



Stratification and Public Utility Services in Colombia: Subsidies to Households or Distortions on Housing Prices?

Working Paper No. 422 Keep in mind

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Domiciliary public utility services in Colombia have a cross subsidy system which charges subsidized rates to the households who live in houses located in strata associated to low wealth levels, and taxed rates to the better off. We assesses the hypothesis that the flow of subsidies that potentially come from a particular house, are discounted by housing market agents so that most of them are transferred to the prices of the houses that generate the subsidies. By estimating a hedonic prices model applying a regression discontinuity approach, we find that the increment in house value estimated because of subsidies is similar in magnitude to the present value of the flow of subsidies. Likely effects are found on the rent amount. We conclude that subsidies to the poor population through public spending in domiciliary public utility services in Colombia is being achieved, if anything, in a very limited way. Most of the financial effort on this subject ends up distorting housing relative prices according to socioeconomic strata, with an annual cost of up to 0.7% of GDP in supposed gross subsidies to domiciliary public utility services.

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