

POLITICAL DECENTRALIZATION: A NEW TOOL FOR THE SEGREGATION
OF URBAN SPACE? THE CASE OF CHACAO IN CARACAS, VENEZUELA

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Since 1990 the Venezuelan state has enacted various measures to promote the decentralization of political and economic power (COPRE 1990; Ellner 1993/1994; Crisp and Levine 1998; Karl 1997; McCoy et al. 1995; Naím 1993; Tulchin 1993; Crisp 1996). Forced by a crisis of legitimacy and the financial burden resulting from decades of economic mismanagement, the state has altered constitutional divisions of governmental authority and underwritten these changes with a redistribution of state revenues. Among the many features, the laws provide for the direct election of state and local officials; give significant new powers to states, including the authority to establish local municipal entities; and mandate the transfer of central governmental revenues, including income from the state-owned oil company, to state and local governments.

Venezuelan progressives and conservatives alike have welcomed the new laws as a positive response to the corrupt centralization of political power in the nation. It is generally accepted that the shifting of power to local communities will best meet the demands of a society that has suffered from nearly 15 years of economic recession. Analysts of the Venezuelan situation often point to the failed investments by the central government during the 1970s as a principal cause of the nation's economic troubles. Further, it is often argued that the transfer of power from corrupt class of political elite to local governments more accessible to Venezuelan citizens will help to restore the legitimacy of the nation's political institutions. Few challenge these arguments.

Laws promoting decentralization have had a significant impact on the Venezuelan political environment, notably in creating new spaces for new political actors (Hellinger 1996; Ellner 1996; 1993/1994; Crisp and Levine 1998). For instance, two of the principal candidates in this year's presidential election have emerged from the new political structures and from outside of the dominant party system – Henrique Salas Römer, the first elected governor from the state of Carabobo, and Irene Sáez, the first elected mayor of Municipio Chacao in the metropolitan area of Caracas.

Despite the political benefits, the decentralization policies have had a highly uneven impact on the geographical processes of economic development. During recent years certain areas outside of capital region of Caracas have grown rapidly, but it appears that this growth is less a result of political

decentralization than the opening of economy to foreign investment, particularly in the oil sector. Further, to the extent that urban development has shifted to areas outside of the principal valleys of Caracas, whether to satellite towns that surround Caracas or to secondary cities in the central region of Venezuela, it again appears that these new patterns owe more to economic pressures such as rising land prices in Caracas than to the policies promoting decentralization.

Indeed, there is evidence to suggest that decentralization policies may be having a contrary effect of facilitating a new *centralization* of socioeconomic patterns of development on the local scale. Specifically, decentralization laws have set in place incentives for the fragmentation of municipal governmental structures, creating a framework for the consolidation and fine-tuning of existing patterns of inequality. The processes of political fragmentation and economic inequality are evident on various geographical scales within the metropolitan area of Caracas. On the metropolitan scale, there is a deepening of the division between the large downtown distrito Federal in the west of the city and the newer, more suburban *municipios* under the auspices of the state of Miranda in the eastern end of the city. On a more local scale, there are also emerging divisions among individual municipalities within the state of Miranda. The most prominent example of this is development of a new elite enclave in *municipio* Chacao in Caracas.

The purpose of this paper is to examine in detail the dynamics of political decentralization and urban geographical centralization in the metropolitan area of Caracas. After briefly discussing the historical context of development in the Venezuelan capital, this paper outlines the political and institutional framework of decentralization policies in Venezuela. Next, the paper analyzes the impact of this framework on the spatial dynamics of development in Caracas, both on the metropolitan scale and on the more local municipal scale. The final section discusses the implications of this developments for social justice in Venezuela, both in the narrow terms of metropolitan management and more broadly in terms of political and ideological enfranchisement.

1. The politics of urban decentralization in Venezuela

The urbanization of Venezuela is closely linked to the 20th century development of the nation's petroleum industry (Negrón 1982; Gilbert and Healy 1985; Machado de Acedo 1981; Cilento Sarli 1989; Frey et al. 1980; Niculescu and Palacios 1985). As in other commodity-dependent countries, oil exports fueled urbanization by devaluing the relative price of agricultural goods, forcing workers out of rural areas and into cities where the petro-state and its clients distributed rents earned from the export of oil. As recently as 1920, around the time of the first commercial export of Venezuelan petroleum, Venezuela was the least urbanized country in Latin America, with only 8.5 percent of the nation's population – 210,720 persons – living in cities and towns of 10,000 or more

(Negrón, 1982). Today, only 78 years later, Venezuela is among the most urbanized nations in the world and the most urbanized nation in Latin America, with 93 percent of the country's 21.7 million people living in cities and towns (World Bank 1998).

Beyond the promotion of rural-urban migration, oil dependence also facilitated the centralization of the Venezuelan urban structure (Negrón 1982). As the initial recipient of oil revenues, the Venezuelan state reinforced urban primacy inherited from the colonial and post-colonial periods by concentrating investment in infrastructure, housing and services in the capital city of Caracas (Machado de Acedo 1982). According to 1995 census figures, an estimated 4.1 million persons – 20 percent of the nation's total population – live in the greater metropolitan area of Caracas. Another 3.7 million persons reside in secondary cities located along the north/central axis that centers on Caracas.

Since the transition from military rule to elected government in 1958, urban primacy has been a subject of political concern in Venezuela. Politicians from both of the traditional leading parties – Acción Democracia and COPEI – have long argued that economic diversification and geographic decentralization are crucial both for improvements in the material quality of life and the stability of the nation's political system. As if to give weight to these popular arguments, Venezuelan leaders have regularly documented their concerns in nonbinding forms of legislation. In 1959, in the First Plan of the Nation, President Rómulo Betancourt of AD established a place for decentralization on the national agenda by mandating that government agencies consider regional geographical patterns in all investment decisions, particularly in the areas of housing and industrial development. Nine years later, Rafael Caldera, in his first term as president, repeated Betancourt's initiative by again featuring the issue of decentralization in Fourth Plan of the Nation.

But it was only after the boom in oil prices in 1973-74, during the first presidential administration of Carlos Andrés Pérez, that the politics of decentralization were given material support. Pérez's initiative had two aspects, one concerning housing and urban development and the other concerning economic development and industrialization. In the first regard, in 1976 Pérez issued a program of subsidies that in effect targeted the private development of 'social interest' housing in the nation's interior. Months later, the initiative was supported with the founding of FONDUR, an agency authorized to establish a nationwide land bank to promote urban development outside of the capital region. The industrial initiative was more substantial. During the mid 1970s, the Pérez administration poured billions of dollars into Corporación Venezolano de Guayana (CVG), an enterprise first established during the early 1960s to exploit the tremendous mineral wealth in the country's remote southeastern region. The rationale for the investment was to create a more diversified base of industrial exports while also establishing a second geographical pole for urban industrial development along the thinly populated banks of the Orinoco River.

In nearly all regards, the decentralization initiatives of the first Pérez administration were costly failures. The housing and urban development policies – in effect an expansion of previous subsidy programs – proved to be little more than transfers to the politically influential urban development and construction industries (Cilento Sarli 1989). Without macroeconomic development policies to create sustainable incomes for housing consumers and lacking meaningful coordination within an overall urban development program, the subsidies served to only promote housing construction. The longer term socioeconomic and geographical mismatch of housing supply with respect to demand resulted in a broad pattern of defaults following the onset of the economic troubles in the early 1980s (Mitchell 1996). The defaults were financed with \$2 billion in foreign loans by the National Savings & Loan Bank (BANAP), and were ultimately absorbed by the Venezuelan state. The consequences of the industrial initiatives were no less costly. More than 20 years after the commitment of public monies to CVG, the company continues to lose millions each year. Even attempts to privatize the corporation have failed for lack of interested buyers (El Universal, June 10, 1998).

During the 1980s, as Venezuela struggled to apportion the blame and debts of the 1970s, there emerged a consensus among all but the leading political parties regarding the causes of the socioeconomic crisis. By the end of the decade, virtually all segments of Venezuelan society agreed to that corruption among the ‘political class’ that dominated the national government was responsible for the crisis. Structural analysts pointed out that the state’s control of oil revenues served to isolate the political elite from the remainder of the society (Karl 1987; 1997). The political prescription was that the decentralization of constitutional power and a corresponding decentralization of the revenues was necessary to limit corruption within the central government. This argument was underscored on February 27, 1989, when riots erupted in Caracas, Maracay and other cities, leaving hundreds dead (Ellner 1990). The riots occurred only one month after inauguration of Carlos Andrés Pérez’s second term and less than two weeks after the announcement of the IMF-supported policies that many felt were little more than an attempt to shift the financial costs of corruption and capital-flight to the Venezuelan working class.

Following the February riots, the Pérez administration acted quickly to implement the guidelines established by the Presidential Commission for State Reform (COPRE), a blue-ribbon body established to consider changes in the organizational structure of the Venezuelan state. In December, 1989, Pérez and leaders of the principal political parties signed into law reforms known jointly as the *Pacto por la Reforma del Estado* (Pact for the Reform of the State).¹ Within the overall pact, two laws dealt directly with the geographical organization of the state.

The first, the Organic Law of Municipal Management (*Ley Orgánica de Régimen Municipal*, LORM, first promulgated in 1978 but substantially reformed

in 1989), altered the electoral and administrative structures for state and municipal levels of government; reassigned functions (*competencias*) for all levels of government, granting various functions formerly held by the central government to states and municipalities; and defined sources of income for each of the three levels of government. Of particular note for the municipal level of government, LORM substantially amended constitutional conditions for the establishment of independent municipalities, transferring such authority from the central government to states. In addition, LORM reauthorized the establishment of both metropolitan districts (with more than 250,000 residents) and joint communities (*mancomuidades*) as voluntary organizations, denying these territorial units exclusive powers and sources of income.

The second piece of legislation, the Organic Law of Decentralization, Delimitation and Transfer of Functions of Public Power (*Ley Orgánica de Descentralización, Delimitación y Transferencia de Competencias del Poder Público*, LOD), underwrote the decentralization initiatives of LORM by establishing a formula for the distribution of central governmental revenues among states and municipalities. According to LOD, the central government is to distribute 20 percent of ordinary revenues (including, most importantly, petroleum receipts) to individual states²; one-half of the total is to be shared equally among the 22 Venezuelan states, and one-half is to be granted in proportion to state populations. This distribution is known as the *situado constitucional* (constitutional allocation). In turn, according to LOD, states are to distribute 20 percent of their total revenues (including the *situado constitucional* as well as other income streams) to municipalities within their jurisdiction. These funds, known as the *situado municipal*, are to be distributed according to the same formula. Both laws took effect in January, 1990.

2. Metropolitan fragmentation in the Metropolitan Area of Caracas

The effects of the decentralization laws on municipal development vary depending on conditions specific to each area. In the case of the metropolitan area of Caracas, the territorial and institutional conditions are highly complex and the effects are highly uneven.

The metropolitan area of Caracas lies in the deep valleys of the Cordillera el Litoral mountain range, a short distance inland from the Caribbean coast. **FIGURE 1** is a map of the greater metropolitan area of Caracas. As this map shows, the core of the metropolitan area lies in four principal interconnected valleys, occupying approximately 200 km² of useable land. During recent years, however, the city has begun to spill beyond the main valleys, reaching toward the city of La Guaira along the coast to the north; the bedroom communities of

Guarenas and Guatire to the east; and Los Teques, San Antonio de los Altos and the more remote rural areas in the valleys of Tuy to the south of Caracas.

The metropolitan area of Caracas is crosscut by several administrative divisions. On the broadest scale, the metropolitan area spans two territories – the Federal district to the west and north, and the State of Miranda to the east and south. As the national capital, the Federal district is an independent territory administered directly by the central government. According to the 1986 Organic Law of the Federal District, the territory of the district also corresponds to two independent municipalities – Municipio Libertador and Municipio Vargas. The former constitutes the densely populated and increasingly decayed core of the city. The latter – Vargas – contains the rapidly growing coastal area that includes La Guaira, Maiquetia and Macuto.

The new laws governing municipal decentralization authorized few changes in the administration of the Federal district. The effects of the laws on the Federal district are mostly indirect. Historically, the Federal district was a principal beneficiary of the active role of the central government in local affairs, as the state concentrated a great deal of housing and infrastructure investments in the district. However, under the new laws, central government has sharply reduced direct investment in local infrastructure, leaving this responsibility to local entities. As a federal territory not under the auspices of state government, and thus without access to the *situado constitucional*, the municipalities of Libertador and Vargas are politically and fiscally isolated. While other municipalities now petition to states for investments in infrastructure, Libertador and Vargas are now alone in lobbying the central government for investments.³ These petitions have been further hampered by political rivalries, beginning with the 1992 election of Aristobulo Isturiz of the opposition Causa R party as mayor of the Federal district.

The situation in the state of Miranda is markedly different. As of end-1989, before the new laws took effect, the area within the principal valleys of Caracas in the State of Miranda – approximately 125 km² – were grouped within the single municipality of Sucre. Under the new laws, however, Municipio Sucre has begun to fragment. In 1990, the legislature of Miranda created an independent *municipio* of Baruta, a district of approximately 95 km² in the southwest of the city. Three years later, in 1993, the State of Miranda further divided the municipalities. First, Baruta was subdivided into two municipalities. *Municipio* Baruta retained the more developed land nearer the principal valley while a second municipio, El Hatillo, was formed of 50 km² of less developed land in the extreme southeast corner of the city. According to Consejo Venezolano de Urbanismo (1997), only 32 percent of the land in El Hatillo is currently developed, giving this area the greatest development potential of any of the municipalities within the principal valleys of the city. Second, Sucre was subdivided to create Municipio Chacao, a small densely-developed district of approximately 7.5 km² that includes the affluent residential and commercial

areas of Campo Alegre, La Castellana and Altamira. **Table 1** summarizes the demographic and geographic characteristics of the *municipios* following the new delineation.

Table 1. Land and population of the municipios within the city of Caracas.

	Land area	Population	Density
	(km ²)	(000's)	(persons/km ²)
Libertador	75.0	1,823.2	24,310
Chacao	7.5	66.9	8,920
Sucre	22.5	500.9	21,314
Baruta	45.0	294.9	6,553
El Hatillo	50.0	45.8	916
TOTAL	200.0	2,732	13,660

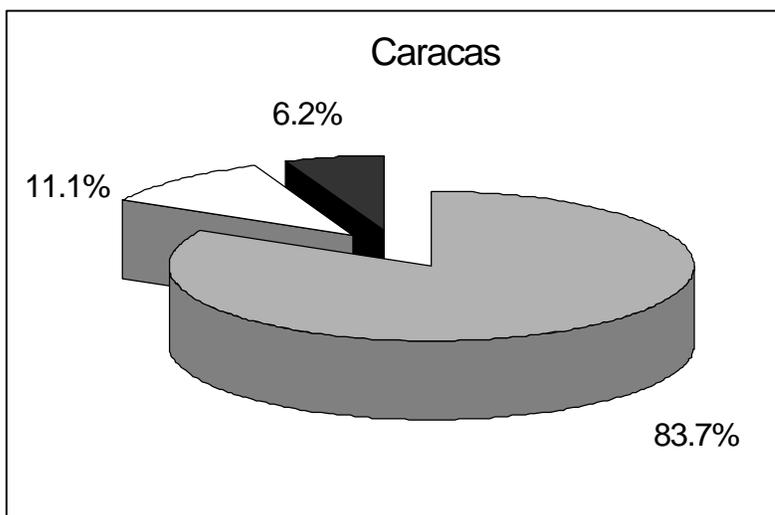
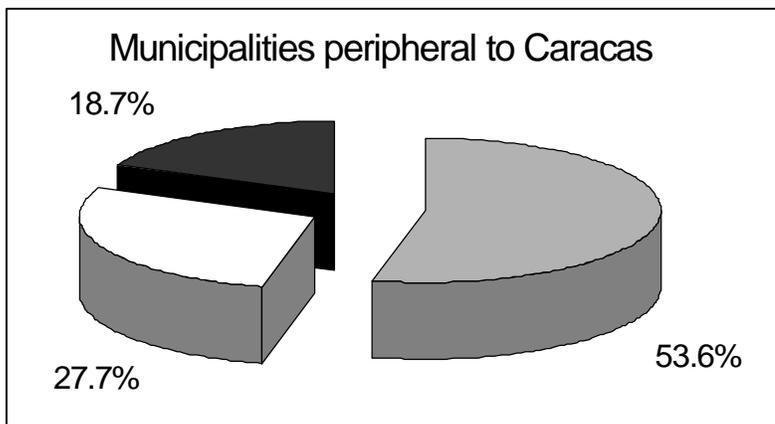
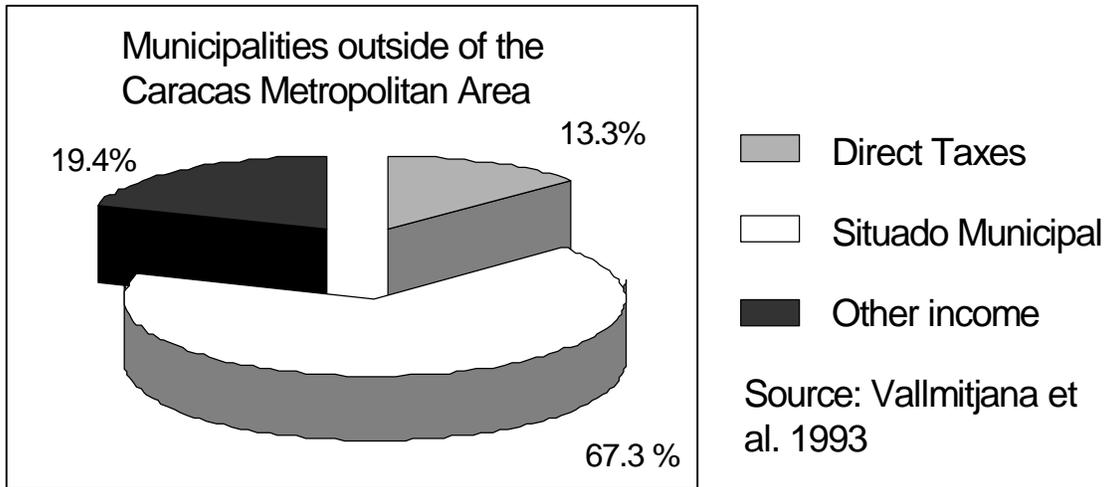
Source: OCEI. 1993. El Censo 90 en el Distrito Federal and 1993, El Censo 90 en Miranda.

Municipal fragmentation in the state of Miranda is the result of specific mechanisms written into the decentralization laws, particularly those that structure revenue generation and municipal spending. According to articles 17 and 18 of LORM, municipalities can be established with a minimum of 10,000 residents and the approval of the state legislature and governor. In addition, the law mandates that all incorporated municipalities receive shares of the *situado municipal*. At a minimum, a municipality is eligible for a full share of the funds that are apportioned equally among municipalities. From the perspective of the locality, separation from a larger municipality and incorporation as a smaller independent municipality can only increase the per capita share of the *situado municipal*. From the perspective of the state government, the establishment of new *municipios* has no effect on the total allocation of revenues, as it results only in the redistribution of the *situado municipal*. On the other hand, the losses associated with establishment of the municipality are broadly diffused among all municipalities within the state, as each loses only a small portion of the fixed distributions as the number of *municipios* increases. Thus, as written, the *situado municipal* encourages communities to incorporate independently as municipalities, while limiting the institutional foundation of those opposing such application.

Yet, in the case of Caracas, it is the structure of other (non-*situado*) revenue sources that drives municipal fragmentation. Again according to Article 111, *municipios* are empowered to collect taxes from commercial and industrial receipts (so called *patente industria y comercio*) as well as real estate holdings (*derecho de frente*). **Figure 2** summarizes municipal revenues for selected

regions of Venezuela for the year 1990. As these figures indicate, the *situado*

Structure of municipal revenues in Venezuela in 1990



municipal is the principal source of municipal revenues in the interior of Venezuela; direct taxes contribute only a small share. By contrast, in the metropolitan area of Caracas, and to an even greater extent within Caracas proper, direct taxes constitute the large majority of total revenues while the *situado municipio* contributes a comparatively smaller share.

In Caracas, as in other Latin American cities, land use patterns are highly uneven. As municipalities fragment, these uneven patterns of land use give rise to concomitant inequality in the capacity for revenue generation. **Table 2a** provides an aggregate account of revenues for the *municipios* of Caracas; **table 2b** provides the same information on a per capita basis.⁴ As data in the second of these tables shows, on a per capita basis Chacao generates nearly five times as much revenues as any other municipality in Caracas. The difference is due entirely to the *patentes* (taxes based on commercial and industrial activity), which alone generate three-and-a-half times as much revenues per capita for Chacao as any other municipality in Caracas receives from all sources combined. The values are substantial – *patentes* generate the equivalent of nearly \$500 per person for Chacao (Bs400 per U.S.\$ in 1997).

While *patentes* allow Chacao to capture revenues, incorporation as a small municipality also allows the affluent community to shed the costs of geographical cross-subsidies. Prior to incorporation in 1993, Chacao formed a minority district within the larger *municipio* Sucre, a diverse area with over one half-million residents, including some 340,000 residents of the low-income *barrio* in Parroquia Petare. By separating, Chacao was able to retain control over 39 percent of the combined revenues, while assuming the fiscal responsibility for the support of less than 11 percent of the combined population of the area. Of course, the logic of this strategy is not lost on other areas. Presently, affluent communities within *municipio* Sucre adjacent to Chacao, including Santa Eduvigis, Sébucan and Los Chorros, are organizing a petition for incorporation independent of the remainder of Sucre, most notably Petare.⁵

Apart from the direct impact on municipal finances, the decentralization of government power further deepens the inequality among urban districts through less direct means. The provision of infrastructure is an important case in point. As noted earlier, LORM shifted a number of functions (*competencias*), including the development and maintenance of water, sewer, electrical and transportation infrastructures, from the central government to state and local governments. In many (if not most) cases, state and local governments have been unable to cover the costs of these new expenses. To provide these services, municipalities are forced to negotiate with private interests in exchange for favorable zoning ordinance and approval for construction permits – what amounts to *de facto* privatization of infrastructure. Compared to other municipalities, Chacao is a powerful bargainer in these negotiations. To cite a few typical examples, planners working for Chacao have demanded the repair of

Table 2a. 1997 Municipal revenues within Caracas (millions of Bolivares).

	Municipio Libertador	Chacao	Sucre	Baruta	El Hatillo
1 Ordinary Income	68,970	15,299		13,497	1,900
1.1 Taxes, direct	52,181	13,104		11,473	912
1.1.1 Urban Real Estate	9,500	510		2,025	171
1.1.2 Patentes	41,401	11,874		8,773	285
1.1.3 Other taxes	1,280	720		675	456
1.2 Situado Municipal	14,399	792		1,350	684
1.3 Other income	2,390	1,403		675	304
2 Extraordinary	1,603	0		0	0
Total	70,573	15,299	23,900	13,497	1,900

Table 2b. 1997 Per capita municipal revenues within Caracas (Bolivares)

	Municipio Libertador	Chacao	Sucre	Baruta	El Hatillo
Population	1,823,222	66,897	500,868	294,914	45,799
1 Ordinary Income	37,829	228,692		45,766	41,486
1.1 Taxes, direct	28,620	195,883		38,901	19,913
1.1.1 Urban Real Estate	5,211	7,621		6,865	3,734
1.1.2 Patentes	22,707	177,500		29,748	6,223
1.1.3 Other taxes	702	10,763		2,288	9,957
1.2 Situado Municipal	7,898	11,839		4,577	14,935
1.3 Other income	1,311	20,970		2,288	6,638
2 Extraordinary	879	0		0	0
Total	38,708	228,692	47,717	45,766	41,486

Source: Consejo Venezolano de Urbanismo. *Boletín Informativo* (Año V, No. 4).

water pumps, the paving of streets and the installation of street lights in exchange for construction permits.⁶ Of course, the capacity of municipalities to impose such expensive conditions depends almost entirely on the demand for development in that district.

3. The centralization of real estate investment in Caracas

Although it has been only five years since the most recent round of changes in municipal structure in Caracas, there is already evidence of significant changes in social patterns of land use. These changes are revealed in geographical patterns of construction and real estate transactions.

To study these patterns I have collected a complete listing of construction permits issued in Caracas for the years of 1988 and 1997, and a complete listing of registered property sales for the final quarters of 1988 and 1997.⁷ The years 1988 and 1997 were chosen as study periods as these were, respectively, the earliest and the most recent periods for which complete data were available. Transaction data were collected for the final quarters of these years (October through December) in order to limit the volume of data while maintaining a representative sample of the total activity. In Caracas, the final quarter of any given year is the busiest period in terms of the volume of property transactions.

For the purposes of this study, Caracas is defined as the area within the principal valleys of the city, encompassing the five municipalities discussed above. The source of both groups of data are the municipal registries (*registros subalternos*); the primary data collection was done by Organizacion AKROS, a real estate service firm in Caracas.

The transaction data includes the following information:

- the location of the property, which has been coded according to municipality and, on a smaller scale, according to 30 districts delineated for studies by Instituto de Urbanismo of Universidad Central de Venezuela;
- the names of the buyer and seller;
- the date of the transaction;
- the area of construction, measured as floor space (m²);
- the sale price in current bolivares (*Bs*);
- number of bedrooms, bathrooms and parking spaces;
- the year in which the property was constructed;
- the value of the mortgage as a percentage of the sales price; and
- the source of the mortgage.

In general, these data are reliable except for a regular pattern of under-reported sales values, which are used as a basis for the payment of taxes. While this pattern of underreporting implies that that sales values should be used with

caution, there is no reason to believe that this would introduce a systematic bias into geographical analysis, as transactions in all areas are equally likely to be under-reported.

The construction permits include the following information:

- the location of the construction site, which again has been coded according to municipality and the 30 urban districts;
- the names of the owner and the construction contractor;
- the intended use of the property;
- the area of construction, measured as floor space [m²];
- the value, in current bolivares (*Bs*), of planned construction;
- the area of the land included in construction [m²];
- the value, in current bolivares (*Bs*), of the land;
- the number of housing units in the planned development;
- the taxes, based on the above values, paid in exchange for the permit.

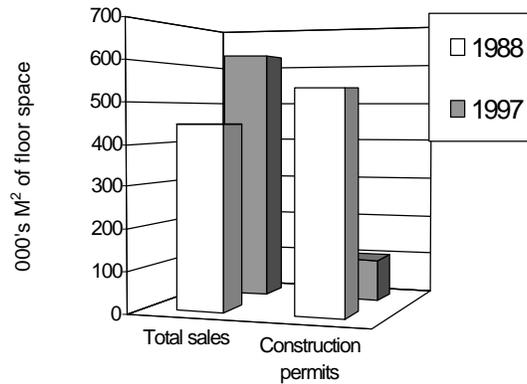
In many cases, data on land and construction values are not available, with notable differences among municipalities in the collection of these data. However, information on the payment of taxes is remarkably complete, providing a useful proxy for the total value of the project.

Figure 3 provides a summary of the construction and transaction data for the two study periods. These data reveal two related patterns. First, private building activity fell sharply in Caracas (and indeed throughout Venezuela) during the 1990s. In 1997, the volume of construction was down 80 percent with respect to 1988. Housing construction fell by an almost equal measure. Second, as new building fell, transactions involving existing properties increased significantly. An explanation for these patterns is straightforward. The devaluation of the *bolívar* and the liberalization of interest rates has made the construction of new property unaffordable to all but the most wealthy. Without access to new property, many middle class buyers have turned to secondary property markets.

Figure 4 is a summary of the real (1988 *bolivares*) value of real estate transactions in Caracas during the final quarters of 1988 and 1997. As these data indicate, the largest share of real estate activity occurred in *municipio* Libertador is by far the largest municipality in terms both of land and population. Baruta also had a high level of real estate activity, but again it is a large, fairly populated region. But it is the level and growth of activity in *municipio* Chacao that is most remarkable. While Chacao is a relatively small municipality, with only 2.4 percent of the total population and 3.7 percent of total land area of the city of Caracas, it generated 12.8 percent of the total value of real estate transactions in 1988. Moreover, between 1988 and 1997, the real value of transactions in Chacao increased by 89 percent, more than triple the rate in the

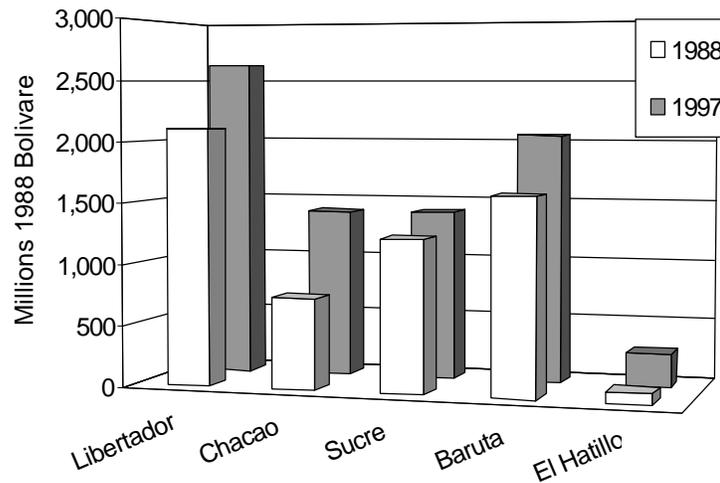
remaining *municipios*, giving Chacao a 17.2 percent share of the value of the real estate business in 1997. The growth of Chacao's share of the

Figure 3: Volume of sales of existing property and volume of construction in Caracas for the years 1988 and 1997.



Source: Registros Subaltemos, Caracas, 1988 and 1997. Data collected by Organizacion

Figure 4. Value of real estate transactions in Caracas, by municipio, during the fourth quarters of 1988 and 1997



Source: Registros Subaltemos, Caracas, 1988 and 1997. Data collected by Organizacion AKROS.

market came almost entirely at the expense of *municipio* Libertador, which fell from 36.5 to 32.6 percent of the total.

The development of Chacao is also evident in construction activity.

Figure 5 charts construction by *municipio* for the years 1988 and 1997. In 1988, building in Chacao was extremely limited, well below that of all other *municipios*, and less than 7 percent of that of Libertador. In large part, construction in Chacao was constrained by speculative practices of landowners, who were able to drive land prices to six times the citywide average. However, as construction fell sharply through the city in 1997, builders moved aggressively into Chacao, more than doubling the volume of construction with respect to the 1988. By way of comparison, the volume of building in Libertador fell by 85.3 percent over the 9 year period. Not surprisingly, as demand for built property in Chacao increased, so too did the demand for land in the small *municipio*. Between 1988 and 1997, the price of land in Chacao increased to more than 21 times the average value. In 1997, land in Chacao – priced in U.S. dollars – sold for an average of \$748 per m².

In part, the geographical shift in the focus of real estate market from the traditional CBD in Libertador to Chacao is due to the disinvestment by the central government in the infrastructure of the downtown area. But further, the geographical change is also due to the underlying transformation of the structure of the Venezuelan economy. Since the early 1980s the direct role of the state in the economy has diminished, both because of the influence of neoliberal economic policy and the sharp and continuing decline in the price of oil in global markets. Consequently, as the participation of the state in economic affairs wanes and international capital comes to play an increasingly important role, businesses and individuals find it less advantageous to locate in the old downtown, proximate to the offices of the central government. Instead, these interests have begun to move eastward, into the enclave under development in Chacao.

In light of the centrality of Chacao and the worsening decay of the traditional CBD in *municipio* Libertador, one might speculate that construction in Chacao aims at a rather straightforward transformation of the district into a new central business and commercial district. Indeed, over the past 75 years there have been both public and private attempts to re-center (or at least to decentralize) the city away from the downtown area of Capitolito/El Silencio. However, the real estate data indicate that the present redevelopment of Chacao is something other than a one-dimensional change in the functional pattern of land use.

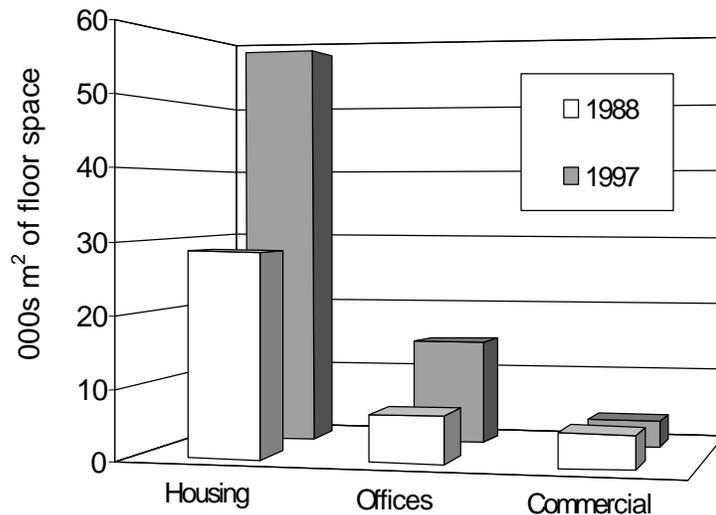
Figure 6 is a chart of the volume of real estate sales, by type, in *municipio* Chacao for the two study periods. In 1988, housing represented 71 percent of total volume of real estate sales in Chacao, as measured in terms of floor space. Offices and commercial locations comprised the remaining 17 and 12 percent, respectively. In 1997, rather than declining, the volume housing sales in Chacao

more than doubled with respect to the 1988 level. In that year, housing was equivalent to 76 percent of the total volume of real estate transactions. Over the same period, sales of office space also increased, more than doubling. Only commercial space declined in absolute terms, though that is likely due to the recent and anticipated openings of Centro Commercial Lido, Centra San Ignacio and the massive Centra Commercial Sambil, all located within three blocks of Avenida Libertador, central boulevard of Chacao.

This information leads to a very different interpretation of the redevelopment of Chacao. It is clear that the recent changes cannot be characterized as a simple re-centering of the city. Indeed, there appears to be no attempt, either by the municipality or by private developers, to carve out narrow functional niche for Chacao within the metropolitan system. To the contrary, the emergent structure of Chacao is multi-functional, combining residential, commercial and business facilities. And it is precisely in the context of its multi-functionality that Chacao should be understood. Rather than establishing an integrative role with the broad urban context, Chacao is instead developing the infrastructure necessary to satisfy all of the demands of a single class of citizens. Housing, business and commerce are all available within Chacao, though at great financial cost.

The character of the new enclave is not immediately obvious to the interloper. The architecture is often simple and discreet. From the street, many of

Figure 6. Volume of real estate transactions, by type, in Chacao for the fourth quarters of 1988 and 1997



Source: Registros Subaltemos, Caracas, 1988 and 1997. Data collected by Organization AKROS

the new buildings appear to be unremarkable office towers, but upon entering one is often surprised to find expansive, well-guarded atrium that house upscale shops and restaurants. In the elevators leading from the ground floors one finds keyholes where there are usually buttons; only keyholders have access to the offices above.

Clientele of the office towers of Chacao are often international business firms, many of whom arrived after the reopening of Venezuelan financial and petroleum markets to foreign investment. **Table 3** offers a profile of the tenants of Centra Empresarial Plaza La Castellana, a office tower in *municipio* Chacao that opened in 1997. Office space in this building sold for an average of \$1,500 per square meter, approximately \$175 per square foot. With 8,000 meters of marketable space, the building brought \$12 million in total revenues. As is the case for all real estate transactions in this part of the city, exchange was made in U.S. dollars.

The public spaces of Chacao are intensively policed, a issue of some notoriety in Venezuela. When elected the first mayor of Chacao in 1993, former Miss Universe Irene Sáez made security her number one administrative priority. By most accounts within the district, she succeeded famously, earning her a reputation as an capable manager mindful of the demands of her clientele. As the presidential election got under way, Ms. Sáez left office and used her accomplishments to establish herself as a leading candidate. During recent months, however, her prospects have dimmed. As the former mayor's candidacy gained attention, the electorate gained a more complex picture of her political environment. While the ubiquitous white gloved police left a positive impression on many in Chacao, citizens of much of the rest of the city have come to recognize the aggressive activities of the same police in pushing out those who do not fit with the image of Chacao. Rules against panhandling and street marketing – ignored in all other parts of the city – are strictly enforced in Chacao. Persons collecting recyclables are forced out of the neighborhoods, leaving what the residents consider trash for the orange-suited sanitation crews.

Table 3: Tenant occupancy of Centra Empresarial Plaza La Castellana in *municipio* Chacao

Firm	Industry	Nationality
Banco Caracas	Finance	Venezuela
Union de Bancos Suizos	Finance	Switzerland
Banco Internacional do Funchal	Finance	Portugal
Banco Atlantico y Banco IberAmericano	Finance	Spain
Bank Lenmi	Finance	Israel
Banco Central Hispanoamericano	Finance	Spain
Banco de Venezuela Internacional	Finance	Venezuela
Embassy of Japan	Government	Japan
Consulate of Spain	Government	Spain
Arco Energy de Venezuela	Petroleum	United States
Monarch Resources Ltd.	Petroleum	United Kingdom
Law offices	Law	Venezuela
Equipo 18	Real Estate	Venezuela

4. Social justice and municipal fragmentation in Caracas

The social segregation of urban space is not new to Latin America or to Venezuela (Portes and Walton 1976; Portes 1989; Telles 1995). As a region so profoundly characterized by inequality, Latin America has always had to confront the tendencies of spatial polarization. But recent developments have given a new power to the dynamics of polarization, making the consequences that much more significant.

Underlying the new processes of geographical segregation in Caracas are increasing economic inequality and the declining role of the state in economic affairs. Since the onset of economic restructuring in 1980, real wages in Venezuela have fallen by more than 50 percent, an enormous decline even by Latin American standards. The collapse in wages in Venezuela is a result of rising inflation – a relatively new phenomenon in Venezuela – and the declining purchasing power of the *bolivar* in global markets. Yet, the Venezuelan upper class has managed to avoid most of the losses incurred by the nation’s wage earners. As early as the mid 1970s the Venezuelan elite protected the value of their assets by moving wealth abroad (itself a process which contributed to the country’s economic problems) and by shifting domestic capital into subsidized assets such as the Central Bank’s zero bonds. Recently, many of the elite have taken advantage of the continuing collapse of economic conditions by returning

highly-valued foreign-denominated capital to the country, investing in inflation-resistant 'dollarized' assets such as real estate. This has ensured the relative buoyancy of narrow segments within the real estate market.

These developments in financial markets have articulated with local political factors to give specific form to the urban environment. Most importantly, the crisis of the central state has encouraged a process of political decentralization that is a focus of this paper. As political reform, decentralization is an appropriate correction to the gross irresponsibility of Venezuelan political class, and it should be supported. But the specific structure of the decentralization policies have encouraged division and privatization within the political system, with profound consequences for social justice in the city of Caracas. These consequences can be grouped into narrow issues of urban management and broader issues of social and political justice.

Municipal fragmentation and metropolitan management

The territorial unit of the Caracas metropolitan area has never had meaningful institutional status. As noted, the Venezuelan constitution mandates only central governmental, state and municipal entities, leaving the metropolitan districts to voluntary participation among municipalities. Yet in practice the direct participation of the central government and quasi-public institutions in the city's affairs historically served to mitigate the institutional deficiencies of metropolitan governance – even if this participation was unfairly biased against regions in the Venezuelan interior. Furthermore, with only two municipal districts within the valleys of Caracas voluntary participation in metropolitan development and planning was viable.

Yet, recent changes to laws dictating municipal governance have greatly exacerbated the problems of metropolitan management by encouraging the fragmentation of municipalities within the state of Miranda. On a broader scope, as the metropolitan area expands beyond the main valleys of Caracas to include as many as 17 distinct municipalities (Vallmitjana 1993; 1997; Negrón 1996), the problems of metropolitan management are becoming increasingly severe. In this context, and in light of the withdrawal of investment by the central government and the transfer of *competencias* to municipalities, the prospects for the coordination of metropolitan services in Caracas are bleak.

The importance of metropolitan coordination is typified in the development and maintenance of network infrastructure. Transportation is a particularly difficult issue within the city, as transit volume must pass through narrow exchanges at the intersections of the valleys. Yet, individual *municipios* have little incentive to improve these exchanges as the benefits often transfer to the adjacent municipality. Similar encumbrances manifest in water and sewer systems.

In less specific way, metropolitan fragmentation is also facilitating an

important change in the underlying logic of urban structure. As the case of Chacao exemplifies, many of the zones of the city are developing multi functional bases, each with their individual commercial, residential and productive structures. Without functional identity, these enclave structures instead seek to differentiate themselves according class identity. More concretely, the more advantaged *municipios* find it increasingly in their interest to structure their environments in a manner that disintegrates – rather than integrates – its space within the metropolitan community. Lost in this morphology are the agglomerative benefits of metropolitan-wide functional organization, except to the extent that functions are exclusive to particular social classes. Of course these tendencies are not necessarily new or unique, but the tuning of the institutional mechanism has given to strength to the process.

Social and political implications of municipal fragmentation

The immediate consequence of municipal fragmentation is the elimination of geographical cross-subsidies – the sharing of the costs of urban services across socially differentiated space. The incorporation of *municipio* Chacao and the prospect of a similar incorporation of Sucre independent of Petare, if not undertaken with this intent, certainly has this effect.

Within the emerging paradigm of municipal management it is often argued that such subsidies are an inappropriate function of local government, and that responsibility for the redistribution of resources should be held exclusively by the national state. If this is to be argued, then it must be emphasized that the Venezuelan central government has largely abdicated this responsibility, both institutionally in the transfer of the *competencias* of social service and fiscally in budgetary cutbacks.

But the opposition to cross-subsidies should be confronted more directly, by considering the nature of costs within the urban environment. The theoretical premise of this argument is the inherent interconnectedness of municipal systems. Although not readily acknowledged in Chacao and in enclaves in other large cities, the development and maintenance of the segregated space depends fundamentally on the support of workers who reside in other areas of the city. This has been documented in many critical studies of cities such as New York, Los Angeles and London (Sassen 1998; 1991; Beauregard 1991; Fainstein 1992), where the labor requirements of the restaurants, shops, offices and households are shown to exceed by many-fold the labor directly involved in the core activities of finance, communications and leisure. As the many studies of the so-called informal sector have established (Birkbeck 1978; Moser 1978; Burgess 1978; Ward 1982), the economic viability of core (or formal sector) activities depends crucially on the low cost of auxiliary labor power. These costs are maintained by transferring the expense of social reproduction to labor itself. Municipal fragmentation and the elimination of cross-subsidies serves this end.

A broader concern regarding municipal fragmentation and the emergence of urban enclaves are the questions of public space, social discourse and political action. By all accounts, Venezuela is at a critical moment in its political history, as the social accords that have provided stability for the past 40 years are being rewritten. Due in part to the opening created by state reform policies, the political landscape is now crowded with actors who previously were denied access. At various times during this year, as many as 15 candidates representing an almost equal number of new political parties, have campaigned for the presidency. Perhaps even more astonishingly, state and municipal offices are attracting thousands of candidates from many social sectors. (Many Venezuelans joke that political campaigns have replaced the petroleum industry as the leading economic sector.)

Yet, this political opening corresponds with a widening of social distance. Although certainly not a new phenomenon, the segregation of urban space is an increasingly powerful force in the creation and recreation of social distance in Venezuela. In Caracas and in many of the other cities in the country, this spatial dynamic is palpable and deeply resented. The contrast between the continuing decay of downtown Caracas and unrestrained development of Chacao has great symbolic effect. In the February 1992 coup attempt led by Lt. Colonel Hugo Chávez against Carlos Andrés Pérez, the principal strategic move of rebel forces in Caracas was the taking of the Carlota Airport near the presidential palace in Miraflores in eastern Caracas. Although the attempt failed, the strategy was perceived as bold strike and it made Chávez a popular hero among the Venezuelan working class that occupies the urban *barrios*.

Presently, this struggle is being played out in the campaign for the December presidential election. The leading candidate, with more 45 percent in the most recent polls, is Hugo Chávez. In third place in the polls, following Henrique Salas Römer, is Irene Saéz, the former Miss Universe and mayor of *municipio* Chacao. After a initial surge earlier this year, Saéz has fallen well off the pace, having become too closely identified with elite status of her first titles. Often referred to as the 'Queen of Irenelandia' (Chacao), Saéz is seen by many as having associations that too readily separate her from the real experiences of Venezuela.

Notes

1.

The accords were published by COPRE in 1990. Navarro 1995, Karl 1997; Tulchin 1993; and Naím 1993 provide analysis of the politics of state reform in Venezuela. Blanco 1993 considers the reform package within the broader context of reform in Latin America.

2.

In the interest of easing the budgetary impact of these changes, LOD authorizes an initial distributions of 16 percent from the central government to states and 10 percent from states to municipalities. The percentages were to increase by one percentage point per year, reaching the maximum of 20 percent in the years 1994 and 2000 respectively.

3.

Seeking to break from distrito Federal, *municipio* Vargas is presenting petitioning for statehood, qualifying the area from a separate *situado constitucional*. Under this plan, the individual parroquias of La Guaira, Maiquetia and Macuto would be established as municipal districts. By most accounts, the petition faces stiff opposition within the legislature of the central government.

4.

Detailed budgetary information for *municipio* Sucre is not available for fiscal year 1997.

5.

This was brought to my attention by Luis Penzini Fluery, former minister of MINDUR and presently a developer active in Chacao and Sucre. (Personal conversation, June 16, 1998)

6.

This practice was described by a number of private developers working in Caracas, including Abraham Hammer of Equipo 18 (June 16, 1998) and Javier Lartitegui of Inversiones Raices C.A. (June 11, 1998) among others. The practice is informal (or extra-legal) but widely acknowledged and firmly enforced.

7.

It is important to emphasize that these data include only registered transactions and construction activity. These data do not include the tremendous volume of real estate activity that occurs within the informal, low-income *barrios* of the city. The inclusion of these transactions would offer a much more complete characterization of development in Caracas, but the exclusion of these data is not likely to significantly misrepresent relations among areas of the city that are

dominated by formal development. In Caracas, the mixing of 'formal' and 'informal' land uses at the neighborhood level is the relatively limited.

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