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SERVICES IN THE CONTEMPORARY LATIN AMERICAN CITY: THE CASE OF CHILE

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The role of services in the contemporary Latin American city is almost totally unknown. The present paper aims to partially fill this gap by examining the role of contemporary urban services in Chile in shaping directly production, distribution and capital formation, and indirectly growth. This paper is an extension of and is based upon three earlier studies by the author (Mamalakis, 1970; 1972; 1972a).[1]

Services in Urban Production

As can be seen from Table 1, Column 18, services contributed 44 percent of Chile's gross domestic product (GDP) in 1969 and employed 45 percent of the labor force. More than 95 percent of income and employment in the S-sector was urban. Some services in rural areas have been significant but either ignored or inadequately measured in the statistics.

There exists a clear pattern of association between urbanization and S-sector employment. The rise of urban population from 60.2 percent in 1952, to 68.2 percent in 1960, was accompanied by a rise in the S-sector employment share from 38 percent in 1952, to 40.6 percent in 1960 (M. Mamalakis, 1972a, p. 398). Services were heavily concentrated in the province of Santiago--its 429 thousand service workers were more than half of the country's total--in the mining province of Tarapacá, the trade and recreation province of Valparaíso and the petroleum province of Magallanes (M. Mamalakis, 1972a, p. 398).

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[1] For a review of the literature on Latin American Urban Trends and Issues see the excellent articles by Richard Morse (Morse, 1965; 1971). The meager literature on services is reviewed by Morse (1971; 2:19-22).

Table 1

Development Functions and Income and Employment Created in Performing Them by Service Sectors, Total and Urban, 1969

Millions of Escudos, 1965 prices and thousands of persons

Sector Performing Functions		Transformation of						Quality			
		Time		Location		Quantity		Maintenance		Improvement	
		Absolute (1)	% (2)	Absolute (3)	% (4)	Absolute (5)	% (6)	Absolute (7)	% (8)	Absolute (9)	% (10)
Trade	total										
	Income	1,000.7	5.93	796.7	4.72	962.5	5.70	318.7	1.89		
	Labor	83.9	3.01	95.4	3.42	148.7	5.34	38.1	1.36		
	Urban										
	Income	950.7	5.63	770.0	4.56	950.0	5.63	290.0	1.72		
	Labor	80.0	2.87	92.0	3.30	140.0	5.03	36.0	1.29		
Transport	total										
	Income			770.4	4.57						
	Labor			150.4	5.40						
	Urban										
	Income			740.0	4.39						
	Labor			140.0	5.03						
Gas, Water and Electricity	total										
	Income			54.7	0.32						
	Labor			2.9	0.10						
	Urban										
	Income			50.0	0.30						
	Labor			2.7	0.10						
Services	total										
	Income			164.5	0.97	164.5	0.97	1,645.0	9.75	987.0	5.85
	Labor			35.1	1.26	35.1	1.26	351.1	12.61	210.6	7.56
	Urban										
	Income			160.0	0.95	160.0	0.95	1,600.0	9.50	987.0	5.85
	Labor			34.5	1.24	34.5	1.24	340.0	12.22	210.6	7.56
Total Services	total										
	Income	1,000.7	5.93	1,786.3	10.58	1,127.0	6.67	1,963.7	11.64	987.0	5.85
	Labor	83.9	3.01	283.8	10.19	183.8	6.60	389.2	13.97	210.6	7.56
	Urban										
	Income	950.7	5.63	1,720.0	10.20	1,110.0	6.58	1,890.0	11.22	987.0	5.85
	Labor	80.0	2.87	269.2	9.67	174.5	6.27	376.0	13.51	210.6	7.56

Table 1 (continued)

Sector Performing Functions		Transmission of Information		Money Function		Cultural and Religious Enrichment Functions		Total	
		Absolute (11)	% (12)	Absolute (13)	% (14)	Absolute (15)	% (16)	Absolute (17)	% (18)
Trade total	Income			108.4	0.64			3,187.0	18.88
	Labor			15.3	0.54			381.4	13.67
Urban	Income			104.0	0.62			3,064.7	18.16
	Labor			15.0	0.54			363.0	13.03
Transport total	Income	85.6	0.51					856.0	5.08
	Labor	17.0	0.61					167.4	6.01
Urban	Income	82.0	0.49					822.0	4.88
	Labor	16.0	0.57					156.0	5.60
Gas, Water and Electricity total	Income							54.7	0.32
	Labor							2.9	0.10
Urban	Income							50.0	0.30
	Labor							2.7	0.10
Services total	Income					329.0	1.95	3,290.0	19.49
	Labor					70.2	2.52	702.1	25.21
Urban	Income					300.0	1.78	3,207.0	19.03
	Labor					63.2	2.27	682.8	24.63
Total Services total	Income	85.6	0.51	108.4	0.64	329.0	1.95	7,387.7	43.77
	Labor	17.0	0.61	15.3	0.54	70.2	2.52	1,253.8	44.99
Urban	Income	82.0	0.49	104.0	0.62	300.0	1.78	7,143.7	42.37
	Labor	16.0	0.57	15.0	0.54	63.2	2.27	1,204.5	43.26

Notes: The term "income" is used here as a synonym to product or value added. The term "labor" stands for employment. The estimates for the urban segment were made by the author. Ownership of dwellings is not included in this table only because its share of income in 1969 was negligible. The last category includes Defense.

Source: The basic data were obtained from and calculations were made by using information found in Oficina de Planificación Nacional, ODEPLAN, Cuentas Nacionales de Chile 1960-1970. (Santiago, Chile: ODEPLAN, 1972) Tables 12-4, pp. 45-50; and ODEPLAN, Población Ocupada por Sectores Economicos, 1960-1970 (Santiago, Chile: ODEPLAN, 1971), Table 1.

The size and role of services in rural, urban and overall growth depends on the variety of needs they satisfy and their efficiency. In satisfying needs, services perform the time, location and quantity transformation functions, the quality maintenance and improvement ones, and the information transmission, money a cultural and religious enrichment functions. The absolute value added and relative importance of the various service subsectors in performing these functions have been estimated for 1969 and are presented in Table 1.

The time transformation function is defined as the set of actions changing the time dimension of good or service stocks and flows in a manner filling the time gap between production and use. The time dimension was changed by trade and banking generating 6.0 percent of GDP and employing 3.1 percent of the labor force in 1969. The services performing this function were heavily concentrated in the Santiago-Valparaíso urban agglomeration which became the dominant commercial entity.

There exists ample evidence that the commerce[1] sector's performance of the time transformation function for mining, agriculture, industry and other urban services has been inadequate and discriminatory in spite of the high "productivity" and relative income share in trade and banking. Furthermore, banking services deteriorated significantly between 1940 and 1958, recovering only partially during 1968-72 (Fuenzalida-Undurraga, 1968, pp. 27-31, 36-46, 66-70, 127-43). The widespread and continuous decay of the rural capital stock and much of the plight of the urban misery belts were directly caused by the inflexible, selective and often even retrogressing time-transforming performance of the banking system. The high incomes earned in trade and banking are in part

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[1]Commerce is always defined as the combined trade and banking sectors.

explained by efficiency, as measured by the predominance of well educated, white-collar workers and persons working on their own account, but also to a large extent by gains generated by inflationary and protection-induced quasi-rents.

Although the doubts cast about the ability of Chile's urban services to transform the time dimension in a manner satisfying the rapidly changing modern urban and rural needs may be well justified, the Marxist thesis that this inability is the consequence of oligarchic concentration of private ownership is neither accurate nor revealing (Inostroza, 1971). Salvador Allende's almost total nationalization of the banking system, which placated the communist critics and partly redistributed credit in favor of the previously neglected small enterprises and farmers, has hardly improved the banking system's overall ability to efficiently and effectively perform the time transformation function. To the contrary, the monetary crisis of 1972 suggests that its ability may have even suffered a gross deterioration. The qualitative and quantitative differences between services in modern and colonial cities performing the time transformation function may thus be less than suspected, and the absolute performance level in Chile's modern cities significantly below that of the pre-1930 period and of services in 19th century European urban centers of lesser income--always mutatis mutandis.

Transformation of the location dimension in 1969 was performed exclusively by service sectors--trade, 4.7 percent of GDP and 3.4 percent of employment; transport, 4.6 percent of GDP and 5.4 percent of labor force; gas, water and electricity, 0.3 percent of GDP, 0.1 percent of labor force; and 1.0 percent of GDP and 1.3 percent of the labor force by personal services--generating 10.6 percent of GDP and absorbing 10 percent of the labor force. Whatever the potential performance of the transport and communications system, it did not succeed in achieving a harmonious correspondence between the spacial distribution of persons, income, and consumption. The other services performing the location changing function

also maintained or even strengthened the status quo of vast urban-rural inequalities of the spatial distribution of income and capital instead of acting as catalysts of the existing barriers.

In performing the quantity changing function, which alongside with the location changing was almost exclusively urban, the trade and personal services gave rise to a total of 6.7 percent of GDP and absorbed 6.6 percent of the labor force in 1969. Once more, in performing these functions the respective sectors have not stimulated production.

More important than the time, location and quantity transformation functions, which are complementary to production and "subsistence", i.e. always necessary, are the quality maintenance and improvement ones. It is these two latter ones that can change the modes and means of production. The income created in maintaining quality in 1969 was slightly in excess of 10 percent of GDP and in improving quality 6.0 percent. Approximately one fifth of the labor force was engaged in maintaining and improving the quality of Chile's production system. The major problem may not lie so much in the amount of resources (income and employment) used in maintaining and improving quality--although either category could be augmented--; but in that all these critical services are performed in and for the urban areas, with minimum inter-regional, service-agricultural, and even intra urban rich-poor segments modernization linkages.

Urban Services in Income Distribution

The interactions between urban services and rural commodity sectors were weak, distorted and inadequate, with their shape deeply influenced by the income distribution pattern.

There has existed in Chile a major disparity between the spatial distribution of population and the spatial distribution of the benefits of production. This distorted pattern was heavily influenced by the size and nature of services. In part, it resulted from the extreme concentration of income in selected urban services.

Services in Chile's contemporary cities succeeded in transforming the distribution of income away from a spectrum compatible with the spatial distribution of population. This was achieved by controlling government and by using it to impose rules affecting present as well as future distribution. Present income distribution was shaped in part by the strongly mono-polistic, mono-psonistic trade services that returned, with government assistance, to the agricultural macrosocietal hinterland employing 25 percent of the labor force in 1969 only 7.5 percent of the country's income (Mamalakis 1972b, p. 5). This ex post agricultural income share failed to provide the minimum incentives required for continuous, increased production. Furthermore, urban services transferred to the rural population a disproportionately small share of the massive resource surpluses contributed to Central Chile by mining and abroad--foreign aid and credits. Educational services were distributed spatially in a pattern discriminating against the rural population, castigating directly the immediate accumulation of human rural capital and indirectly in rural physical capital. This discrimination not only reduced the hinterland's capacity to supply the cities and urban services with food and raw materials but also increasingly placed under jeopardy the welfare of the cities, of its service population and of the hinterland itself.

Equally unproductive socially, and politically explosive, were the enormous disparities of the intra-city distribution of service income against the masses concentrated in the callampas. The neglected and discriminated against segments of the contemporary cities were a mere extension of the equally neglected rural poverty areas.

The aggregate quality of the production system and human life has been maintained or even improved but its distribution deteriorated. Quality improving services have catered almost exclusively

to the cities and its privileged groups with the rural and marginal population segments being not only neglected but also frequently suffering absolute and relative losses in benefits. The minor improvement in benefit distribution under Salvador Allende affected the intra-city rather than the urban-rural distribution pattern.

Even the intra-service distribution of income of service output has been highly unequal with segments of personal services being grossly neglected. This pattern is a symptom, cause and effect of the urban-rural and intra-urban disequilibria that push surplus labor into such open entry service sectors as trade and personal services.

It is necessary to recognize that urban services have been the primary determinant of the spatial and sectoral distribution of income and traditionally utilized to maintain concentrated, inequitable and discriminatory patterns by all and any leading group--rural elites, industrialists, foreigners, miners, or middle classes

Urban Services and Capital Formation

Capital formation in Chile's urban services had a twofold link to growth. On the one side, some of the service output constituted accumulation of human capital. On the other side, physical investment in services was an indicator of the nation's priorities and the growth potential of services. The present paper enters into areas where absolutely no research has been previously attempted or carried out, and this is particularly true in the area of capital formation in services by functions. The estimates of urban capital formation should be used with caution because they are tentative.

Capital formation in urban services was 55 percent of the total

in 1965. Thus, the share in investment of urban services exceeded their relative contribution to income. One third of all investment in services or 19 percent of fixed capital formation was allocated in urban sectors performing the location transformation function (Column 8, Table 2). The most important investment recipients in this group were the transportation and gas, water and electricity sectors. Much, if not all, of this investment was in response to the demands of the mushrooming urban population, especially in the Santiago province. The contemporary city in Latin America, as exemplified by Chile's urban areas, requires a share of resources to transform the location dimension of persons and products substantially in excess of that used in previous historical experiences. The actual size of resources used may be severely underestimated, since the contribution of private cars in performing this function is not included. The costs of performing this function and the share of investment absorbed by it are likely to increase in greater proportion than the rise in urban population due to diseconomies from rising population densities. Fixed capital formation in the sectors performing the other two complementary to production functions of transforming the time and quantity dimensions was minimal, accounting for only 2.5 percent of total gross fixed capital formation. It is likely that these functions may have been efficiently performed with equally small amounts of investment in pre-Columbian and Colonial cities.

The investment resources actually utilized in maintaining and improving the quality of inputs and outputs amounted to 30 percent of gross fixed capital formation (GFCF) and more than half of the investment in services. The largest share--17 percent of GFCF--was used in performing the quality maintenance function, with more than half of this share reflecting investment in dwellings (Column 16, Table 2). The unprecedented popular demands for adequate housing facilities and the extent to which governments respond to them may raise the

Table No. 2

Fixed Capital Formation in Services by Functions and Type of Machinery and Equipment. Total and Urban 1965 (In millions of escudos and in percentages of total fixed capital formation)

Sector Performing Functions		Transformation of: Time				Location				Quantity				Quality Maintenance			
		Absolute		%		Absolute		%		Absolute		%		Absolute		%	
		Total (1)	Urban (2)	Total (3)	Urban (4)	Total (5)	Urban (6)	Total (7)	Urban (8)	Total (9)	Urban (10)	Total (11)	Urban (12)	Total (13)	Urban (14)	Total (15)	Urban (16)
Trade and Banking	Gross Investment	15.0	15.0	0.52	0.52	15.0	14.8	0.52	0.52	10.0	9.9	0.35	0.35	10.0	9.9	0.35	0.35
	Machinery and Equipment	8.0	8.0	0.28	0.28	8.0	7.9	0.28	0.28	5.0	4.9	0.17	0.17	5.0	4.9	0.17	0.17
	National	4.0	4.0	0.14	0.14	4.0	3.9	0.14	0.14	2.0	1.9	0.07	0.07	2.0	1.9	0.07	0.07
	Imported	4.0	4.0	0.14	0.14	4.0	4.0	0.14	0.14	3.0	3.0	0.10	0.10	3.0	3.0	0.10	0.10
Transport, Storage and Communications	Gross Investment					400.0	380.0	13.99	13.29								
	Machinery and Equipment					110.0	100.0	3.85	3.50								
	National					15.0	10.0	0.52	0.35								
	Imported					95.0	90.0	3.32	3.15								
Gas, Water, and Electricity	Gross Investment					120.0	118.0	4.20	4.13					54.0	52.0	1.89	1.82
	Machinery and Equipment					16.0	16.0	0.56	0.56					7.0	7.0	0.24	0.24
	National					2.0	2.0	0.07	0.07					0.0	0.0	0.00	0.00
	Imported					14.0	14.0	0.49	0.49					7.0	7.0	0.24	0.24

Table No. 2 (Continued)

Quality Improvement.				Transmission of Information				Money Function				Cultural and Religious Enrichment Functions				Total			
Absolute		%		Absolute		%		Absolute		%		Absolute		%		Absolute		%	
Total (17)	Urban (18)	Total (19)	Urban (20)	Total (21)	Urban (22)	Total (23)	Urban (24)	Total (25)	Urban (26)	Total (27)	Urban (28)	Total (29)	Urban (30)	Total (31)	Urban (32)	Total (33)	Urban (34)	Total (35)	Urban (36)
								16.0	16.0	0.56	0.56					66.0	65.6	2.30	2.30
								9.0	9.0	0.32	0.32					35.0	34.7	1.22	1.22
								5.0	5.0	0.17	0.17					17.0	16.7	0.59	0.59
								4.0	4.0	0.14	0.14					18.0	18.0	0.62	0.62
				58.0	57.0	2.03	1.99									458.0	437.0	16.02	15.28
				17.0	17.0	0.59	0.59									127.0	117.0	4.44	4.09
				2.0	2.0	0.07	0.07									17.0	12.0	0.59	0.42
				15.0	15.0	0.52	0.52									110.0	105.0	3.84	3.67
																174.0	170.0	6.09	5.95
																23.0	23.0	0.80	0.80
																2.0	2.0	0.07	0.07
																21.0	21.0	0.73	0.73

Table No. 2 (Continued)

Sector Performing Functions		Transformation of												Quality			
		Time				Location				Quantity				Maintenance			
		Absolute		%		Absolute		%		Absolute		%		Absolute		%	
		Total	Urban	Total	Urban	Total	Urban	Total	Urban	Total	Urban	Total	Urban	Total	Urban	Total	Urban
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Personal Services and Public Administration	Gross Investment					20.0	19.1	0.70	0.69	25.0	24.0	0.87	0.84	180.0	175.0	6.30	6.12
	Machinery and Equipment					7.0	7.0	0.24	0.24	9.0	9.0	0.31	0.31	67.0	66.0	2.34	2.31
	National					2.0	2.0	0.07	0.07	3.0	3.0	0.10	0.10	21.0	20.0	0.73	0.70
	Imported					5.0	5.0	0.17	0.17	6.0	6.0	0.21	0.21	46.0	46.0	1.61	1.61
Ownership of Dwellings	Gross Investment													250.0	250.0	8.74	8.74
	Machinery and Equipment													0.0	0.0	0.00	0.00
	National													0.0	0.0	0.00	0.00
	Imported													0.0	0.0	0.00	0.00
Total in Services	Gross Investment	15.0	15.0	0.52	0.52	555.0	532.6	19.41	18.63	35.0	33.9	1.22	1.19	494.0	486.9	17.28	17.03
	Machinery and Equipment	8.0	8.0	0.28	0.28	141.0	130.9	4.93	4.58	14.0	13.9	0.48	0.48	79.0	77.9	2.74	2.72
	National	4.0	4.0	0.14	0.14	23.0	17.9	0.80	0.63	5.0	4.9	0.17	0.17	23.0	21.9	0.80	0.77
	Imported	4.0	4.0	0.14	0.14	118.0	113.0	4.12	3.95	9.0	9.0	0.31	0.31	56.0	56.0	1.95	1.95

Table No. 2 (Continued)

Ouality Improvement				Transmission of Information				Money Function				Cultural and Religious Enrichment Functions				Total			
Absolute		%		Absolute		%		Absolute		%		Absolute		%		Absolute		%	
Total	Urban	Total	Urban	Total	Urban	Total	Urban	Total	Urban	Total	Urban	Total	Urban	Total	Urban	Total	Urban	Total	Urban
(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)
120.0	118.0	4.20	4.13									54.0	53.0	1.89	1.85	399.0	389.8	13.96	13.63
45.0	44.0	1.57	1.54									21.0	20.5	0.74	0.72	149.0	146.5	5.20	5.12
14.0	13.5	0.49	0.47									6.0	6.0	0.21	0.21	46.0	44.5	1.60	1.55
31.0	30.5	1.08	1.07									15.0	14.5	0.53	0.51	103.0	102.0	3.60	3.57
262.0	262.0	9.16	9.16													512.0	512.0	17.90	17.90
0.0	0.0	0.00	0.00													0.0	0.0	0.00	0.00
0.0	0.0	0.00	0.00													0.0	0.0	0.00	0.00
0.0	0.0	0.00	0.00													0.0	0.0	0.00	0.00
382.0	380.0	13.36	13.29	58.0	57.0	2.03	1.99	16.0	16.0	0.56	0.56	54.0	53.0	1.89	1.85	1609.0	1574.4	56.27	55.06
45.0	44.0	1.57	1.54	17.0	17.0	0.59	0.59	9.0	9.0	0.32	0.32	21.0	20.5	0.74	0.72	334.0	321.2	11.66	11.23
14.0	13.5	0.49	0.47	2.0	2.0	0.07	0.07	5.0	5.0	0.17	0.17	6.0	6.0	0.21	0.21	82.0	75.2	2.85	2.63
31.00	30.5	1.08	1.07	15.0	15.0	0.52	0.52	4.0	4.0	0.14	0.14	15.0	14.5	0.53	0.51	252.0	246.0	8.79	8.59

Note: *Gross investment stands for gross investment in fixed capital formation. The estimates of urban capital formation were made by the author.

Source: Obtained or calculated by using information found in Presidencia de la República, Oficina de Planificación Nacional, Inversión Geográfica Bruta en Capital Fijo por Sectores de Destino Período 1962-1966, Tables 1, 2,3,

share of resources used for housing in contemporary cities to levels far above those experienced previously in Latin America.

The high investment share allocated in the quality maintenance function occurred in spite of a highly inequitable and discriminatory distribution of housing units. The rural inhabitants and the urban poor, who were grossly and continously ignored, have emerged as a powerful political force under Salvador Allende and his desire to meet their demands is likely to maintain or raise housing investment. Since more than half of housing investment improves the quality of life (Column 20, Table 2) the rise in this investment is likely to increase the overall welfare of the Chilean people. Unless, however, the rural inhabitants receive equal treatment with the urban ones, adequate housing services will remain as unevenly distributed between urban and rural areas as in the past.

With more than 25 percent of all investment in services used in the quality improvement function in 1965 (Column 20, Table 2), the aggregate quality of Chilean life improved considerably. What constituted a severe growth bottleneck, however, was the concentration of this improvement among the urban privileged classes with only negligible benefits accruing to the rural and urban poor. Once more, under President Salvador Allende it was the urban lower middle classes and poor that became major beneficiaries of quality improving investments. As the amount of investment resources available remained constant or declined, major losses in the quality of life were sustained by the rich, upper middle classes, and even some previously privileged blue-collar workers. Unfortunately, few statistics are available on these points for the 1970-72 years.

Services improving the quality of Chile's human, physical and institutional capital were growth-promoting in an aggregative, global sense until 1970 since both their income contribution and investment share were significant, but growth-impeding in that they accentuated existing urban-rural disequilibria

in physical and human capital stock endowments, modernization capacity, access to and enjoyment of benefits and so forth. The spatially and sectorally inequitable accumulation of human capital gave rise to a phenomenon where sectoral clashes penalizing agriculture and favoring urban services coincided with spatial urban-rural clashes, where major urban population segments emerged as dominant and rural inhabitants were treated as second-class citizens.

The sociopolitical environment that produced this discrepancy between the spatial distribution of the population and the benefits offered by services did not result from a control of the urban decision-making apparatus by a decadent,oligarchic, power-hungry elite. It resulted, rather, from the coincidence of interests among the urban constituents, namely, the blue- and white-collar workers, parties, consumers, government, employers, the rich and even the inhabitants of the callampas.

With the advent of Allende, the distribution of quality maintaining and improving service-investment has become growth promoting--a radical and unique change in Chile's economic history,--but gross investment in performing these functions has suffered, if not fallen, leading to a negligible or zero aggregate gain.

Capital formation in the remaining functions of information transmission, money, and cultural and religious enrichment has been small, and, once more, almost exclusively urban.

Conclusion

The high concentration of all services in urban areas and the use of the government apparatus to maintain a production, distribution, and capital formation system concerning services that favored the city, stand out as the major characteristics of Chile's contemporary urban services and as a major deterrent to economic growth and social peace. This pattern prevailed on complementary to production, subsistence as well as on autonomous quality maintaining and improving services.

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