

DECENTRALIZATION AND DEVELOPMENT OF CITIES IN CHILE THE CASE OF
VALPARAISO²

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I - INTRODUCTION

Situated at one of the far-end of the world, as it may be viewed from the Triad countries (Northern America, Western Europe and Japan) Chile performs really well in the world of globalization in sharp contrast with all its neighbors. At first glance this success story may appear as the first Chilean paradox: the highly centralized political and administrative system does not seem to have hampered the economic development although it is generally considered that decentralization is an advisable way to enhance economic performance. In that context one could expect Chilean cities to be success stories as well, which is not the case at least for the second largest city: Valparaiso. That is the second Chilean paradox. This paper tries to consider these two entwined paradoxes and to suggest that a better and more decentralized framework could contribute to produce stronger municipalities and stronger cities without hampering the Chilean macroeconomic success story.

Geographical Context

Stretching from the Tropic of Capricorn to the Antarctic, Chile is a country with a tremendous geographic diversity. The further north and south one goes the smaller are the human densities down to about 10 inhabitants/km². These low population densities contrast with the high density of the natural resources- minerals in the North, forestry and sea-products in the South- that contribute to make Chile a key player in world markets such as copper, sea-food and forestry products.

Chile is an economy living on commodities and agricultural products¹: if most of them are produced in the Northern and Southern parts of the country, their management and the process of their inclusion in the world economy is mostly realized in the central part of the country which covers 6.5% of the territory but concentrates 55% of the population and a little more than 60% of the G.D.P.

Table 1 - Geographical Diversity of Chile:
The Geographic Divide between "central" and "non-central" Chile

	Chile	Central Chile		Non-central Chile	
		Data	%	Data	%
Surface (th.km ²)	725	48	6.5	677	93.5
Number of Regions	13	3	23	10	77
Number of Municipalities	341	122	36	219	64
Population (th.)	15,116	8,381	55	6,735	45
Jobs (th.)	n.a.	n.a.	58	n.a.	42
G.D.P.: regional shares	100%	-	61%	-	39%
Population density (hab./km ²)	21	175	-	10	-

Source: 2002 Census by Instituto nacional de Estadística (I.N.E.) n.a. = not accounted. Indicadores económicos y sociales Banco Central de Chile; 2003.

Central Chili comprises the three following regions: Santiago, Valparaiso and Rancagua.

Notes: Gross Domestic Product regional shares as they stood in 1999.

In this context of extreme geographic diversity the predominance of cities is high: Chile is a very urbanized country with an urbanization rate as high as 85%.

Demographic Context

Between 1970 and 1992 the population of Chile has increased at an annual rate as high as 1.8% and won 3.3 millions inhabitants. In the last ten years the annual rate of growth has decreased down to 1.2%. In the former decades Chile was gaining about 300,000 inhabitants/year; to day it is not more than 180,000. The rate of growth, though somewhat lower than before keeps on being 2 or 3 times higher than rates of growth found in most European countries.

Economic Context

For more than a decade Chile clearly has outperformed the other Latin-America countries: the long-term growth between 1990 and 2000 has been as high as 6.8% per annum (on average); after a moderate slow-down in 2001 and 2002 the rate of growth driven by exports and investments will be not far from 5% in 2004 benefiting from the high prices of commodities: for example copper prices are at their highest level since 1995.

The contrast is really strong between Chile and all other Mercosur countries as shown in Table 2: Chile has done five times better than the average of the four other Mercosur countries.

Table 2 –Economic Growth in Mercosur countries,1990-2002.
Average Annual GDP /cap. Growth

CHILE	ARGENTINA	BRAZIL	PARAGUAY	URUGUAY
+ 5.1%	+ 0.8%	+ 1.0%	- 1.0%	+ 0.5%

Source: C.E.P.A.L.

One of the most remarkable features of the Chilean economic policy is the governmental commitment to run structural surpluses of 1% of G.D.P. over its 6 years-term running from 2000 to 2005. In structural terms government spending is evaluated at the level it would have reached had G.D.P. and copper price been at their medium-term trend levels as they are estimated at 4.1% and 88 US cents/lb respectively by two independent committees. In that context the government achieved in 2002 as in 2003 a fiscal surplus equivalent to 0.9% of G.D.P.

¹ Two-thirds of exports consist of minerals and agricultural and forestry products. Chile's merchandise trade surplus reached a record of 3bnUSD in 2003 with an amount of exports as high as 35% of the GDP (24bnUSD).

Figures are one thing; perceivable achievements by citizens are another thing. If we consider the main indicators of wealth or at the contrary of poverty the following data/achievements possibly tell much more than G.D.P. figures:

- 99% of the population has access to drinking water and 96% are linked to sewerage; ten years ago the corresponding ratios were more than 20 points lower.
- The number of vehicles owned by households is twice as high as it was ten years ago.
- The number of students benefiting from higher education is also twice as high as it was ten years ago.

Political Context

Chile enjoys a long well-rooted culture of political compromise and cooperation between the different parties and political persuasions. This tradition had been disrupted by and after the military *coup* in September 1973. A smooth return to democracy has taken place after the success of the *no* at the 1989 referendum organized by the military government in order to extend General Pinochet's presidential mandate. Since then the Chilean political parties have been organized in two broad and rather loose coalitions¹: *Concertacion* (center-left) and *Alianza* (center-right). At the last three presidential elections the candidate of the *Concertacion* has been elected though in 2000 by a slight margin: 30,000 votes, i.e. 0.3% of the turnout.

The political system is highly presidential as the President is altogether chief of government and endowed with administrative power.

In contrast with most presidential systems the parliament is not a key player in Chile. This can be corroborated and caused as well by the strange electoral system prevailing for parliamentary elections. The country is divided into 60 binominal constituencies; in each one 2 representatives are elected according to a proportional rule which ensures that whatever coalition gaining around 30% of the votes shares the seats with the other coalition. It is not "the winner takes all" but in fact the contrary, "the winner shares with the loser". It does explain the very narrow *Concertacion* majority in Parliament, which is one additional reason for cooperation and bipartisan agreements.

It does explain the very strong stability if not rigidity of the constitutional and political system. Any substantial modification requires qualified majority in both houses of parliament, which is for sure an uneasy task to achieve in such a balanced situation

It not uncommon for the President to introduce proposals of constitutional changes which are discussed at length in Parliament, up to the point to be "frozen" or rejected. Presently it seems to be the fate of a presidential proposal aiming at a deepening of the decentralization process in Chile.

Administrative Context

¹ A third coalition gathers the Communist party and some others of much lower importance.

“Chile is a unitary country, whose administration is both functional and territorial according to either deconcentration or decentralization processes as it appears the most convenient in given circumstances”. That sentence commonly heard by whoever visits Chile allows many interpretations but in its vagueness it gives a clear account of a remarkable set of structural changes the majority of which have occurred for the 16 years of military administration (1973/1989). Before 1973 Chile was one of the most unitary and centralized countries in Latin America. Since the end of the seventies it has indeed remained a unitary country having however undertaken a strong movement towards deconcentration contrasting with the scarcity and cautiousness of the steps towards decentralization.

Table 3 – Synthesis of the most noticeable steps towards deconcentration and decentralization

Territorial levels	Before 1973	1973/1989	Since 1989
Regional	Nothing (save preliminary ideas by ODEPLAN ; Ed. Frey administration)	13 regions ; Prefects designated by President; Advisory Boards	13 regions; Prefect designated by President; Regional Councils indirectly elected
Provincial	25 provinces; Prefect designated by President	51 provinces; Deputy-Prefect designated by President	Idem
Municipal	313 “sub-delegations” with Sub-delegates either elected or designated: Santiago, Valparaiso and Viña del Mar	335 municipalities with Mayors designated; Setting up of the horizontal equalization grant/ F.C.M.	335 then 341 municipalities with elected Mayors and councils

Source: own elaboration.

Report outline

This paper is organized as follows. Section II discusses the decentralization framework concluding that its weakness is counterproductive for Chilean cities. Section III illustrates and develops this idea on the case of the city of Valparaiso. Section IV explores the “avenues for change” that emerge from the analysis.

II - THE DECENTRALIZATION FRAMEWORK

The present section considers in turn municipalities and regional governments. Municipalities are weak although they are genuine local governments while regional governments are relatively strong although not genuine governments.

A/Municipalities in Chile

Institutional Aspect

The territory of the 341 municipalities covers the entire surface of Chile as; contrary to Argentina for example, there is no unincorporated territory. Following a presidential proposal and a parliamentary agreement, new municipalities may be set up by splitting up existing ones. This has been the case of both the conurbations of Valparaiso and Concepcion where 4 “emerging” municipalities have been created since 1992. Strangely enough this administrative “creativity” takes place in metropolitan areas where the challenge of a better horizontal coordination suggests the need for some kind of adverse movement. Still more strangely enough it appears that the central government is presently working out a proposal leading to a further splitting-up of the municipality of Valparaiso, while citizen groups in the northern part of Viña del Mar are lobbying in favor of the creation of a new municipality.

Depending on size, between 4 and 8 municipal councilors are elected in each municipality, an odd number of local representatives. A clear political majority is ensured by the independently-held election of the mayor (*Alcalde*). In tune with the political national tradition Mayors are vested with the executive power, as the councilors are provided with no more than advisory and monitoring responsibilities. Some kind of balance of powers is achieved through the possibility opened to a certain number of municipal councilors -depending the size of the municipal council- to defer the Mayor to justice. Both Mayors and councilors can be reelected for an undefined number of terms.

The last municipal elections have been held in October 2000: quite surprisingly they were a triumph for the right-leaning *Alianza* coalition who won most of the largest municipalities amongst which Santiago (200,000 inhab.)¹ La Florida (340000 inhab.) and Concepcion (216,000 inhab.) Never in Chile so acute and great has been the political divide between the two tiers of government. This unusual situation, quite off the political customs of Chile, although fairly common in most European countries², may possibly hinder any strong movement towards a deeper decentralization framework.

Municipal Responsibilities

¹ The newly elected mayor for Santiago has been J. Lavín who 6 months before had been defeated by R. Lagos at the presidential election

² where “cohabitation” between different political persuasions at national and regional/local levels respectively, is a long-standing tradition

Municipal Responsibilities are defined in general terms whose phraseology encompasses much more than what the municipalities can undertake once taken in account the limited range of both their financial resources and administrative autonomy. Indeed they are supposed to provide each local community with the satisfaction of its “needs” and to enhance the economic, social and cultural development: really a big agenda or a *vaste programme* as say the French. In practice what they do is first the upkeep, enhancement and increase of the local public realm: streets, places, public spaces and second the provision of basic public services: water, refuse collection and treatment, public transport.

It is quite noticeable that their functions have been significantly extended in 1979 when the military government entrusted municipalities with the responsibilities of the provision of first primary and secondary education and second public health. Whether this change has been motivated by political¹ reasons or not it did entail important financial and administrative consequences we will consider further down.

Law limits municipal staffs. Including the Mayor their size is comprised between less than 10 persons in the dozens of small municipalities up to several hundreds in municipalities like Valparaiso and Viña del Mar and even 1,500 in Santiago. The corresponding average proportion of professionals is about 20%.

Diversity of Chilean Municipalities

Chilean municipalities are quite diverse, although not as diverse as in many other countries because of the far-fetched mistrust characterizing intergovernmental relationships in Chile. Never a municipality has had the possibility to grow and to become a metropolis as it has been the case, through successive amalgamations with surrounding municipalities, in New York, Berlin, Paris or London. Santiago is just one of the 32 municipalities of the eponymous province, alongside with dozens of others some of which are more populated than the core city.

In that context table 4 presents basic data concerning the diversity of Chilean municipalities.

Table 4 –Municipalities: Population Size Distribution, 2002

Population size	Number	Population(thousand)	%	% Cumulated
<5000	44	121	0.8	0.8
<10000	59	438	2.9	3.7
<20000	88	1,255	8.3	12.0
<50000	72	2,192	14.5	26.5
<100000	32	2,388	15.8	42.3
>100000	46	8,722	57.7	100
<i>Total</i>	341	15,116	100	

Source: 2002 Census – I.N.E.

¹ Supposedly in order to lessen the power of teachers and nurses unions

The 46 municipalities having more than 100,000 inhabitants –of which a majority belongs to the metropolitan area of Santiago (MASt)– account for not far from 60% of the population of Chile.

The fact that Santiago be a relatively unimportant municipality by population size must not mislead the analysis. Santiago as a *municipality* is neither Buenos-Aires nor Sao-Paulo, not to mention Mexico City or even Montevideo but nevertheless Santiago as a *conurbation* stands out very high, endowed with an elevated rate of primacy. Table 5 provides data in that respect.

Table 5 – Metropolitan area of Santiago (MASt): its Rate of Primacy

	Chile	MAST	% for MAST
Surface (km ²)	725,000	4,400	6%
Number of Municipalities	341	37	11%
Population (thousand)	15,116	5,450	36%
Density (hab./km ²)	21	1,250	-
Jobs (thousand)	5,380	2,300	43%
Regionalized G.D.P. (10 ⁹ \$)	6,700	3,200	48%

Source: 2002 Census – I.N.E.; Source: Indicadores economicos y sociales Banco Central de Chile; 2003. Own elaboration

Note : regionalized G.D.P. year 1999, 10⁹ \$ at 1986 prices.

Resources of Municipalities

The broader context of local public finances in Chile is summarized in Figure 1. The Chilean case stands out on four grounds: first the non-existence of a vertical block grant, second an important horizontal inter-municipal equalization grant, third the fairly limited autonomy regarding the local taxes, and fourth the high amount of expenditures locally realized but centrally decided¹. Such a set of peculiarities contributes to generate a decentralization framework whose main characteristic is, as municipalities are concerned, its weakness.

The general financial weakness of Chilean municipalities may be measured by its share in the amounts of incomes and expenditure of the public sector: central and local governments respectively.

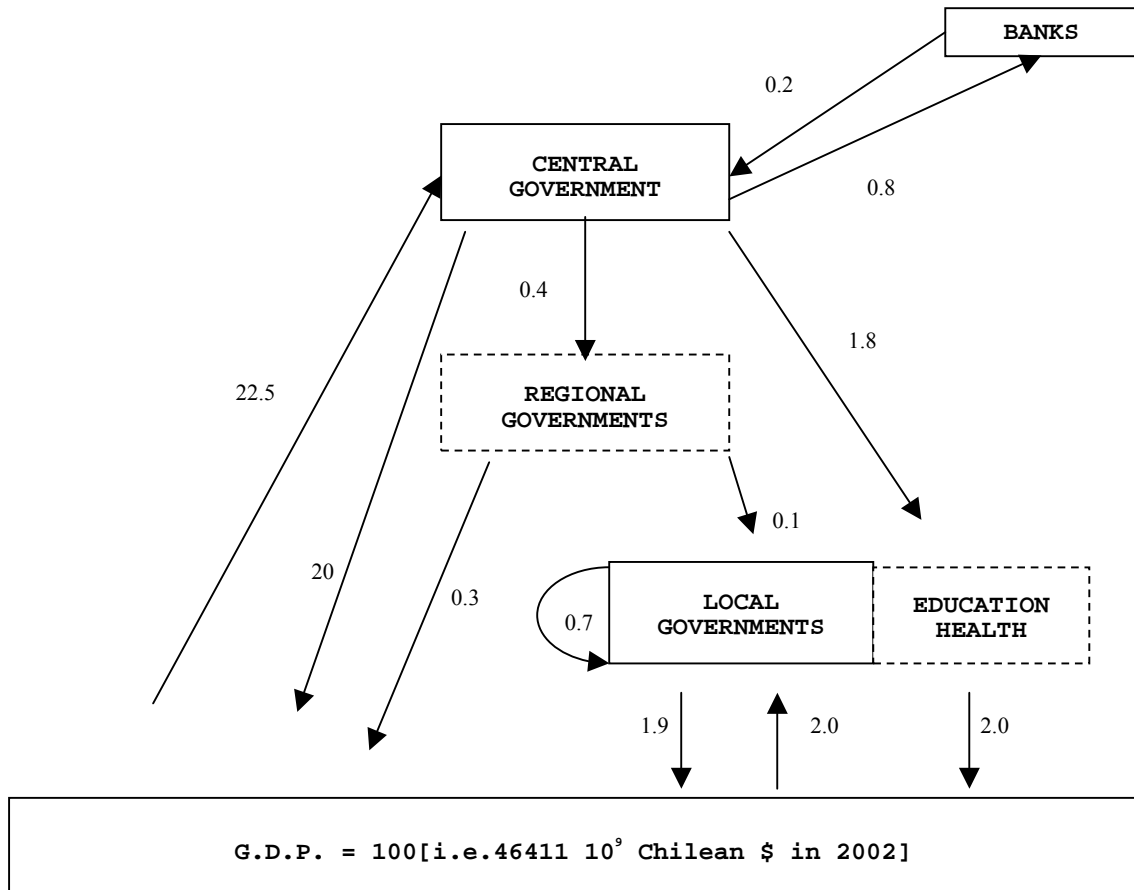
The Chilean call Gobierno General the sum of Central Government and Local Government². So defined the General Government Sector weighs about 25% of the Chilean G.D.P. Within Gobierno General, Local Government -i.e. the 341 municipalities- does not weigh much. Excluding education and health municipal taxes, fees and other resources represent about 2% and local expenditure 2% as well of the Chilean G.D.P. This is eleven times less than Central Government.

If one includes education and health, for which municipalities are really agents of the central government, rather than autonomous decision-makers, local government expenditure represents about 4% of G.D.P.

¹ Which is the case mostly of Education and Health expenditures.

² This definition tells us one important thing: Regional Governments are not considered as such but as a mere component of... Central Government.

Figure 1 – Chilean system of Decentralization:
Main Flows of Funds; 2002



Sources and notes: all numbers are in % of G.D.P. They are preliminary estimates.

Box n 1: A comparison between Chile and France.

There are more than 36,000 *communes* in France, of which most are members of some kind of horizontal multi-communal government, especially in urban areas. This is the lower tier of government not considering the 96 *Départements* and the 22 *Régions*. This lower tier alone accounts for 35% of the expenditure of central government as opposed to 9% in Chile. In France the average income per capita at local government level amounts to 1,340 euros as compared to about 70 euros in Chile, 19 times more.

Source: *Indicadores economicos y sociales Banco Nacional de Chile, 2003. Ministère de l'Intérieur – DGCL.*

As shown in Figure 1 municipalities¹ derive about 90% of their resources from taxes, fees and non-fiscal resources and only a meager 10% from subsidies. Bank loans do not accrue to municipalities as long-term indebtedness is not allowed.

¹ In Figure 1 Education and Health expenditure and incomes (subsidies), for reasons explained further down, are considered separately. It is the most relevant explanation of the low % of subsidies accruing to municipal budgets.

As a contrast with most other countries Chilean municipalities may be said to “live on their own” save the Education and Health sectors. No or very few subsidies from higher levels of government accrue to municipal budgets.

Municipal Taxes

The three more important taxes are a property tax, a business tax, and a vehicle tax. The amount of corresponding incomes accruing to the 341 municipal budgets is about 430 trillion Chilean \$ in 2002. They do represent the main bulk of municipal incomes although some other 400 trillion Chilean \$ accrue as well through fees, specific transfers and property incomes.

Table 6 indicates the share of each of the 3 main taxes and the dispersion of the corresponding fiscal bases -as indicated by incomes per capita²- amongst the 341 municipalities.

Table 6 – The three local taxes: amounts and Inter-municipal disparities – Year 2002

	PROPERTY TAX	VEHICLE TAX	BUSINESS TAX
AMOUNTS (in 10 ⁹ \$)	130	118	182
INTER-MUNICIPAL DISPARITIES:			
- Average tax per capita (in th. \$) m	7,100	10,090	8,920
- Standard deviation σ	11,540	16,730	21,350
- σ/m	1.5	1.6	2.4
- First 10%	790	2,160	930
- Next to last 10%	12,330	20,222	13,380

Source: *Subdere, SINIM Information System*

Note: non-weighted averages

Two points may be emphasized. First there is a high level of tax-base disparities especially high in the case of the Business tax. Second the three local taxes are not genuine local taxes because municipal councils do not chiefly decide their rates.

In the following pages we consider in turn each one of the three taxes.

The property tax (*Impuesto territorial*) is indeed a local tax but is not a locally decided tax. Neither its assessment nor the definition of the tax-rate are decided by each municipality. The entire management is within the hands of central government, which is probably quite relevant as tax collection and assessment are concerned but is not as relevant as the determination of the rate is concerned. It transforms the property tax in a uniform rate local tax: about 1.2% of the evaluated fiscal values of non-agricultural properties. In that context of high centralization a national law stipulates that the first 15000 USD of every property are exempted as are exempted all public buildings including churches, museums, sports facilities and military properties. Of course such a national exemption impacts differently the respective municipalities: the wealthier is the locality (as it is the case of the so-called “golden strip” municipalities in the eastern part of the metropolitan area of Santiago [MASt] or Viña Del Mar) the lesser they lose from the exemptions; all the

² As it will be analysed further down the tax-rates of each of the three taxes are in fact uniform throughout Chile, which allows considering incomes/inhab as a proxy of fiscal base

contrary, sadly enough, for the poorer localities where low real-estate values lead to countless exemptions that may concern a percentage of properties as high as 60% or 70%. *Impuesto territorial* is, if we consider the tax-payer side, a progressive tax, as it is illustrated below by a theoretical example of two municipalities comparable by their size but quite distinct by the value (either fiscal or marketable) of their properties. The dual nature of the property tax which divides the local “world” into two groups: those who are exempted and the others, goes against the desirable principle of local government accountability. Needless to say that this dual nature of the property tax will be very difficult to modify :there is in political terms a lot at stake.

Table 7 - A comparison of property tax bases and property tax incomes

Fiscal values and incomes in USD	City A	Ratio B/A	City B
Volume structure of the properties:			
- 1/3	10,000		10,000
- 1/3	14,000		30,000
- 1/3	21,000		50,000
Average	15,000	2	30,000
Property tax income (uniform rate =1% levied on properties whose fiscal value is higher than 15,000 USD)	210	3.8	800

Source: own elaboration

The business tax (*Patentes municipales*) is a rather simple tool as it is levied on the value of capital assets of all types of enterprises whatever their activities. A uniform range of rates is set up at national level (from 2.5‰ to 5.0‰) inside which Municipalities are free to determine their own local rate. In the majority of cases municipal councils have been asked by *Alcaldes* to stick to the top-rate. As a matter of fact the business tax is a quasi-uniform tax. The big difference with the property tax is the absence of exemption. As shown in Table 6 inter-municipal disparities are at their highest level concerning the business tax: in this case the average tax-base for the last half-decile -grouping the 17 wealthiest municipalities- is 8 times higher than the overall average compared to figures around 5 times higher for the two other taxes. It is a still clearer indication than in the case of Property tax of the acute concentration of Malls, Offices buildings, and retail facilities in the so-called “golden strip” municipalities of the metropolitan area of Santiago.

Vehicles are, as in most countries, a classical tax-base: either when possessed (*Permisos de circulacion*) or when bought (*Transferencias de vehiculos*). The strange thing about the vehicles tax is the absence of a strong territorial linkage between the place where one lives and the place (i.e. the municipal purse) where one pays the tax which leads to some competition between municipalities eager to attract (through advertisement and festivities) car-drivers¹. As for the two others taxes, the tax rate of the vehicle tax, is the same for all municipalities.

The Equalization Block Grant (Fondo Comun Municipal)

An E.B.G. (F.C.M. in Spanish acronym) has been set up in 1979 as an instrument of equalization indeed but also as a counterpart of the decentralization of new responsibilities

¹ A paradoxical illustration of decentralisation and a room of manoeuvre for municipalities all the more possible because of the multiplicity of relatively small municipalities within the conurbations of Santiago, Valparaiso and Concepcion notably.

towards municipalities¹. As it is entirely horizontal at the macro level it does not provide the 341 Chilean municipalities with a net supplementary amount of income as it appears in Figure 1 where F.C.M. is referred to as a loop getting out from local governments and accruing back to them.

F.C.M. is a strange and somehow clumsy horizontal equalization device due to two features: distortion regarding its supplying side, and contradiction on its redistributive side.

Distortion on the Income Side

Fiscal resources that accrue to F.C.M. are levied on two sets of local tax incomes. First 60% of property tax income and 62.5% of vehicle tax income as regards all municipalities without exception². Second 65% of business tax incomes only in the three municipalities of Providencia, Las Condes, Vitacura, percentage lowered to 55% in Santiago. The result of the difference made between both local taxes and municipalities is quite clear: the four singled out municipalities' contribution is as high as about 60% of the total amount of resources accruing to F.C.M. while other municipalities whose fiscal base is fairly comparable to the fiscal base of the "4" municipalities singled out are net receivers ("winners") from F.C.M.: Arica (185,000 inhab.) or Lo Barnechea (75,000 inhab.) for example.

The municipal contributions to F.C.M. do not give an adequate account of the hierarchy of fiscal bases; they rather reflect the geographical concentration of business and residential investments in that part of the Santiago metropolitan area referred to above as the "Golden Strip".

Regarding F.C.M each municipality both provides and receives. Of course there are many net "receivers" and many less net "providers" but it does explain why partial only is the reshuffling process as no more than 58% of the amount accruing to F.C.M. is redistributed, as shown in Table 7.

Table 8 - F.C.M. Municipalities respectively net providers and net Receivers. Year 2002, trillion Chilean \$

	Amount Provided	Amount. Received	Difference
Net providers(51)	248	50	-197
Net receivers(290)	91	289	+197
<i>TOTAL (341)</i>	339	339	

Source: *Subdere*.

In other words it can be said that not taking in account that part of F.C.M. which is not reshuffled, about 50%³ of the grand total of the three principal municipal tax incomes contributes to equalize financial resources between municipalities.

¹ Decentralization of Education and Health sectors were financed by ear-marked subsidies; nevertheless the political agenda of this period was to have many more tasks than before undertaken at local level according to a Tieboutean paradigm inspiring the « Chicago boys », whose role has been so predominant for the period of the military government.

² % Increased to 65% in the four following municipalities: Santiago, Providencia, Las Condes and Vitacura belonging to the "Golden Strip".

³ Grand total = 430 trillion Chilean \$; amount of reshuffled tax incomes = 197 trillion.

Contradiction on the Redistribution side

The redistribution formula is rather complex and somewhat contradictory. If we do concentrate on those criteria, which explain 90% of the redistribution process¹, the picture is as follows:

Table 9 - Criteria for F.C.M. Assignment

Share of F.C.M.	Criteria
10%	C1 – Equal amount to 341 municipalities
15%	C2 – According to population
10%	C3 – Level of poverty
30%	C4 – Relative number of properties exempted for Property tax
35%	C5 – Level of fiscal resources per capita

Source: Subdere.

Criteria C5 and C3 are very relevant and well in tune with the idea of balancing the resources between municipalities. On the contrary criteria C4 is very crude and may appear as a strong disincentive towards both a higher level of accountability and more pro-active policies aiming at economic development leading to higher properties prices. It does contribute to loosen the civic linkage that should be strong between citizens and local governments. Consequently it may occur in some municipalities that a majority of households are “free-riders” vis-à-vis local taxes.

¹ 10% devoted either to cope with emergency situations or to reward municipal management best practices.

An Evaluation of F.C.M.

As to the discussion of F.C.M. achievements our evaluation is balanced. On one side, happily enough, F.C.M. carries over a genuine equalization effect as shown in table 9.

Table 10- F.C.M.: Its Equalization Effect – Year 2002

Deciles	% Of Resources without F.C.M	% With F.C.M.	Resources per capita after F.C.M. (th. \$)
1	1.51	5.74	43.3
2	1.92	6.84	45.6
3	1.74	4.44	51.7
4	3.08	6.31	47.2
5	4.65	7.29	40.5
6	6.83	9.07	42.0
7	6.45	8.41	46.6
8	12.75	13.02	42.6
9	12.40	11.14	49.2
10	48.67	27.74	113.2

Source: Subdere, SINIM Information System.

Note: Deciles are defined according population size of the municipalities which introduces a population effect However the two first columns allow a relevant comparison result of which is given in the third column.

At this stage of the analysis the efficacy of F.C.M. is proven and may appear quite noticeable. The poorer half enjoys less than 13% of the total of local tax incomes but due to F.C.M. is finally provided with 43.5% of the corresponding amount, which means a gain of 30 points of local resources!

On the other side F.C.M. has its limitations and cannot achieve a higher degree of equalization of which it can possibly be said that for two reasons it is both a challenging and non-intended result.

The first reason has to do with time: F.C.M. does not run ahead but lags behind the need for greater equalization as the concentration of people, wealth, investment and assets is more and more acute in the wealthiest municipalities of the greater Santiago¹. The ten richest municipalities concentrated in 1994 41% of the total of municipal resources, this ratio has increased up to 49% in 2002. With Chile back on the fast development trail, new real estate investments are concentrating in the “golden strip” municipalities and in Viña Del Mar as well, raising new challenges for the horizontal equalization policy: as it may be said in Latin: *usque non ascendant* (where they not will climb up)? Related to this movement it is of interest to note that in 2002 the share of municipal resources benefiting, after F.C.M. reshuffling, to the three moderately wealthy groups (deciles) of municipalities, save the wealthiest deciles, has decreased from 36.5% down to 32.5%.

The second reason has to do with space. Net “providers” i.e. especially the four municipalities referred to *supra*, concentrate an increasing proportion of the total amount of Chilean local taxes. This evolution may be considered as a strong challenge to the equalization goal pursued by F.C.M. Only a very limited number of municipalities are able to capitalize the positive impacts of the relevant and successful Chilean macro-economic policy. However it may be commented that this spatially concentration of wealth conversely enables F.C.M. to increase the amount of resources derived towards the many more

¹ Movement of concentration usually referred to as *Metropolization*.

numerous net “receiving” municipalities. More than a *Fondo de equalizacion* in the genuine meaning of the word the F.C.M. can be considered as a cross-subsidization device. The richest become richer and consequently subsidize more and more the poorest.

Health and education subsidies

Let us first note that the corresponding subsidies are not included as resources within municipal budgets. One of the reasons for is the possibility for municipalities to provide the services through not-for-profit organizations, consequently endowed with administrative and financial autonomy¹.

Education and Health subsidies amount to 850 trillions Chilean \$, thus representing as much as 80% of the total amount of municipal budgets (save Education and Health expenditure). Moreover Education and Health facilities are eligible to specific subsidies from Central and Regional governments.

The evaluation regarding the so-called *municipalization* of health and education sectors is quite diverse if not contradictory.

On one side listening to many municipal professionals and politicians it is claimed that the subsidies do not reach the amount of expenditures incurred by either *Corporaciones* or municipal departments in charge². Indeed it is true that municipal autonomy concerning service provision is low: would some schools see their enrolment decrease (or increase) it is quite difficult for the *Alcalde* to adjust the number of teachers. Besides teacher’s salaries are determined by the Central Government. As it has been summarized somehow straightforwardly by one municipal leader “we are in charge of the costs, they deal with the resources”.

On the other side and quite contrary to the first point decentralization is viewed by many as a success at least in terms of effectiveness and equity³.

An Assessment of Municipal Autonomy

It is quite straightforward: municipal autonomy is very low and in certain circumstances too low. Six points can be presented to support this statement.

First, the financial weakness of municipalities is pronounced. Their share of G.D.P. (2%) and consolidated Public Sector incomes (9%) are really low by comparative international standards. Alongside the financial weakness goes as well a noticeable weakness in terms of human resources.

Second, their degree of fiscal autonomy is very low as they are not provided with the possibility of deciding the local taxes rates, which are decided by Central Government.

¹ This is the case in Valparaiso and in many other municipalities where *Corporaciones* have been purposely set up.

² Although it may be considered that subsidies are not supposed to achieve such a result, it is a clear indication of a general reserved attitude towards those two responsibilities.

³ See reference R2 W.H.O.

Third, unlike most municipalities in the world, they do not benefit any vertical block grant.

Fourth, deprived of fiscal autonomy in terms of fiscal rates, local government accountability is quite limited: too many local citizens do not pay local taxes.

Fifth, their efficiency is hampered by the absence of any horizontal area-wide coordination mechanism, especially in urban metropolitan areas; if it is true that “union leads to more strength” it is an opportunity of higher autonomy, which is lost.

Sixth, the specific subsidies they receive entail another loss of autonomy as such subsidies reflect central government priorities, which is the case in Education and Health sectors.

This very low degree of autonomy is particularly detrimental at times of rapid economic and social change. If an area is growing rapidly, municipalities will find it difficult to take the required accompanying measures. If on the other hand, an area is subject to economic decline and social deprivation it will be a real challenge for the municipalities concerned to build a new vision and to design new policies and programs: this point is illustrated in Section III in the case of Valparaiso.

B/Regional Governments in Chile

The 13 Regional governments created in 1980 have been for several years on the center of the stage and at the heart of the political agenda regarding decentralization. Further down we describe and discuss institutional and financial aspects in turn.

Institutional Aspects

Regional governments are managed on one side by Prefects (*Intendente*) and his/her regional staff, on the other side by Regional councils. Prefects are designated by the President and fired as well at any moment: some prefects have been at the head of their Regional Government for several years while in other regions there has been as many as 5 or 6 prefects since the beginning of President Lagos' mandate.

Generally they are high-ranking officials with a strong political background: in the Valparaiso Region the prefect is a preeminent academic who had been a high-ranking member of one of the political parties belonging to S. Allende's majority, in the Bio-Bio Region he is a former secretary of state of S. Allende's government. Regional staffs are not numerous –between 50 and 80- but comprise a high percentage of professionals and may be considered as central government regional branches.

Regional councils are indirectly elected. They are chosen by the municipal councilors of the municipalities convening at provincial level. Each one of the several provinces constituting a Region¹ elects a number of regional councilors according its population size with a definite over-representation of the most rural provinces.

Prefects chair regional councils, and are vested with the executive power. The present situation in Chile resembles strongly what had been the case in France years ago, before the enforcement of the decentralization agenda in the 80s. Prefects to-day in Chile, as it was before the case of their French equivalents, are twin persons: on one side personal representative of the President and as such head of the regional administration; on the other side executive leader of the Regional council.

Regional Governments: Goals and Tools?

Chile in the 60's was already a country in development although suffering from high levels of both poverty and geographical disparities. The awareness of such flaws in the development process was already clear when, at the time of Eduardo Frei's administration was set up ODEPLAN an Agency dealing with regional policies issues. A decisive move was realized when the military Government created in 1980 the 13 regions each one endowed with its Intendente and non-elected regional advisory body. For the first time in its history Chile had decided to turn, slowly indeed and amidst strong resistance from the center, to place-oriented strategies and policies.

¹ In most cases between 3 and 6.

In that context it is easy to understand that regional governments have been endowed with three across-the-board responsibilities: to enhance regional development, to equalize social conditions between households and places within each region, to set up regional strategic plans. The key word for regional governments is: equity, meaning satisfaction of the basic needs, eradication of poverty and a better balance of economic development between territories within each region. .

In order to achieve these goals regional governments have become key players vis-à-vis the territorial assignation of central government expenditures. They have no direct responsibilities concerning the usual public goods: transport, water, housing, education health or whatever else, but they have more and more powers concerning the localization of the corresponding expenditure: they do not decide how much money will be allocated to the different functions, but more and more they decide where money will be spent; which introduces the analysis of the financial aspects.

Financial Aspects

Regional governments are not provided with their own resources: there are absolutely no regional taxes. Clearly there is no fiscal decentralization at the regional level.

By far public investment is financed and consequently decided by Central Government: as much as 93% of the grand total.

Therefore regional governments are heavy subsidies (or transfers) receivers from “Santiago” where are located the ministries.

However it is true that an increasing share of public investment is submitted to some kind of regional political agreement concerning its territorial assignment: the corresponding amount is claimed to be the “regionally-decided investment”. One can ask whether it is not a misnomer for at least two reasons. First the global amount of public investment and the allocation between ministries and hence between functions is decided at central government level. Second the degree of regional “decision” varies a lot between full decision and low influence over ministries’ own decisions.

The former case is perfectly illustrated by the example of regional development grant (*Fondo nacional para el desarrollo regional*; F.N.D.R.).It does weigh around 10% of the total of public investment. F.N.D.R. money is functionally multi-purpose and its sub-regional assignment entirely decided by Regional Councils.

The latter case –low influence- is illustrated by what is called “Agreements” (*Convenios*)where *Intendentes* do agree with ministries about how much of the different investment programs should benefit their own region.

Whatever the degree of influence exerted by regional governments the trend towards higher “deconcentration” of public investment is clear: according to data provided by the Ministry for Finances (*Hacienda*) it did increase from a low share of 20% in 1993 up to not far from 50% in 2003.

The so-called regionalization of public capital expenditure is one thing; another is the discussion of the allocation between regions of the global amount of public investment.

In that regard Table 11 presents the main findings concerning the part -83%- which can be easily regionalized.

Table 11 – Public investment inter-regional allocation
By Ministries – Year 2003; 10⁹ Chilean pesos

	REGIONS	HOUSING TOWN- PLANNING	REGIONAL DEVELOP MENT	PUBLIC WORKS	INTERIOR F.N.D.R.	OTHERS	TOTAL	TOTAL/ INHAB. (th.\$)
I	TARAPACA	16.2	0.9	12.1	8.3	1.7	39.2	92
II	ANTOFAGOSTA	8.7	1.3	12.9	15.2	2.6	40.7	83
III	ATACAMA	5.2	1.7	10.0	8.8	4.3	30.0	116
IV	COQUIMBO	22.3	1.5	13.5	10.8	3.4	51.5	85
V	VALPARAISO	30.8	7.4	21.2	12.6	9.4	81.4	53
VI	RANCAGUA	20.1	3.6	17.0	9.7	7.8	58.2	75
VII	MAULE	25.1	2.9	19.3	12.0	5.9	65.2	69
VIII	BIO-BIO	54.5	17.0	36.4	16.0	20.6	144.5	78
IX	ARAUCANA	27.0	1.6	29.1	16.4	14.1	88.2	101
X	LOS LAGOS	25.8	4.0	47.8	17.1	14.1	108.8	101
XI	AYSEN	7.6	0.9	12.1	9.4	0.7	30.7	338
XII	MAGALLANES	5.5	0.6	12.3	11.7	2.2	32.3	214
XIII	METROPOLITANA	80.9	6.8	16.0	17.4	20.1	141.2	23
	<i>TOTAL</i>	330.0	50.3	259.3	165.5	106.9	912.0	60

Source: Ministry of Finances – Directorate for Budget.

Note: are only considered the amounts of investments that can be regionalized; they do represent 83% of the total amount of public investment.

Very relevant are the figures of investment per capita among the 13 regions. Two regions are below the national average: Santiago -far below- and Valparaiso -10% below-. The eleven other regions benefit more or less strongly from the inter-regional allocation process: not much in Northern and South-central Regions, heavily in the Southern Regions (regions IX, X, XI and XII). A clear bias in favor of non-central and less-urbanized regions is the result of the complex process of geographical allocation of public capital expenditure. Is it to say that regional governments have delivered what they were supposed to and that the economic heart of Chile is neglected by the Chilean government? The answer is not a clear-cut “Yes”.

An Appraisal of Regional Governments

Three points can be made about regional governments. First, they are not genuine governments. Then, they have delivered relevant results. Third, they are not in a good position to deal with both cities challenges and economic development issues.

For sure they are in fact no more than quasi-governments. Because they are deprived of any own fiscal income, they are not submitted to whatever accountability; as accountability is concerned *Intendentes* are only responsible to the President. Regional Councils are indirectly elected and moreover presided over by *Intendentes*.

In spite of what could be called their non-political nature regional governments have achieved a lot. Their contribution to the eradication of poverty and the setting-up of a more equitable nation cannot be discussed.

However their relevancy to deal with cities challenges cannot be warranted. This assessment is justified mostly by the reasons that have led to the conclusion that they are not *bona-fide* governments. Regional governments are in charge of geographical equity between people and between sub-regional areas within each region. This is not the most adequate preparation for urban development challenges.

Since 1985 the share of the Santiago metropolitan region in national G.D.P. amount has increased from 42% up to 48% in 1999¹. In sharp contrast with Santiago the “core” urbanized Chilean region, the decline of the G.D.P. shares of most other regions² has been moderate -regions IV Coquimbo, VII Maule- or pronounced -regions V Valparaiso and all the southern ones: VIII Bio-Bio, IX Araucana, X Los Lagos, XII Magallanes-.

Regional governments have succeeded in providing a higher degree of social cohesion between people among the diversity of Chilean regions. They have not and they could not succeed in providing the non-metropolitan regions with a higher degree of economic development.

Economic development is primarily an urban question and issue; it is mostly dealt with through either private or non-regionalized and subcontracted public investments all of which are beyond the Regional Government scope. This is exactly the situation in the Santiago Metropolitan Area³.

But what does happen when private or semi-public investments do not occur? This question is raised as we consider the case of the city of Valparaiso.

¹ Source: Indicadores economicos y sociales Banco Central de Chile.

² The Northern regions are a strong counter example to this general trend especially in the regions II Antofagosta and III Atacama.

³ Metro extension, new City expressways not to mention the formidable concentration of private investments already referred to in the paragraph dealing with the Business tax.

III - STORY OF A RESISTIBLE DECLINE: VALPARAISO

Valparaiso is a city whose notoriety probably extends worldwide. Its reputation traces back to those times when it was the first harbor where ships and sailors could call after having passed Cape Horn. The high Valparaiso notoriety is in sharp contrast with the poor state of its urban physical environment and its low level of social and economic development.

Valparaiso lies along the seaside of the Valparaiso bay, shared with the neighboring municipality of Viña del Mar.

Measures of the decline

Let us consider in turn data about harbor activity, demographic and employment evolutions, and property values.

Harbor activity: without making reference to the activity that allowed Valparaiso harbor to thrive before the construction of Panama Canal we present in Table 12 the evolution of the various Chilean harbors in the last 12 years.

Table 12 – Value of the traffic of Chilean harbors –
10⁶ USD; current year

	AVERAGE 1991-1992		AVERAGE 2000/01/02	
	10 ⁶ USD	%	10 ⁶ USD	%
Northern Harbors	3,000	22	4,650	22
Valparaiso	5,650	42,5	4,100	20
San Antonio	1,250	9	5,150	25
Talcahuano and San Vicente	1,300	10	1,600	8
Others	2,200	16,5	5,250	25
<i>Total</i>	13,400	100	20,800	100

Source: Armada - Directmar

The story of the port of Valparaiso in the last twelve years is a story of decline: its share was as high as 40% at the beginning of the 90s', it has dramatically decreased to less than 20% in the beginning of the present century.

Six of the 12 state-owned Chilean harbors have seen their operation “privatized” (subcontracted in fact). In 2004 the evaluation of the corresponding assets stands as follows: Valparaiso: 115 bn. USD; San Antonio: 167 bn. USD; San Vincente 78 bn. USD.

San Antonio harbor located not far from Valparaiso and belonging to the same region V weighs to-day nearly one and half time as much as Valparaiso, while its weigh was much lower than Valparaiso's 15 or 20 years ago.

The demographic evolution has been less negative although not encouraging. In 1992 Valparaiso had a population of 290,000 inhabitants and has lost about 10,000

inhabitants 10 years later, while Viña del Mar + Concon¹ have won some 15,000 inhabitants.

A similar picture may be drawn for employment figures.

Table 13 – Employment Evolutions in Valparaiso and Viña del Mar
Between 1998 and 2003

YEAR	VALPARAISO	VIÑA DEL MAR
1998	90,000	109,000
2003	87,000	123,000

Note: employment measured in the fourth term of the year.

Property values are much lower in Valparaiso than in Viña del Mar two municipalities fairly comparable by the population size as shown in Table 14. Indeed wealth measured by property values is two and half times higher in Viña del Mar than in Valparaiso. Still higher is the difference when one considers the fiscal value after “exemptions”: the higher percentage of low value properties in Valparaiso than in Viña del Mar allows the later municipality to enjoy a fiscal yield more than 3 times superior to the fiscal yield of the former.

Table 14 – Evaluation of Properties in Valparaiso and Viña del Mar –
Year 2002, 10⁹ Chilean pesos

	VALPARAISO		VIÑA DEL MAR	
	10 ⁹ Chilean \$	/Capita 10 ⁶ Chilean \$	10 ⁹ Chilean \$	/Capita 10 ⁶ Chilean \$
TOTAL	836	3.05	1,885	6.55
Exemptions	494	1.80	917	3.20
Fiscal base (= - exemptions)	342	1.25	968	3.35

Source: *Subdere - SINIM*

Metropolization: winners and losers

Metropolization is the evolution that leads to a higher concentration of people, investments and wealth in big cities than in middle-size or small cities, not to mention the rural municipalities. When concentrated in the main cities it increases the rate of primacy which is the case in Chile with the Metropolitan area of Santiago (M.A.St.). However the full territorial range of this phenomenon is two-folded, as it is the conjunction of two territorial movements of concentration. One occurring in metropolitan areas is driven by business/management investments. Another one occurring in attractive localizations is driven by leisure/entertainment and senior residential investments. This second force operates in the case of Viña del Mar and surrounding municipalities situated further north, like Concon. In that context Viña del Mar is a clear winner.

The paradox is that Valparaiso endowed both with a spectacular urban site (the “urban amphitheater”) and a worldwide notoriety did not benefit from this evolution. In the M.A.St. there are more and more potential “clients” with an increasing purchasing power: they buy properties and services in Viña del Mar and places further north; they don’t in

¹ Territory of which has been detached in 1996 from Viña del Mar.

Valparaiso which is the clear loser of the Metropolization process. The regional capital city had the harbor and manufacturing activities. Maritime activity has decreased. Most manufacturing industries have disappeared. What is left are the ancient assets which are not properly maintained. Few new assets have been developed, save the newly erected Parliament: impressive building the profile of which in the city skyline seems more important than its economic impact.

No Horizontal Area Wide Coordination

Though Valparaiso is part of a conurbation¹ no kind of horizontal inter-jurisdiction whatsoever can be found. On the contrary it seems that many factors contribute to increase the gap between Valparaiso and other municipalities and to justify more and more a better horizontal coordination.

Viña del Mar Casino contributes around 8000 billion Chilean\$ to the corresponding municipal budget and nothing to Valparaiso's one. It has not always been so, as some time ago the casino profits were shared between both municipalities.

The regional train starting from Valparaiso and running through Viña del Mar and further north is becoming subterranean in the later municipality while it will be surface-operated in Valparaiso where it will continue to separate the city from the seaside.

Many prestigious cultural or educational facilities² have fled from the regional capital municipality to choose new locations in the northern neighboring municipality. In that context it is easy to understand why so many professionals have left Valparaiso as well to live in Viña del Mar or Concon.

This increasing disparity between the twin municipalities generates strong disparities in budgetary terms as shown in Table 15.

¹ Comprising at least Valparaiso, Viña del Mar and Concon.

² Alliance Française for example

Table 15 – Municipal Budgets (Incomes): Valparaiso and Viña del Mar –
Year 2002, 10⁶ Chilean pesos

	VALPARAISO		VIÑA DEL MAR	
	10 ⁶ Chilean pesos	/Capita in 10 ³ Chilean pesos	10 ⁶ Chilean pesos	/Capita in 10 ³ Chilean pesos
Municipal Taxes (+ Fees)	9,490	34	16,640	58
Specific transfers ¹	6,360	23	3,208	11
F.C.M. (horizontal equalization grant) [Net result]	1,709	6	331	1
Others	1,201	4	9,391 ²	32
<i>Total</i>	18,760	67	29,570	103

Source: Subdere - SINIM

Too many pilots in the municipal plane

The question is: who is really in charge of thinking and managing the “Urban Renaissance” in/of the city of Valparaiso? Sadly enough there is no clear answer to this question.

This is not done by the mayor. The finances of the municipality are too weak, the staff too thin, and the day-to-day tasks (in street cleaning, education, health and social affairs) too pressing for the municipality to be able to think ahead and to devise strategies for economic development.

This is not done by the regional government mostly in charge of the equitable provision of public services to people in the region at large a most desirable objective, but one that is not necessarily synonymous with urban economic development.

Is it done by The Port Authority, which has recently produced a far-reaching, and ambitious development scheme concerning harbor revitalization and aiming at a new set of investments precisely focused towards leisure, entertainment and residential facilities? But is such a scheme credible? Though it deals with the most strategic part of the city, the *Alcalde* and his staff have not participated in the elaboration process of the scheme. In most other cities in this situation³ it could simply not be possible. It is easy to predict that many coordination problems will contribute to hamper the enforcement of the Port Authority scheme.

Another example of lack of coordination within the city of Valparaiso refers to health and education service provision. As has been said in section II the regional capital city has been one of the many municipalities to sub-contract the provision of the corresponding services to a *Corporacion* consisting of non-governmental bodies and *ad hoc* stakeholders. Weakness in the *Corporacion* monitoring, although the *Alcalde* was its president, has led after several years to the sudden and late discovery of an important deficit⁴, which has to be compensated by the municipal budget.

¹ Mostly Subdere specific subsidies in favor of *Programa de Mejoramiento de Barrio* and *de Mejoramiento Urbano* i.e. urban redevelopment schemes.

² Comprises mostly Casino benefits.

³ Number of examples in Great-Britain and in the traditionally « centralist » France : (Marseilles, Nantes)

⁴ Amount of which is as high as more than 8.5 10⁹ Chilean \$ i.e. 25% of the amount of an annual budget comprising the subsidies and expenditure for Education and Health. As municipal budgets are not supposed to generate a deficit, one solution could be to sell to Central Government some municipal assets: sport facilities seem to be good candidates.

This story of a decline is not intended to paint in black the situation of the core city of the second Chilean metropolitan area. It is the presentation and discussion of a situation that should call for remedies. It seems all the more relevant and urgent that quite recently the *Alcalde* claimed the statute of “poor urban municipality” for Valparaiso which would, if it were satisfied, direct some more subsidies to its budget.

At this stage it is not any longer the Valparaiso paradox referred to in the introduction. It is the demonstration of the weakness of the decentralization framework which was presented as the second Chilean paradox.

IV. AVENUES FOR CHANGE

Chile as a country performs really well in spite of the awkwardness of the decentralization system, the second Chilean city performs rather badly in spite of its recognition as a part of the Cultural World Heritage. The conclusions of this paper i.e. the proposals that we put on the table for discussion, are situated somewhere in between these two preliminary statements. On one side nothing should be done that would endanger the long-standing Chilean economic and social achievements that may be viewed as the Chilean paradigm. On the other side one should venture to make proposals leading to deal with the Chilean paradox particularly strong and counter-productive at city/urban levels.

The Chilean Paradigm

Chile has succeeded to increase global wealth and to fight against poverty, which is not the case of many of *Mercosur* and more generally Latin-American countries. It could be said that Chile has adequately managed to design policies and programs market- and people- oriented but has not as successfully set up places-oriented strategies: those three interrelated dimensions of Chile strategies are as well elements of what we call *the Chilean paradigm*.

First dimension of the paradigm: market-oriented policies are adequate. Chile is a country characterized by strong interdependence with international markets: the sum of exportations and importations is as high as 75% of G.D.P. Chile exports mainly commodities and agricultural products many of which have a high share in foreign markets; in counterpart the country imports from abroad high quantities of manufactured goods. Chile in this context is submitted to the cycles of boom and bust especially pronounced in those markets: prices of salmon of which Chile is the second producer are at their lowest which is bad news for the Southern regions. All the contrary for copper and other minerals prices of which are at their highest which is good news for the Northern regions. That is why it is so important for the country to stick to a middle-term policy of structural fiscal balance entailing high levels of international confidence, which is a key asset for Chile.

Second dimension of the paradigm: social policies are very relevant. As shown in Table 16 achievements have been spectacular.

Table 16 – Proportion of the Chilean Population Considered Very Poor (*Indigente*) and Poor (*Pobre no Indigente*), 1987-1998

	Very poor (<i>Indigente</i>)		Poor		Other		Total
	number	%	number	%	number	%	
1987	2,125,000	17.5	3,375,000	27.5	6,685,000	55	12,185,000
1998	850,000	5.5	2,340,000	16.2	11,395,000	78.3	14,585,000

Source: *Indicadores economicos y sociales – Banco Central de Chili; 2003*

Note: the concepts used refer to absolute, not relative, poverty.

The decentralization framework or more adequately said the deconcentration process that has been enforced for several decades has succeeded to identify and fight pockets of poverty (which were so numerous 20 years ago) in the most “hidden” and remote places of the country. As has already been commented it is one of the great achievements of regional governments.

Third dimension of the paradigm: places-oriented policies are ignored. However it can be argued that between markets and people there is a third element worth considering: cities, understood as multi-municipal territories. Market-oriented strategies entail the consideration of territorial large scales, while people-oriented policies require taking in account very detailed and low scale realities. In that respect something might be missing in Chile, the consideration of the scale in-between, the one at which cities thrive or decline.

Towards a Place-Oriented Political Agenda

Amongst “places” cities are of special relevance because they are the specific places where incomes are higher, productivity above the country average and wealth generation at its maximum. In most countries there is a strong correlation between productivity and city size. Indeed cities produce both negative and positive externalities. The former have to do with the fact that development, environmental and social costs –whether monetary or not– are more than proportional to city size and not easily “internalized” through usual market mechanisms. The later have already been mentioned. It is truer than ever that in our societies and economies driven by information and innovation, density, diversity and diffusion of these key resources are maximized in cities.

That is why it can be argued that Chile should also design a complementary set of places-oriented policies especially as cities are concerned. Well-managed cities are cities that reap all or most of the potential benefits associated with their size while minimizing negative externalities.

This analysis leads to policy suggestions that will consider in turn regional Governments, municipal Governments and Metropolitan area-wide issues.

Suggestions Regarding Regional Governments

On one side it can be- and it is- argued that regional governments should become genuine governments. They would be endowed with some kind of regional taxes and the present *Intendente* dual nature would be eliminated in favor of a regionally elected council presided over by one of its members. This idea is supported by comparisons with what has

occurred in many European countries¹ where the former regional branches of Central Government have become powerful financial and political players. This evolution seems so normal, and even “irresistible”, that it was enlisted as a preeminent point into R. Lagos’ political Agenda regarding decentralization.

On the other side many elements come up against that supposedly irresistible evolution. They can be classified under two headings: political challenges are too high, policy relevancy is too low.

Political Challenges at Stake are possibly too high because, first and foremost, it raises the case of the Region of Santiago which weighs about 40% of the population of Chile and significantly more of economic and fiscal output. Is it politically feasible that the president of the country be in a position where he should have in fact to share his power with the president of the Santiago Region who would be a quasi vice-president or worst a counter-president? One cannot figure out a country where such a situation happens. There is no decentralized country where such an elevated rate of primacy as it is the case of Santiago has led to the setting-up of a single regional government: *Île-de-France* weighs around 20% of France, Greater London much less of the United Kingdom, *Lombardia* weighs about 15% of Italy.

It would not be easy to deal with this challenge. The Santiago region corresponds to the metropolitan socio-economic agglomeration, and dividing it would not make much economic and social sense. Moreover the number and delimitation of the regions are determined by a constitutional law, the modification of which requires high qualified majorities in the two chambers of the Chilean Parliament: *Dura lex sed lex!*

Another political challenge could be the redefinition of the regional boundaries in the non-metropolitan regions: there is probably less at stake, nevertheless the constitutional rules are as stringent as in the former case.

Policy relevancy of transforming regional quasi-governments into *bona fide* governments may appear *too low*. Does Chile really need a strong empowerment of its Regional Governments? If we take in account the achievements they have already performed one can doubt it. One would rather suggest to stick to some kind of status quo, for two reasons. First it would entail high administrative costs to design a new regional tax. Second Regional Governments are not, whatever their possible future nature and set of responsibilities, and will never be very relevant to deal adequately with urban challenges. They are good at what they presently do: contribute to bring within each region a higher degree of equity between communities and municipalities. They would not be good at dealing with so intricate and complex challenges as are city questions. Presently regional governments are somewhat ambiguous: they are quasi-governments, they are not provided with any fiscal autonomy, they are indirectly elected and executive power is in the hands of *Intendentes* designated by the President. Why Chile would not keep on with this ambiguity? Most wealth generation occurs at local levels, and principally in cities. So let us turn to suggestions regarding municipalities and cities.

Suggestions Regarding Municipal Governments

¹ Belgium France Italy Spain and Great-Britain, notably.

In Chile the political debate regarding regional governments is intense, but the discussions about municipalities are nearly absent.

Municipalities in Chile are weak: in terms of financial resources, of professional staff and of autonomy. This pronounced weakness contrasts strongly with the broad range of responsibilities they are given. Too little money, staff, autonomy and too many responsibilities. Our suggestions focus on two aspects of this contradictory situation: financial resources and fiscal autonomy. There are three of them.

First one could wonder if time has not come to put an end to what can be called the Chilean exception namely the absence of any form of vertical block grant providing municipalities with both resources and autonomy. Chile is characterized by the importance of ear-marked and specific subsidies. Specific subsidies have some virtues. But a better balance between specific and general subsidies would be advisable.

Second an increase in the degree of municipal autonomy regarding the determination of local taxes rates, would be advisable as well. It would be particularly relevant vis-à-vis property tax. Two points concerning property tax are critical and inter-related: the number of exemptions should be much lower that it is presently; and a certain degree of autonomy in the determination of the rate should be given to municipal councils. Concerning exemptions there is a paradox: Chile is getting wealthier and wealthier, poverty is decreasing and nevertheless as much as 50% or 60% of households are considered to be too poor to pay the most basic local tax and hence the attached fees (water and sanitation). It does entail a dramatically low level of both accountability and resources, which appears as a symbol of municipal weakness.

Third point, the horizontal equalization grant *-Fondo Comun Municipal-* could be improved in two directions. On the providing side, the number of municipalities of which business tax incomes accrue to F.C.M. could be further extended in order to give a better account of municipal tax-bases. On the receiving side one could begin to phase-down the importance of the criteria considering the relative part of exempted properties in municipalities. It broadly duplicates the very relevant criteria concerning poverty and for the same reasons discussed in the preceding paragraph it appears as very crude and irrelevant criteria that, for sure, leads municipalities to claim the upholding of the exemption system which is undesirable.

Suggestions Regarding Metropolitan Areas

If not as intense as in the case of regional governments the debate about metropolitan areas is more acute than it is concerning municipalities in general¹. Consideration of the challenges facing the inter-municipal conurbations of Valparaiso, Santiago and Concepcion leads us to suggest four policy changes.

First, one can ask whether the presently discussed idea that *Intendentes* should preside over newly established metropolitan councils is relevant. It would be too much for too few persons and it would send a message of mistrust of central Government towards Local Government.

¹ See reference R3.

Second, one would rather advocate great caution regarding the setting-up of metropolitan governments in the three conurbations of Santiago, Concepcion and Valparaiso. The advantages of area-wide governments are important and obvious. It is true that many distinct urban services (such as urban planning, urban transport, and water provision) are inter-related, and would benefit from joint policies. But the better can be an enemy of the good. The technical, practical, and above all political, difficulties associated with the creation of full-fledged metropolitan governments are so great that it does not seem to be a realistic option in to-day's Chilean context.

Third, a minimal, realistic option would be to create permanent and independent bodies to prepare *area-wide* studies, analysis, information, forecasts, and proposals. In decision-making, the final word should remain with elected local politicians but political choices can –and should- be prepared and documented by technical studies. These bodies could be called planning agencies, study groups, intelligence units, or otherwise. The key words here are independence, competence and relevance. They should consist of small teams of professionals —small means 15-20 people— perhaps associated with universities. They would be overseen by boards or committees including not only representatives of governments, but also of the business community, of citizen's associations, and qualified individuals. It would be quite justified that they be, at least in part, financed by the Central government.

Fourth, the way of *ad hoc*, limited, sector-based, area-wide wide provision of specific urban services seems promising. It is probably too much to expect all the municipalities of a given agglomeration to cooperate for “urban management” at large. But it may be reasonable to expect certain of these municipalities to cooperate for one (or several) services. Urban transport, water provision, sanitation, garbage collection, would be the first candidates. Health, education, safety and planning might come next.

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