



Real estate and social inequality in Latin America: approaches in Argentina, Brazil, Chile and Colombia

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Real Estate and Social Inequality in Latin America: Approaches in Argentina, Brazil, Chile and Colombia

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Abstract:

Latin America is known as the most unequal region in the world, where extreme displays of wealth and exposure to scarcity lay bare in the urban landscape. Inequality is not just a social issue; it has considerable impact on economic development. This is because social inequality generates instability and conflict, which can create unsettling conditions for investment. At the macro level, social inequality can also present barriers to economic development, as most government policies and resources tend to be directed in solving social conflict rather than to promote and generate growth. This is one of the reasons usually cited in explaining the development gap between Latin America and other emerging economies, take East Asia for example - they have similar policies to those applied recently in Latin America, but are achieving better growth. The other reason cited is institutional; this includes governance as well as property rights and enforcement of contracts. The latter is the focus of this chapter.

Using a range of literature including official documents issued by local governments, peer reviewed academic journals and latest media articles from the national press of each country, the chapter argues that a defective planning system, scarcity of distributive mechanisms for land taxation and weak municipal powers are incentivising an unscrupulous real estate residential market that is profiting from this confusing scenario. This is not only restricting the options for housing the poor but is also fuelling urban inequality and hindering economic development in Latin America.

1. INTRODUCTION

Cities produce 50% of gross domestic product that manifests in increasing competition to attract development and real estate (RE) investment (World Bank, 2013). However,

parallel growth in inequality suggests that this expansion is not benefiting all citizens (Lima, 2006; Bourguignon et al., 2007). Latin America (Lat. Am.) is reportedly the most unequal region in the world and the question that always remains is why a region with such a wide range of natural resources, scores so highly in the Gini Index? Policymakers, academics and experts are increasingly concerned over the widening gap between Lat. Am. countries and developed economies (de Soto, 2001; Sacks, 2006; Fukuyama, 2008; Edwards, 2010). Some highlight social inequality as the main reason for this gap (Fukuyama, 2008; González and Martner, 2012) while others claim that globalisation is mostly to blame (Stiglitz, 2002; Chomsky, 2010).

It has been stated that the solution lays in security of property rights (de Soto, 2001; Fukuyama, 2008). de Soto (2001) argues that Lat. Am.'s poor sit on dead capital (their homes) due to unsecured property titles, which hinders collateralisation of RE to acquire entrepreneurial capital. His views have been challenged (Varley, 1987; Samuelson, 2001; Gilbert, 2002; Frankema, 2006; Van Gelder, 2009) but followed and praised by regional governments (Fernandes, 2002; Clift, 2003). But the title's legalisation theory is based on simplistic assumptions that miss the nuances existing in Lat. Am.'s land markets; see, for example, Van Gelder (2009) for an in depth discussion. In addition, it assumes that the underlying planning system in most of these countries is sophisticated enough to secure urban land equity (using here the term in its dual connotation). As it will be argued in this chapter, planning as well as redistributive mechanisms of land tax must be regulated if Lat. Am. countries intend to achieve a robust system of property rights.

Given the importance of property titles and home ownership that has been stressed so far in academic discussions, this chapter looks into the question of inequality from the perspective of the residential RE sector. It will look at how the development of housing evolved in Argentina, Brazil, Chile and Colombia from the 1970's to current times. It will present an overview of the relation between government housing policies and development/planning regulations, which are shaping the urban landscape. At the lower end of the residential sector, it will consider informality and social housing, and at the higher end, it will look at new luxury gated developments. Where are they located in comparison to informal developments? Are low and high end markets competing to purchase the same land? How does that competition fare? If so, what redistributive mechanisms do local governments have in order to spread prosperity? The objective is to bring to light the counterproductive housing policies that have been pursued over the

years to help the poor in order to improve their standards of living and to contribute to economic development; to reveal the lack of governance and accountability that municipalities have; and to signal the scarcity of planning regulations to control speculative housing development. The final objective is to exhibit the difficulties arising when RE profits are only benefiting a very small percentage of the population. The information presented in the chapter is collected from official documents, government as well as international organisations, peer reviewed academic journals and latest media articles from the national press of each country. The collected literature is in Spanish, Portuguese and English.

The rest of the chapter is organised as follows. Section two provides a brief summary of the region's socio-political background whilst section three explains how informality spread and social housing debt amounted through decades of neglect in the selected countries. The fourth section looks at the process of market liberalisation. In The fifth section building the way out of recession is considered whilst section six discusses the main findings and their implications for economic development. The chapter is concluded in section seven.

2. SOCIO-POLITICAL BACKGROUND OF THE REGION

Historically, Argentina, Brazil, and Chile share the legacy of military governments that scarred the political scene and influenced the welfare systems of their countries. Colombia on the other hand, never suffered a military rule to the scale of the others, but suffered and indeed still suffers, from more than 50 years of internal civil conflict against illicit drug trafficking; there was a coup d'état in 1953 but democracy was restored in 1958 (Arismenedi, 1983; and for a revision of authoritarian tendencies and their roots in Lat. Am., see, Collier, 1978). Despite the differences in their own struggles and conflicts, all these countries share the transition from tariff-protected manufacturing industries, known as import-substitution industrialisation (ISI) (Macario, 1964) during the 1940's to the 1980's, followed by the adoption during the 1990's of very important economic recommendations known as the Washington Consensus (World Bank, 1993 and 1994; Gilbert 2002; Stiglitz, 2002). Broadly speaking, this implied the reduction of the state, decentralisation, privatisation, opening of markets, and deregulation. The transition from a heavily protected economy that favoured domestic products towards open competition had a direct impact on RE markets - commercial and residential RE investment was ripe to produce high returns given that the market had been heavily protected and stagnant for decades (Roberts, 2005; Thibert and Osorio, 2014). In addition, privatisation of

infrastructure services also attracted foreign direct investment, which in the case of motorways shaped the new spatial organisation of the cities by encouraging residential ghettoisation; a process that is known as fragmentation of the urban space (Bähr and Borsdorf, 2005).

It must be pointed out that Chile had an earlier start towards liberalisation of markets as some of these recommendations were already underway in the country after the military coup of 1973 (Arellano, 1982; Rojas, 2000; Guilbert, 2002; MINVU, 2004; de Soto and Torche, 2004; Garcia de Freitas and Cunha, 2013). Among wider economic aims, the reform intended to attract more private investment and enable the housing market to work more efficiently, with the hope that the housing deficit in all sectors of the population could be solved by private investment with the Chilean State acting as a facilitator. But as the *Ministerio de Vivienda y Urbanismo* (MINVU) (2004) explains, the reform took some time to develop and get established. Furthermore, some even claim that its visible results only arrived with the return of democracy in 1990 (Rojas, 2000). This means it took Chile nearly twenty years to adapt to the economic reforms introduced in the 1970s. Argentina, Brazil and Colombia attempted to take that leap in a few years (late 1980's and early 1990s), with mixed reviews on the consequences of these reforms (McKenzie and Mookherjee, 2003; Castañeda, 2006; Stiglitz, 2007). Lack of transparency in the privatisation process and a lack of mature institutional framework capable of dealing with the sophistication that international private investment demands have been blamed for the economic crises that affected the region after market liberalisation: starting with Mexico's Tequila crisis in 1994, Brazil's hyperinflation crisis in 1999, and ending with Argentina's default in 2001 (Stiglitz, 2007).

On the other hand, supporters of liberalisation claim that in some countries' privatisation of utilities, such as electricity and telecommunications have increased access to these facilities for the poor (McKenzie and Mookherjee, 2003). Notwithstanding, the authors acknowledge the scarcity of data availability, as it is very difficult to measure accessibility to public services when most people live in informality and have, therefore, no legal access to formal connections. Furthermore, they also acknowledge that in most cases they could not measure the quality of the service the population receives.

The last point is particularly important as Lat. Am. governments are demonstrating a concern over the quality of what has been achieved so far in urban development (Murray

et al., Forthcoming). Qualitative attributes to assess sustainable prosperity are increasingly taking importance over quantitative attributes (Parris and Kates, 2003). As these authors argue, local understanding of sustainability as well as political, economic and cultural factors affect the multiplicity of indicators that have been developed so far. As a result and two decades after the experience of market liberalisation, Lat. Am. is pursuing its own methods to develop social policies in accordance with regional theories of sustainable growth; these look at reaching economic targets while simultaneously ensuring: (a) equal share of prosperity among all sectors of society; (b) reducing carbon emissions; and (c) avoiding the depletion of natural resources (Economic Commission for Latin America and the Caribbean (ECLAC), 2010, 2012 and 2014). Notwithstanding, some countries' policies towards equitability are seen as too populist (Edwards, 2010) and said to be inflicting further damage to Lat. Am.'s economies. This question of populist government and urban equality is central to the selection of countries under study here.

The selection of the countries is based on the political classification presented by a political scientist Jorge Castañeda (2006). As this author explains, there are two lefts in Lat. Am.: the "reconstructed left", a fusion of communist, socialist and Castroist tendencies, which has evolved by learning from past mistakes and intends to develop new policies that can keep the region as an important player in the global market; and the "populist left", which has a deep attachment to nationalism and tends to be anti-globalisation (Castañeda, 2006, pp.34-35). There is also the centre and centre right that dominated the scene during the 1990's. This political division clashes in the way societies and governments intend to compensate for the years of social neglect that the region's poor have suffered. A clash that seems to have little hope for compromise solutions and manifests in recent street protests across all countries under study here: student revolt in Chile, anti-World Cup demonstrations in Brazil, workers' strikes in Argentina and anti-national government protests in Colombia to support a leftist mayor in Bogota. The common denominator in all countries is the accumulated social debt and the conflicting approaches in trying to solve inequality.

Following Castañeda's political spectrum, the selected countries in this chapter demonstrate different tendencies but more relevant is their housing policies and development regulations that intend to bring urban equity, which in turn is supposed to contribute to economic development. Argentina, representing the populist left, has seen

the coalition of mostly socialist parties (*Frente para la Victoria*) win successive elections since 2003; the same year that Brazil, representing a “tenuously” reconstructed left (Castañeda, 2006, p.35) saw the rise of the *Partido dos Trabalhadores* (workers party) who are also still in power. Chile, a straight reconstructed left, has followed this tendency for almost two decades and after a short period with the centre-right (2010-2014), has recently returned to where it previously was, with a newly formed coalition of leftists parties known as *Nueva Mayoría*. The exception here is Colombia that has been mostly moving from the right to the centre-right, and with the *Unidad Nacional* coalition currently in power. Therefore, the selected countries represent a spectrum of policies to tackle inequality from different political angles.

3. SPREAD OF INFORMALITY AND ACCRUING SOCIAL HOUSING DEBT

During the 1960's and early 70's housing policies in Argentina, Brazil, Chile and Colombia were directed to supply housing to those in formal employment; the literature on housing policies for these countries is quite vast, the most relevant for this period are: (a) for Argentina, Zanetta (2005), Barreto and Alcalá (2008), Barreto (2013); (b) for Brazil, Valladares (1978), Andrade and Azevedo (1982), Melo (1992), Bonduik (1998); (c) for Chile, Arellano(1982), Collins (1995), Kusnetzoff (1987), Rojas (1999), Silva Lerda (1997); and (d) for Colombia, Ceballos Ramos and Saldarriaga Roa(2008b), and Cuervo and Jaramillo (2009). All these authors agree that the policies failed to target the unemployed and those working in informal or casual jobs, which negatively affected economic development. This, at the time, was a considerable failure given that the informal sector counted for more than 60% of the population (Silva Lerda, 1997). As a consequence, informality increased and with it, governments' policies of slum clearance and relocation. It is worth pointing out that there was also a belief, particularly, among military governments that the situation of the unemployed would reach a breaking point, forcing them to be eventually absorbed into the formal economy. There was also the theory that Marxist activists as well as drug cartels were infiltrating informal settlements, using them as a focus of resistance, indoctrinating residents and recruiting the young into their networks. It is the main reason why governments tended to ignore social policies and continued with slum clearance programmes.

In Chile, the military imposed strict controls over the expansion of informal developments which generated another problem: the *allegados*, the family's relatives and friends arrived to share already developed houses, adding overcrowding to already infrastructure-thirsty

urban environments (Rojas, 1999). In Argentina new laws were passed with the clear intention of discouraging informal settlements on outside boundaries. The *Ley 8912* of 1977 classifies the periphery of Buenos Aires for recreational use and non-permanent residence, and specifically refers to country clubs (second holiday homes) as the preferred typology for the area (art.7) (Gobierno de Buenos Aires, Legislación, Decreto-Ley 8912/77; Thuillier, 2005). Encouraged by favourable legislation and the gradual opening of motorways that linked the periphery to the centre, residential RE investment moved to the suburbs developing country clubs for the wealthy. Paradoxically, the very few social housing schemes for those in formal employment and low wages were also being developed in the periphery. Affordable land was attracting all market sectors, making social housing compete for land with speculative projects. As it will be demonstrated later, this process only aggravated with the arrival of market liberalisation policies in the 1990's. Meanwhile the exodus to the periphery began in all countries under study here, and the vacated city centres were gradually taken up by squatters or laying empty and neglected (Bäbr and Borsdorf, 2005).

The state was at this time the main provider of social housing, responsible for the financing, planning and delivery of the projects. Institutions involved were usually a national mortgage bank and a relevant government institution at the national level that coordinated all actors (local governments, construction companies and beneficiaries). The schemes delivered by these institutions were generally low cost mass-produced housing units with very little infrastructure. The largest example of housing units built during the 1970's in Lat. Am. is located in Sao Paulo and has 84 5-storey height housing blocks, with no public transport, a problem that has not yet been adequately solved, taking today's residents a whole two hours of commuting to the city centre (Budds et al., 2005).

The landscape of the 1970's and 1980's was, therefore, of increasing informality and insufficient and low quality social housing stock. In addition, given the high inflation, most state owned mortgage banks were running large deficits and there were allegations of corruption in the system (Valenca, 1992; Zavaletta, 2005; Tachópulos Sierra, 2008 and for a more positive view on the state's abilities to finance social housing programmes see, for example, Cuervo and Jaramillo, 2009). Spatially, the tendency of country clubs in the peripheries was not only hollowing out the city centres, but there was also the fragmentation of the society by the polarisation of the urban fabric. In these conditions,

countries followed the Washington Consensus recommendations with the view that the private sector could help to bridge the social divide.

4. TRANSITION AND LIBERALISATION OF MARKETS

4.1 Social Housing Policies until the end of the 1990's

As stated in the introduction, Chile's reform started in the mid 1970's. The aim of the reform was to attract more private investment and enable the housing market to work more efficiently with the hope that urban land could yield better investment returns even for social housing schemes (Rojas, 2001). Accordingly, the MINVU was to cease all developing activities and act now as a facilitator on the demand side by subsidising mortgages to the poor. The World Bank with whom Chile had challenging relations praised the market conditions of Chile in the early 1990's stating that the country had been able to provide three key elements in its housing programme: (a) specific targeting of the poor; (b) transparency; and (c) private market provision (World Bank, 1993). For an account of the struggles between Chile, the World Bank and other international organisations that were at the time unconvinced of the benefits of subsidies, see Gilbert (2002). Soon the Chilean model was considered best practice (Gilbert, 1997) and other Latin American countries adopted the subsidised system.

Socio-economic conditions, more than politics, drove the subsidised system in all countries under study here; bringing, therefore, divergences in terms of the percentage of housing units that were subsidised and availability of credit, which depended on the value of the house. There were also differences on eligibility of applicants according to their minimum salaries (Gilbert, 1997; Chiape de Villa, 1999; Budds et al., 2005; Zanetta, 2005). But regardless of the particular socio-economic conditions, the system generally consisted of an A-B-C programme: Ahorro, Bono, Crédito (savings, subsidy and credit); whereby families with savings (ahorro) were eligible for a government subsidy (bono) and were better placed to achieve a bank loan (crédito) in order to complete the funds and purchase a home. As the following section shows, this structure was the results of the dissemination of new ideas spreading at the time on the way informal settlers developed their dwellings.

4.2 The influence of John Turner

Around the 1960's and 1970's the architect John Turner spent time in Peru and other Lat. Am. countries studying informal developments. Turner found that households improved their houses incrementally (Turner, 1977). He argued that their self-help approach was

better than the large scale schemes developed so far by the governments and that a system of progressive building based on families' savings was better suited to solve the housing deficit, particularly, for the very poor, thereby, improving their standards of living and contributing positively to economic development. His ideas were popularised around the mid 1990's as well as those of others with similar views on self-build solutions (Pugh, 1990; and for a criticism to Turner see, for instance, Werlin, 1999). Site-and-services schemes that originated after these theories intended to provide serviced land to poor families or group of families that had a plan or community plan and were able to build with technical support from the municipality. Help was provided on condition that benefited families would send their children to school and, thus, break the poverty cycle.

All countries under study here implemented progressive building or upgrading schemes of some sort as part of their subsidised programmes. Nearly twenty years later, current reviews of those past programmes are mixed. Some claim that municipalities did not welcome upgrading programmes as they doubted they could collect service charges from very poor families and, therefore, the investment in infrastructure was unlikely to be recovered. This had the effect that municipalities and sometimes the government themselves either restricted available land for these projects or rejected them altogether (Gilbert, 1997; Budds et al., 2005). Others argue that the progressive building strategy lent itself to abuse as it was just an excuse to deliver low quality unfinished units (Chiape de la Villa, 1999). Positive views of upgrading informality and site-and-service plans shows that the scheme has been more successful at targeting the very poor than the massive new built complexes, as in the former the beneficiaries own their houses outright with no mortgage, while the latter represents a burden (Gilbert, 1997; Rojas, 1999; Green and Ortúzar, 2002; Boldarini, 2008). Nevertheless, at the end of the 1990's and for reasons that still need to be researched, the four countries under study have tended to favour the delivery of new homes whilst reducing progressively less subsidies towards other alternatives.

4.3 Implementation of the Subsidised System

Whatever the programme, be it progressive building, site-and-services or upgrading, the mechanism whereby the state helps to subsidise the demand for housing units prevailed. This was a major change in countries that had traditionally relied on the national governments for the supply of social housing. Understandably, new procedural issues emerged as changes became operational. One of the major challenges was how to create

a more attractive market for the private sector. Two main barriers had to be addressed: the reduction in planning bureaucracy and the legalisation of land titles (Borja and Castells, 2002; Cuenya, 2005; Barreto, 2013). The way to reduce bureaucracy was to decentralise activities, which in Lat. Am. at the time was complicated as provincial governments were dependent on the national state with a highly centralised administration system. On the other hand, capital cities had always been under suspicion that they were too independent from their governments and this is still a current problem; the cases of Bogota and Buenos Aires are paradigmatic as they have a history of being ruled by the opposition party to the national government (Rodriguez-Acosta and Rosenbaum, 2005; de Duren, 2006; Thibert and Osorio, 2014). A fine balance needed to be achieved between relinquishing central powers to the provinces and strengthening their capacity to take new functions while keeping metropolitan areas under control.

Not surprising, the process has received severe criticism in all the four countries. Some argue that the decentralisation was heavily politicised and that power was given to provinces in exchange of political support to pursue wider reforms (Coy and Pöhler, 2002; Zanetta, 2005). As stated in the introduction, all countries were simultaneously undergoing an extensive programme of privatisation of their national infrastructure networks and services and support from local government was needed to implement these changes. Other critics to the decentralisation process focus on the lack of coordinated action at the government level and, particularly, the unregulated public-private interaction, which fragmented the industry sector. Small construction companies, for example, preferred to lobby for work with local governments while large firms preferred communication with higher levels of government (Cuenya, 2005). Unavoidably, this often led to a duplication of actions (Budds, et al., 2005; Rodriguez-Acosta and Rosenbaum, 2005). Notwithstanding, when subsidies were kept centralised in order to control activities, critics claimed that the power of the municipalities (who were in a better place to assess local needs) were being curtailed (Chiappe de Villa, 1999; Tachópulos Sierra, 2008).

Not only was the process of decentralisation facing discontentment, but the effect of legalisation of land titles also started to be questioned. Mainly because even if a family managed to succeed in clearing the bureaucracy of obtaining the title, their inability of fulfilling land tax duties meant that they could be dispossessed by the government for non-payment, which was seen as a worst situation than the previous when they had at least a “perceived” ownership of the land; see, for example, Van Gelder (2009) for the latest

discussion on titling theories. And there were also those who stated that even poor families with legal titles, after undergoing the lengthily process of obtaining the subsidies, were refused credit by the banks (Varley, 1987; Gilbert, 1994; Van Gelder, 2009; Curevo and Jaramillo, 2009). Finally, the subsidies themselves were deemed unsustainable. In Brazil, the 1990's was a decade dominated by high inflation, which did not offer stable conditions for the private sector, nor did it allow for government subsidies (Fonseca, 1998; Valenza, 1998; Morais, Saad Filho and Coelho, 1999; Valenca, 2001; Azevedo, 2007; Valeza and Bonates, 2009). Argentina saw most of the social housing projects delivered by NGOs as the government were unable to create sustainable priced mortgages (Murillo, 2001). In Colombia the lengthy process of mortgage applications (usually over 10 months) combined with the housing boom created by these very same programmes meant that by the time candidates managed to gather all necessary funds (savings, subsidy, and credit), the dwelling or plot of land of their choice was out of reach (Gilbert, 1997; Chiape de Villa, 1999).

However, the biggest failure for all the countries was that despite the promises of targeting the very poor, those with no access to formal jobs were unable to benefit from any of the plans. Even in Chile, targeting the very poor proved difficult and the system was heavily subsidised by the government (Gilbert, 1997; Rojas, 1999). Furthermore, as Rojas suggests, much of what was achieved in terms of attracting the private sector was possible due to the country's economic growth (rising employment rate, consumer confidence and rise in interest rates, all beneficial conditions for the private sector). The fragility of the system became evident at the end of the 1990's when unstable economic conditions generated an increase in mortgage interest rates that saw the collapse of many programmes and institutions across all the countries but Chile. Unavoidably, when transferring the system to other countries with larger housing deficits and thousands living informally hoping for subsidies, the so called Chilean model faces bigger challenges. It is interesting to point out that towards the turn of the century, Argentina, Brazil, and Colombia had to divert subsidy funds to support the administration of an increasing demand (Gilbert, 1997; Chiape de Villa, 1999; Tachópulos Sierra, 2008; Cuervo and Jaramillo, 2009). Still a decade later some argue that the financial conditions at the time were not mature enough to attract institutional investors capable of providing private funding for housing programmes, let alone provide a solution for the lowest sector of the population as it was claimed by the World Bank (Soto and Torche, 2004; Zanetta, 2005). As it will be demonstrated in the following section, the failure to complement government subsidies

with a share of the more profitable high end residential market also played a part in the collapse of the system.

4.4 Gated Communities during the 1990's

Simultaneous to opening-up the markets for private capital to support social housing, the process facilitated private investment in other areas of RE. As it will be explained later, the decentralisation of planning and lack of coordination across different government levels described above, provided a fertile ground for the high end residential investment, which was reported as the most profitable RE business in Lat. Am. during the 1990's (de Duren, 2006).

Gated communities have been defined as residential areas where public spaces have been privatised; they can either be in the city or the suburbs and in affluent or poor neighbourhoods (Blakely and Snyder, 1997). The mode of transport prevailing for the gated communities is the car, following the American example of peripheral cities, which was encouraged through the New Urbanism charter. In all countries under study, urban sprawl accelerated when motorways were expanded during the 1990's, fuelled by private investment. As motorways are mainly private enterprises, most operate on toll systems which, for those who can afford it, considerably reduces the commute to the city (Thuillier, 2005; Bäbr and Borsdorf, 2005; de Duren, 2006; Borsdorf et al., 2007). Inevitably, shorter commute increased the demand for dream houses in suburbia.

During the 1990's as it is today, the families relocating to gated communities are mostly of the same socio-economic background, as the level of service charge for maintenance of communal grounds and facilities (which can be as diverse as swimming pools to golf courses and helipads) act as a barrier to social mix. The newest trend is "affordable" condominiums for the middle classes, which have fewer amenities but still enjoy private security, one of the main concerns for many Latin Americans (Coy and Pöhler, 2002; de Duren, 2006). Infrastructure around these complexes usually includes health centres, education facilities and cemeteries, all privately paid by locals. New businesses either follow or precede the opening of a gated community, including large shopping malls and supermarkets (Coy and Pöhler, 2002; Borsdorf et al., 2007). During the 1990's and given that most municipalities lacked a long term plan, most of these infrastructure projects were executed by private investors, who are mostly responsible for the layout of the periphery of

most cities in Lat. Am. Briefly and broadly speaking, all countries share the same pattern: the new community is initiated by a developer or a business consortium who assumes the responsibility for the entire project, from gathering investors, to buying the land, architectural design, planning application, construction and sales of units to final consumers. After the families move in, services and maintenance of the communities' site can be provided by the developing firm, outsourced or can be undertaken by the residents themselves organised in a cooperative (Coy and Pöhler, 2002; Borsdorf et al., 2007). The urban periphery is the preferred place for most gated communities, sometimes encroaching agricultural lands. This is due to land availability and also given the high return that can be achieved compared to more consolidated areas of the city. Turning rural land into urban, for example, reportedly generates profits of up 550% of the original value (Chiappe de Villa, 1999).

Some argue that these types of developments bring benefits to areas that are characterised by informality (Sabattini et al., 2001; Salcedo and Torres, 2004). The argument is that the new spaces of the wealthy are providing workplaces for the poor, for example, in construction, security, and domestic service. Figures published so far show that this is partly true (Thuillier, 2005). However, the benefits that municipalities receive in terms of developers' contributions and taxes from new residents have been questioned by some (Brain and Sabatini, 2006; Thibert and Osorio, 2014). These authors maintain that new developments tend to be located in poor municipalities, with a large informal population and little infrastructure. This means small local authorities already struggling to collect revenues. Therefore, these offices see the arrival of a new gated community as a way to generate jobs and tend to compete with other municipalities to attract these developments by offering tax incentives to developers. In Chile, for example, the increase in land prices and the failure of the system to impose stricter regulations on developers means that the State is the main provider of the sites for social housing (Brain and Sabatini, 2006). As these authors suggest, increased construction costs are also part of the problem, and given that the subsidies have a cap, the only solution to keep developing social housing is by building on fiscal land; making the authors speculate the possibility that the State is undervaluing sites in order to complete politically charged projects to win more votes. Considering the argument explained in the previous section, stating that progressive building is lowering construction costs, it seems plausible that Chilean construction companies are indeed benefiting from the subsidised system.

The case of the small municipalities in metropolitan Buenos Aires is also paradigmatic. Here the planning process is lengthy and opaque, as planning delay usually pushes developers to break ground as soon as the land is purchased. This is done with the hope that planning permission will be “solved” at some stage by the local officer (de Duren, 2006; Thuillier, 2005). To add to the problem, once the new wealthy residents move in, their tendency is to contest municipal tax as they consider that all their services are privately paid so they see no reason to pay municipal taxes.

Faced with similar problems during the late 1990's, local authorities in Colombia were requested to develop a strategy plan (*Ley de desarrollo Territorial 388*, 1997-still in force) (Alcaldía de Bogota Ley 388, 1997). New municipal funds were also created (*Fondos Municipales de Vivienda de Interés Social*), with the aim of collecting and managing revenues for social housing programmes. While the strategy plan allows municipalities to identify land for social housing, the municipal funds equip them with regulations to pursue development contributions from the private sector. This is done either by the demand of land for social housing from the land owner or by a development levy paid by developers (Chiape de Villa, 1999; Tachópulos Sierra, 2008). However, there are concerns that the regulation is not fully enforced (Carrión Barrero, 2008) and that: municipalities only produce a plan just to comply with the national law; and the reality in Colombia is very much like that of Chile and Argentina-developers rule the land.

The 1990's ended with successive economic crisis that affected the largest economies in the region. In Colombia, mortgage rates increased from 6% to 20% in the year 2000 (Cuervo and Jarmillo, 2009). The national government had to introduce a very controversial new tax to help the banks cope with defaults. The Nacional Institute for Social Housing and Urban Reform (INURBE) went into liquidation by decree and a new institution was created (Fondo Nacional de Vivienda -Fonvivienda). This national housing fund was to act as facilitator and channel resources of the new plan initiated in 2002, which looked again (similar to previous plans) at decentralising activities as a solution (Escobar, 2001; Tachópulos Sierra, 2008). Argentina and Brazil's social housing plans and subsidising programmes suffered similar problems. However, as it will be shown in the following section, the severity of their financial crisis in 1999 and 2001 saw drastic political swings that dramatically changed their welfare systems.

5. Building the Way out of Recession

During the critical years at the turn of the millennium, the construction of social housing reduced considerably. Notwithstanding, as policies in recession years are mainly aimed at keeping unemployment low, most countries continued to support the construction of the more reliable luxury end of the market. Colombia, for example, established the *Ahorro de Fomento A la Construcción* (AFC) system (literally, savings to support the construction industry). This is basically a mechanism by which the buyer of a new unit of RE has a tax exception, which in some cases is equivalent to three and four times the subsidy of a social housing unit (Cuervo and Jaramillo, 2009). However, as the wealthy received tax exemptions in this country, the poor received free houses as the economic conditions improved around 2007, thereby, improving their standards of living. The government launched the *100,000 Viviendas Gratis* plan in 2012 (Gobierno de Colombia, Haciendo Casas Cambiamos Vidas). The beneficiaries were families that suffered from environmental disasters or during the drug trafficking wars. This new scheme was a last attempt to target the elusive bottom of the pyramid, that is, the very poor families, and followed World Bank recommendations. It is a very different approach to the World Bank's attitude during the 1970's when free housing provision was seen as dangerous as it could induce larger rural-urban migration, straining the cities even more (Pugh, 1990).

In Brazil, the worker's party introduced subsidy programmes of a large scale through the programme *Minha Casa Minha Vida* (PMCMV). There are claims that this was a way the government faced the 2008 financial crisis and that it was mainly driven by the construction sector (Arantes and Fix, 2009; Macedo, 2010; Cardoso et al., 2011). There are also problems with quality (Kowaltowski et al., 2006). Some critics have stated that if customers had a choice, i.e. were able to buy a non-subsidised home, the whole scheme and the construction companies will be out of business (Formoso et al., 2011).

Mass social housing programmes in these four countries run parallel with the rise of the *megaproyecto* for the upper classes. These are larger than previously developed communities that are now intended for more than 50,000 people (Coy and Pöhler, 2002, de Duren, 2006). Furthermore, given the increasing fear of crime, all sectors of the population these days prefer the sense of security offered by gated developments and so the "gated megaproyectos" now serve the wealthy as well as the poor (Bäbr and Borsdorf, 2005; de Duren, 2006; Borsdorf et al., 2007). The fragmented city is, thus, spreading across Lat. Am. where gated ghettos of the upper class are "mixing" with gated social housing projects in the periphery. The monotony of the urban landscape exacerbates

when the same consortium of investors and developers (bearing in mind they are also architects and designers) operate across many Latin American countries (Coy and Pöhler, 2002, p. 358). Still, most problematic is the land struggle that this generates: where a new gated community for the wealthy appears, it immediately takes up good land that becomes unaffordable for social housing (Brain and Sabatini, 2006). Land squatting becomes then the only solution for those who seek employment in the new gated community. Informality erupts and spreads around enclaves of wealth, usually taking poor quality land that has no interest for RE investors. The pattern of a sea of informality, with patches of wealth and housing estates described in the introduction as the fragmented city, is then completed.

Notwithstanding, some changes are emerging, such as the territorial law in Colombia explained in the previous section. Still most authors agree that Brazil is leading the way in development contributions. The Special Social Interest Zones (ZEIS) is a new regulation that requires cities to contribute with a certain percentage of social housing for all developments (Prefeitura de São Paulo Decree 44.667, 2004). Currently this regulation has only been applied in Sao Paulo but with promising results, given that social housing schemes resulting from these programmes intend to target different sectors of the population encouraging a more social mix (Budds et al., 2005). The other system used in Brazil is the sale of vouchers for development rights in exchange for social housing. In this system, if a developer wants to build above the ratio that the size and location of the plot allows, he or she can negotiate this and obtain vouchers that can be either auctioned in the RE market or used in other sites. In addition, properties that are unoccupied and are considered suitable for social housing whose owners have a land tax debt, can exchange the property for land tax credit. The legislation means that there are no monetary transactions, which increase transparency for parties, the debtors and the creditors, and the local authority in question acquires a new unit of RE for social housing.

In contrast, Argentina and Chile still fail to target the private sector, leaving the responsibility to deliver serviced land to municipalities. As a consequence, and given the extremely difficult economic circumstances that Argentina currently faces, most municipalities have reduced their social housing targets (Barreto, 2012). Furthermore, some municipalities are so short of resources that they have started to divert most of the subsidies to the payment of municipal employees. A similar situation of diversion of subsidies to cover for other shortcomings was seen in Colombia during the time of the Instituto de Crédito Territorial (ICT), the State-run social housing provider that operated

until the 1990's reform (Tachópulos Sierra, 2008) and during the closing days of the INURBE. The deviation of funding from housing to pay for an administrative system that is unable to cope with a large population in need seems to be a recurrent fault throughout the decades in these countries.

To tackle these irregularities, Argentina is currently attempting to reverse the decentralisation process and intends to control resources from the State (Scheinshon and Cabrera, 2009). This has generated a new wave of clashes between national government and the opposition, particularly, with the Ciudad Autónoma de Buenos Aires. As these authors suggest, the only hope for social housing projects are in the hands of NGOs and social activist movements who are able to lobby between the two political factions. By profiting from the lack of government cooperation, organisations like Madres the Plaza de Mayo and Piqueteros are finding a place as social housing developers.

6. DISCUSSION

As demonstrated in the preceding sections, all four countries studied have followed a path of developing gated communities for the rich, starting with country clubs in the 1970s and continuing with the megaproyectos of today. Equally they all share a modality of developing social housing neighbourhoods, with very little infrastructure and services. To complete the landscape, a myriad of precariously constructed homes that steadily spread since the 1960's occupies unwanted plots or lands that are prone to natural disasters. It is true that Chile is solving the housing deficit, but the price paid is an increase of inequality, with ghettos for the poor as well as for the wealthy. As a result of the spatial polarity, all countries fail to achieve social mix. This is troublesome in many ways. The lack of contact with other groups is harbouring fear of the *other* and fuelling the trend in security, walls and gates in residential developments at all scales of society. Equally this lack of engagement with other sectors of the population manifests itself in public places and services. As has been established, the wealthy tend to pay for private education, health, and even the maintenance of common public areas, including the streets. This increases the perception that state provision of public services are less effective, and only fit to use by those who have no other resources. The decentralisation of the state explained here, contributes to this idea of a failing state, tarnishing in the process the image of the municipal authorities who have little power to impose planning laws against speculative development.

The most worrying aspect of this fragmentation of society is the lack of empathy that it generates. As it has been established, the unwillingness to contribute with municipal taxes by a sector of the society that sees no benefit in state run services challenges the provision of social services by the municipality and local government. Repeatedly, after the economic crisis at the turn of the century and after the 2008 crisis, municipalities have tended to divert housing subsidies towards other ends. As seen in the case of Argentina for example, that used subsidies to pay employees, or as seen in Colombia, where due to the large number of applicants for social housing programmes, the country had to divert funds to the management of these very programmes. There are no reports that Brazilian municipalities are diverting housing subsidies to support the maintenance of social services, but the country's growth rate is diminishing, and this can have an effect on the deliverance and maintenance of the ambitious PMCMV. In Chile, as seen, there is a "hidden" subsidy provided by the State as the main supplier of development land for social housing schemes. This highlights the fact that the very much praised Chilean subsidised system is only superficially working, given that the State is having to contribute with the land. The success in reducing the housing deficit in Chile is due mainly to the small number of people in need of a home that the country has if compared to the other countries under study here.

There is a systematic failure to complement government subsidies with a share of the more profitable high end residential market in all countries. Developers appear as a very powerful group, and as demonstrated, municipal authorities tend to compete with other municipalities to attract large luxury developments by offering tax incentives to developers. In doing so, municipal authorities not only fail to collect much needed revenues, but they induce a hike in land prices, in some cases in the periphery by over 500%. Given that the periphery is also the preferred location for social housing, the boost in land value by luxury developments immediately curtails the possibilities of housing the poor. The above mentioned Ley 388 in Colombia and the ZEIS in Brazil are a step in the right direction, but much more is needed in order to spread the economic benefits of urban development that the upper classes are currently enjoying so that the poor can also share.

Another underlying principle ruling housing policies in all these countries is the reliance on the construction industry as an important economic driver (Gilbert, 1997, Murillo, 2001; Cuervo and Jaramillo, 2009; Scheinshon and Cabrera, 2009). Whether building luxury homes or social housing, construction is the industry that serves the government to control

unemployment, particularly, in times of recession. It is not a mere coincidence that the rise of the megaproyecto explained above appeared at the turn of the century, just as the region faced the largest economic crisis in history. It seems that the bigger the recession, the bigger the construction project. In a region with a large unskilled labour force, turning to the construction industry to help the economy seems a logical approach. Still, the economic argument of spending in infrastructure and construction to help improve the economies needs to be underpinned by good governance and a robust planning system, whereby redistributive mechanisms are secured to share prosperity with all sectors of the population. As it stands, the current system of underfunded municipalities operating with obscure planning regulations that are easily changed to suit speculative developers will only benefit a privileged few and not the poor who constitute the majority, thereby, negating any efforts aimed at achieving economic development. It will not, in the long term, support the construction industry as a sustainable economic driver. The jury is out, for example, on whether the frenetic construction activity and projects delivered in Brazil before the World Cup 2014 will deliver a long term legacy. So far, reports from the media are that it will not.

Chile and Argentina are the ones that are falling behind in urban equity, while Colombia and Brazil are making better efforts, although the latter with more moderate clear success. Thus, generally, real estate is doing little to achieve or improve economic development in the countries studied. The main reason is because it is failing to target social inequality, and curtailing opportunities at the bottom of the pyramid who have no access to the benefits of urban life. A weak State means that unrestricted private development is ruling the land. And as established from the experiences of the 1990's, private enterprises in a context of fragile regulations and rule of law has not yielded optimal results in Latin America.

7. CONCLUSION

This chapter has examined the question of inequality in the context of residential RE sector in Lat. Am. The countries under study represent all the different political tendencies: from populist Argentina, to centre-right Colombia. It can be argued that the provision of a free house would align with a populist government, but in this case, it is centre-right Colombia who is providing something for nothing through the 100,000 Viviendas Gratis programme. Still, as recent political campaigns show, all these governments use housing programmes as a way to win more voters. Using housing development as a political pawn

puts pressure on governments to demonstrate quantifiable results to justify their promises, with little care for quality and standards. New alternatives to home ownership must be supported at the macro level to address housing deficits. For example, by encouraging leasing and rental practices for all sectors of the population and not just for the poor may avoid stigmatising the rental option. This should be implemented and framed by a fair and robust legislation of landlord/tenant relations. The rental option should be provided and managed by NGOs, local cooperatives or worker organisations who are free from corruption scandals to encourage a trickle-down transparency, avoiding rent default and vandalism, which are usual problems in current government-led rental schemes.

As shown in this chapter, Brazil has found some innovative solutions for land value capture and to some extent so has Colombia. The Chilean model has served to reduce social housing deficit in that country, but as explained above, investment led planning seems to be stimulating spatial fragmentation and only benefiting a small section of the population. Paradoxically, the most populist government of the four countries, Argentina is the one falling behind in redistributive mechanism of land taxation. Lat. Am. is a region that has historically directed development towards the middle and upper classes. If the current conditions do not improve, uncontrolled RE development will only aggravate this tendency. If measures to spread economic benefits of urban development are not evenly distributed among all sectors of the population, the region will continue to be known as the most unequal in the world.

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