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OPINION

Infrastructure and land value: Who benefits from state investment?

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ABSTRACT:

In his 2018 Public Account, Chilean President Sebastián Piñera announced the expansion of Santiago's Metro system towards Bajos de Mena, one of the most isolated - and stigmatized - neighborhoods of the city. After the initial thrill of connecting the area to the metropolitan transport system, critical voices addressed a key issue: such a considerable investment has an impact on the value of land. Two potentially dramatic scenarios thus unfold: on the one hand, the State investment generates surplus value to private entities; on the other, the escalation of land value ends up displacing those citizens whom this infrastructure sought to favor.

What should be done at this crossroads? Are these inevitable consequences or can something actually be done? For this issue on infrastructure, we are interested in knowing whether the effect that State-built infrastructure has on land value is important, or if it's an irrelevant externality when it comes to evaluating these projects.

Keywords: Metro; surplus; segregation; Bajos de Mena; Santiago

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Figure 1 Elevated viaduct Metro de Santiago line 5, near Mirador station.

Who wins with public infrastructure

President Piñera's announcement that by 2026 "50% of Santiago's population will be able to walk from their home to a Metro station"

[2] could be one of the most relevant transformations in the urban history of the Chilean capital. Almost a quarter of the country's population would have access to a non-polluting, good-quality public transport. If the operation's emphasis was made on those communities far from the opportunities offered by the city, the subway would also become a shortcut towards equity, encouraging private investment and the creation of commercial, equipment, and services sub-centers within its stations' range - which would end the segregation and stagnation of many of those neighborhoods.

Some criticize that this million-dollar public investment would improve accessibility conditions on a piece of land whose owners would benefit from surplus, thus requiring implementing a kind of system that captures that private income through special taxes, and redistributes it through public programs, social projects or the financing of new infrastructure. Although the appreciation seems reasonable, once the layout is announced and given the eight years that the President set to have the new lines operating, there are reasons to argue that surplus capture is not the right instrument in this case.

The capture of surplus has been implemented in different countries with some degree of success. In Colombia, for example - and despite the fact that there already existed a decentralized Government structure - a Constitutional Reform was required, explicitly incorporating in 1991 the social and ecological function of property, and explicitly including the State's duty to collect the surplus originated by urban action. Only by 1997 the first tribute regulation was established called Participación en Plusvalías [Surplus Participation], to be implemented by the municipalities and aimed at the improvement of public space, social housing, mass transport or heritage. The model has not been free from difficulties, among them, its connection to the Planes de Ordenamiento Territorial pot [Land Management Plans] that each municipality must develop to determine the situation of value ex ante and ex post the application of the new norm, a reason why - in most cases - the experience of Surplus Participation in Colombia has been generally aimed at recovering those benefits derived from land use modification rather than those generated through public works such as the subway. Thus, in Chile we would have to reform our Constitution, our Municipal Tax Law, etc. before announcing the subway layout, in order to update master plans and establish ex ante and ex post value conditions. Initiatives that would take more than 8 years and be available once the subway is already functioning.

A second argument focuses on the effects that a universal action as such could have on districts urgently requiring private investment. La Pintana or Puente Alto's western area have nearly no relevant real estate activity: there, most of the houses were once part of massive social projects and are exempted from paying taxes. The best thing that could ever happen to these neighborhoods is the generation of land value dynamics based on the subway's arrival; while applying surplus capture mechanisms could discourage private investment, slowing its much needed recovery.

Finally, public investment in transport infrastructure generates social benefits that exceed the amount collected through surplus capture. Families and companies benefited by the new subway lines will see their mobility

increased, since they will have a new means that will allow them to get even further in the same amount of time - and sometimes at a lower cost - accessing better opportunities and goods at more convenient prices. In this context, families and businesses will increase their income as they increase their mobility, so that the mere implementation of the subway will already provide direct benefits that will result in greater tax collection.

There is a more suitable way for the State to participate directly in the surplus generated by Metro: to expand its business license, so that - turned into a public company - it is allowed to act as a public infrastructure promoter, guarding different types of infrastructures and not only those devoted to transportation. In other words, that Metro can expropriate and develop mixed-use, commercial, equipment and even social housing projects around its stations. Today, it can only do it inside them, as in the successful examples of Subcentro Los Militares or Estación Universidad de Chile. If Metro is allowed to expand its business license to a State infrastructure company, it would be the State itself who would hold the tenure of those plots benefiting the most from its investment, favoring projects with greater social benefits throughout the 57 km, 44 stations and 5 new districts that will join Santiago's current Metro network.

Land, mobility and local knowledge. Less spectacle, more co-production

Let's start with an example: a bus, two subway lines, and a shuttle bus, add two hundred minutes a day for a round trip. Another example: the daily walk from the bus stop that should only last ten minutes, takes in fact half an hour in order to avoid going through a corner that is considered dangerous. Another: a family doubles its spending on transportation so that the daughter, who is a student, can take a cab to the subway station and save one hour a day on public transport. It's easy to find stories like these in Santiago; these in particular belong to inhabitants of Bajos de Mena, and for the same reason, building an infrastructure such as a subway line in a neighborhood with serious scarcities is always good news. That is not the question.

If a subway extension has an altogether positive reception, what is thus the point of this debate? The column asks us to confront different viewpoints on "whether the effect that State-built infrastructure has on land value is important." It seems to me that the question over the impact on land value is not a fight you can win by k.o. with a yes or no answer, it is a complex debate whose aim should not be to use the sharpest argument to invalidate the other. I suggest that we first ask ourselves how to conduct this conversation properly. What does this mean? It means focusing the discussion on the impacts on land markets by asking who is this relevant for and how, and what can be done so that those impacts do not deteriorate living conditions or exacerbate inequalities. Unfortunately, the current public debate has shown its limitations in answering these questions. Answering them requires situated and comprehensive knowledge to understand territories and institutions in their full complexity.

The way we produce knowledge about cities has a direct impact on the quality of public policies. Bajos de Mena usually comes up in every debate, reproducing stigmas that can weigh as much as its material deficiencies - for instance, by calling it 'the biggest ghetto in Chile,' erasing thus through a single label the identity and diversity of a territory inhabited by 130,000 people. Although it may seem innocuous, such a view has had a direct effect on the interventions upon it. For example, under the assumption that all of its inhabitants wish to move to other neighborhoods, in 2013 the authorities implemented the Second Opportunity program, granting housing subsidies to residents of blocks that were to be demolished. Actually, many residents chose to stay in what others call 'ghetto,' mainly to maintain their support networks. As a result of the increase in demand and prices, some beneficiaries were unable to acquire houses within the same area with the subsidy granted, and were thus forced to either borrow money or leave Bajos de Mena.

This example shows how authorities and experts can make decisions that ignore local experience and knowledge - for both neighbors and professionals in the field this was a foreseeable consequence. It also allows to extract some lessons for the subway extension discussion: in a country where the market directly affects planning, State investments have consequences on land value. This is also true in low-income neighborhoods where speculation processes also exist. Although on a smaller scale (sometimes invisible to macro analysis), subtle differences can harm those who live more precariously.

We need to question the type and forms of knowledge with which decisions are made and debates conducted. A serious discussion requires considering land value and housing not only as a price curve, as data on a macro scale, but also as a series of values that constitute a decisive factor in the trajectories of entire families. We need to understand and consider how patronage, support networks, local democracy or the violence of living behind fences impact decisions on the extension of the subway. We need to make the most of the time that remains before its construction to ask how we ensure that an investment this size does not destroy a complex social fabric but, on the contrary, allows us to move towards a more just city. We need to see beyond land taxes, without ridiculing, idealizing or discarding them. Instead of absolute answers, let's lead the conversation towards the instruments that are available and those that we need to develop, considering which attributions does the public sector have and what public resources we can count on in order to seize this opportunity.

In urban debates, often loud, arrogant opinions prevail. What is needed, instead, is to question how knowledge is built and how can we promote instances of co-production with citizens and institutions, complementing the language of experts with tacit knowledge based on everyday experience. As the urban theorist and Indian activist Gautam Bahn points out, different inequality configurations require the formation of solidarity coalitions that act as resistance. Instead of seeking to silence the other, I propose to look for spaces to find that kind of transversal solidarities in which different languages can converse as equals. Only then, I think, can we begin to speak seriously, without misrepresentations, about how to reduce inequality in our land.

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