

RENT GAPS, GENTRIFICATION AND THE 'TWO CIRCUITS' OF LATIN AMERICAN URBAN ECONOMIES

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Received: August 2022; accepted February 2023

ABSTRACT

Recent research in Latin America, and our own analysis of Brazilian cities, indicate that aspects of rent gap theory – in particular, the assumption that strong links exist between rent gaps and gentrification – do not fully account for observed empirical conditions. Drawing on Milton Santos' theory of “two circuits” of urban economies in the global South, we seek to develop an expanded framework better suited to explaining the Latin American context. Specifically, we argue that important socio-spatial processes combine to embed what Santos called the “lower circuit” in certain parts of the city. This “territorialisation” of space by the lower circuit impedes the entry of the upper circuit, thus constraining expected rent gap capture and gentrification. We argue that only by taking both circuits into account, and considering how they become territorialised in urban space, can we properly grasp the relationship between rent gaps and gentrification in Latin American cities.

Key words: Rent gap; gentrification; Southern theory; Latin America; Brazil; urban development

INTRODUCTION: HARVEY'S WAGER

In 2008, David Harvey published an article in the *New Left Review* in which he asserted the newfound urgency of the ‘right to the city’ as the world descended into an epoch-defining financial and urban crisis (Harvey 2008). He offered a crystalline exposition of complex theoretical ideas and key moments in modern urban history, constructing an intellectually and morally powerful argument for the creation of new, globally articulated urban movements that could democratise the surpluses produced by capitalist urbanisation processes. Today, 15 years later, the case Harvey elaborated remains as relevant as ever.

However, tucked away near the end of the article is a curious prediction that hints at a

glitch in Harvey's analysis. Many readers probably skim over it, but researchers of Brazilian cities (and, likely, other Latin American cities) no doubt pause to scrutinise the claim. Here, Harvey asserts:

I wager that within fifteen years, if present trends continue, all those hillsides in Rio now occupied by favelas will be covered by high-rise condominiums with fabulous views over the idyllic bay, while the erstwhile favela dwellers will have been filtered off into some remote periphery. (Harvey 2008, p. 36)

Within Harvey's broader framework, the logic is flawless. Earlier in the text he notes that Dharavi slum in Mumbai, one of the city's largest, sits on land with an estimated value of \$2 billion USD, generating constant pressure from financial elites for the state to forcibly

remove it. The desirable location of many favelas in Rio would imply a similar ‘rent gap’¹ (Smith 1979), translating into similar political pressures. Harvey also draws a direct comparison between dynamics in Rio’s favelas and the effects of Margaret Thatcher’s ‘right to buy’ legislation on the London housing market. He notes that low-income favela dwellers, like Londoners who managed to purchase their council homes, would, if offered, be inclined to accept a one-time cash windfall by selling off a centrally located asset and relocating to a peripheral area. While some individuals may benefit from such transactions, the aggregate effect would be a radical and irreversible alteration of the social geography of the city, and further marginalisation of the urban poor.

Indeed, as Harvey was penning this article, changes were underway in Rio that would dramatically intensify pressures towards the mass displacement of centrally located favela residents in the years that followed. The city’s hosting of the 2016 Olympic Games and other mega-events provided an investment boom for developers and construction companies, as well as a political alibi for the city government to wield powers of eminent domain (Richmond & Garmany 2016; Magalhães 2019). According to Rio’s Municipal Housing Secretariat (*SMH*), just over 22,000 families (some 77,000 people) were removed from favelas by the city government between 2009 and 2015 (Prefeitura do Rio de Janeiro 2015).² While the *SMH* claimed its priority was to rehouse affected families close to their places of residence, the fact that over half of the evicted families ended up in the most peripheral of Rio’s five districts, the West Zone, suggests that removals were associated with a more systematic peripheralisation of poverty. Additionally, beyond removals carried out by the state, more favela residents may have been displaced to peripheral areas during this period via the repossession of privately owned land, or the piecemeal purchase of favela homes by higher-income buyers, though it would be impossible to know the exact number.

All of this would seem to support the argument that, in a global context of runaway financialisation, exacerbated in Rio by numerous mega-events, real estate valorisation increased rent gaps in centrally located favelas and drove

the mass displacement of their occupants. To be sure, significant numbers of people *were* displaced, deepening patterns of urban segregation and causing suffering for those involved. Still, these processes need to be considered within the context of broader and longer-term dynamics at work in the city (Richmond & Garmany 2016).

For example, even though displacement from favelas between 2009 and 2015 was the largest Rio had seen in terms of total numbers since the 1960s (Magalhães 2019), it represented a relatively small proportion of the city’s favela population, which in 2010 numbered roughly 1.5 million (22% of the total urban population) (IBGE 2010). Moreover, at the height of these processes, favela growth continued apace, and it accelerated dramatically after 2016 once the Olympics ended and Rio descended into an economic crisis (Santos 2018). It is true that the most rapid favela growth did not occur in already densely populated central areas, but it *did* occur in relatively central zones to the north and west (Santos 2018). Even in the city centre and wealthy South Zone, where land values increased dramatically during the pre-Olympics period, favelas have remained in place, with proportionately low levels of state-led removal. Finally, in almost no cases have centrally located favela housing been replaced by high-rise condominiums, as per Harvey’s prediction. So, 15 years later, following a period in which all the necessary conditions seemed to be in place, why was Harvey wrong?

Our goal in this article is to help explain this. Why did the existence of large rent gaps not translate more forcefully into gentrification in favelas? More generally, how useful is rent gap theory for explaining gentrification in a city like Rio? To answer these questions, we engage the work of several researchers of Latin American cities, which, we argue, provides critical insight for understanding rent gaps and gentrification in Latin America. In particular, we draw inspiration from Brazilian geographer Milton Santos (1979) and his theory of the “two circuits” of urban economies in the global South. This proposes that in order to understand the spatial dynamics of these cities, it is necessary to consider both upper and lower economic circuits, rather than a single circuit as in Northern cities. We

add to this the notion of “territorialisation” (Haesbaert 2004) to conceive of how the lower circuit, its actors and activities, can become embedded in particular spaces. We propose that the more territorialised the lower circuit becomes, the harder it is for the upper circuit to penetrate these spaces, even in the context of large rent gaps.

Our broader argument is that to understand gentrification in contexts like Latin America, existing explanations (*viz.*, rent gap theory) must expand to account for what Santos theorised was a dual-circuited economic landscape (1979). As noted by Beauregard, ‘different theoretical arguments must be combined in a fashion compatible with the specific instances of gentrification that we wish to explain’, with specific emphasis ‘placed on contingency and complexity’ (1986, p. 80). More to the point, ‘this means [...] not searching for the causes of gentrification solely in the sphere of production’ (*i.e.* rent gaps), but in ‘the conjuncture of production, reproduction, and consumption’ (Beauregard 1986, p. 88). Santos’ work, we suggest – particularly when combined with Haesbaert’s notion of territorialisation (2004) – helps to achieve this synthesis. More than simply arguing that ‘context matters’, our goal in this article is to merge insights from the rent gap theory with Brazilian theories of urban development.

Before moving on, however, we wish to offer a quick clarification. Our analysis draws upon a wide-ranging literature on Latin American cities, and we believe our intervention is relevant to the region as a whole. That said, many of our examples in this article focus on the city of Rio de Janeiro. Admittedly, Rio has many singular features, such as its stark topography and intense patterns of territorial segregation and conflict, which would seem to make it a difficult case from which to generalise. Nevertheless, in terms of how the lower circuit becomes territorialised in urban space, we believe Rio brings to the fore several key factors that are also present in other Latin American cities (Richmond 2018). Moreover, because of its singularities, researchers working in Rio have theorised these processes more extensively than those researching in other contexts. As

such, while the city might be an outlier in many respects, for the topic at hand, we see Rio as an ideal laboratory for broader theory development.

DEBATING RENT GAPS AND GENTRIFICATION IN LATIN AMERICA

While the concept of gentrification was first coined by Ruth Glass in 1964, it was not until several years later that researchers began to critically theorise the process (*e.g.* Hamnett 1991; Ley 1994). Crucial was the work of Neil Smith (*e.g.*, 1987), whose rent gap theory of gentrification (1979) was both incisive and polemical. In essence, Smith argued that gentrification was explained not by changing consumer preferences, but by the interests of capital. It happened in places where large ‘gaps’ existed between actual and potential ground rents, and captured those gaps by attracting middle-class gentrifiers at the expense of existing working-class residents. It was a decidedly Marxist interpretation of urban development, and for nearly two decades it provoked long-running and heated theoretical debate. On one side were those pitting production-side explanations that emphasised the role of capital via rent gap exploitation (*e.g.* Smith 1987), and on the other were consumption-side explanations which stressed the emergence of a new liberal middle class favouring inner-city living (*e.g.*, Ley 1994).

While the drivers of gentrification at that time were linked to global processes of capital surplus and investment, there were contextual factors that implicitly constrained the scope of the debate. For example, researchers involved in the gentrification debates of the 1980s and 1990s understood they were talking about a relatively small number of cities that shared a core set of characteristics: namely, cities in the global North experiencing a shift towards post-Fordism. To our knowledge, no one involved in these debates believed that slum removals in Mumbai, or the construction of peri-urban gated communities in São Paulo – both salient processes at the time – were examples of gentrification. These would have been understood as distinct phenomena

expressing the relationship between capital, urban space and class conflict within different contexts.

Related to this are reasons why scholars in contexts like Latin America, until recently, seldomly focused on gentrification. Notes Díaz-Parra (2021), many researchers in Latin American cities are understandably sceptical of ideas imported from the global North, seeing these trends as ongoing examples of cultural colonialism. Included here are definitions for gentrification, over which there has been little consensus and, until recently, tended to be narrower and exclusionary of cities in the global South (more on this below). Finally, issues like poverty, inequality, and violence – not to mention evictions and the wholesale removal of specific neighbourhoods – tend to be more pressing in Latin American cities, helping to explain why researchers have rarely focused on gentrification as it was traditionally understood. We are aware of only two studies of gentrification in Latin America published before the turn of the century: one on Buenos Aires, Argentina (Carman 1999), and the other on Puebla, Mexico (Jones & Varley 1999). There were a few subsequent publications in the 2000s (e.g., Rubino 2005; Bidou-Zachariassen 2006; Frúgoli Jr. & Sklair 2009; Sabatini *et al.* 2009), but, until recently, gentrification was a fringe topic in Latin America.

In the last decade, however, this has changed dramatically. Accounts of gentrification have exploded, coming from several cities throughout the region (e.g. Delgado *et al.* 2015; López-Morales 2015; Janoschka & Sequera 2016). Why is this? Is it simply that gentrification has become more common in Latin American cities? Not necessarily, explains Díaz-Parra (2021). Returning to the issue of how gentrification is defined, what stands out in recent years is how broad the term has become. Writes Díaz-Parra (2021), many researchers overlook fundamental traits of gentrification, like the displacement of one class by another, or the precise mechanism that uproots the poor from the city centre. More generally, 'gentrification becomes synonymous with neoliberal urbanism [...] invit[ing] us to ignore the diversity of processes that can occur within the contemporary city under capitalist

patterns' (Díaz-Parra (2021, p. 478–479 – see also Maloutas 2011). To counter this, he proposes that academics should 'avoid uncritical importation of descriptions and engage with theory currently developed in the region' (Díaz-Parra (2021, p. 482).

This appeal to 'engage with theory currently developed in the region' resonates with calls from others (e.g. Casgrain & Janoschka 2013; Garmany & Richmond 2020), and casts a critical eye on rent gap theory for studies of gentrification. Indeed, with the exception of analyses from Santiago (López-Morales 2011, 2016), rent gap theory has drawn limited attention from urban researchers in Latin American cities. What stands out instead are two key drivers: the forceful role of the state (Betancur 2014; Gaffney 2016), and the (re)generation of historic city centres to reclaim a perceived sense of cultural heritage (Delgado 2014; Salas *et al.* 2017). Often these two mechanisms overlap (Jones & Varley 1999; Janoschka & Sequera 2016). In fact, even in cases where gentrification coincides with existing rent gaps – like in Santiago – the role of the state remains the most significant factor (López-Morales *et al.* 2021).

What we can say, then, about existing research on gentrification and rent gaps in Latin America can be summed up as follows: while rent gap theory has provided considerable traction for explaining how, where, and why gentrification happens in Europe, North America, and Australia, in Latin America the connection is more ambiguous. More specifically, rent gaps tend to coincide with where gentrification happens (López-Morales *et al.* 2021), but explaining how and why the process plays out – remembering Beauregard (1986) – remains highly contingent and complex. As several authors have noted, other factors related to political, cultural, historical, racial, and colonial legacies must also be considered (Garmany & Richmond 2020; Jones & Varley 1999; Janoschka & Sequera 2016; Ramos Novaes 2020). Rent gap theory helps to foreground how class conflict is central to processes of urban development, but to better understand and theorise gentrification in Latin America, researchers must also think *with* scholarship from the region.

THE TWO CIRCUITS OF LATIN AMERICAN URBAN ECONOMIES

In the same year that Neil Smith published his seminal article on rent gap theory (1979), Milton Santos' book, *The Shared Space* (1979), was translated and published in both English and Portuguese.³ In it, Santos outlined his theory of dual-circuited urban economies in developing countries, arguing this represented a new paradigm better equipped to account for persistent economic and urban planning challenges observed there. His critique addressed contemporary theories of 'over-urbanisation': the belief that cities in the global South had become too populous relative to their level of industrialisation and thus lacked economic dynamism. As the prefix implies, the benchmark of what was considered a normal urbanisation process was the prior experience of advanced capitalist countries, an assumption rooted in the stageist imaginary of modernisation theory and the ethnocentricity of many Western scholars.

For Santos, such assumptions produced a 'superficial approach' to urban development in the underdeveloped world, characterised by terminology that had been inappropriately 'transferred from the environment with which these writers were already familiar, namely the urban phenomena of Western countries' (1979, p. 4). By contrast, researchers who analysed underdeveloped countries on their own terms tended to 'reach very different conclusions from those researchers who depend upon spurious cross-sectional comparisons' (1979, p. 6). His aim, though, was not simply to offer a situated critique of Western models. Rather, he sought to develop categories of analysis that could be productively applied to a wide range of contexts, presenting an impressive breadth of cases and data spanning across Latin America, Africa and Asia. His work was strongly informed by Marxist and dependency theories, but also an intense awareness of the inequalities and perversities of global knowledge production. In this way, *The Shared Space* offers a clear riposte to the simplistic assumption that concern about the distorting effects of Northern theory is necessarily "provincial", dismissive of political economy, or opposed to broader

comparative analysis and theory building (Slater 2017, pp. 95–96).

The model Santos developed was ambitious and complex, addressing processes and relations of production, distribution and consumption, and spanning far beyond the geographical limits of the city. In elaborating it, he engaged with wide-ranging contemporary debates around themes such as imperialism and sub-imperialism, monopoly capitalism, the role of the state and urban primacy in underdeveloped countries. Our objectives in this article are far more modest, and there is not space to present a comprehensive presentation of his analysis. Indeed, we do not seek to mobilise Santos' model in its entirety, nor do we claim to faithfully reproduce every aspect. Instead, we draw inspiration from his notion of two circuits and complement it with additional insights drawn mainly from other Brazilian scholars in order to develop an expanded analysis of rent gaps and gentrification in Latin American cities.

At the core of Santos' model lay the proposition that in underdeveloped countries, the urban economy should not be considered a homogeneous system. Instead, it consisted of two separate and unequal, but interconnected, subsystems: what he called the 'upper' and 'lower' circuits. He argued that systematic research up to that point had only been conducted on the upper circuit, and, so, 'were not about the whole city, but only part of the city, therefore impeding the formulation of an authentic theory of urbanisation' (Santos 1979, p. 22). Santos defined the upper circuit as capital intensive, characterised by continual technological development, largely oriented towards national and foreign markets, and primarily involving the participation of monopolistic corporations with deep links to finance and the state. By contrast, the lower circuit was labour intensive, revolved around small-scale manufacturing and retail activities, tended to use outmoded (though also continually evolving) technologies, and was mainly oriented towards providing goods and services for the poor.

Although he argued the two circuits were separate, Santos also identified important interactions and connections between them (Santos 1979, p. 41). Eschewing both functionalism and the strongly dualistic reasoning of much

of dependency theory, he argued that, depending on local conditions, the two circuits could exhibit either asymmetric complementarity (as when the activities of one circuit required inputs from the other), or competition. 'The two sub-systems are in a permanent state of unstable equilibrium', he explained. 'Their complementarity, whether regular or not, does not necessarily prevent competition: it represents only one aspect of the development of the dialectic between the two circuits' (Santos 1979, p. 140).

Crucially, for our purposes, the notion of two circuits also formed the basis for a spatial theory (Santos 1979, p. 21). Santos understood the upper and lower circuits as operating according to distinct spatial dynamics. Manufacturing within the upper circuit tended to be concentrated in industrial hubs where production processes and technologies could be mobilised at scale. These were usually weakly integrated with their own urban surroundings and instead connected to distant (in many cases, foreign) markets via ramified distribution and export networks. Consumption within the upper circuit, meanwhile, was spatially dispersed. However, this dispersal was constrained by what Santos called 'social selectivity' (Santos 1979, p. 21), meaning the highly unequal spending power of different social groups. This meant that upper-circuit consumption would tend to occur in or near the living spaces of the upper and middle classes, namely the expanded centres of larger cities.

By contrast, the lower circuit tended to operate at a highly local scale and to be deeply integrated with its environment. That is because both production and consumption primarily occurred in spaces where both the main actors and consumers in this circuit usually lived: areas with high concentrations of poverty, such as urban peripheries and impoverished rural areas. It is important to note that Santos warned against conflating the lower circuit itself with particular bounded spaces like favelas, since it was a 'far wider economic phenomenon' (Santos 1979, p. 28). Nonetheless, he explained that the circuits were primarily linked to different segments of the population via their activities and consumption, and so would tend to be constrained by where these groups were spatially concentrated (Santos 1979, p. 42).

However, as the title *The Shared Space* implies, the spatial relationships are more complex than this, and could give rise to various forms of competition and symbiosis between the circuits. For example, actors in the lower circuit could, in some cases, take advantage of relative spatial proximity to reach wealthier consumers, such as street vendors who operated in central commercial districts. As such, Santos explained that it was 'necessary to note various deviations', as 'all parts of the population may consume outside the circuit to which it belongs' (Santos 1979, p. 42). More broadly, he identified a 'spatial dialectic' between the two circuits (Santos 1979, p. 359). At the national scale, the upper circuit was clearly dominant. Locally, however, things were less clear-cut. In the long term, the upper circuit might tend to gain the upper hand, but the lower circuit was not simply a passive force filling residual space abandoned by the upper. Whether through complementarity or competition, Santos theorised the lower circuit could exercise a significant 'force of inertia [...] impeding the total expansion of the upper circuit' (Santos 1979, p. 365).

Returning to Santos' argument about the shortcomings of Northern theory, this 'force of inertia' would essentially remain invisible to analysis that ignored the lower circuit. Since our goal in this article is to account for this 'force of inertia' when considering the capture of rent gaps in Latin American cities, Santos' two circuit model provides a useful starting point. As we detail in the second half of the article, the persistence of the lower circuit in cities, including its entrenchment in specific areas, provides clear examples of this. Still, before moving on to this analysis, we use the next section to introduce the concept of "territorialisation," as it helps us to apply Santos' theory to the analysis of rent gap capture and gentrification.

THE TERRITORIALISATION OF THE UPPER AND LOWER CIRCUITS

Perhaps because it was written in the immediate aftermath of Brazil's 'economic miracle' of rapid industrial growth, Santos' two-circuit

theory tended to focus on the production and consumption of manufactured goods, rather than the urban built environment itself. While he stated that the lower circuit could frustrate the spatial expansion of the upper circuit – and stressed the importance of ‘social selectivity’ (1979, p. 21) – he did not explain how different groups became established in different parts of the city, or explore dynamics of competition between classes for residential space. As such, while Santos’ two-circuit model offers valuable insights, we believe additional concepts are needed to apply his two-circuit model to the analysis of rent gaps and gentrification.

To this end, we mobilise the concept of “territorialisation” (Haesbaert 2004) to theorise how the two circuits become embedded in urban space. Following Haesbaert (2004), territorialisation refers to the establishment of territories by human actors, which may take the form of ‘domination’ or ‘appropriation’. Domination refers to the ways in which the state and economic actors produce and control space to uphold prevailing power relations, largely by subordinating it to the realisation of instrumental political and economic functions. Appropriation, meanwhile, refers to the ways subaltern groups lay claim to certain spaces for concrete purposes of social reproduction, investing them with subjective meanings and identities that contest hegemonic ones. For Haesbaert and Mason-Deese (2020), the idea of territorialisation as appropriation draws on Lefebvre, but also Latin American decolonial theory and pluralistic notions of statehood, thus departing from more state-centric Anglophone conceptions of territory. This approach helps us to conceive of how actors operating in the lower circuit may territorialise parts of the city in unexpected and enduring ways.

Returning to rent gaps, territorialisation helps us to understand how different groups establish and maintain their presence in particular urban spaces. For example, a key way is through processes of residential development and occupation, which, in some ways, resemble Santos’ description of the dynamics between the upper and lower circuits. Like the monopoly firms Santos identified as dominating the upper circuit, large land developers work

closely with the financial sector and the state to produce housing aimed at wealthier groups. They exert a strong influence over the formulation and implementation of planning policy, ensuring that they can accrue large profits while (usually) operating within its laws and regulations. This mode of development tends to manifest spatially in the expanded urban core, where infrastructure and amenities are already present. However, it may also occur through the production of peri-urban developments that connect new urban spaces to the core via motorised expressways, leaving them largely detached from low-income surroundings. These spaces are therefore dominated by the middle and upper classes, with corresponding built infrastructure, economic activities, social relationships, etc. Accordingly, we can say that they are *territorialised* by the upper circuit. By contrast, the lower circuit may not be entirely absent, but its presence is weaker and more precarious.

Similarly, we can also identify parts of the city that have been territorialised by the lower circuit. In the Brazilian case, this would include spaces such as irregular peripheral subdivisions, favelas, and *cortiços* (housing tenements). These areas tend to evidence small-scale and incremental processes of occupation and construction, providing housing to poor segments of the population who are unable to access it via other means (Abramo 2019). It is important to note that these processes often involve speculative, rent-seeking and vote-buying activities by elites, including wealthy landowners, politicians and others, and are not only driven by the poor acting autonomously. Nonetheless, they largely operate beyond the regulatory oversight of the state and tend to illustrate processes of appropriation highlighted by Haesbaert (2004). Spatially, they are established outside (though sometimes in close proximity to) the infrastructural networks produced by the upper circuit. While their presence may initially be tenuous, they tend to become increasingly embedded over time. For the poor and lower classes, these are often the most stable residential spaces in the city. Despite a host of daily challenges – including criminal and state violence, weak infrastructure provision, environmental risk, etc.

– they are far less at risk of being displaced by upper-circuit-led development.

If we can broadly identify parts of the city that are differentially territorialised by the upper and lower circuits, it is still necessary to examine how the two interact with one another. This is crucial for understanding how rent gap capture operates. For example, Harvey's argument discussed in the introduction rests on a widespread assumption that rent gap capture is an inevitable and irresistible force that will remove the poor from central areas. However, we wish to argue that there are important reasons why some forms of territorialisation by the lower circuit are surprisingly resilient, even in the context of large rent gaps. These include economic and political symbioses that emerge between the upper and lower circuits, but also factors that allow the territorialised lower circuit to resist threats of displacement. We address these points in greater detail in what remains of this article.

BARRIERS TO RENT GAP CAPTURE IN FAVELAS

Returning to our definition of territorialisation, we understand favelas as spaces highly territorialised by the lower circuit. To reiterate, this does not mean the upper circuit is absent from these spaces. Many residents work, consume and even purchase the building materials for their homes within the upper circuit. However, collectively, several factors combine to preserve favelas primarily within the lower circuit. Crucially, this includes insecure property titling which makes the purchase of favela homes more risky than other types of property (Abramo 2019). However, there are also other factors which tend to discourage entry into the favela housing market for those who have other options available to them (Richmond 2018). These include factors associated with the built environment itself, such as common mobility challenges and infrastructure gaps. It also includes the ways in which various actors, from police to politicians to drug traffickers, undermine residents' rights and security. Finally, due to their association with poverty and Blackness,

favelas remain highly stigmatised by Brazilian society at large. All these factors discourage and constrain the entry of those primarily linked to the upper circuit.

Nonetheless, favelas still constitute an integral part of the city and can exhibit important forms of complementarity with areas territorialised by the upper circuit (Abreu 1987; Fischer 2008). In particular, they provide labour for economic activities that are prevalent in wealthy areas, such as domestic services, retail, and construction. Abreu (1987) argued the degree of spatial proximity required between favelas and wealthy neighbourhoods should be understood as linked to spatial dynamics of labour supply and demand, which were heavily dependent on transport infrastructure that could take low-paid workers to their places of work. In other words, as transport networks improve, the need for proximity between the residential spaces of the poor and wealthy neighbourhoods is reduced, and the potential for displacement of nearby favelas increases. While transport systems have improved in some large Latin American cities in recent decades, they typically do not display the conditions found in highly integrated Northern cities, where location becomes less important in determining dynamics of labour supply and demand at the urban scale. This is just one example of how the lower circuit becomes strongly territorialised in cities like Rio: favelas (and also *cortiços*) not only represent housing solutions for the working classes, but also a spatial fix for joining capital and labour in cities with weakly integrated transportation networks (c.f., Roy 2009).

However, the likelihood of displacement also depends on dynamics of competition over residential land itself. Favelas often become established precisely because they occupy land that, at the moment of occupation, is unavailable or unattractive to the upper circuit. Favelas in Rio, for example, often sit on public land that is not legally available to developers and presents major engineering challenges or environmental risks. Returning to the first factor, the establishment of favelas in close proximity to wealthy neighbourhoods, but occupying land that is not accessible or of interest to the upper circuit represents a

solution for both circuits. It guarantees access to labour markets and preserves social segregation without involving direct competition over land. Of course, in situations of proximity, social and racial stigma may still lead to calls for favela removal. We have previously argued that attempts to cleanse particular urban environments and landscapes of the racialised poor - often without the underlying economic drivers, as assumed by gentrification theory - can be understood as a process of "hygienisation" (Garmany & Richmond 2020). However, where there is an underlying compatibility of interests, such calls are far less likely to mobilise sufficient political and economic capital.

As this suggests, political factors are also a crucial part of the equation. Urban movements in Brazil have made significant achievements, establishing legal instruments embedded in the 1988 constitution and the 2001 City Statute that can be used to defend the social use of housing, protect squatters from eviction, and make demands for infrastructure upgrading. In practice, local governments and developers often make use of other legal and extra-legal methods to ride roughshod over these principles (Maricato 2015). Nonetheless, their very existence provides tools to the urban poor and their organised representatives to resist removal and frequently defy the logic of capital. As this shows, the state is not always an enabler of rent gap capture via forced removal, but rather a site of struggle, which may at times reinforce the territorialisation of the lower circuit by enforcing anti-eviction laws and implementing upgrading programmes.

An equally important political constraint to removal in Brazil is a kind of urban *realpolitik* rooted in local clientelistic relationships. Local politicians have long used favelas as vote banks, creating a straightforward incentive to protect them from removal (Fischer 2008). Unlike movement-led processes, clientelistic patronage may not confer legal protections or produce significant policy interventions in favelas. Nonetheless, it can have similar territorialising effects. Where settlements benefit from political protection for long periods of time, they tend to expand and become physically consolidated, raising the political and financial costs of removing them. In this way, favelas become

'facts on the ground' that are highly territorialised and resistant to removal, even in the absence of formal state recognition.

In the discussion so far, we have largely opted for the term 'removal', implying direct state-led interventions, as opposed to the more generic 'displacement', which would also include gentrification via homeowner and rental markets. This brings us back to specific constraints to entry into the favela housing market noted above. The much-hyped topic of 'favela gentrification' (e.g. Cummings 2015) allows us to more clearly elaborate on this crucial distinction. Notwithstanding claims of widespread owner-occupier gentrification in Rio's favelas prior to 2016, gentrification was in fact vanishingly small, restricted to a handful of beachside favelas, and almost exclusively involved small numbers of foreign buyers. A more significant phenomenon, though also restricted to a small number of favelas, was *touristification*, with the creation of favela tours, hostels, bars and restaurants, catering to visitors (again, mostly foreigners), who would carry out day trips or short stays in favelas. These activities increased rental costs and likely drove some displacement. However, it would be misleading to say they significantly transformed the resident population or physical characteristics even of these favelas (Ramos Novaes 2020).

There are straightforward explanations for this. Middle-class Brazilians remain unwilling to countenance living in (or often even visiting) well-located favelas for the reasons outlined above. Meanwhile, even for the global tourism market, in which favelas are marketed as exotic and exciting places to visit, favela tourism remains a relatively niche activity. Indeed, this probably reflects the extent to which demand from the upper circuit - catering to a global market and its expectations of accessibility, convenience, security, etc. (and not merely of exoticism) - can be met by spaces territorialised by the lower circuit. Together, such factors suggest that rent gap capture through either market-led gentrification or touristification in favelas will tend to be highly limited. Instead, capturing the full potential of a rent gap - and this is likely what Harvey speculated would happen in Rio - requires the wholesale, state-led removal of these settlements

(Garmany & Richmond 2020). As we have argued, extensive complementarity between the upper and lower circuits, and the ability of the lower circuit to durably territorialise particular spaces even in the face of competition for land, make such outcomes far less inevitable than they first appear.

RENT GAPS AND GENTRIFICATION IN HISTORIC CITY CENTRES

Before we consider parts of the city where the lower circuit is less entrenched – and, thus, would seem to be more vulnerable to rent gap capture and gentrification – it is worth highlighting an important and counterintuitive characteristic of urban development in Brazil. In areas where the lower circuit is more territorialised, rent gaps almost never develop according to what Smith described as processes of ‘filtering and neighborhood decline’ (1979, p. 545). Instead, these areas typically show a very slow process of *increased* state investment – and in some cases private capital investment – over a period of several years (Holston 2008). This is not to say that investments are sufficient or socially just, but to point out that if one considers the history of most favelas and irregular subdivisions, they frequently see a slow process of increased state/capital investment over time. Rent gaps may exist, but how and why they were produced differs from what researchers typically see in Europe and North America.

By contrast, the historic centres of most large Brazilian and other Latin American cities *have* suffered chronic disinvestment since the 1960s in ways that resemble cities in the global North (Betancur 2014). This process led to their consolidation as working-class areas, where many continue to rent and buy properties in a depressed, yet mainly formal, private market. However, they are typically also home to highly vulnerable populations that include large numbers of homeless people, as well as residents of *cortiços* (informally rented tenements) and building occupations coordinated by housing movements. As Abramo (2019) has shown, at the urban scale it is possible to identify housing sub-markets for the poor, who make trade-offs between

factors like location, tenure and living space. In contrast to distant peripheral subdivisions, *cortiços* and precarious forms of housing in historic centres are a more viable option for groups who prioritise central location over other factors (e.g. recent migrants, workers in certain sectors, and vulnerable populations such as long-term homeless residents and those with substance abuse problems).

Again, following Santos, we can understand the central areas where such spaces are commonly found as being extensively territorialised by the lower circuit. Due to their high levels of disrepair, outdated design features and the constraints of planning regulations, these buildings have essentially ceased to be attractive to formal renters or buyers. Instead of carrying out costly retrofits, owners often let them out informally to squeeze some value from them. Alternatively, they simply abandon them to avoid maintenance costs and tax liabilities, leaving the buildings at risk of occupation. Nonetheless, due to their central location and greater integration into the urban fabric (*vis-à-vis* favelas), they retain significant potential for being repurposed by the upper circuit, and their residents at greater risk of displacement via rent-gap-driven gentrification. *Cortiços* and building occupations also tend to have more precarious relationships with the state than long-established favelas, being less likely to benefit from regularisation and upgrading policies. For this reason, we can say these spaces are less territorialised by the lower circuit than favelas.

So, have rent gaps in historic centres fuelled inner-city gentrification and the retaking of such spaces by capital? The answer is mostly no – or at least, *not yet* – though with some exceptions. Since the 2000s, rising house prices in many city centres in Brazil have been associated with limited degrees of what might be called classic gentrification, whereby middle-class incomers – most commonly ‘marginal gentrifiers’ (Betancur 2014, p. 4) like artists, intellectuals, students, etc. – move into traditionally working-class housing stock. More visibly, it set the stage for some examples of ‘new-build gentrification’ (López-Morales 2016), where areas of low-density housing or other low-value land uses

have been demolished to make way for high-rise condominiums destined for the middle classes (Reina & Comarú 2015). Cases of new-build gentrification have in some cases occurred alongside – and sometimes been directly incentivised by – broader public-private city-centre regeneration schemes. However, in many cases, such projects have been directed more towards developing tourism and cultural infrastructure and lack a significant residential component (Garmany & Richmond 2020).

On the other hand, the scale of such processes and the success of state-led attempts to promote gentrification are marginal. In reality, several factors impede gentrification in city centres, even where rent gaps clearly exist and the lower circuit is less territorialised than in favelas. There are at least three key reasons for this. The first is that middle and upper-class residents have so far proved unwilling or unable to occupy historic centres to the extent required for gentrification to occur on a meaningful scale (Frúgoli Jr. & Sklair 2009). As Betancur points out, middle-class residents in Latin American cities represent a comparatively small proportion of the urban population, thus minimising the pool of potential gentrifiers (2014). Furthermore, they have shown a preference for remaining in established middle-class neighbourhoods, where infrastructure, transport and security tend to be better than in historic centres (Requena *et al.* 2015).

The second reason relates to differing patterns of urban development in Brazilian cities. In other words, ‘the broader economic processes (investment and disinvestment in specific places)’, to which Smith (1987, p. 463) attributed a crucial role in gentrification, are less visible in city-centre developments. In the absence of massive government incentives, banks and developers have proven reluctant to invest, instead focussing their resources on spaces already territorialised by the upper circuit (i.e. high-rise developments in established middle-class neighbourhoods and new peri-urban developments – Requena *et al.* 2015; Marques 2016). This could change in future years, but for now, city-centre development represents a riskier bet for private sector actors and remains uncommon.

And, finally, there is the issue of the lower circuit itself. One reason for why the upper circuit is less dominant in historic urban centres is because these areas comprise some of the most marginalised populations in Brazilian cities. Among those living rough on the streets and in precarious housing are many who suffer substance abuse and mental health problems. Notes Telles (2017), these ‘urban refugees’ tend to live in the city centre because they have been forced out of other parts of the city, and because they can benefit from access the centre provides to public and voluntary services and informal micro-economies. This also means that efforts to expel them from the city centre – even violent, heavy-handed campaigns by the police – often fail, because these populations inevitably return to the only place where they can survive. This third point circles back to the first, helping to explain why the middle and upper classes are reluctant to buy property in city centres, even where rent gaps exist. The presence of the lower circuit in these areas – even if it is less territorialised than in favelas – still represents a formidable deterrent to gentrification.

CONCLUSIONS

To briefly sum up, our analysis largely confirms existing assumptions about rent gaps in Latin American cities: gentrification, when it happens, tends to coincide with rent gaps, but when it comes to explaining *how* and *why* gentrification happens, additional factors must also be considered. As we have argued here, Santos’ (1979) theory of upper and lower economic circuits provides a useful framework to consider alongside rent gap theory. Researchers need to account for both circuits when trying to understand urban development in contexts like Latin America, and resist the urge – to paraphrase Santos (1979, p. 6) – to make simplistic comparisons between countries in the global North and South, indiscriminately applying concepts developed in the former to make sense of the latter.

Returning to where this article started, we want to reiterate that Harvey’s (2008) prediction for Rio’s favelas was, in fact, perfectly

logical. When one considers Rio's South Zone, the rent gaps between favelas and neighbouring areas are staggering. That these favelas remain in place and ungentrified seems to defy critical common sense. However, when we follow Santos' lead and consider the role played by the lower economic circuit, it becomes clearer why these favelas continue to persist. In fact, even in the historic centres of many Latin American cities, where the lower circuit maintains a less territorialised presence than, for example, in favelas, gentrification has been slow to take off. This may change in decades to come, but for now, significant numbers of low-income residents continue to stay put in these areas, despite severe economic pressures, stigma and ongoing threats of everyday violence. Perhaps by better understanding the lower circuit and the factors that keep the urban poor *in place* – rather than focusing exclusively on forces that push them out – researchers may develop new insights that can help them in their struggles for the right to the city.

ACKNOWLEDGEMENTS

We wish to thank Ernesto López-Morales and Yunpeng Zhang for organizing this special issue and for their editorial work. We also wish to thank the editor and anonymous reviewers for their helpful comments and feedback. This research was made possible thanks to support from the National Science Foundation (1632145), the Economic and Social Research Council (ES/P007635/1), and the Leverhulme Trust (ECF-2019- 315).

Endnotes

¹Though Harvey does not use this term, his analysis clearly rests on the same assumption.

²According to the SMH, 72 per cent of these were for reasons of environmental risk, 18 per cent to allow for improvements within favelas (e.g., widening of streets, installation of sanitary infrastructure), and 10 per cent to make way for transport and infrastructure that would benefit the wider city. However, the Comitê Popular (2015) argued that 19 per cent were directly linked to the mega-events, that many of the justifications given were spurious, and removal processes were characterised by legal irregularities and human rights abuses (see also Magalhães 2019).

³The book was first published in French in 1975, but full translations of the book in English and Portuguese were not published until 1979. Here we refer to the English translation (Santos 1979).

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