autonomy from capitalist society, thus the successful application of consensus mechanisms affects its ability to function as a capitalist state (Poulantzas, 1973; Offe and Ronge, 1975).

Internal contradictions affect the state's ability to function effectively, and may lead to crises in rationality within capitalist society and of legitimation within the state itself (Habermas, 1976). Rationality is measured in terms of the efficiency and effectiveness of state action in preventing critical disturbances in economic growth and capitalist accumulation. Thus the rationality crisis is essentially a crisis of input (Habermas, 1976: 375-376). Legitimacy is a measure of mass loyalty, and must be maintained if the state is to effectively carry out the functions of a capitalist state. That is, the execution of rationality policies requires an input of mass loyalty and support, whose level depends on the ability of government action to produce ends favourable to all members of the capitalist class society (Habermas, 1976: 375-376;

Offe, 1975b). In effect, crises in rationality and legitimation are mutually re-inforcing, and the triggering of a crisis in one direction imposes pressure in the other direction. The often contradictory objectives of policies of rationality and legitimation makes it difficult for the state to maintain the balance between them. In order to maintain its legitimacy the state must cater to the interests of both labour and capital, while rationality demands the implementation of policies which make possible the reproduction of the capitalist system as a whole. The maintenance of this balance becomes more difficult to achieve as state intervention in the capitalist economy increases.

In the capitalist city, the rationality of state action has become a significant element in the functioning of the urban space economy, and its legitimacy has been severely tested. The production of material elements by the state, and the infusion of state capital in urban markets are significant supports to the circulation and valorization of capital, and the reproduction of labour power. Added to this, state intervention has politicized urban society, and the shift of social conflict from the work place to the built environment has increased the dependence of state action on the maintenance of legitimacy (cf. Harvey, 197²). Community groups engaged in struggles to protect their living environment have challenged the legitimacy of state action in several areas, e.g., urban renewal and highway construction, and have been successful in preventing the implementation of development plans aimed at rationalizing capital circulation. The state has responded to the challenge of its legitimacy by adopting new consensus mechanisms for the filtering of social protest. This is reflected in the 'planning with people' trend in urban planning,

and in advocacy planning designed to facilitate 'informed' participation in the planning process.

The logic of urban planning dictates that state intervention be oriented towards the creation and maintenance of the complex use values which the efficient organization of material elements represents. However, the profound differences between the use values necessary for the valorization of capital and the reproduction of labour power make it difficult for the state to follow the logic of urban planning, except in periods of crisis in urban accumulation and/or social unrest (cr. Preteceille, 1976; Harvey, 1976: 163-165; Roweis, 1975). Even in such periods state action continues to be constrained by the functional relationship between the state and the circulation of capital, and commodity production and exchange remain the ultimate regulator of state intervention.

Crisis in the urban space economy is expressed on various levels, e.g., in the areas of housing and transportation, in fiscal management, (e.g. the recent fiscal problems of New York City) and in the development of urban movements and conflicts over the built environment (Castells, 1977: 383; Harvey, 1976b; Alcala and Mermelstein, 1976). These crises in rationality and legitimation are largely due to the strategies of intervention utilized by the state. Strategies of intervention follow the rationale dictated by the interrelationship between the function of the state, the internal operation of the state apparatus and the logic of capital circulation in the urban space economy (Sections 4.1, 4.1.1, and 4.1.2). Socialized management overcame the major obstacle to the profitability of the mass production of housing within capitalist society, by rationalizing the operation of the capital market for housing. The

collective production of an extensive highway system made land available for the mass production of housing in suburban locations. It also facilitated the outward movement of commercial and industrial activities, at a time when the development of large scale enterprises and technological innovations required the decentralization of capitalist production and exchange.

The selective decentralization of activities has created structural contradictions within the urban space economy. Higher income households and the productive monopoly sector have vacated the central city, leaving behind low-income households, and firms belonging to the less productive, low wage 'competitive' sector (Castells, 1977). The subsequent disinvestment in the inner-city adversely affected the level of urban exchange values, posed a threat to the transformation of use values into exchange values and eroded the tax base of the local state. Disinvestment in the inner-city laid the foundations for the housing crisis, the fiscal crisis and social protest in the built environment. The state may implement new policies in an attempt to resolve a crisis situation. For example, urban renewal programs were designed to reverse the suburbanization process facilitated by housing and transportation policies, and to create and maintain exchange values in the inner-city. However, while urban renewal made slum clearance possible, the dominance of the market in policy formation led to their replacement by luxury apartments and commercial buildings. Many displaced slum residents spilled over into nearby areas creating slum conditions anew, and resulting in the on-going deterioration of urban exchange values. Therefore the crises in legitimation and rationality in the inner-city remain unresolved.

CHAPTER FIVE

SUMMARY AND CONCLUSION

The primary goal of this analysis has been to promote an understanding of the process of state intervention in the urban space economy. Capital circulation in urban space provided the context within which state intervention was analyzed. Conceptually, capital circulation was regarded as consisting of the circuits of production capital, commodity capital and urban capital (i.e., property and urban finance capitals) performing quantitatively and qualitatively different functions. The urban space economy was regarded as providing a resource system for capital circulation, with which it has a transactional relationship. The circuits of property capital and urban finance capital were considered to be of special importance, since their circulation leads to the planning, financing and equipping of the urban resource system. Thus the intervention process was analysed mainly in terms of the objective conditions in the property market, and the contradictions arising from the circulation of urban capital.

Various theories of the state were examined and evaluated, and the model of the state formulated by Claus Offe was considered to be relevant to the realization of the major research goal of the paper. This model facilitates the examination of the relation of both the function and internal structure of the state to conditions within capitalist society. Extrapolation from this model provided a framework for the analysis of public policy formation and the concrete reality of state action. This

was achieved by focusing attention on the existence of the state as an identifiable entity within capitalist society, with its own rules of internal operation. Technocratic, bureaucratic and consensus mechanisms were identified as major modes of decision making influencing the direction and content of state action.

By linking the model of capitalist urbanism and the model of the state it was possible to establish a framework for the analysis of the intervention process in the urban space economy. This was achieved by utilizing the framework provided by capitalist urbanism, the logic of urban planning and the internal operation of the state apparatus to analyze strategies of intervention employed by the state. Since an important part of the analytical focus was on conditions created by the circulation of capital, analysis centred on those strategies of state intervention involving the circulation of state devalorized capital. Thus the strategies of socialized management and collective production were the focus of the examination of the process of state intervention. Socialized management involves state control of financing and the distribution of the good produced, and direct involvement in capital formation and the definition of its characteristics characterise collective production.

The analysis indicated the importance of exchange relations in influencing state action in the urban space economy. This may be attributed to the vital part they play in fueling the circulation of capital. Thus market considerations dominate the intervention process. The dominance of the market was also shown to be the result of the utilization of technocratic mechanisms in the planning of state action. Rules of economic rationality and effectiveness govern the operation of

technocratic mechanisms, but since these lack automatic cues for goal direction and the measurement of effectiveness, the state must rely on markets cues for the performance of these tasks. The analysis showed that consensus mechanisms were mainly employed in the implementation stage, and as a means of distribution, especially in collective production. Distribution resulting from socialized management was shown to be pretty much pre-determined by the utilization of the market as a means of intervention.

The evaluation of the effectiveness of intervention revealed that the state may be a potential source of contradiction and crisis. The contradictory nature of the logic of urban planning, and the contradictions between it and the internal operation of the state were revealed as major sources for crises in rationality and legitimation. The logic of urban planning requires the state to balance economic rationality with the satisfaction of social needs, by creating complex use values for the accommodation of capital circulation and its concomitant, the reproduction of labour power. Profound differences exist between the use values required by these two processes. The utilization of technocratic mechanisms in the formation of policies may lead to the neglect of social interests, and thus to a legitimacy crisis. On the other hand, consensus opens avenues for social protest and 'excessive' demands on the state's resources. This may lead to an imbalance in favour of legitimacy, and therefore result in a crisis in rationality.

The inclusion of the institutional forms of the state into the analysis of the intervention process is an important direction for future research. The present analysis has highlighted the importance of the

internal operation of the state apparatus in determining public policy formation, but specific institutional forms within this apparatus have not been identified. Various institutions, specializing in particular functions, give a concrete expression to the state's role and are integral to the operation of the state apparatus. Of special importance in the urban space economy is the institutional form of urban government. Future research in this area should centre around the relation between institutional forms and mechanisms of internal operation. Recent reforms in the form of urban governments have involved a transformation from the 'political' (consensus) form of mayor-council government, to the more 'efficient' (technocratic) form of council-manager government. One of the most important changes resulting from this kind of reform is a certain separation of administration from the political arena. This makes urban governments less likely to respond to the needs of partisan groups, and more likely to respond to needs arising from objective conditions in the urban economy. Thus institutional forms have important implications for the relationship between the state and capitalist society and consequently for the intervention process.

The conceptualization of the urban space economy in terms of the circulation of capital provided an objective context for the analysis of state intervention. This has the desirable effect of divorcing the analysis from the subjectivity of individual action, since capital circulation is an 'autonomous' process. The model of the state adopted provides for a theoretical understanding of the function of the state, and also makes possible the development of a framework for the analysis of the content of state action. Together the model of capitalist urbanism and

the model of the state constitute a workable framework for the analysis of state intervention in the urban space economy. The analytical framework consisting of the circulation of capital, the logic of urban planning and the mechanisms of internal operation utilized by the state offers insights into intervention strategies and concomitant contradictions and crises. Thus the usefulness of the framework developed here lies in its ability to offer substantive insights into the process of state intervention in the urban space economy.

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