

Housing Policy in Chile, the Evolution of dramatic Tensions

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Housing Policy in the United States

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The history of the Chilean Housing Policy starts in 1906, and develops frantically during the 20th century. A large set of laws were developed and transformed constituting milestones in the complex and rich legal history of the country. At least three different sources coincide on the list of relevant moments in the evolution of the housing policy in Chile⁽¹⁾. The sanction of large number of national laws related with housing is one symptom of a continuous effort of the Chilean society that spans for almost one hundred years. Chile made records on housing both at the beginning and end of the 20th century, being the first country in America to sanction a national law about housing⁽²⁾ and the first country in Latin America to reduce the housing deficit⁽³⁾. Both outstanding records might be interrelated.

Along the complex path towards a consistent housing policy, there are strong evidence of the struggle between antagonistic forces. The evolution of the Chilean building industry as a key sector of the formal economy and the growing and continuous presence of communities marginalized from the mainstream trends of the society exercised tensions that shaped the housing policy in different ways.

These tensions have two radical shifts in the early seventies: with the election of the candidate of Union Popular in 1970, a socialist vision of society took office, treating housing as *a right delivered by the state* outside speculative forces. This approach meant a serious threat to the real-estate

¹ Eduardo Rojas (1999), Rodrigo Hidalgo (2000), MINVU (2003)

² Rodrigo Hidalgo (1999), Belgian and French legislation were a main source for the 1906 law.

³ Intervention of the Chilean Minister of Housing and Planning, United Nations, Assessment of the Conference on Human Settlements HABITAT II, June 2001, N.Y.

business, and didn't have a chance to test their ideas facing a dramatic ending in the tragic coup of 1973, where the socialist government of Salvador Allende was violently replaced by a military dictatorship that ruled Chile for two decades.

A free-market economy was expeditiously introduced facing difficulties particularly in the seventies, a decade where the military government was not able to improve the housing delivery mechanisms. At the beginning of the eighties some of the free-market experiments⁴) drew the economy to a severe crisis that put the country close to collapse. Large subsidies were provided to business groups and important restructuring of the financial system were introduced, particularly the privatization of the pension funds that enabled later the introduction of a secondary market.

The democratic transition of the nineties came with an outstanding performance of the housing policy explained through the capacity of the Chilean leadership to learn from the experiences of the eighties. Nevertheless, the historic tensions between the formal and the informal sectors of the country remain as an open question. This paper explores the history of the Chilean housing policy focusing on the evolution of the role of the private sector and the inherent tensions between the formal sector and the marginal communities. I will use the following classification:

- Early Days (The Road to Hell is paved with good Intentions)
- The Chilean Chamber of Construction in the Housing Policy (Les Cavaliers d'Industrie)
- Modernity in Trouble. (Informal Modern)
- Between two Extremes (Houses (are) not for Sale / Sorry, Houses (and land) are for sale!)
- Chilean Success Story (The Envy of the Neighborhood)

Finally, I will briefly comment on emerging issues, propose a history of the housing policy in eight scenes and try mapping the Chilean Housing Policy in the 20 Century.

⁴ I'm referring here to the abolition of city limits in 1976 among other exotic ideas of total absence of a public role in the economy that were tested by the military government. See Ben Richards. Poverty and Housing in Chile: the Development of a Neo-liberal Welfare State, in *Habitat Intl.* Vol. 19 N. 4, 1995

The Road to Hell is paved with good Intentions (The early days of the Chilean housing policy)

The “round rooms” was the name given to spaces without windows aligned along a small alley. Inside the colonial blocks of Santiago, those “conventillos” (see figs. 1/2) offered the only low-cost solution for the rural migrants coming to the city. These inadequate dwellings provided by private rental housing were the slums of downtown Santiago at the end of the 19th century. In 1906, *the Workers’ Rooms law*⁵ is introduced as a pioneering effort in America, with the influence of Belgian and French policies.

This law had two main elements: on one side, the law created *the Workers’ Rooms Councils*, a public instrument with the task of either improve or demolish existing tenements. On the other side, the law offered tax incentives for the firms or entrepreneurs that were capable of building new tenements, a private instrument to encourage the production of housing. With this element of the law, the Chilean housing policy tradition starts with a strong recognition of the private sector as a main actor of the housing delivery mechanisms.



fig. 1, interior of a conventillo in 1906 (6)

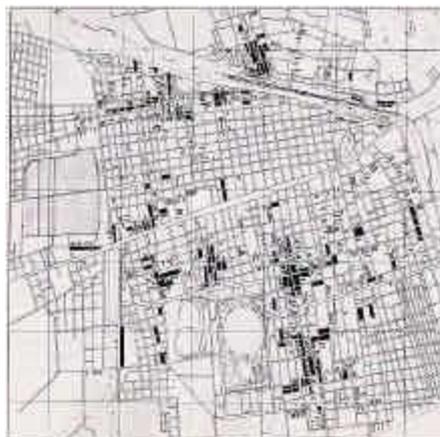


fig. 2, conventillos in downtown Santiago, 1920

⁵ “Ley 1838 sobre Habitaciones Obreras”

⁶ Arquitectura y Calidad de Vida, los Desafíos de la Vivienda Social, V Bienal de Arquitectura.

20 years later the outcome was quite discouraging: more “rooms” were demolished than built sky-rocketing rent prices. In the absence of a financial strategy, only very few private builders started the construction of new tenements. As a reaction to increased rents, a law on rent control passed in 1925. The measures left everyone unhappy: tenants were suffering inside unhealthy spaces, landlords were forced to reduce their income, the action of private actors failed, the need for homes was increasing and policy-makers were frustrated. Very soon, the Chilean society recognized the complexities of the production of housing.

Starting in 1925 a myriad of laws cascaded into the public arena shaping the institutional framework of the government, inventing a financial system and testing different efforts to enable the role of the private sector. However, after several attempts to address the housing delivery as a system in the following decades, the picture in 1952 was even more discouraging: urban poverty was increasing, the private sector was not responding with the scale required, and the capacity of the government to provide housing was very limited. Facing these challenges, the government restructured the public sector creating three mayor institutions. The National Corporation of Investments, the State Bank, and the Housing Corporation (CORVI). These institutions represented the final modernization of the Chilean government, a requirement for a country half way through its industrialization process.

The action of these agencies was directed at the production of large-scale housing projects with the firm understanding that mass production of housing units would give the answer to the housing shortage in a similar fashion to the public housing that was being built in the U.S. The private sector was contracted to built those gigantic projects⁷). This strategy compromised large resources of a fragile budget, and was incapable of dealing with the fast-growing urban areas. The invasion of land in the fringe of the cities became a common practice for the rural communities that tried to reach the urban illusion.

⁷ The typical size of public housing projects in Chile at that time was 3.000 units.

Nonetheless, the housing policy reflected again the tensions between large-scale formal programs and the realities of marginal communities: The model of self-help housing and mutual aid programs was in fashion inside the international agencies during the fifties, and was also included as an important element of the policy. The impact of those efforts was limited.

Les Cavaliers d'Industrie (The Chilean Chamber of Construction in the Housing Policy)

The government was not the only one striving to modernize. In the same fashion, the private sector recognized the limitations of their action. In 1952, firms and business groups linked to the construction business were the same landlords of the cities' housing stock. For that reason, the former *Proprietor's Organization* transformed itself into *the Chilean Chamber of Construction*. This Chamber had a special feature: it gathered not only building contractors, but real-estate firms, general contractors, manufacturers and dealers, concentrating an enormous amount of power. In a country where the public realm represented the citizens unequally, this configuration of private power exercised a tremendous influence on public policy.

Eight years later, the government sanctioned a pivotal law including a large number of special benefits, tax exemptions and franchises to private actors involved in the production of "inexpensive housing". Programs addressing the most poor, such as self-help and mutual aid, didn't receive such a revamping effort.

There is no expressed evidence about the role that the Chilean Chamber of Construction played in shaping this law. However, the lobbying capacity of such a powerful group was beyond any measure. This was undoubtedly useful to guarantee the success of the law. Nevertheless, it is also possible to perceive the absence of any sort of checks and balances system in the negotiation of the benefits that the private sector was entitled to for operating in the low-income housing market.

Incentives for private investment in housing were introduced in all the regulations between 1930 and 1950, but the point of departure for the private sector was The pivotal *Decree with force of Law N. 2* of 1960 directed a myriad of benefits to the private sector, condensing a large tradition of the Chilean housing policy in a comprehensive manner. A new period for private actors started, where private interests were represented in an organized fashion, shaping housing and urban policies consistently.

Out of this decree, the National Housing Plan was defined, and a National Corporation for Welfare Investment was founded, preparing the field for the future development of private pension funds. The creation of the National Housing Corporation, CORVI, was pointed at the idea of engaging the private initiative and finance to the actions of the government.

Informal Modern (Modernity in Trouble)

The absence of timeframes for using certain benefits and other restrictions made the initial response of the private sector timid. The housing deficit was increasing rapidly. Estimated in 156.000 units in 1952, ten years later the housing shortage tripled reaching 454.000 units. All those institutional efforts were resting on inept or corrupt bureaucracies. The scenario was full of tensions. Marginal communities started to understand the amount of power that was exercised by the private sector. Urban social movements started to blossom as a response to policies rendered ineffective. "Besieged by hunger and thirst" was one heading of the national newspaper in October 1957, explaining a large invasion that happened the previous day⁸. The land belonged to the Housing Corporation and was taken by a large group of "homeless" that were demanding action from the government. This was the "official" beginning of the "*tomas*" and "*campamentos*", names that popularized illegal invasions of private land and informal settlement of communities from that point on.

⁸ Newspaper "La Tercera", October 30, 1957.

Housing policy was facing the informal challenge with formal instruments that the country couldn't afford. The public institutions were facing management problems. Starting a new effort to address the urgent problems of the cities, a combination of private and public financial schemes were put into practice. The Ministry of Housing and Urbanism was created in 1965 in an effort to strengthen the institutional framework. With these action, the Chilean government gave a strong recognition to housing, something not seen in other countries.

However, low income housing was still not addressed properly: cities were facing an increased use of invasions to provide access to land. The government tried two programs "operation Site" and "operation Chalk", both efforts to formalize the access to land. It is in the midst of these social tensions that Union Popular, the political party of Salvador Allende, took office.

Houses (are) not for Sale (Between two Extremes)

Thirty years of illegal occupation of land were leaving a deep wound in the Chilean society. This fact was not resolved with the values of Salvador Allende's urban policy: housing is not a commodity, but a right that has to be provided by the state, land is a public asset, and land speculation is unlawful. Self-help approaches are unacceptable unequal and inefficient: the workers don't deserve "double" working hours and low income people don't necessarily know how to built.

The private sector was reluctant to accept the new conditions proposed, and simply stopped any development. The country's economy started to suffer. After a large increase in housing starts during 1972 due to public agencies, projects found scarce resources to continue. It is not hard to imagine the way events followed until the final coup in 1973.

Sorry, Houses (and land) are for sale! (Between two Extremes)

Chile was the first Latin American country to embrace the notion of an “enabling state” in public policy issues. Increasing the role of the private sector in a free market economy was the paradigm that General Augusto Pinochet supported after the 1973 coup against president Salvador Allende. The military government repressed the practice of invasions to vacant land, and proceeded to develop several mechanisms to facilitate the private delivery of housing. Private property rights were protected.

However, in a country where the income distribution is unevenly distributed and the wealth is in “few hands”, unleashing the forces of the market protecting unproductive private land without giving alternatives had important consequences: *the “allegados” phenomenon*: close friends or other extended family members of a household move in to the homes in previous invasions, increasing dramatically the density of the “campamentos” formed before 1973. This practice which was the only alternative left for an important number of families. A total shift towards a free market ignored the facts of the country’s economy. The informal sector increased growth during this decade explains the lack of formal alternatives available (see table 1).

	1960 - 1970	1970 - 1980	1980 – 1990
growth	1.6%	5.0%	2.8 %

Table 1, Urban informal sector growth, three decades (⁹)

The goal of the government in the eighties was to leave housing production and financing mechanisms to the private sector. The state would provide a subsidiary role increasing the purchase capacity of low income families, almost eliminating the risk to private firms. Subsidies supported demand of low to mid-income housing, protecting the private sector but also distorting

⁹ source: A Diaz et.al. “Chile, La gran Transformación” (mimeo) UNRISD 1994, cited in Ben Richards (1995).

the original intentions of targeting the most poor. The private sector provided mortgages to complete the scheme for low to mid-income households.

In 1979, the city limits were dismantled, leaving the supply of land open to the market forces, so that developers acquired land massively. The action of the private sector included now the production of urban land. The added value of this operation was captured by the private sector exclusively. An important element was also added to the system: the privatization of pension funds after the early 80's financial crisis, which was the point of departure to the establishment of a secondary market, a requisite for a dynamic financial system.

For those unable to save or handle a loan, public agencies contracted private companies to build progressive units and basic housing units. Despite large efforts to engage the private sector in the provision of housing, those units were either built or financed by the government. The laws of a free market were not able to address the most poor, even with the “enabling” role of the public sector. Business was more profitable delivering completed units. But delivering only part of the house is still the only way to meet the capacity of marginal communities. That market is not appealing for a construction industry that has a much more comfortable environment in the upper brackets of income, with a liquid demand by means of the subsidy and refined mortgage techniques of private banks. For that reason, the Chilean Housing policy could be better characterized as a case of successful state intervention rather than as a privately driven housing sector ⁽¹⁰⁾.

Different policies based on a strong free-market model were tested during the seventies and eighties, making possible a successful transition to an “enabling role” for the public sector during the nineties. The cost of this “experimental period” is hard to assess, and was probably paid extensively by the marginal communities in the urban fringes.

¹⁰ E. Rojas (1999)

The Envy of the Neighborhood (Chilean Success Story)

The democratic transition of the nineties shows striking accomplishments of the housing policy and the economy as a whole. Chile doubled the GDP, the housing shortage was reduced, and both the building industry and the financial system are in very good shape. The Chilean Housing Policy has a large number of different programs, showing an adequate response to a diverse environment. 13 different programs organized in three categories compose the housing policy. The following table shows the number of units of the last three years and the projections for 2006 for each program. If this projections are met and continued, the housing shortage could be reduced significantly.

HOUSING PROGRAMS				
LINES OF ACTION	YEARS			
	2.000	2.001	2.002	2003-2006
SERVIU UNITS				
01 Basic	22.000	21.000	0	26.000
02 Basic turn key	0	0	2.000	0
03 Social Dynamic without Debt	0	0	8.000	40.000
04 Housing mobility	0	1.000	2.994	0
TOTAL	22.000	22.000	12.994	66.000
CONTRIBUTION TO THE PRIVATE SECTOR				
05 Unified	22.000	18.970	10.500	45.654
06 Rural	10.600	11.794	13.000	57.256
07 Basic of Private Management	7.000	10.000	17.000	130.491
08 Progressive solutions	11.000	11.324	15.000	65.220
09 P.E.T. Subsidies	10.000	11.422	13.012	0
10 Competition Fund	0	0	7.000	60.000
TOTAL	60.600	63.510	75.512	358.621
"CONVENTIONAL" PROGRAM TOTALS(serviu+private)	82.600	85.510	88.506	424.621
EXTRAORDINARY PROGRAM				
11 PET			12.000	
12 New Leasing			10.000	
13 New Basic 300-400 UF			6.500	
TOTAL	0	0	28.500	0
ALL PROGRAMS	82.600	85.510	117.006	424.621

source: Minvu (Ministry of Housing and Planning)

Brief Comment on Omnipresent and Emerging Issues

At least three issues are important challenges for the Chilean policy-makers:

- *the provision of housing to the very poor*
- *the quality of the low-income housing*
- *the impact of housing policies on the city*

The provision of housing to the very poor

The Chilean Housing policy is focused on enabling markets to work. The main effort is focused in the subsidy programs for low to mid income families. The very poor are still depending on public programs. A large tradition of efforts to engage private actors in the housing delivery mechanisms has been incapable of translating the benefits of the market to the most poor. The private entrepreneurs don't see business in the informal sector. This "omnipresent" fact shows that the role of private agents in the provision of housing is not as deeply engaged as appears at a glance: 57% of housing units are produced with heavy government leverages.

The demand driven subsidy is a powerful tool to enhance the purchase power of low-income households reducing or even eliminating risk for private investments. Either this tool seems to be unable to work inside informal markets or the formal sectors of the economy are not interested in those markets. Experiences with micro-credits inaugurated by the Grameen Bank in Bangladesh is showing the value of scale in the economy. There is potential for important gains and productive actions inside the informal world.

Either a new cast of entrepreneurs emerges from the informal neighborhoods of Latin America and takes command of this market improving their productivity and connecting both worlds, or the private sector learns how to extend thier capabilities to the informal sector. Otherwise, coping with the housing shortage is improbable, and governments of "emerging countries" will have to keep a

hybrid policy trying to merge the market economy inside a hidden welfare state to avoid a growing housing shortage.

the quality of the low-income housing

Chile shows significant achievements on housing in the last decade. The Chilean economy is the only one growing in the region, and the GDP is showing important increases. Income is growing, deficit is reducing. So, does Chile have their population better housed than twenty years ago? The poor neighborhoods are still overcrowded, the houses delivered by the state (basic units and progressive units) are showing quality problems. The logic of building the largest amount of the least expensive "solutions" is paying toll. The life-cycle of low-income houses will be a major issue in the next years. The long-term success of the Chilean housing policy rests on the attention that private and public actors will give to this issue in the next years.

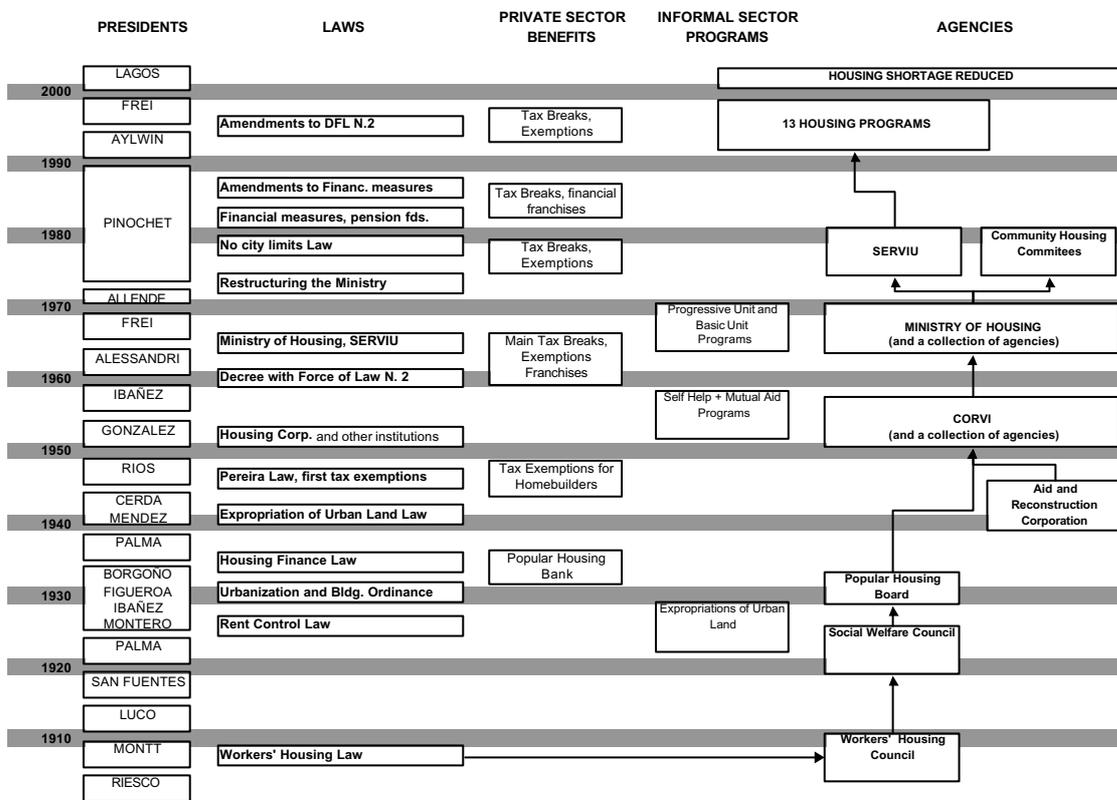
the impact of housing policies on the city

Chile's housing policy aggravated urban segregation, giving less opportunities for education, recreation and employment to the poor. This problem is not unique of Latin America, but expresses itself in a very tragic manner. The stability of the country depends on the right decisions on this matter. There are no easy answers, but an intensive investment in low-income neighborhoods is a priority to overcome urban inequality.

Housing Policy in Chile in eight scenes

- 1st Scene *Replacing the private actors: Unhealthy private tenements vs. public housing for all*
- 2nd Scene *Building institutional frameworks: struggling between rights and commodities from Councils to Ministries. First incentives to private investment.*
- 3rd Scene *The tragic right to housing: struggling for land, blessing invasions.*
- 4th Scene *The pragmatic right to private property. Pinochet (and free market) took Office.*
- 5th Scene *Free market under pressure (1): City limits fell*
- 6th Scene *Free market under pressure (2): Boom in 1979, blop in 1982*
- 7th Scene *Welfare-free market (1): private gains, government assists*
- 8th Scene *Welfare-free market (2): Private sector takes command, heaven is close.*

Mapping the Chilean Housing Policy in the 20 Century



Source: R.Rubio

One Final Comment

The tensions between the development of a formal sector of production and the marginal forces of excluded communities produced a complex image of the housing policy in Chile. This complexity is also strong evidence of efforts to invent a strange apparatus capable of launching a modern industrial economy and at the same time capable of deploying bridges to include large marginalized communities into the benefits of modern life and the creation of wealth. Along the evolution of the housing policy in the 20th century, diverse actions were taken to provide solutions to the most poor. However, stronger and more successful strategies were implemented to support actions of the private sector. It is time for the private entrepreneurship to address the informality of the society in a consistent manner. Some steps towards this goal were already taken. But all the expertise of the leading business groups is strongly needed to overcome the stagnation of marginality and unleash the potential of thousands of fellow citizens.



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