MARKET PRICE, SOCIAL PRICE AND THE RIGHT TO THE CITY: REFLECTIONS ON LAND TAXES AND RATES FOR CITY SERVICES IN BRAZIL AND UNITED STATES

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ABSTRACT: Brazil’s 1988 Constitution and 2001 City Statute explicitly adopt the concept of a right to the city articulated by French philosopher Henri Lefebvre. As residents of Rio de Janeiro’s informal communities (favelas) achieve success in their struggle for legalization and citizenship, they are confronted with the high market price of property ownership. Willing to pay for city services according to their ability, they argue for a social price, rather than a market price, for city services, to prevent their inevitable displacement. While Brazil has legal tools in place, it unclear whether, and if so how, the idea of a social price will take hold for residents of newly “regularized” settlements. The city and state have responded to the need for a social price with a variety of measures, hesitating between a true social price and the imperatives of the market. In the United States, cities have grappled, on an informal and largely ad hoc basis, with the social rate issue. A variety of tax abatements, transfers, and utility rate programs exist at state and municipal levels to address the reality that market pricing of city services will drive the poor out of the city center, where their labor and social communities are either needed or at least tolerated. While the concept of a right to the city, and of social pricing, are foreign to United States law and the neoliberal consensus, the catalog of these programs reveals a certain recognition of an inchoate right to an affordable city.

KEYWORDS: market price, social price, right to the city, land taxes, land rates.

CONCEPTIONS OF THE RIGHT TO THE CITY AND THE BRAZILIAN CITY STATUTE

New Left French philosopher Henri Lefebvre first described the concept of the right to the city in Le Droit a La Ville (1968), and returned to the theme in several later works, through and including the Production of Space (1991). Lefebvre conceived the right as in direct opposition to the right to property. Where property is the right to exclude and the right to appropriate exchange value, the right to the city...
includes the right of all citizens to the use value of space for their needs, for housing, for play, and crucially for social interchange. The right also means the right to break free from the control of urban spaces exerted by capitalism’s imperatives. For him, the right to the city was a continual and revolutionary demand (Lefebvre 1968; Lefebvre 1991; Mitchell 2003).

The right to the city is first the right to the city center, a privileged place. The city center in Lefebvre’s conception functions as a commons, a place for social and economic interaction, for encountering human differences, and for combating spatial and social exclusion or marginalization. The right to the city is not the same as the right to live in the city, but the first implies the second, since Lefevbre grounds the right to participate in being a resident (citadin). Thus, the right to use the spaces of the city necessarily implies a right to housing, a right necessarily in contradiction to antecedent property rights.

The second key element is that the right to the city promotes use value over market value, i.e. disfavors absentee ownership and speculation. For residential space, it would clearly imply a right to remain in one’s home without regard to market forces driving out lower-income residents, i.e. speculation and gentrification.

While the challenges of restraining the market pricing of land itself and the resulting pressure to remove poor residents from central areas are daunting, a partial realization of the right to the city can occur through non-market pricing schemes for city services. My contention is that these non-market pricing schemes, which we can call social rates or social tariffs, exist widely in the United States and Brazil, although the dominant market ideology of the U.S. prevents any open acknowledgment of these practices. Social pricing of the city is nevertheless a key necessary condition to the sustainable presence of the poor in the city.

The third important meaning of the right to the city is a democratic right of decision making. City residents must be the makers of the city’s structures and spaces, as they are quite literally in Rio’s favelas, but also active participants in urban planning, as exemplified by Porto Alegre’s pioneering use of participatory budgeting. With regard to the pricing of city services, this clearly implies both a right of city residents to decide social rate policies without interference from other levels of government, and a necessity of full public participation in rate decisions of both public and privatized city service providers like water and sanitation companies.
The right to housing, conceived as part of the right to the city, necessarily requires state action to counteract market forces, if it is to be inclusionary. To have decent housing, poor city residents must at a minimum be protected from eviction and have access to basic city services including at a bare minimum police protection, transport, water, and sanitation (Brown & Kristiansen 2009). These services, ordinarily funded through property taxes and service rates or fees, can serve as an exclusionary force if they are not affordable to the poor. Any urban program that takes the right to the city seriously must tackle not only the inevitable market pressures that drive home prices and rents out of the reach of the poor, but also the explicit price of the city, in the form of taxes and rates.

Brazil’s 1988 Constitution and 2001 City Statute explicitly adopt the concept of a right to the city articulated by Lefebvre (Plyushteva 2009; Purcell 2002). The constitutional provisions represent a striking example of the adoption of this idea, also expressed in the proposed World Charter of the Right to the City (Fernandes 2007; Brown & Kristiansen 2009). The 1988 Constitution reaffirms the right to private property, but simultaneously requires that property should fulfill its social and environmental functions. In one concrete expression of the right to the city, the Constitution provides for reassigning property rights to residential occupants of small city lots through accelerated five-year adverse possession of private land (usucapiao), and assignment of use rights to public land. The 2001 City Statute makes specific provision for measures to prevent speculation, including progressive taxation increases and eventual expropriation of land left vacant. The Statute provides for the means to obtain freehold ownership, but also authorizes other possible forms of property transfer and tenure, including adverse possession for collective ownership (usucapião especial urbano coletivo) (Compans 2003).

The ideals of the Brazilian Constitution and City Statute, while animating a redirection in urban policy and a number of important initiatives, are far from displacing traditional conceptions of property and land use favoring elites and speculators. Likewise, the question of how the exclusion and segregation of the poor and working class residents in Rio and other Brazilian cities is to be addressed requires attention to the action of market forces on many levels, not the least of which is the question of a social price for city services.
Throughout Latin America urbanization in the 20th century has been driven in significant part by informal land occupation and construction by poor and working class citizens, who face the complete inability of either the private housing market or governments to provide adequate housing and living space (Smolka & Larangeira 2008). In Rio de Janeiro in 2000, more than one million people, or about 19% of the population, lived in informal settlements, i.e. favelas (ESMAP 2006, 16). If illegal subdivisions built by developers are included, some estimates put the number of urban residents throughout Brazil relying on informal housing processes as high as 50% (Fernandes 2007). One could argue that occupants of informal settlements are asserting Lefebvre’s right to the city in the most concrete fashion, occupying and developing urban spaces to meet their needs for access to housing, education, employment and human progress.

Prior to the 1980s the Brazilian legal and political response to favelas was either to ignore them or to eradicate them (Soares & Soares 2005). In the 1980s the government of Rio de Janeiro began providing water and other services to the favelas. Since the 1980s, and particularly after the enactment of the 2001 City Statute, Rio and other Brazilian cities have devoted considerable resources to the legalization of titles, provision of municipal services, and broader incorporation of favelas (as well as other irregular developments) into the city. The Favela Bairro program launched in 1993 by the Rio municipal government, with funding from the Inter-American Development Bank, sought to incorporate the favelas into the city with extension of infrastructure and public spaces and the regularization of property ownership (Rabello de Castro 2002). However, the resources devoted to the task have fallen short of the need, and the continuing growth of the settlements. In theory, municipalities should recover some costs of providing infrastructure and doing the legal work necessary for securing housing tenure, by collecting increased property taxes as a result of the added value created by these improvements. The extremely slow process of land titling in practice has limited the extent to which informal settlements have been incorporated into the property tax and water ratepaying base.

Nevertheless, the prospect of urban integration and land titling inevitably threatens poor residents with market-driven displacement resulting from the
A combination of property tax payments, utility rates and upward pressure on housing prices and rents (Durand-Lasserve 2006). In one Rio settlement, the granting of freehold titles caused home prices to double (ESMAP 2006, 23).

Several legal tools allow Brazilian cities to maintain some control over property price increases resulting from titling of informal settlements, thus allowing low-income residents to be protected somewhat from excessive property taxes. Municipal zoning can designate special areas of social interest (AEIS) to prevent purchase and sale of private land occupied by improvised housing. This zoning designation by its nature prevents the development of a market for purchase and sale of the affected areas, particularly for speculative purposes.

Brazilian municipalities can also make use of a form of leasehold that does not grant full freehold title. Known as Concession of the Real Right to Use (CRRU), these usually are long-term contracts for occupancy, that can be inherited, but require continued residency and restrict resale. In some cases, inter vivos sales are prohibited, and in other cities resales require approval by local authorities. Sometimes CRRU tenants are required to pay property tax while in other cities they have been exempted. IN AEIS where titling has occurred using the CRRU form of property, a market exists but land prices, and hence taxes, have remained low. On the other hand, favela residents may not be satisfied with the restricted title that the CRRU represents. In Recife a favela community known as Brasilia Teimosa resisted offers of legalization via CRRU titles and organized to demand full freehold ownership (Fernandes 2002).

Some indication of the price of the Brazilian city comes from the Instituto Brasileiro de Geografia e Estatística’s 2002-2003 survey of consumer expenditures. The median urban household was found to spend R$573 on housing, including R$266 for rent and R$152, or about US $90, for services and taxes (IGBE 2003). The amounts spent for city taxes and services loom large for the majority of residents in informal settlements. About half of favela residents earn less than the monthly minimum wage (about R$450 monthly or US $265), and about a quarter have incomes of less than half the minimum (ESMAP 2006). For poor urban residents, services and taxes could amount to half of their monthly income or more.

By 2004, 86% of favela residents considered themselves homeowners, but virtually none had legal title (Perlman 2004, 28). In 1969 only one-third of residents in Rio’s favelas and housing projects had running water, while by 2001 access to running water was nearly universal. Similarly in 1969 fewer than one-half of
households had electricity of any kind, and most was illegally resold by community organizations. In 2001 electricity service was also nearly universal. The electric utility company (Light) was privatized in 1996, and chose to treat favela residents as customers rather than outlaws. (Perlman 2004).

Titling and legalization of informal settlements, while clearly distinct processes (Aristizabal & Gomez 2002), simultaneously offer new stability and new risks. With legalization comes the obligation to pay for city services that poor residents previously did without or obtained without payment. With incorporation into the legal city, and especially with titling, comes the requirement to pay local property and business taxes and utility payments, in some cases driving residents out of their homes (Davis 2006).

Favela residents, or at least, resident organizations, have expressed a strong desire to obtain freehold titles to their homes. In Rio, payment of the property tax (IPTU, for impuesto sobre a propriedade predial e territorial urbana) is dependent on title regularization, and for that reason poor residents profess a strong desire to pay their property tax (Costa 2004). With an IPTU bill comes recognition as a “gente”, a citizen and not a slum-dweller. On the other hand, like any property tax, IPTU is only related to income to the extent that land values are related to income. Particularly in informal settlements bordering on high-value neighborhoods, the possibility that tax assessments, and therefore IPTU bills, will make housing unaffordable is very real.

Rio’s IPTU legislation provides exemptions for the physically disabled, World War II veterans, and elderly persons above 60 years of age earning up to two minimum salaries, a level considerably above the poverty line. There is also a provisional exemption related to titling of informal settlements. That exemption is temporary, only from the time parcels in irregular or illegal settlements are registered with the local government agency until the property and subdivision are approved, and only for acquirers of for low-income persons in regions A and B of Rio, occupying the land as a family residence and not owning or purchasing any other property (Prefecture of Rio de Janeiro Codigo Tributario). Other Brazilian cities have provided one-year exemptions from property taxes for newly titled informal settlements (Brazil Ministry of Cities 2009). After any initial exemption period, IPTU is assessed based on property value. While other measures, including AEIS zoning and less-than-freehold titling, might restrain the value and hence the amount of the
IPTU, low-income property owners are not explicitly protected from unaffordable taxes.

Social tariffs are widely practiced by Brazilian electric utilities, and also exist for water and tax rates. (Mimmi & Ecer 2010). Social rates, i.e. reduced rates for low-income customers, for electric service reduce illegal usage and resale. In Rio the CEDAE has established various social rates, in recognition of the fact that a paying customer even paying below cost is better than the alternative, in which residents appropriate water from the network without payment, or pay high costs to informal water suppliers. However, the social water rate is based on the incorrect assumption that poor households will consume less water than average, and its benefits are restricted to customers using less than 200 liters per day. Nor is the CEDAE discount rate limited to the poor; households with incomes of up to five times the minimum salary are eligible (FAFERJ 2008).

Many other examples could be cited. While some measures exist to align IPTU and utility rates with ability to pay, there is not yet a comprehensive social tax and rate system, intentionally calibrated to secure housing tenure for the poorest residents of informal settlements.

**SOCIAL RATES FOR PROPERTY TAX AND WATER RATES IN US CITIES**

There is no equivalent to the right to the city in United States constitutional law. Judicial elaboration of a social right to housing remains highly controversial, and vigorously contested by advocates of the neoliberal conception of negative rights and untrammeled markets as the providers of human wants and needs (Salins 1998; Tushnet 2003). Nor has legislation sought to protect poor urban residents from displacement by market forces, apart from some legal mandates to prevent or remedy racial segregation in housing, and thus implicitly granting some rights of urban access for racial minorities (Fair Housing Act 1968; Housing and Community Development Act 1974). Nevertheless, in practice a variety of subsidies and concessions are in place that tend to preserve some affordability of cities, albeit benefitting homeowners, for the most part, rather than renters.
A. Real estate and other city taxes:

Americans living in central cities spent an average of $1,305 annually for property taxes in 2008, for an average annual income of $55,385 (Bureau of Labor Statistics 2009). The average annual water bill was $455 and for electricity, $1,169. For those with incomes below the U.S. minimum wage of roughly $15,000 per annum, the average annual property tax for homeowners ranged between $424 and $727, with water bills ranging from $239 to $325 and electricity from $824 to $1104 annually. A full-time minimum wage worker thus spent roughly 4% of income on property taxes, 2% for water bills and 7% for electricity. While these averages suggest affordability is not a major concern, the national averages mask wide variations, and the urban poor in more expensive coastal cities, including New York, Washington D.C. and Los Angeles, face much higher costs, which can result in very real economic displacement pressure.

Income-based property tax reduction programs exist in most U.S. states and in the District of Columbia. In most states, however, the social rates or rebate programs are offered only to the elderly poor, or to other favored groups (e.g. veterans or the disabled.) As of 2008, 33 states provided income-based property tax reduction, but only 12 states plus the District of Columbia offer property tax relief to non-elderly poor (Bowman et. al. 2009). Thus, when we talk about social rates for property taxes in the U.S., these rates are often available only for the elderly, and in some cases disabled, excluding working-age poor families. Income-based property tax reduction programs are sometimes called “circuit breakers”, although this term does not have a generally accepted definition. I will continue to refer to income-based rebate programs, or social property tax rates.

Social property tax rate programs vary in their design and delivery (Lyons et. al. 2007; National Consumer Law Center 2009). They do not target cities exclusively or particularly, although higher property values in cities mean that city residents are more likely to benefit from them. Some states establish a simple percentage-of-income threshold, such as 5%, and either cap property taxes at that level or provide a rebate payment or income tax credit for property tax payments that exceed the threshold percentage. Others provide multiple income percentage thresholds, increasing progressively with income. Some states also exclude taxpayers above a maximum income, which can be quite low, at or near the poverty level in some states. Another common variant is to make rebate payments based on income, without regard
to the property tax burden. For example, Iowa refunds 85% of property taxes paid to families below $10,000 annual income, and 35% of property taxes paid for those with incomes below $15,000. A few states limit property taxes as a percentage of the home value, regardless of income, a system that cannot really be included in the concept of social rates.

Local governments collect property taxes, but the social rebate programs are administered and funded, with rare exceptions, by the states. Thus, these programs either redistribute tax burdens from state-level income or sales taxes, or they result in cross-subsidies from more affluent property taxpayers to poor or elderly property owners. In some states, there are many eligible property owners who do not receive the rebates, because the rebate procedure is separate from the property tax collection process, and requires filing separate forms or claiming the rebate on a state income tax return, and many eligible taxpayers fail to file the forms.

The political origin of these social property tax rebate programs is relatively obvious. They are extremely popular with state legislators and voters. Elderly homeowners on fixed incomes have sufficient political clout to persuade state lawmakers that their property taxes, or the rate of increase in their taxes, are unfair. Moreover, they are consistent with a neoliberal market-based approach that regards property taxes as a form of price for city services, set without regard to ability to pay, with a separate and distinct transfer payment, allowing the liberal state to fulfill its part in redistributing income.

U.S. social property tax rebates are not motivated by any recognition of a right to the city for poor residents. Nevertheless, some cities have recognized that in addition to state-administered social rebate programs, the cities themselves must also address the reality of unaffordable property taxes for their low-income residents. The problem is especially salient for cities grappling with the problem of large uncollected delinquent property taxes. While some of these unpaid taxes are attributable to well-off scofflaws or speculators, often property tax delinquencies result directly from the poverty of the homeowners, who are simply unable to meet their tax payment obligations. Cities have responded, in some instances, with ad hoc programs to adjust property tax delinquencies, or allow extended repayment, based on social need. Chicago, for example, has a discretionary program to abate property tax debts based on financial hardship (City of Chicago 2011). Philadelphia and other cities similarly
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offer discretionary tax forgiveness and payment plans for poor residents (City of Philadelphia 2011; City of Washington DC 2011; City of Indianapolis 2011).

Several cities, including Philadelphia Pennsylvania, have sold delinquent property tax claims to private collection firms at a discount, in order to close municipal budget gaps. Because the private collectors are motivated solely by the goal of maximizing collections, they are unlikely to be concerned about homeowners’ income or ability to pay. In some cases, cities have had to negotiate protections for low-income residents to prevent home losses and displacement as a result of unaffordable property tax rates for the poor. This was the experience in Philadelphia, where the city sought to prevent displacement of poor homeowners by retaining the right to repurchase tax debts on individual homes when necessary.

B. Social Rates for Water and Sewer Service

Many large water and sewer companies in the U.S. are still owned and operated by municipal governments, in contrast with the widespread privatization of water service in the developing world. The cost of water and sewer service rose rapidly in the 1980s and 1990s, partly as a result of environmental requirements. Monthly bills prior to the 1980s were generally affordable for all but the extremely poor. This changed as rates increased, although as noted above, water rates remain relatively modest, at about 2% of income for a minimum-wage worker. For the very poor, however, and for residents whose income is irregular, water rates can become unaffordable, and they may face the threat of service termination or even property seizure because of unpaid bills. (National Consumer Law Center 2008).

Social pricing schemes for water service tend to be ad hoc and vary widely from city to city, although they typically are aimed at delinquent ratepayers, as an alternative to service termination. A minority of U.S. cities and water utilities offer social rates or subsidy payments for poor customers (National Consumer Law Center 2008). Baltimore, for example, offers a $125 credit and flexible repayment for low-income property owners who have receive notice of a service shutoff or property seizure (City of Baltimore 2011). Some cities, like San Antonio Texas, San Francisco California, and Columbus Ohio, offer discounted rates for the poor (City of San Antonio; City of San Francisco; City of Columbus). Other cities, including Houston Texas, offer financial assistance to pay water rates from privately donated funds (City of Houston). The Philadelphia Water Department offers one of the more
comprehensive social rate programs, combining a percentage-of-income payment plan for customers in arrears with an annual grant of $200, which is an explicit transfer payment from other rate collections. California authorizes private water companies to provide rate relief for poor customers, and a number of them have established reduced rates based on income (National Consumer Law Center 2008).

United States law is devoid of any recognition of a right to the city, or any positive right to housing, and social rates are not enacted on the basis of rights arguments. In many cases measures to consider repayment ability result from episodic political mobilization around rate hikes or displacement, combined with pragmatic concerns of municipal authorities anxious to preserve the legitimacy of tax and rate collections and keep unpaid bills to a reasonable level, and avoid the external costs of service terminations and evictions. Nevertheless, the wide variety of arrangements in the United States and its cities to account for the payment ability of tax- and rate-payers offer some interesting models in considering the problem of the social price of the city.

**CONCLUSION**

The concept of the right to the city is foreign to United States jurisprudence; likewise, the notion of social pricing is deeply contrary to the liberal market-driven economic consensus. Nevertheless, the practices of states and municipalities do reveal a certain limited recognition of an inchoate right to an affordable city, perhaps in response to episodic and partial political mobilizations. In Brazil, the new Constitutional and legislative norms embodying the right to the city have found expression in efforts to break down the exclusion and isolation of favelas and other informal settlements, albeit perhaps simply as a new extension of the sovereignty of the capitalist state (Eslava 2009). If the market cycle of speculation and displacement is not to be repeated in these self-created urban spaces, the right to the city for all must clearly implicate the legitimacy of the demand for a social price.

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