ECONOMIC POLICY, SOCIAL ORGANIZATION AND REGIONAL DEVELOPMENT

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ECONOMIC POLICY, SOCIAL ORGANIZATION
AND REGIONAL DEVELOPMENT

(Materials to assemble a theory of
regional development)

This text was prepared by Mr. Sergio Boisier, a staff member of the Training Programme of the Latin American Institute for Economic and Social Planning (ILPES). It was prepared especially for use in the planning courses that ILPES offers. The opinions expressed here are the exclusive responsibility of the author and may not coincide with those of the Organization.

SANTIAGO, CHILE, 1983
The sun rises in the eastern sky and clears away the darkness of the world without prejudice or favoritism toward any particular region.

The Teaching of Buddha
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Writing the preface to a book means something more than proffering a foretaste of its content. It also means telling the history of the book, expounding its genesis, and hence it becomes, inevitable, a personal story.

The present book stems from two kinds of experience: on the one hand, from individual experience embracing long years spent in the teaching and practice of regional planning, in trial and error in the use of concepts, theories and methods, and in their confrontation with empirical evidence; on the other hand, from collective experience as a member of a profession that seems to be passing at least in Latin America, through a profound crisis which calls in question the stock of knowledge built up, and which at the same time provides, like every unsatisfactory situation, fertile ground for the generation of new ideas and for major qualitative and quantitative advances in understanding of the subject with which the profession is concerned.

On several occasions during the past ten years, whether in professional meetings or in studies published passim, I have maintained, sometimes very outspokenly and sometimes more subtly, that caution should be exercised in weighing opinions as to the causes of the apparent failure of planned regional development efforts. I have urged, assuredly with a favour transcending all my arguments, that the time has not yet come to dismiss what we know about regional phenomena, mainly because we know little; that much yet remains to be discovered with respect to the factors accounting for regional development or the lack of it, and, therefore, as regards the most appropriate policies for its orientation and control. I am one of those who think that attributions of the whole problem of lack of regional development or underdevelopment, to our current system of social relations may contain a modicum of truth, but that in many cases it masks either an idealism for which there is no room in planning practice or else a sort of comfortable escapism. I hold that planning in general and regional planning in particular have a place to fill and a role to play in capitalist systems, although undoubtedly, in some specific situations, that place and that role may appear to us trivial.
If the role to be played by regional planning is one of rationalizing or ordering the logic of territorial expansion of the capitalist system, or if it is to act as a factor of change, will depend, first and foremost, upon the state of scientific knowledge of the regional development problem, and secondly upon the political conditions – in the broadest sense of the term – prevailing at any given time. There is historical evidence that the existence of this second factor leads, if it is unaccompanied by the first, to merely formal and terminological changes in regional development planning, but not to substantive modifications in its conception and practice.

A review of recent literature on the subject, together with an examination of the discussions held at various international meetings on regional planning, brings to light a widespread concern with the search for a new regional development paradigm, of which is required, above all, a greater control capacity, or, in other words, a greater capacity to provide criteria for action, i.e., regional development policies. To that end, it is indispensable that this paradigm should propound a theoretical interpretation of regional development more comprehensive and refined in character than the generally practical propositions of the extant paradigm, and that at the same time it should be in closer touch with the real conditions prevailing in developing economies. To be sure, this two-fold requisite is far from easy to meet.

The present book, modest in length but ambitious in purpose, aims at becoming a significant contribution to the construction of an alternative paradigm. To consider it a finished proposal would be an absurd pretension, and it must therefore be understood as the first step in a collective effort of wider scope. Even so, in my opinion, it embodies all the necessary materials for shaping a more comprehensive and realistic interpretation of regional development.

The approach adopted throughout the book is grounded on an analysis of interdependence, in direct contrast to the procedure followed in most theoretical explanations of regional development, which are generally based on analyses of linear causality. Consequently, more emphasis is placed on the interaction of several factors than on the unilateral role of each. The intention is to break away from several tentative theories which artificially divide the factors of regional development into exogenous and endogenous categories; here the aim is to synthesize the two types of factors, while nevertheless establishing a distinction between the exogenism and endogenism of regional growth and regional development, which are regarded as two closely linked but qualitatively different processes.
The analysis centres upon those decisions taken by individuals and institutions - including the State itself - which affect regional growth and development. The keynote of the book is the postulate that the long-term development of a region - not its economic growth alone - depends upon the interaction of three processes. The first of these has to do with the region's relative participation in the use of national resources, or, in other words, with the interregional allocation of resources, a central theme in the study and practice of regional planning. The second process is linked to the regional impact of macro-economic policies and of sectoral policies at the national level: an impact which may operate either in the same direction as the effect produced by resource allocation or in an opposite direction. This is a topic to which little attention has been paid in regional planning theory and practice. The third process relates to the region's capacity for social organization in order to convert growth impulses into a development process; it is therefore associated with such questions as the increase in the region's capacity to internalize the economic growth surplus, the increase in its autonomy as regards decision-making, and the increase in the degree of social inclusion characterizing the development process itself. The ultimate goal is identification of the most appropriate mechanisms for promoting regional development within the framework of capitalist systems that specifically function with historically changing development styles.

The structure of the book is as follows. Chapter I includes, in the first place, a presentation of the frame of reference in terms of the economic system, the prevailing development styles and the predominant regional planning paradigm. These elements are taken as the parameters determining, with greater or lesser degree of rigidity, the context within which is put forward the proposed interpretation of the regional development process. Secondly, the nature of the interpretation of regional development is explained in terms of the economic, institutional and social factors which are responsible for the existence or the lack of regional development. Chapter II discusses at length the logic guiding the inter-regional allocation of resources. Chapter III is devoted to consideration of the regional effects of economic policy; appended as an annex to this chapter is a specific study on fiscal policy and regional development in Chile which serves to illustrate empirically the argument sustained in the chapter itself. Chapter IV is concerned with regional capacity for social organization, examining this question from three angles: that of an increase in regional decision-making capacity, that of the possibility of regional internalization of
growth itself, and that of participation by the population. Chapter V constitutes a synthesis.

A provisional mimeographed text of the present book was prepared in 1981 and used in international training courses and professional meetings. This made it possible for valuable suggestions and criticisms to be received from several colleagues, among whom I would make special reference to Carlos de Mattos and Eduardo García, of the ILPES Training Programme, Reynaldo Bajraj and Eduardo Palma of the same Institute's Research Programme, Fernando Ordóñez, of the OAS Regional Development Programme and Alberto Rébora, of the Programming and Budget Secretariat of Mexico. I greatly appreciate these suggestions, and if they have not all been incorporated, this is due to the acknowledge obstinacy of the author, who is accordingly conscious that any errors which may still subsist are his absolute responsibility. Lastly, I must thank Mrs. Ana María Galaz for once again having had the patience to decipher the manuscript and Mrs. Dorothy Hunneus for her excellent translation into English.

The author would like to acknowledge that translation of this publication from Spanish was made possible through a grant awarded by the Institute of Social Studies and the United Nations Latin American Institute for Economic and Social Planning which co-operate under the Institutional Agreement of Co-operation for Education and Research in Regional Development Planning. The Agreement is supported by the Royal Netherlands Government Department of Technical Assistance and the United Nations Economic Commission for Latin America.

Santiago, Chile, 1982
Chapter I

TOWARDS A COMPREHENSIVE INTERPRETATION OF REGIONAL DEVELOPMENT

1. The frame of reference

One of the best founded and most frequently repeated criticisms levelled by specialists in regional development, particularly in the developing countries, at regional planning practice refers to the markedly mechanistic character of this practice in relation to the underlying theories and the strategies deriving therefrom, scant allowance being made for the real characteristics of the countries or regions where it is applied.1/ As Friedmann and Weaber point out:

"The close interweaving of ideology, doctrine, theory and practice leads one to expect that the doctrine of regional planning will vary not only with national traditions in the practice of planning but also with ideologies and underlying socio-economic conditions. This tendency towards the national differentiation of regional planning is, however, counteracted by an opposing tendency towards the normalization of doctrines."2/

It would seem that the trend towards normalization has proved strong enough to strangle attempts to confer greater specificity on regional development planning.

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1/ Among other studies in which attention is drawn to this point, see: H. W. Richardson, "The Relevance and Applicability of Regional Economics to Developing Countries", Regional Development Dialogue, Vol. 1, No. 1, Nagoya, Japan 1980; S. Boisier, F. Cepeda, J. Hilhorst, S. Riffka and F. Uribe-Schevarria (compilers), Experiencias de planificación regional en América Latina: una teoría en busca de una práctica, Santiago, Chile, ILPES/SIAP, 1981.

Here, as in many other orders of things, a proper balance needs to be struck. There would be little use in a doctrine so specific as to be applicable only in a few situations exactly reproducing the original conditions in which it took shape. Equally useless would be a generalization at such a level of abstraction that it paid no heed to certain basic parameters which, with different nuances, are present in every real-life situation. Some of the criticisms levelled at the discipline known as "Regional Science" lay stress on this very question, discipline which, in Holland's words, would seem to face a veritable cul-de-sac.

The proposed interpretation of regional development which will be expounded in the course of the present book seeks, precisely, to find a middle way. Its ultimate aim is to contribute to the gestation of an alternative paradigm of regional development, for which a certain level of generality is indispensable; on the other hand, if it is really to become an alternative, the proposal will have to incorporate components which bring it closer to the economic, social and political realities of developing countries. To that end, special consideration will be given to a set of elements - macro-parameters - that delimit the sphere of regional development planning in terms of systems of economic organization, of development styles and of the predominant concepts with respect to regional development.

The economic organization typical of the countries of the Third World and, in particular, of the Latin American countries, can be identified, in a first approximation, with the capitalist system. At the second level of analysis, it should be noted that those in question are hybrid or mixed capital systems, with different modes of insertion in the international economy, and with more or less significant areas of social property, State-owned in most cases and in some communitarian. What really matters is that in almost all instances, the State controls a far from negligible part of the process of resource allocation, not only owing to the indirect effect of economic policy but as a function of State ownership of productive resources and activities. From the standpoint of the ensuing analysis, this simply means that both the public sector and the private sector must be recognized as playing a role in regional development, without setting aside the possibility that in some cases the latter may be more important than the former. This last point is clear enough in the light of the orthodox liberal styles adopted in several Latin American countries during the 1970s.

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In other words, an immediate consequence of recognizing it to be a mixed capitalism that typifies a large majority of the developing countries lies in the necessity for planning to take into consideration the existence of important actors on the social scene other than the State or the public sector. Some of these actors may carry enough weight to generate public policies, that is, they are in a position to make decisions capable of altering macro-economic parameters and variables, either directly or through the medium of the State. Accordingly, in these circumstances, planning assumes a strategic rather than a normative character, in the sense in which Matus uses these concepts. 

But possibly the major corollary deriving from explicit recognition of the capitalist nature of most countries - and one not entirely independent of the preceding conclusion - consists in the need to take into account the iron logic of expansion and reproduction of the system in terms of space. This point will be discussed in detail in chapter II, where it will be shown how difficult it is for regional development planning to deviate radically from that logic, at least in so far as the question of allocation of resources is concerned.

The notion of development styles is more recent and a good deal more complex, while it is a basic parameter in any interpretation of regional development that looks beyond the abstract approach of current theories on this subject. When the notion of "development style" is under discussion, there are articles by Pinto, Graciarena, and Wolfe to which reference must necessarily be made. In more concrete terms, Hilhorst recently linked up development styles and regional development strategies in a document presented at the Seminar on National Strategies for Regional Development held in Bogotá in 1979. 

As the object here is merely to take the notion of style as a way of marking out the real setting in which

6/ J. Hilhorst, "Estilos de desarrollo y estrategias de desarrollo regional", in S. Boisier et alli (compilers), op. cit., 1981.
regional development processes occur, the discussion is adopted that was presented in The state of planning in Latin America and the Caribbean, a working document for the Conference of Ministers and Heads of Planning of Latin America and the Caribbean, held at Guatemala in 1980.7/

According to the document (p. 3):

"The concept of the national development project 8/ which will be used is defined by three elements: the predominant machinery for allocating resources, the machinery for achieving social objectives and income distribution and wellbeing, and, lastly, the treatment of foreign capital and the degree and type of 'openness' to the exterior."

Each of these elements gives rise to three sub-types, as shown below:

Predominant resource allocation mechanism:
(a) Market with subsidiary State
(b) Partially corrected market
(c) Regulated market

Social and welfare policies:
(a) Subsidiary social policy
(b) Complementary social policy
(c) Social objectives directly pursued

Treatment of foreign capital and openness to the external market:
(a) Broad openness to the exterior
(b) Regulated openness to the exterior
(c) Restricted openness to the exterior

On the basis of the elements indicated various typologies can be constructed, reflecting the several development styles. By way of example, at the present time countries like Argentina, Chile and Uruguay belong in the first column of the following synthesized table; most of the other countries in the Latin American and Caribbean areas fall within the second and third columns.

Obviously, the key question that gradationally differentiates one given style from another (for example, the styles defined in the columns of the foregoing table) can be stated in terms of the automaticity versus the discretionality of several economic policy processes and the implications thereof for the relative importance of the various social agents as well as for the methods of resolving conflicts and contradictions.

7/ The state of planning in Latin America and the Caribbean (E/CEPAL/ILPES/R.17), Santiago, Chile, ILPES, 1980.

8/ The concept of "national development project" is used in the document quoted as synonymous with "development style".
ELEMENTS WHICH DEFINE A NATIONAL DEVELOPMENT PROJECT IN CAPITALIST SYSTEMS 9/

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<tr>
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<td>3: Restricted openness to the exterior</td>
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There is nothing new, to be sure, in the observation that regional planning, as a State policy, affords greater room for manoeuvre, the greater the discretionality of the style. Still with reference to the foregoing table, the styles corresponding to columns 2 and 3 are "better" than style 1 inasmuch as they allow of a higher degree of discretionality (always assuming, of course, that the discretionality is efficiently utilized); but, in reality, what is of interest from the standpoint of an alternative and more normative paradigm is, precisely, to look into what can be done within a development style such as that represented by column 1 or, primarily, what margin for action is offered by the style indicated in column 2, possibly the commonest nowadays. This margin may be narrow and apparently insufficient, but that should not conduce to the adoption of attitudes of total scepticism towards the possibilities of planning under capitalist systems; de facto, the recent history of Latin America, with its moments of evolution and of involution too, shows how

changing political conjunctures (e.g., Chile, 1964-1970; Peru, 1968-1975; etc.) generate situations that afford varying room for manoeuvre in the field of planning.

An additional element in the specification of the framework within which this alternative interpretation of regional development takes shape is supplied by the whole group of basic characteristics of the predominant regional development paradigm, which, in its turn, is a partial expression of the overall style.

The term used to describe this paradigm in current literature is "center-down". The most up-to-date analysis of the paradigm in question is to be found in a book entitled Development from Above or Below?,10/ on which the following remarks are based.

A definite bias in favour of industrial development or industrialization as the engine of the overall development process and even of social modernization seems to be one of the outstanding characteristics of the paradigm, with indubitable effects on regional development policies. The idea of industrialization in this specific instance is bound up more closely with the introduction of manufacturing processes geared to the production of intermediate and final durable consumer goods than with the processing of natural resources. In Latin America's case the outcome was a whole stage of economic development widely known as the phase of "import-substituting industrialization". Almost inevitably this penalized rural development, based more on the exploitation of natural resources, and, as will be seen later, contributed to the inequality of regional levels of living.

Thus, regional industrialization or - as they are more commonly called - industrial location policies have been accorded priority in national strategies or plans for regional development. Apart from constituting a sort of logical offshoot from global strategy, these policies call for a rationale of their own. In point of fact, to the extent that national planning of regional development takes the form of inter-regional allocation of national resources, there will be a strengthening of pressure in favour of industrial location proposals, by virtue of the greater footlooseness of manufacturing activity in comparison, for example, with such sectors as agriculture or mining. As the degree of footlooseness increases concurrently with the degree of technical processing, it is not surprising either that priority should be assigned to

industrial location policies (as a means of speeding up regional development) or that capital-intensive processes should be used under such policies, with results that are open to question or even frankly dubious from the standpoint of development as it should be understood.11/

It is only natural that the emphasis on regional industrialization should have generated a second marked feature of the current or predominant regional development paradigm: a bias - no less definite than the one just described - in favour of urbanization in general or of the growth of certain cities in particular, once again at the expense of rural development.

In all this there is, of course, an inescapable logic. Once a sector of activity has been chosen as the pivot of development it becomes necessary to organize the physical space in general, and the infrastructure in particular, required by the sector in question. Thus, in global strategies which accorded top priority to agricultural production, rural development (as a particular form of organization of the physical space) would also be of great importance.

This bias in favour of urbanization has been displayed not only in the implementation of explicit urban development policies, both at the level of the system of urban centres and at that of specific cities, but has been nurtured to no negligible extent by the implicit or indirect effect of pro-industrialization policies. As is accurately noted in a World Bank document:

"The implicit anti-agricultural bias in most import substitution policies has had a significant impact on urbanization patterns. Protection, by producing the distortions in prices in favor of manufacturing, stimulates these activities. This policy often leads to an import-dependent industrial structure. Because of protection, the real contribution of manufacturing activities, especially large-scale ones, has often been small. After correction for the effect of protection, there have been cases where the contribution of value added of a particular industry was actually negative ... The implications of growth in the economy and consequent labor absorption from the next round of investment need hardly be labored. If the import substitution sector is producing little value added, the growth effect of the funds invested

in it are effectively sterilized and when apparent savings (e. i., part of the financial gains to owners of protected industry) are reinvested in similar industries, they merely perpetuate the cycle.\textsuperscript{12} As, on the other hand, it has been difficult to avoid an asynchrony between the patterns of industrialization and urbanization, generally leading to situations of premature urbanization and even of hyper-urbanization,\textsuperscript{13} the resultant urban problems themselves, such as, for example, unemployment, have operated as a stimulus and feedback to urban industrialization as a way of palliating the employment problem. Of course, given the technology used, on the one hand, and the speeding-up of interpersonal communication on the other (which in face of the slightest possibility of jobs being created generates very strong messages, thus encouraging additional migratory flows), the result has sometimes been a worsening of the situation. Regardless of the foregoing phenomenon, the increase in migrations to the urban centres is spurred by the agricultural sector's own inability to provide employment, as is all too well known.

The centralization of decision-making processes, both public and private, is noted as a third characteristic of the predominant regional planning paradigm. Centralization of the designing and execution of policies, programmes and projects is the product of a very complex set of factors, in which historical, cultural, technological and even ideological elements are intermingled.

Whatever its origin and whatever the feedback mechanisms that perpetuate it, centralism is viewed mainly in a negative light by regional and local communities, and the struggle against excessive forms of it serves as a rallying-point for radically opposed positions with regard, for example, to the role of the State or to the conception of a democratic society. A good case in point is afforded by Chile, a country in which an exaggerated level of centralization and bureaucratization, recognized by all political sectors, had undoubtedly been reached. This widespread popular feeling respecting both the hindrances imposed by the State in every order of things and the suffocating weight of the capital city borne by the provinces provided fertile ground for the Military Government (1973- ) to bring in a number of reforms which at bottom are aimed at


minimizing the role of the State so as to clear the way for an extremely atomized society, consonant with an ultra-liberal philosophy.

In other Latin American countries, with régimes of various kinds, strong movements are also observable in favour of reforms in internal administration systems designed to pave the way for decision-making procedures that both functionally and territorially are more decentralized. Thus, for example, the Constitution of Peru adopted in 1979 creates a complete institutional and financial regional apparatus, as a means of breaking down the country's centralism.

In some federal countries, such as Brazil and Mexico, a reinvigoration of planning at the level of the federated states can be noted, once again representing a way of satisfying the pressures exerted by the population in favour of decentralized systems.

Undoubtedly, it would suffice to look through the world press to find evidence that centralism, and, in consequence, the struggle against it, constitutes the regional problem with the most obvious political dimension and the most expressive form of pressure in favour of regional development policies. Whether it is viewed from a static or from a dynamic standpoint, an increase in centralization comes about at the expense of the absolute or relative power of intermediate communities, both regional and functional. It signifies at bottom a regressive re-distribution of power in a society.

Excessive centralism, carried to a point beyond the indispensable level of State activity in contemporary society and above the no less indispensable degree of integrality deriving from the technical scale of many decisions, tends to produce certain negative effects, some of which are of particular significance in relation to regional development.

In the first place, as several authors have pointed out, a high degree of centralism is apt to generate standardized public-sector responses to regional problems, overlooking their varying nature. For example, a typical public response such as the creation of a regional supply of jobs through the installation of some industrial activity is used indiscriminately to resolve an unemployment problem whether it is linked to economic difficulties (for example, a decline in pre-existing activities) or to social questions (for example, extreme poverty); on many occasions, such responses are disfunctional and aggravate rather than ameliorate a given situation. There are many causes that account for this tendency to standardization or normalization of action on the part of the central government and its executing agencies, but discussion of these is not to the presente purpose.
Secondly, and almost inevitably stemming both from centralization per se and from the process of transfer of technology between the central and the peripheral economies, there is a marked propensity in the latter to work on large scales, both in production and in provision of services. As Schumacher says, we are suffering from an almost universal idolatry of gigantism. Stöhr puts this in another way, pointing out that the predominant regional development paradigm - "center-down" - is based to a very great extent on the operation of large-scale public and private units, vertically organized.14/ 

In good many cases, the scale of operation of these institutions far exceeds the regional scale itself; this has partly contributed to the increasing functional integration of economies, along with the side effect of their territorial disintegration.

Once again, there is no question of maintaining that all regional activities and institutions should be on a small scale, but what is advocated is the search for a proper balance between the preservation of territorial communities and the necessary national integration of markets.

To sum up, a substantial proportion of regional development strategies is inserted in a paradigm characterized, at least, by its industrial and urban bias as well as by a high degree of centralization of decision-making and a preference for solutions involving large-scale operations.

System, style and strategy, then, are the boundary-lines of the frame of reference or the context of regional development in which it is desired to insert an alternative proposal. Regional development planning cannot be treated as independent of these realities, and consequently one cannot take an over-optimistic view of it as an "instrument of change". A given conception of regional development and of how it should be planned may, to be sure, introduce changes in the corresponding strategy; it will have difficulty in doing so with respect to the development style, and where the system is concerned it will be almost inoperative.

Consequently, the aim here is to identify the most efficient mechanisms for speeding up regional growth under mixed capitalist systems with development styles in which resource allocation by the State is always partial and in

which, moreover, economic growth makes only limited concessions to social justice. It is a modest objective, but better than what we have at the moment.

2. **The economic, institutional, and social factors of regional development**

Most of the existing theories on regional development, which ought to form the basis for control of this process, place the accent more on the - paradoxically somewhat mechanical - dynamics of growth than on the initial factors which trigger off the process. In a sense they do not tell the whole story of regional development or the lack of it; they answer the question of how rather than that of why. This is so because they take for granted certain societal attitudes and the neutrality of certain forms of public action. By way of example, the theory of the export base may accurately point to development potentials and may even correctly explain an ex post development process, always providing that specific institutional and social conditions have been present. A region may have obvious comparative advantages in the production of goods in great demand, but without the presence of an agent, private or public, who is capable of perceiving, using and transforming these advantages, they will continue to be written down as a development "potential" and the process they might have generated will never come about. It is possible to go yet farther: perhaps in some cases such advantages are efficiently exploited, and even so the region still lags behind, but this time because one or other national economic policy represents an indirect tax upon the region that is out of all proportion to the benefits it is obtaining from its productive activity.

It is very much to the point to recall in this connexion Paelinck's comments on development poles, to the effect that this concept constitutes a conditional theory of regional growth, and, as such, is of only relative normative value.15/ The foregoing judgement might be generalized to include most of the current theories; they are all conditional in the sense noted above. All presuppose the existence of institutional and social conditions favourable to development.

The manifest consequence of this is that conventional theories prove to have their limits when an attempt is made to use them to impart rationality to the designing and planning of policies. In practice, planners find little

support in theory, as is effectively demonstrated by Helmsing and Uribe-Echevarría in a recent study.\(^{16/}\)

The thesis which will be propounded below is based on an analysis of interdependence, in contrast with what occurs in most theoretical explanations of regional development, which are generally based on analyses of linear causality. Thus, more stress is laid on the interaction of several factors than on the unilateral role played by each.

The analysis centres upon the decisions adopted by individuals and institutions - including the State itself - which have a bearing on the regional development process, and no reference whatever is made to the existence and distribution of natural resources, undoubtedly a determinant, in many cases, of the existence or absence of development. But natural resources are an exogenous datum (although the extant knowledge of them and of the technology for their exploitation may be considered a variable endogenous to development itself), and as a general rule they are immovable, and therefore constitute a poor foundation on which to build interregional propositions.

The long-term development of a region - not its economic growth alone - can be explained in the last analysis as the outcome of the interaction of three types of process or of three forces.

In the first place, the development of a region depends upon its relative participation in the use of national resources, for which the various regions explicitly compete. The term "national resources" is used here in the sense of movable resources, primarily financial, and primarily, too, controlled by the public sector, that is, by the central government and the functionally decentralized institutions. It is implicitly held that the territorial allocation of resources is a driving force in regional development, but of course it is not the only factor involved.

If such resources were indeed the only factor of development and if at the same time the object pursued was a strictly proportional development pattern for the regional system, the allocation of resources among the various regions would have to reflect solely the differences in aggregate technology. Obviously this is not the case, and therefore when a region's development is said to depend upon its relative participation in the use of national resources, a very broad and generic view is being taken. To put it another way, the technological matrix of each region is a

parameter of fundamental importance for assessing the region's appropriation of resources, but it is not the only one. The amount of national resources appropriated by each regional plus the latter's own resources (generally of little significance) is the main determinant of a region's economic growth, but not necessarily of its development. Furthermore, from the standpoint of mere aggregate growth, the efficiency with which the said resources are used must also be taken into account.

A given pattern of interregional allocation of national resources is not a matter of chance. In the first place, it mirrors the interplay of interests, conflicts and agreements between regions and between each individual region and the central authority; secondly, it reflects a specific criterion for the allocation of the resources in question, and this criterion in its turn constitutes a response to the society's whole set of global and regional objectives, i.e., to the logic of the system and of its style. In practice, if gross geographical investment is taken as a good indicator of the national resources allocated to each region, it seems clear that some of the available figures betray the use not of regional development criteria (equity) but of global criteria (efficiency), in combination with the more developed regions' greater capacity to exert pressure, as well as the rigidities imposed by the pre-existing parameters. The following data bear out this assertion.

In Colombia, in 1975, the Departments of Cundinamarca (including the Special District of Bogotá) and Antioquia absorbed 43.7% of gross investment.17/ In Peru, in 1979, the Departments of Lima-Callao and Arequipa received 34.5% of the public investment programmed for that year.18/ In Chile, in 1970, the Metropolitan Region and Region V obtained 41.0% of public investment.19/ In all the cases quoted the second administrative unit mentioned also holds second place in respect of its relative level of development.

17/ J. Linn, "Tendencias de la urbanización, inversión de la polarización y política espacial en Colombia", in S. Boisier et alii (compilers), op. cit., 1981.
19/ ODEPLAN, El desarrollo regional de Chile en la década 70-80, Santiago, Chile, 1970.
Although regional planning has political and social as well as economic dimensions, it is a notorious fact that its current practice is dominated by the economic dimension. This is why the interregional allocation of resources has become its substantive component (or constitutes a field of substantive theory). This allocation process is reflected in practice in the designing of plans, policies, programmes and investment projects for all regions, and as these programmes cannot be treated like an addition sum but necessitate a complex process of ensuring their compatibility, regional planning on a national scale may be considered, from the formal standpoint (from the point of view of the procedural theory) as a procedure for the articulation of the programmes in question. This point will be reverted to later.

Secondly, the development of the region is affected by the implicit or indirect (regional) effects of macroeconomic and sectoral policies. In some cases the indirect effect of these policies may be a factor contributing to regional development; in others, it may be counterproductive, and so great as to annul the positive impact of resource allocation. As will be seen in the appropriate chapter, there seems to be a growing body of empirical evidence as to the detrimental effect of many of the usual economic policies on certain regions.

It is truly surprising to find that this topic has hardly been touched upon at all in regional planning literature, being as it is, an almost obvious question. No one would really affirm the neutrality of any economic policy, and yet almost all discussion or regional development seems to be based on so odd an assumption.

However, the theme has not been entirely absent from the literature of the subject, although the references are marginal and empirical research scanty, but significant. For example, in a classic article on regional development strategies, Robock remarked:

"Much of the regional development debate and controversy in specific countries focuses on investment decisions such as priorities and the location of public investment. Nevertheless, decisions on government policies other than public investment may have greater influence on regional patterns. In the field of tariffs and foreign trade policy, protection for domestic industry, or for specific agricultural products and raw materials, or export subsidies can significantly affect regional development patterns ..."

20/ S. Boisier, "Towards a social and political dimension of regional development", CEPAL Review, No 13, Santiago, Chile, 1981.
"Policy discussions may not generate as much regional attention or controversy as investment decisions. The regional implications of the policy decisions are not as clear or visible as the location of a new physical facility. Yet, the policy questions are often the more crucial regional influences."21/

At about the same time, Werner Baer wrote in a well-known study on the industrialization process in Brazil which must be considered one of the pioneer ventures in the field of analysis of the regional impact of economic policy:

"Although the disparities in income levels and rates of economic growth are basically attributable to certain 'natural phenomena', it has been claimed that the general economic policies of the government (aimed at industrialization of the country behind a wall of import restrictions) have led to an aggravation of the disparities at the worst, and to an erasing of the beneficial effects due to redistribution efforts through the fiscal mechanism at best."22/

It follows, in consequence, that a task of importance in regional development planning consists in carefully evaluating the regional impact of at least some of the most significant macroeconomic and sectoral policies. This evaluation may lead to two alternative results. In some cases it will be possible to detect a positive impact on one or several regions; in such instances, for which the coincidence of regional and national parameters account, the circumstance will be noted as a factor contributing to regional development. In other cases, evidence of a negative impact will be found; in these situations, which are possibly very frequent, an additional role emerges for regional planners: a role culminating in the negotiation of systems of regionally discriminatory policies or to the establishment of compensatory measures, for example, through fiscal policy.

From the standpoint of regional growth pure and simple, it can now be seen that this will depend upon the net results of the sum of two forces, which may operate in opposite directions: the region's participation in the allocation of resources and the way in which it is affected by overall economic policy.


22/ W. Baer, Industrialization and Economic Development in Brazil, Yale University, Irwing Inc., 1965.
From the standpoint of regional growth pure and simple, it can now be seen that this will depend upon the net results of the sum of two forces, which may operate in opposite directions: the region's participation in the allocation of resources and the way in which it is affected by overall economic policy.

Thirdly, the development of the region depends upon a set of political, institutional and social elements which may be generically grouped under the broad head of "the region's capacity for social organization". If these elements are not present, an aggregate economic growth process may in any event be generated in the region, but the qualitative step from growth to development will not be taken.

The development of a region, as distinct from its mere growth, implies a capacity for regional internalization of growth itself. In purely economic language, this amounts to a capacity to retain and reinvest within the region a significant proportion of the surplus generated by economic growth. It also implies an increasing capacity on the region's part to convert some of the exogenous variables of regional growth into endogenous variables, or, at least, an increase in regional capacity to control such variables, i.e., to control what has been called the region's "Parametric environment". Development further implies a progressive degree of social inclusion both in the appropriation of the results of economic activity and in typically political processes.

The region's social organization capacity relates, then, to the establishment and operation of political, bureaucratic and social structures through which the states that define development can be reached, as described in the foregoing section. More specifically, this social organization capacity will be related to:

(i) The quality, capacity and identity of the region's political authority or, in general, of its "political class", of basic importance for the representation of regional interests and the organization and conduct of the manifold processes of negotiation through which the region can increase its control over the exogenous variables and

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23/ S. Boisier, "Regional planning: what can we do before midnight strikes?", CEPAL Review, No 7, Santiago, Chile, 1979.
24/ The concept of development, of course, also relates to a number of structural changes of an economic, social and cultural nature which are too familiar to be dwelt on here.
processes that determine its growth (e.g., central resource allocation, economic policies, etc., etc.);

(ii) The calibre of the regional technocracy - i.e., of the technical cadres that act as advisers to the political authority and the region's directorial stratum in general -, in terms of their capacity to provide a rationale for bargaining as well as for regional administration;

(iii) The existence, dynamism and identification of a regional entrepreneurial class capable of perceiving the opportunities created both by the allocation of resources to the region and by the bargaining effect of economic policies, prepared to assume the investment risks linked to new regional activities and sufficiently identified with the region's future to capitalize their profits within the region itself. In capitalist systems (of a mixed character) these regional "bourgeoisies" discharge an absolutely essential role both from the standpoint of growth and from that of the transition to a state of development;

(iv) The existence of a network of regional social groupings or structures which afford the population of the region channels for participation and which enable its poorest sectors to operate through formal mechanisms easily adaptable to the likewise formal channels through which circulate the stimuli to growth.

If should be noted that if a region is in a favourable position in respect of its quota of national resources and as regards the indirect effect of economic policy, the conditions are present for an acceleration of regional economic growth. If no regional entrepreneur exists, many of the opportunities for growth will be exploited by extra-regional investors, national or transnational, with little propensity to reinvest in the region and with a strong tendency to withdraw capital when the region can no longer offer exceptional conditions; the consequence is the appearance of typical expansion-depression cycles at the regional level.25/

25/ In connexion with this point it is of interest to reproduce a declaration made to the press by Mr. Gabriel Santelices, Director of the Chamber of Retail Commerce and Small-Scale Industry of Coihaique, the capital of Region XI, which is in the far south of Chile and is advantaged by a system of special incentives. Mr. Santelices, a former political authority in the area, replied to a journalist's question concerning regional incentives: "The special legislation has been useful, but it has been exploited by outsiders who have sapped its strength" (El Mercurio, Santiago, Chile, 14 September 1981).
As will be seen later, in Latin America the role played by the regional bourgeoisie has been of great importance as regards the emergence and consolidation of relatively developed centres and regions which act as countermagnets to the region where the capital is located. Cases in point are Monterrey in Mexico, Medellín and Cali in Colombia, Arequipa in Peru, Concepción in Chile and São Paulo in Brazil, among other examples which might be cited.

To sum up: the process of regional economic growth is regarded - within this interpretation - as essentially stemming from forces and mechanisms exogenous to the region; it depends mainly (but not exclusively) on the designing of macroeconomic policies, on the criterion by which interregional resource allocation is guided, and upon external demand. In contrast, the regional development process is regarded mainly as the internalization of growth and consequently is considered to be of an essentially endogenous nature. With the placing of emphasis firstly on insertion of the region in the national decision-making machinery, and secondly on the role of regional social institutions and groups, stress is once again laid on the impossibility of resolving a region's development problem if attention is paid solely and exclusively to what can be done within the region itself. Intra-regional planning becomes meaningful only when it is understood to be a subprocess of interregional planning, despite the strong methodological differences between the two levels. Furthermore, this interpretation of the driving factors behind regional development is more closely linked to the real conditions prevailing in developing countries and therefore is likely to be more helpful in identifying mechanisms for activating and controlling regional development.
Chapter II

INTERREGIONAL ALLOCATION OF RESOURCES

1. Prior concepts

Only as an exception is a brief discussion included in this chapter on the scope attributable to two basic concepts respecting which there does not yet seem to be a consensus in the profession: the concept of region and the concept of regional planning.

At the risk of repetitiousness, the discussion on the two concepts may begin by enlarging upon a typological exercise used on other occasions. Planning, in a very broad sense, relates both to a specific substantive field of knowledge or of problems and to a specific territorial jurisdiction. From this latter standpoint one can speak of planning whose territorial setting is the country as a whole, a region (irrespective of how it is defined), a province or department or state (depending what denomination is assigned to the political-administrative division immediately next to the nation in toto), a municipality, an urban centre or a locality. This preliminary classification is shown along the rows in the double-entry table included below.

From the substantive standpoint, that is, from the angle of the nature of the problems with which planning deals, the following situations at least can be distinguished:

(i) if the essential characteristic of the type of situation in which it is sought to intervene is the application of limited resources to multiple purposes or objectives, the type of planning to which this gives rise may then properly be described as economic planning. Such a

26/ See S. Boisier, Diseño de planes regionales, Madrid, Editorial del Colegio de Ingenieros de Caminos, Puertos y Canales, 1976; and by the same author, "Algunos interrogantes sobre la teoría y la práctica de la planificación regional en países de pequeño tamaño", Revista Latinoamericana de Estudios Urbanos Regionales, EURE, NQ 21, 1981.
situation is tantamount to a problem of conditioned optimization or to a general problem of choice between alternatives, a question distinctive to the science of economics;

(ii) if the situation to be influenced involves the application of alternative means to the attainment of an objective or of a pre-established target, that is, if the question is one of efficiency, then the type of planning which stems from this situations is technical planning, such as, for example, the identification of the best procedure for achieving a specific output of electric energy (using hydroelectric, thermoelectric, nuclear, aeolic or other plants);

(iii) if the problem is of a physical nature, i.e., if it concerns the territorial deployment of certain structures and elements, as, for example, cities, railroads, and highways, dams, crops and soil use, etc., then the type of planning associated with it is spatial planning;

(iv) if the situation in question relates to the interpersonal distribution both of the product of economic activity and, in a broader sense, of opportunities for individual and collective self-fulfilment, the corresponding form of planning in this case is social planning;

(v) if the problem has to do with a shift in power relations between different sectors or different social groups, the type of planning with which this problem is linked is political planning, which must not be confused with a specific political strategy for acceding to power, as in the approach normally adopted by political parties;

(vi) if the problem bears on ecological aspects, the corresponding planning is usually termed environmental planning.

It should be pointed out in addition that adjectives such as global and sectoral, which currently go hand in hand with the concept of planning, have nothing to do with the subject of planning but related to the levels of aggregation of the analysis. Nevertheless, custom has identified sectoral planning with technical planning and global planning with economic planning.

The foregoing typology is useful in several senses. On the one hand it shows that there is no type of planning that could be called "regional" which derives linearly from any specific subject of planning. In reality, what is currently termed regional planning is a multidimensional horizontal function which includes, with variable weightings, all the subjects represented in the columns of the foregoing table. This exercise can be applied to a single region, defined conventionally or on technical bases (intra-regional planning), or to a system of regions (interregional planning). Even though the surface area, the contours and other geographical characteristics of the regional system coincide with those of the country, interregional planning
### PLANNING TYPOLOGY

<table>
<thead>
<tr>
<th>Nature of the subject</th>
<th>Selection of objectives</th>
<th>Efficiency in use of resources</th>
<th>Physical deployment of elements</th>
<th>Distribution of opportunities</th>
<th>Shifts in power</th>
<th>Ecological control</th>
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<td>Jurisdiction</td>
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<tr>
<td>Type of planning</td>
<td>Economic</td>
<td>Technical</td>
<td>Spatial</td>
<td>Social</td>
<td>Political</td>
<td>Environmental</td>
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*Example:*

- **Country**
- **Region**
- **Province**
- **Etc.**
- **Type of planning**
  - Economic
  - Technical
  - Spatial
  - Social
  - Political
  - Environmental
is methodologically different from national planning (first row in the table), inasmuch as the country is considered as a system and not as a unit. Moreover, the table shows that the mere fact of planning at a subnational level (whether that level is termed region, province or what have you) is not enough to engender regional planning activity proper; for example, to plan the behaviour of the aggregate variables at the level of a region (product, income, employment, investment, etc., etc.) and to select objectives is merely to carry out economic and global planning on a smaller geographical scale, but it does not constitute a regional planning praxis, unless the container is to be used to define the content.

The table also shows that planning for a province or a federated state or even a municipality may in many cases be correctly assimilated to the notion of regional planning, in so far as the exercise in question is multidimensional; consequently, the concept of "planning region" is dependent upon the content of planning itself - it cannot be exogenously defined, nor is it necessarily identifiable or coincident with regions defined in other contexts, such as a region in a cultural sense, for example. Hence it is also clear that the size of the jurisdiction in which planning is undertaken is of importance in so far as it makes room for a multidimensional conception of planning. Starting from a minimum size allowing of such an approach, the actual size of the regions will depend mainly upon administrative considerations.

The vertical components, or subjects, which have carried most relative weight in the structuration of regional planning on a national scale are firstly the economic component and secondly the distribution of power. This is no mere matter of chance; it clearly represents a response to the characteristics of the predominant paradigm and also accounts for the fact that questions bearing on interregional resource allocation and on regional decentralization of the public decision-making apparatus have constituted the two keynotes of most regional development strategies and plans.

In the light of these observations and explanation can also be found for the closer association of intra-regional planning with questions of technical, spatial and environmental type, provided that at the national level account has been taken of the allocation of resources and of decision-making power.
2. The logic of regional expansion and the role of planning

A modicum of positivism is useful in examining current regional planning practice, for irrespective of the opinions of the analyst, such planning practice has a robust logic of its own when the general context in which it is inserted is not disregarded.

The basic problem initially confronting the team responsible for the planning of a national system of regions is that of formulating a proposal for a regional development strategy; over and above the strategic argument, this has traditionally consisted in neither more nor less than a proposal for the allocation of national resources among the several regions.

Independently of the regional development objectives included in the formulation of the strategy itself, the regional planning team is immediately faced with a first constraint, which although perfectly obvious, would appear to be sidestepped in many official documents. The available resources are scanty and insufficient for doing all that might be desired in all regions at the same time.

As the simplistic solution of dividing the resources into equal shares will not stand up to any analysis, regional priorities must be established. In other words, a criterion for resource allocation must be explicitly stated. This is where the divergencies begin between "rhetorical" planning and real action, and between this latter and purely theoretical analysis of regional allocation of resources.

Planning documents and the public speeches of political leaders are probably at one in highlighting the situation of the regions with the most acute social problems, and thus giving the impression that the top priority in respect of regional development will be accorded to the most underdeveloped regions; indeed, not a few regional planners frankly end up believing this to be true. The real facts, however, follow a different course.

The development styles prevailing in most of the developing countries are strongly favourable to aggregate economic growth, or more exactly, to the maximization of the growth rate. Objections can hardly be raised to the global priority assigned to the question of economic growth if this is understood as an indispensable requisite for improving the level of living of the population as a whole. Of course, that does not mean accepting any distribution
pattern whatever, but is is common knowledge how difficult it is to reconcile the two aspects completely. 27/

The objective necessity of speeding up growth has, of course, a manifest incidence on the territorial pattern of resource allocation, in the sense that it makes for an allocation which gives preference to the "centre, 28/ all the more pronounced, the shorter the time horizon of planning. This tendency is counteracted, however, by the need for territorial deconcentration of at least part of the productive apparatus, so as to avoid the costly and almost insoluble problems of hypertrophic metropolitan growth. While this necessity is perfectly obvious in the case of countries already facing serious urban macrocephaly problems, such as Argentina with Buenos Aires, Brazil with Sao Paulo and Mexico with Mexico City, it is no less evident in the other countries in which the primate city has not yet attained an unmanageable size, but in which made trends in that direction are apparent.

Consequently, the style affords a certain openness to regional growth, but clearly, in most cases this openness is not based on considerations of equity (which would be conductive to reducing the sharpest regional disparities by speeding up the growth of the poorest regions), nor on considerations of long-term global growth and stability (which would find expression in the incorporation of areas and potential resources into the economic system through investment in the unexploited periphery), but on a rationale which seeks to strike a balance between the maintenance of aggregate growth and the need to prevent the emergence of large-scale diseconomies of agglomeration in the main centre, that is, the necessity for deconcentration of the productive apparatus.

27/ In this connexion reference should once more be made to Hilhorst's study on development styles and regional development strategies (Hilhorst, op. cit., 1981), in which the author leaves no room for doubt as to the constraints imposed by styles on regional development options.

28/ For a summary of the theoretical argument pro-investment in the "centre" and pro investment in the "periphery", see T. Hermansen, "Asignación interregional de inversiones para el desarrollo económico. Un enfoque de análisis propio de un modelo elemental", in A. Kuklinski (compiler), Desagregación regional de políticas y planes nacionales, Buenos Aires, Ediciones SIAP, 1977.
It is only natural that in the search for this equilibrium (which is essentially a medium-term affair) attention should be focused in the end not on the poorest regions, but on regions which may be classified as secondary; they are not exactly the "centre" but they are relatively on the verge of it, within a few steps of becoming true central regions. Their short-run economic growth potential is superior to that of any other region, except the traditional centre, and they already have a certain industrial and urban base. In other words, they are the places in which the opportunity cost of deconcentration of resources is minimized, making it possible to expand the sphere of reproduction of the whole system.

Probably one of the most internationally-publicized cases of regional planning on a national scale during the 1960s was that of Chile. In this instance the top priority envisaged in the regional development strategy was accorded not to the poorest provinces or regions, but to the so-called Bio Bio Region, a major river basin which contains the country's second most important industrial and urban nucleus and possesses a definite medium-term growth potential; and this under a government overtly committed to social change and the cause of the more deprived sectors. In the 1970s the case of Panama also achieved a measure of notoriety, and once more it may be noted that the top priority in the regional development strategy was assigned to the Western region (provinces of Chiriquí and Bocas del Toro) which - again - is the place where the opportunity cost of deconcentration is minimized. In Peru, the corresponding region is that structured around Arequipa, the country's second urban centre. In Mexico, it is Guadalajara and the area covered by the Lerma Plan. Brazil departs - although not altogether - from this sort of iron low because of the weight carried by the political dimension of the Nordeste (North-East) question. In any event, as will be seen later, the priority accorded to the Nordeste has been more than functional to the expansion of the "centre" in Brazil.

29/ The concept of "centre", in opposition to the concept of "periphery", is used here to denote an agglomeration of: (i) essentially secondary and tertiary production structures; (ii) social structures; (iii) spatial structures; (iv) power structures; (v) consumption structures; and (vi) interrelationships and the corresponding processes of change. The notion of "centre" is meaningless unless accompanied by that of its relation with a periphery.
Now, clearly, given the relative weight represented in most countries by the central region or capital, the allocation of resources to these regions cannot be drastically reversed, unless the country is willing to pay a very high price in terms of aggregate national growth. Taking in addition the fact that in such regions the private sector (over which controls are difficult to exercise in practice) is a very important agent from the standpoint of the use of resources, a clear picture can be formed of the rigid constraints that hinder a discretionary interregional allocation of resources.

If, then, to the resources which by the inertia of the system are bound to be channeled into the central region are added those which will have to be allocated to the region accorded priority in order to fulfill the objective of making it an alternative center, the amount left for serving regions to which a second, third, or fourth priority has been assigned is necessarily small. This may convert the priorities in question into an expression of wishes rather than a guide for practical action.

Such, then, is the real situation in respect of priorities, deriving as much from the general problem of shortage of resources as from the structural rigidities of the system and of the development style. This point will be reverted to later.

The degrees of freedom in interregional allocation of resources are, however, much more limited than from the foregoing analysis may be inferred. Resource allocation cannot be arbitrary, since it must - besides - comply with an additional restriction deriving from the principle of consistency with which the growth pattern of a multi-regional system must keep in line.

Almost all writers on the subject agree that a fundamental objective of every regional development proposal consists in the modification of the domination-dependency relationships which forge hierarchical links between different regions. Still within the limits set by the basic parameters mentioned above (system, style, etc.), this presupposes a change in relations between sectors and economic activities located in the several regions and between social groups pertaining to the various regions concerned. A shift in these domination-dependency relationships may also occur through an increase in the economic size of the dominated regions, and that may perhaps be the most viable path. This is so because bargaining capacity (a vital element in the

30/ In Latin America at least, it is not uncommon for the region in question to account for half or more of a country's domestic product.
modification of dependency relationships) depends upon power, and that depends, ceteris paribus, upon economic size. 31/

Accordingly, one of the goals established in any regional development proposal will be an increase in regional size, or, in other words, in the relative economic weight either of the priority regions or else of those that are weakest. Of course, not all regions can simultaneously increase their relative participation in any national magnitude; if some do so, others will have to reduce their share, since the situation is analogous to a zero sum game, period by period.

Let us assume that what is under review is the programme for the priority region, which, as already pointed out, will in practice be the region where the opportunity cost of deconcentration of resources is minimized. It may be assumed in addition that the region wants to achieve a growth rate faster than the national average, a perfectly logical means of converting the region in question into a sufficiently attractive alternative location. The present relative economic size of this region is measured by its "current participation coefficient (p_o)", which is simply the ratio between the domestic product of the region and the country's domestic product.

A regional growth rate more rapid than the national average can be established for the region concerned by fixing a figure for the growth rate of the regional product or by determining a desired figure for its future coefficient of participation (p_t); the two procedures are in fact identical, and either of them gives the same result: a value for the coefficient "p^t", equivalent up to a point, to the construction of a regional scenario.

Once this has been done, a formal relationship is established between the growth rate of the region in question and the growth rate of the country as a whole, expressed as follows:

\[ y_t = \frac{p_0}{p_i} \cdot y \]

in which, "y_t" represents the growth rate of the regional product; "y", that of the country's total product; and "p_i", the region's relative (economic) size both as it is at present and as it is planned for the future.

31/ S. Boisier, "Regional planning: what can we do before midnight strikes?", CEPAL Review No 7, Santiago, Chile, 1979.
What happens, then, to a second region, in a hypothetical bi-regional system? What happens is that there are no longer any degrees of freedom to fix either the region's growth rate or its desired size. It can indeed easily be shown that the growth rate of this second region \( y_j \) depends exclusively on the rate of growth of the first region and on its planned size, as shown in the following equation:

\[
y_j = \frac{p_i^0 (1 - p_i^t)}{p_j^0 p_i^t} y_i
\]

This type of reasoning can be extended to a multi-regional system, and it can be demonstrated that in most practical instances, the simultaneous determination both of a country's global growth rate and of the regional scenarios (i.e., the figures for the planned coefficients of participation) completely exhausts all degrees of freedom in the selection of a regional growth rate for a priority region.

If regional strategy postulates as one of its requisites that there should be no decrease in the absolute level of the regions' per capita income or product, the pursuit of the set of regional growth objectives then pivots upon a specific region, which may or not coincide with the priority region. This means that while the selection of the priority region may be backed by a given rationale (minimization of the opportunity cost of déconcentration), its rate of growth may turn out to be established mechanically as a result of constraints deriving from the requisite of consistency, and may prove insufficient for the region to succeed in becoming an alternative centre.32/

What this means, in short, is that in certain conditions which are general enough in practice, it is not possible to establish independently and simultaneously the scenario and the growth rate of the priority region. The

32/ This is so from the angle of the formalization of conditions of multiregional consistency, since from a real standpoint any growth rate will depend upon the amount of investment and on productivity.

33/ This is a line of reasoning complex enough to require numerical exemplification. An exposition in extenso of this consistency-based model and several examples illustrating its operation are to be found in S. Boisier, Técnicas de análisis regional con información limitada, Cuarderno N° 27 (pp. 105-119), Santiago, Chile, ILPES, 1980.
determination of the scenario (the main task of an inter-regional strategy) may generate a growth rate for the priority region that falls short of the theoretical maximum while at the same time fixing all growth rates for all the remaining regions, and, in addition, by way of the capital coefficient, settles the interregional allocation of resources. Interregional resource allocation results from the rigidities of the system and from the constraints imposed by the need for consistent solutions rather than from the will of the planner.

Henceforward the development plan for the priority region follows an almost completely guessable course.

Given the bias towards industrial development characterizing a high proportion of the current styles, industrial programmes will be regarded as the chief mechanism for channeling the predetermined resources into the region in question. This approach will embrace both the search for industrial projects linked to the exploitation of the region's natural resources, and, primarily, the establishment in the region of manufacturing activities associated with the highest income-elasticities of demand. As the overall development style is engendering a specific pattern of income distribution, an attempt will be made to adjust the regional industrial programme to the increased demand generated by the concentration (or the levelling-up) of income. Once again, in most practical situations, the foregoing criterion fosters a preference for installing manufacturing activities that produce high-cost intermediate or final durable goods, intended to meet the national demand of the higher-income sectors.

A good case in point is afforded by the industrial location policy implemented in Chile during the 1960s. In conformity with the regional development strategy, this policy gave a powerful fillip to the development of manufacturing industries in the Bio-Bio Region, as it is called, and within it, in particular, in the province of Concepción. The main policy instruments consisted in reductions of custom duties on imports of capital goods (in an economy which at the time was strongly protected), in accordance with a schedule of sectoral and regional priorities. Out of a total of 28 industrial groupings covered by this provision, in the province of Concepción deductions from one hundred per cent of the duties were conceded to 17 of them, of which only 3 comprised industries directly linked to the processing of natural resources (in a region rich in natural resources) while the remaining 14 corresponded to intermediate industries and dynamic sectors producers of final goods.

The criterion for selection of the priority region (or possibly, in some cases, regions), the emphasis placed on its industrial development and the subsequent selection of the type of industries to be located there, have led in
practice, and within the frame of reference which is the context of the present analysis, to the almost inexorable application of the theory and strategies of polarized development and centres of growth.34/ It may be noted, by way of example, how clearly the whole of the argument presented hitherto is reflected in the "Law on Promotion of the Development of New Industrial Cities" in Japan, established in 1962 and based on the use of concepts proper to polarization theory:

"This law was designed to decentralize industrial activity from the Tokaido Megalopolis to mitigate the effects of diseconomies of agglomeration and to achieve balanced regional growth of the nation. But considering the scarcity of capital and the necessity of achieving a high growth rate, it was desired to pursue the decentralization policy as long as it would not hamper the efficiency of capital. Thus the location of new industrial cities should be outside the existing large metropolises, but possess great possibility of being developed into sufficiently large-scale industrial bases ..."

"Growth centres would have the following four characteristics:

(a) Efficient utilization of capital through selective concentration of capital in regions having the highest potential for development.

(b) Utilization of external economies through concentration of capital in existing large cities having considerable external economies.

(c) Dominance of the role of manufacturing was to be emphasized as the leading sector for growth.

(d) The role of the government would be important in provision of industrial infrastructure and financial inducements to attract industry to the growth centres."35/

The use of an instrument such as growth poles has produced ambiguous results in many cases, mainly owing to their mechanistic application with obvious neglect of the

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34/ Some radical critics are bent on seeing growth pole strategies as nothing but an instrument of imperialistic penetration and domination (which in some cases may be true) and completely overlook the functionality of such strategies in development styles which are autonomous, but biased in favour of growth and industrialization.

special conditions characterizing the regions into which they were introduced. Too much literature has been written on this subject for it to be resuscitated here. The present author recently analysed some of the reasons for failure and suggested the way in which the application of polarized development should be approached, and there are many other publications, likewise of recent date, in which the same problem is discussed. In any event, it should be pointed out that failures, apparent or real, occur much more frequently when an attempt is made to apply this instrument in regions with little industrial base than in the case of those indicated here as priority regions.

As was pointed out in the preceding chapter, the selection of a sector of production as the leader of growth entails a variety of measures aimed at organizing the physical space used by the sector. Hence it is that regional industrialization policies call for parallel urbanization policies. Use of the growth pole concept must imply use of the concept of a centre of growth, if it is a coherent development programme that is envisaged. Unilateral regional handling either of industrialization or urbanization is precisely what has been blamed as one of the major factors of failure in polarized development strategies. A comprehensive attempt to interlink, at the level of specific regions, the policy of poles and the policy of centres of growth, or in other words, industrialization and urbanization policies, is represented by the unified approach termed INDUPOL.

Industrial promotion and urban development programmes directed towards the priority region or regions will also imply pressure for the parallel development of transport and communications infrastructure to guarantee the prevention of bottlenecks in the supply and the national marketing of inputs and products required and generated in the region. Similarly, as some of the industries that may be located in the region will probably be subsidiaries of national and international companies, the public channels

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of communication (telephone, telex, microwave and other networks) will be considered of vital importance for guaranteeing a smooth flow of information between parent firms and their affiliates and vice versa.

Thus occurs a gradual and logical enchainment of a regional expansion programme based mainly on one sector of production (industry) with two infrastructure sectors (the urban sector and the transport and communications sector).

Starting from this initial nucleus, the next step will be to attempt the transition from an essentially sectoral growth programme for the region to a global regional growth plan. This will be done through the preparation and aggregation of sectoral programmes in each of the sectors of production and services existing in the region.

The institutional arrangements tied up with the regional plan are of varied nature and are strongly influenced by the overall development style. As a general rule, the State will be responsible for expenditure on infrastructure as well as on social development, and for fulfilling the very important function of providing economic (tax, tariff, etc.) incentives to attract private investment to the region. In some cases, the State will also act as investor and entrepreneur in connexion with specific large-scale or strategically important industrial activities.

What will be the role of decentralization in this promotional scheme for the priority region? It will have a very important part to play as a mechanism for co-opting the region's entrepreneurial classes, which must be incorporated into the scheme in question in such a way as to minimize - by means of tactical alliances - the friction in the system produced by the inevitable reduction in the allocation of resources to the central region and even by fiscal appropriation of a larger proportion of the surplus generated there (all this with the object of expediting the short-term viability of the development of the priority region). Such a situation may well give rise to an adverse reaction on the part of those groups whose level of profit depends upon the level of resources channelled into the central region.

The state of friction can be counteracted by means of diverse expedients. One is to take decisive steps to incorporate the active regional groups in the enjoyment of the benefits of the priority region's development and in the conduct of this process, by forming an alliance between them and the State; this inevitably necessitates some measure of decentralization in favour of decision-making bodies at the regional level. Another is to enlist the interest of the "central" groups likewise in participating in the regional development process itself; to that end, the State will manipulate the instruments of economic policy (taxes,
tariff duties, etc.) in such a way as to facilitate the mobility and flow of capital from the central region to the priority region.

When the alternative adopted is a tactical alliance between the State and the regional entrepreneurial groups, these latter will come to wield increasing influence on the designing of national economic policies that are favourable to the expansion of their own activities, which, in the long run, will ultimately become national activities, their identification with the region fading out with the consolidation of functional integration at the national level. A study of this process, though basing it on a different historical origin, has been made by Balán with reference to the Argentinian provinces of Tucumán and Mendoza and to the sugar and wine entrepreneurs.28/

In the last analysis, then, the priority region's process of growth (or of development in the best circumstances) is one of penetration and expansion on the part of the centre, directed towards broadening the geographical base of markets in order to facilitate the continuous reproduction of the system and of the development style. This process, like every process of economic growth, is simultaneously conducive to the disruption of certain preexistent productive and social structures and to the organization of new social relations. Over the short term the social tensions created by the break-up of the traditional modes of production and marketing may be strong enough to jeopardize the entire process. Clearly, such tensions are relatively greater in the regional sphere owing to the localized impact of innovations and of specific projects, in contrast to the spreading-out of their effects at the national level.

In the meanwhile, what happens to the other regions and to the resources allocated to them?

The situation is as follows: resources must be allocated to the other regions in such a way that - in the worst event - no deterioration will occur in absolute per capita levels of product or income in each of the individual regions. At the extreme, this is tantamount to maintaining that the total amount of resources invested in each region will depend exclusively upon a single variable: the population increment; on a single parameter: the regional (marginal) output-capital coefficient; and on a single datum: the initial level of the region's domestic product.

The sum of these allocations to the whole group of regions, excluding the "central" region and the "priority" region, must be equal to or less than the total amount of resources available after discounting those already allocated beforehand to the two regions just mentioned. It should be noted that disregard of this type of constraint probably gives rise to situations in which one or more regions do experience an absolute decline in terms of per capita product or income, with consequences all too easy to imagine. Here, therefore, is one of the several instances of the need to ensure compatibility that is characteristic of regional planning.

If the result of the foregoing test is negative, that is, if the minimum investment required by the regions excluding the "central" and the "priority" regions exceeds the resources left over, this inconsistency must be corrected by means of a reduction in the funds allocated to the two regions mentioned above. If the situation is reversed, that is, if the remaining funds exceed those needed to maintain the values of the per capita indicators, this opens up the possibility of choosing another region for preferential treatment, where development schemes can be applied that deviate more widely from the characteristics of the prevailing style: for example, programmes based on integrated rural development projects. It is therefore untrue that urban industrial development runs counter to rural agricultural development, or at least they are not mutually exclusive categories. Both development patterns can and do coexist within single regional development strategies, at the national level, but if priority is measured by the resources committed, the weight carried by the urban-industrial pattern is beyond question.

Thus, from the standpoint of national planning of regional development four types of region emerge: (i) central regions; (ii) priority regions for urban-industrial development; (iii) priority regions for agro-rural development; and (iv) non-priority regions. Concurrently it must be noted that the planning procedure will necessary be different in each case, since in the first instance what is really involved is planning aimed at control over growth; where priority regions are concerned, the question is one of planning to stimulate growth; while as regards non-priority regions, the objective is to keep the situation stabilized, at the very least.

This type of classification, with the pertinent implications in terms of action, seems to have lain behind some propositions put forward a number of years ago by the National Planning Office (Oficina de Planificación Nacional - ODEPLAN) of Chile. In an important document prepared partly as background information for the political debate
preceding the presidential campaign of 1970, the following types of aggregate policies for groups of regions are proposed: a policy of economic control and spatial rationalization for the "central" region; a policy of industrial modernization and polarization for the two regions with the highest development priorities; a policy of economic diversification and physical integration for regions in the extreme north and extreme south of the country, with a priority based on geo-political criteria; and a subsistence policy applicable to most regions which, in practice, had no priority whatever.39/

To return once more to the planning procedures associated with these types of regions, the following detailed comments are relevant.

Planning for central regions is directed, as has been remarked, towards keeping the economic growth rates of such regions within certain limits. These limits may be fixed conceptually at least and in some cases their quantification may prove perfectly feasible. The regional development strategy adopted by Panama, for example, highlights this problem in an observation to the effect that in the conditions described in the pertinent document, the viability of Panama's regional development presupposes an action strategy consisting in keeping the growth of the Metropolitan Macro-Region within bounds which at their least restrictive do not imply a contradiction with the major national objectives and at their most restrictive do not result in a deterioration of the existing situation in the Centre-West Macro-Region; and consisting too in ensuring the transfer of surpluses from one region to another.40/

Accordingly, planning for regions of this type will be based, firstly, on administrative instruments which prohibit or merely impede inordinate physical and economic expansion - such as strict zoning, a ban on the installation of new industries, no granting of tax or tariff exemptions, etc. - , and, secondly, instruments of an economic character aimed at enabling the Treasury to appropriate a larger proportion of the surplus generated in the region - such as higher rates of taxation on the profits of enterprises, special taxes to socialize external economies as well as others to penalize external diseconomies (taxes on activities causing pollution, for example), and so on.

39/ National Planning Office of Chile (ODEPLAN), El desarrollo regional de Chile en la década 70-80, Santiago, Chile, mimeographed text, 1970.
It is natural, too, that planning for these regions should be closely linked with a physical dimension, since the land in particular and space in general are the resources that are really in short supply. It is therefore not surprising to see that "spatial rationalization" is an important feature of the global policies designed for such regions.

In contrast, in relation to "priority regions for urban-industrial development" planning takes an active form of planning, its main objectives being the channelling of resources towards the regions concerned, the neutralization of any indirect negative effect inherent in macro-economic and sectoral policies, and, in addition, the activation of the region's entrepreneurial sectors. The most important instruments, from the institutional angle, will consist in the creation of public and private institutions to facilitate saving and investment, such as, for example, Regional Development Corporations, Entrepreneurial Groupings, Development Banks, etc.; while from the economic standpoint, the instruments used will be closely associated with the promotion of industrial development, and will include, for example, accelerated amortization programmes, tariff reductions, special rates of taxation, credit lines with subsidized interest, etc., etc. Fiscal policy will take a key position via public spending, essentially on the construction of infrastructure (industrial parks, highways, housing, etc.).

Despite the fact that the more or less direct mechanisms for promotion of regional growth, such as those recently mentioned, are sufficiently well known and widely applied, it is still possible to quote numerous cases in which notwithstanding the liberal scale of expenditure and subsidies, development simply does not occur or falls far short of expectations. A tentative explanation may be found in the concentration of attention on the single question of resource allocation (direct and indirect), without regard to those other concomitant factors of regional development to which several allusions have already been made: the effects of national economic policies, and the role of social institutions and groups. Even so, it is worth noting that in several connexions, the theory and practice of regional planning have come to the fore precisely in order to sustain the development of regions of this type.

With respect to regions of the third type, those that have an almost residual measure of priority and in which the development process may to some extent deviate from the prevailing style, planning takes on a more innovative but necessarily a more modest character, since a large proportion of the available resources has been earmarked for regions of the two preceding types and for
presenting a deterioration in the per capita indicators of the regional system as a whole. Once again, the central issue here is not the transfer of resources, and the machinery instrumental to this movement of funds in therefore less important. The essential thing now is to explore new forms of organization of production, in particular of agricultural production, and likewise, as in other cases, to counteract the harmful effects of macro-economic and sectoral policies.

Lastly in the majority group of regions that have no priority from the angel of resource allocation, planning assumes a minor role, almost an auscultatory function to forestall disequilibria between the economic growth rate and the growth rate of the population, in order to guarantee the maintenance of the indicators of per capita product or income.

In short, the allocation of national resources among the several regions composing a multiregional system conforms to the following pattern: resource allocation must be consistent, since the regions' growth rates are interdependent and, in many cases, the resources in question have to be allocated in such a way as to prevent any deterioration of the absolute levels of regional per capita product or income. Within this restrictive framework, the top priority in respect of resource allocation will be accorded to regions where the opportunity cost of diverting resources from the activity of the "centre" is minimized; this necessarily converts the growth of such regions into a process of penetration and expansion on the part of the dominant centre itself. In some cases sufficient surplus resources may be left over to promote the development of other regions in which patterns deviating from the prevailing style (but not from the system) may be chosen. At all events, most of the regions can only aspire, in the best of circumstances, to keep certain indicators free of variations over the medium term. In accordance with this pattern, the principal function of regional planning - as a mechanism for allocation of resources - consists in maintaining the coherence of the overall picture and in identifying the channels through which the said resources flow. An exhaustive exposition of regional planning procedure from this standpoint may be found in several texts.41/

41/ Among other publications referring to the formal procedures of regional planning on a national scale, the following may be cited: J.R. Boudeville, Problems of Regional Economic Planning, Edinburgh University Press, 1966; J. Hilhorst, Regional Planning, Rotterdam University
Thus, regional planning as traditionally understood fulfils a role of accompaniment to the dynamics of expansion of the system rather than one of an innovative character. As a mechanism for resource allocation, it has to do mainly with what Hilhorst calls "real technical problems", and has seldom been associated with "real political problems". The former, according to Hilhorst, are problems of efficiency in planning or in administration and are resolved through the introduction of new procedures and institutions. The second type - political problems - imply shifts in national priorities and consequently involve a substantive change in the pattern of resource allocation.42/
Chapter III

THE REGIONAL EFFECTS OF ECONOMIC POLICY

1. The problem

Something has already been said of how surprising it is to see what slight importance is attached in regional planning literature and practice to the obvious fact that economic policies, whether macroeconomic or sectoral, are not neutral from the standpoint of their regional effects. To be fair, it should also be admitted that it is equally surprising to find that specialists in economic policy seem to live in abstract worlds built on the basis of averages worked out from distribution figures in which the variance is minimal.

Different explanations can presumably be constructed to account for a similar attitude on the part of both regional planners and specialists in economic policy.

A dephasing has undoubtedly occurred between the perception of regional problems at the highest decision-making levels and the designing of economic policies, which continue to be formulated as homogeneous aggregates. For example, back in 1965, in a well-known study on economic policy in the OECD countries, Kirschen and Morissens observed that in France, Italy, Norway and Belgium economic growth, as a basic objective of economic policy, included an explicit regional dimension, whereas the same could not be said of the instruments of policy.\(^43\) In 1970 OECD itself published an important analysis of regional policies in its member countries, without even touching upon the question of the indirect effects of macro-economic policies.\(^44\) In reality, almost all the policies reviewed can be classified as more or less direct measures to encourage regional growth.


In an overview of current development plans in twelve Latin American countries, prepared at the beginning of the 1980s by the Latin American Institute for Economic and Social Planning (ILPES), for the precise purpose of detecting to what extent the regional question is taken up in global plans, it was noted that in every case the "regional problem" stands out as a priority issue, but once again policies are directed exclusively towards the sphere of direct and indirect allocation of resources.\(^5\)

It would appear, then, that dephasing does indeed exist between perception of the problem and understanding of an appropriate strategy to tackle it.

This fact might also be linked to the strong, if not excessive, influence of neoclassical thought on the way in which economic policies are usually formulated. The assumption of homogeneity is in fact basic to the establishment of conditions of optimality, whether in the sphere of production or in that of consumption. If production functions are essentially similar because of the atomization of the sector, if demand functions are likewise similar because income distribution is assumed to be satisfactory, and if there is adequate mobility, the neutrality of economic policies follows automatically from these premises. That the general question of economic policy is formally viewed in the light of the logic of neoclassical analysis seems indisputable, if the following comment by Hickman is examined:

"The basic logic of the theory of quantitative economic policy is set forth with admirable clarity in Henri Theil's paper. The policy problem is viewed as analogous to the theory of rational consumer choice, in which the consumer is assumed to maximize his utility, subject to the budget constraint given by his income and the prices of goods and services. Thus to solve the problem of consumer choice, it is necessary to specify (1) a utility or indifference function, (2) a budget constraint function, and (3) a conditional maximization procedure. In the same way, to solve the policy problem it is necessary to specify (1) a preference function for the decision-maker, (2) a model of the economy setting forth the constraints facing the decision-maker, and (3) a conditional maximization procedure."\(^6\)

\(^5\) ILPES, *El estado de la planificación en América Latina y el Caribe* (E/CEPAL/ILPES/R.16), Santiago, Chile, 1980.

But it is not only the decision-makers in the field of economic policy who are responsible for the designing of homogeneous policies. In several cases, they are merely reacting to all sorts of pressures stemming from social sectors that have nothing to do with the apparatus of government.

For example, in some cases these pressures are exerted by the labour sectors. The need to defend class interests presupposes a strengthening of the trade unions' bargaining capacity, and the way this strengthening takes place is through the constitution of federations and confederations at the national level, which press for the establishment of uniform legal provisions: for instance, equal minimum wages for a whole sector or for groups of sectors. A standard minimum wage for the whole country prevents regional wage differentials from properly reflecting regional unemployment differentials, so that incentives to migration are reduced, and disparities in the employment situation are maintained.

Again, several of the pricing policies adopted, when applied uniformly to all regions, tend to impair efficiency in the aggregate functioning of the regional system. It is not uncommon for support price policies (relating to agricultural commodities), or, again, price-fixing policies, to be established on the basis of the marginal costs of the relatively more inefficient producers, a situation which may lead to undesirable changes in the interregional terms of trade. Sometimes, such policies are primarily engendered not by the teams responsible for economic policy but by the producers or producers' associations themselves.

A still commoner case in point is the policy relating to tariff rates for public utility enterprises (such as electric energy, transport, etc.), which, when they are fixed uniformly for the entire country, are apt to operate as forces making for the concentration of activities in the "centre", at the expense of better-balanced regional distributions.

If to the foregoing considerations we add the familiar problem of the shortage of information at the regional level, which makes it hard to prepare the parametric estimate essential for the formulation of economic policies, the usual attitude of the specialists in economic policy, though not excusable, is understandable.

But how, then, is one to interpret the similar attitude adopted by a considerable number of regional planners? It is difficult to offer a real answer to this question; perhaps the only possible explanation lies in the absence of a sufficiently general regional development theory, a lack which may have tended to focus attention on the most obvious and visible form of encouragement to regional growth: direct assistance in terms of transfer of resources.
More than one writer, however, has called attention to his shortcoming. Kuklinski, for example, strongly urges the point:

"The development of regional, urban, and environmental policy and planning activities has been described in this paper as the explicit spatial dimension in policy and planning. This explicit dimension is very important but not sufficient either for the explanation of the past or for planning for the future. We have to take into account that all global and sectoral policies and plans have spatial implications which sometimes have a stronger impact on the spatial pattern of human activity than do explicit regional, urban and environmental policies and plans. There is no doubt that sectoral policies related to industry, agriculture or transportation have a strong spatial impact. The same applies to social policies in the field of health, culture and education. Therefore, it is necessary always to take into account the implicit spatial dimension incorporated into the global and sectoral policies and plans. This is a very complicated topic since the implicit dimension is often very fluid and difficult to pinpoint. It is not an accident that the implicit dimension is mentioned very seldom in explanations of the past and in plans for the future. The performance in both situations will remain very imperfect unless the implicit and explicit dimensions are fully integrated both in the analytical and in the planning stages."\(^47/\)

Siebert, on his part, makes a few allusions to the same subject in his well known book on theories of regional growth. Thus, in commenting on various types of economic policy, he points out, with reference to national instruments:

"Purely national instruments view the nation as a 'one-point' economy and include such variables as defense spending, import duties, and interest rates. Although these measures are defined for the area of a nation, they may affect different subunits of the nation in a different way."

The same author adds:

"Information on the regional impact of national instruments is a prerequisite for consistent regional and national policies."\(^48/\)


One of the most lucid analyses advocating regional discrimination in several economic policy instruments (expenditure policy, pricing policy, policy of control, wages policy, etc.) may be found in the pages of Stillwell.49

From a different standpoint - linked entirely to State action - there are signs of gradual recognition of the need to take into account the indirect effects of certain economic policies on regions. Two recent declarations in this context may be quoted.

At the III Conference of Ministers and Heads of Planning of Latin America and the Caribbean, held at Guatemala City in 1980, the Ministers adopted the following textual decision:

"The Conference, considering:
That regional disparities in development are strongly affected by State action in the implementation of homogeneous macro-economic policies, recommends the adoption of regional criteria in the formulation of these policies so as to distribute fairly the cost and benefits of the growth process.
"The Conference, considering:
That the regional development process depends not only on the action of the central government but also on each region's own organizational capacity, considers that it is desirable to recommend that the national government should give special attention to strengthening the governments and the systems of sub-regional administration.
"Aware:
Of the important impact on regional development of the course of homogeneous macroeconomic policies,
"Taking into consideration:
The small number of studies on the interaction between regional development and macroeconomic policies; the weakness of the methodological proposals which allow the introduction of regional criteria into the use of indicative policy instruments within the scope of the State,
"Recommends:
That ILPES should promote comparative studies in this regard, and if it deems it advisable, should organize a seminar on methodologies for the incorporation of regional criteria into the use of indicative policy instruments within the scope of the State."

Perhaps it is still more significant to note that Brazil's regional development policy, contained in the III Plano de Desenvolvimento (III Development Plan), is based on:

"The establishment by the Union of the principle that whenever an instrument of economic policy is established or manipulated, it shall incorporate machinery to offset the possible adverse or prejudicial effects that it may have on regional objectives."\(^{50/}\)

Notwithstanding the foregoing arguments, it is possible to find situations in which the application of homogeneous macroeconomic or sectoral policies constitutes the best form of assistance to regional development. This happens when a country's territorial structure can be viewed as dichotomic in terms of an opposition between a centre and a homogeneous periphery, rather than as a multi-regional set-up with hierarchically established domination-dependence relationships. Countries whose geographical area is small may be cases in point.

Mera's thesis as to the rapid reduction of regional income disparities in Korea during the 1960s may perhaps constitute a good example of the type of situation described in the preceding paragraph. Mera maintains that the policy which did most to reduce regional inequalities was that relating to agricultural prices, which succeeded in reversing the terms of trade between rural sectors and the urban sector.\(^{51/}\)

A few empirical examples may serve to illustrate the argument put forward in the present chapter.

With respect to Brazil, Jatobá, Redwood, Osorio and Guimaraes Neto make the following assertion:

"In the first place, the differing consequences of the exchange and tax policies pursued in the second half of the 1940s and in the early 1950s are common knowledge. Maintenance of a nominally constant exchange rate heavily subsidized imports of capital goods and basic inputs, not subject to the same controls that were established for other goods. Furthermore, it had a strongly discriminatory effect on Brazilian exports - with the exception of coffee.

\(^{50/}\) Brazil, Secretaria de Planejamento, III Plano Nacional de Desenvolvimento, Brasilia, 1980. To some extent, the statement quoted reflects the importance of the academic discussion of this point in Brazil. See, for example, the set of Relatorios (Reports) of the CME-PIMES/UFPE working group, Recife, 1978.

for which international demand was relatively inelastic owing to Brazil's almost monopolistic position in the world market - through the artificial forcing-up of their prices in foreign currency. This mechanism, accordingly, at one and the same time subsidized capital formation in the South-East region, particularly in Sao Paulo, and acted as a disincentive to those regional economies, in particular the North-East, which were traditionally dependent upon the sale of primary commodities (other than coffee) in the external market.\textsuperscript{52}

The situation just depicted was quantitatively evaluated by Baer in the book mentioned above, and it is of great interest to reproduce part of his line of argument here.

Baer's basic hypothesis is that the Brazilian government's overall economic policies led in the worst event to an aggravation of the existing disparities between the North-East and the Centre-South or, at best, to counteraction of the beneficial redistributive effects produced by tax mechanism. This would seem to have come about through a transfer of income from the North-East to the Centre-South, owing to a deterioration of the terms of trade, and through losses caused in the North-East by the exchange system. To follow Baer's argument, some statistical data on the external trade situation of the North-East of Brazil need reproducing here.

Table 1 lists, in terms of value, the international exports and imports of the North-East over the period 1948-1960. The increasing surplus on the foreign trade balance of the North-East was due primarily to the national industrialization policies pursued by the Federal Government. Since the North-East was not industrializing as fast as the South, the structure of its (international) imports was oriented more towards consumer goods, against which, under those same policies, restrictions were rather heavy. Thus deprived of the use of its foreign trade earnings to import its consumer goods requirements from abroad, the North-East had to turn for its supplies to the Centre-South's new industries, which produced at higher costs than those prevailing on the international market. This meant, in effect, that the North-East's terms of trade with the Centre-South declined, with the consequent transfer of income.

Table 3
INTERNATIONAL FOREIGN TRADE OF NORTH-EAST BRAZIL
(Millions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>197.6</td>
<td>93.2</td>
<td>104.4</td>
</tr>
<tr>
<td>1949</td>
<td>133.0</td>
<td>100.3</td>
<td>32.7</td>
</tr>
<tr>
<td>1950</td>
<td>174.1</td>
<td>86.9</td>
<td>87.2</td>
</tr>
<tr>
<td>1951</td>
<td>197.6</td>
<td>166.4</td>
<td>31.2</td>
</tr>
<tr>
<td>1952</td>
<td>114.5</td>
<td>173.3</td>
<td>-58.8</td>
</tr>
<tr>
<td>1953</td>
<td>169.6</td>
<td>95.3</td>
<td>74.3</td>
</tr>
<tr>
<td>1954</td>
<td>235.4</td>
<td>86.9</td>
<td>145.5</td>
</tr>
<tr>
<td>1955</td>
<td>238.5</td>
<td>86.2</td>
<td>152.3</td>
</tr>
<tr>
<td>1956</td>
<td>163.9</td>
<td>97.7</td>
<td>66.2</td>
</tr>
<tr>
<td>1957</td>
<td>212.1</td>
<td>131.9</td>
<td>80.2</td>
</tr>
<tr>
<td>1958</td>
<td>246.1</td>
<td>94.4</td>
<td>151.7</td>
</tr>
<tr>
<td>1959</td>
<td>216.1</td>
<td>79.3</td>
<td>136.8</td>
</tr>
<tr>
<td>1960</td>
<td>247.7</td>
<td>85.3</td>
<td>162.4</td>
</tr>
</tbody>
</table>

Source: W. Baer, op. cit., p. 175.

Table 2 shows the price indexes of Brazil's exports and the wholesale prices of Brazilian products (excluding coffee). The ratio of the first to the second indicates the terms of trade for the region (in fact, for any region) on the assumption that only domestic products are purchased with export earnings. The index of the exchange rate is used to correct the index of export prices.

On the basis of these data, Baer estimates the real transfer of income from the North-East to the Centre-South, as shown in table 3. In this table the first column shows the net foreign trade earnings of the North-East. These are multiplied by the index of purchasing power of foreign exchange in the Centre-South (an index just calculated in the preceding table). An estimate is thus obtained of the real purchasing power of the North-East's foreign trade earnings. The difference between this figure and the initial foreign trade earnings (first column) reveals the amount of the interregional transfer.

As can be seen, during the period analysed the transfer of income from the North-East to the Centre-South totalled 413 million dollars.
In addition Baer estimates the losses incurred by the North-East through the effect of the exchange rate system prevailing at that time in Brazil. He points out that importers in the North-East paid for their imports (mainly consumer goods) at rates substantially higher than those applied for payment of returns on exports and also for imports of capital goods. The proceeds of this difference were used to prop up the coffee economy - which is located in the Centre-South - and to increase the capacity of the Banco do Brasil to make loans, again mainly to the Centre-South. These losses to the North-East can be estimated with the help of Table 4. Its first column shows the value of the North-East's imports in cruzeiros, while the second indicates their dollar value. Dividing the first column by the second, we obtain the real exchange rate paid by importers. Column four gives the export exchange rate for the type of goods exported by the North-East. Multiplication of the dollar value of imports by this exchange rate gives what would have been the cruzeiro value of imports if the exchange rate for these had been the same as that for exports. Subtracting this value from...
Table 3

ESTIMATED TRANSFER OF INCOME FROM NORTH-EAST TO CENTRE-SOUTH THROUGH TRADE

| Year | Net N.E. Index of purchasing Real purchasing Transfer of foreign trade power in power income |
|------|--------------------|---------------------|---------------------|
|      | (A)                | (B)                | (C)                | (D)                |
| 1948 | 104.4              | 100                | 104.4              | -                  |
| 1949 | 32.7               | 82                 | 26.8               | 3.9                |
| 1950 | 87.2               | 72                 | 62.8               | 24.4               |
| 1951 | 31.2               | 74                 | 23.1               | 8.1                |
| 1952 | -                  | -                  | -                  | -                  |
| 1953 | 74.3               | 65                 | 48.3               | 26.0               |
| 1954 | 148.4              | 66                 | 97.9               | 50.5               |
| 1955 | 152.3              | 77                 | 117.3              | 35.0               |
| 1956 | 66.3               | 74                 | 49.1               | 17.2               |
| 1957 | 80.2               | 64                 | 51.3               | 28.9               |
| 1958 | 151.7              | 51                 | 77.4               | 74.3               |
| 1959 | 136.8              | 57                 | 78.0               | 58.8               |
| 1960 | 162.4              | 48                 | 78.0               | 84.4               |

Source: W. Baer, op. cit., p. 178.

a/ Millions of dollars.

from the actual value of cruzeiros spent, we obtain an estimate of the loss sustained by the North-East through the exchange rate system.

To these examples may be added another relating to the regional effect of fiscal policy in Chile. The analysis is appended as an annex to the present chapter, but some conclusions may be stated in advance.

Of course, fiscal policy in Chile, as in any other country, is not neutral from the interregional standpoint, although it might be so in relation to one region in particular or to a number of regions. This assertion alone should cast doubts on the possibility of basing a regional development strategy on the competitive principle of comparative advantages.

In Chile's case, fiscal policy, far from being neutral, weights the scales in favour of the country's most developed region (Metropolitan Region), which absorbs 82.4% of expenditure while it generated, in 1979, only 54.0% of revenue. At the same time, the policy in question penalizes the regions to which priority is accorded in respect of regional development, whether the criteria on
<table>
<thead>
<tr>
<th>Year</th>
<th>Value of imports a/</th>
<th>Value of imports b/</th>
<th>Real exchange rate A/B</th>
<th>Exchange rate for exports (D)</th>
<th>Value of imports B x D (E)</th>
<th>Losses of N.E. due to exchange rate system (F)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>3,830</td>
<td>87,292</td>
<td>43.87</td>
<td>37.06</td>
<td>3,325</td>
<td>595</td>
</tr>
<tr>
<td>1956</td>
<td>4,993</td>
<td>98,933</td>
<td>46.86</td>
<td>43.06</td>
<td>4,260</td>
<td>673</td>
</tr>
<tr>
<td>1957</td>
<td>6,782</td>
<td>131,928</td>
<td>51.41</td>
<td>43.06</td>
<td>5,681</td>
<td>1,101</td>
</tr>
<tr>
<td>1958</td>
<td>6,340</td>
<td>94,357</td>
<td>67.19</td>
<td>43.06</td>
<td>4,063</td>
<td>2,277</td>
</tr>
<tr>
<td>1959</td>
<td>8,537</td>
<td>79,292</td>
<td>107.66</td>
<td>76.00</td>
<td>6,026</td>
<td>2,511</td>
</tr>
<tr>
<td>1960</td>
<td>10,147</td>
<td>85,308</td>
<td>118.94</td>
<td>90.00</td>
<td>7,678</td>
<td>2,469</td>
</tr>
</tbody>
</table>


a/ Millions of cruzeiros.
b/ Thousands of dollars.
which this priority is based are of a geopolitical character (Regions I, X, XI and XII), or relate to economic potential (Region VIII) or to a slackening of the pace of growth (Region X). Consequently, from the angle of aggregate analysis, Chilean fiscal policy tends to aggravate interregional disparities.

The only instrument of fiscal policy of a truly regional nature - the National Fund for Regional Development (Fondo Nacional de Desarrollo Regional - FNDR) - is, in the first place, of little practical significance, representing only 1.8% of fiscal spending, and, secondly, has absolutely no compensatory effect in the regions most affected by fiscal policy.

The examples quoted corroborate one of the principal hypotheses postulated in the discussion of an alternative paradigm of regional development: the non-neutrality, from the regional standpoint, of a great many economic policies, and the impossibility of designing regional development strategies correctly if this fact is not taken into account.

2. Methodology of analysis

The argument once set forth in terms of a conceptual discussion, and supporting evidence having been brought forward in the shape of some empirical examples, it still remains to propose an operational procedure which will enable the analyst and the regional planner at least to decide when they are faced with a situation in which one or more regions are feeling the adverse effects of economic policy.

The following hypothesis may be taken as a starting point: any economic policy will be neutral with respect to a region only if those regional parameters which are pertinent from the standpoint of the policy in question are essentially similar to the corresponding national parameters. This can be put in a different way: the more widely the regional economic structure diverges from the national structure, the greater will be the impact (negative or positive) of an economic policy upon the region concerned.

For example, a macro-economic policy, such as an exchange rate policy, reflected in a situation in which the national currency is overvalued, will be neutral for any region if this region has a foreign (international) trade structure identical with the corresponding national structure, while the same policy will have a negative impact if the region has a surplus on its international trade balance. The negative impact will be different, furthermore, according to the type of products exported or imported by the region.
If, therefore, the impact of macro-economic policies on the region (exchange rate, foreign trade, fiscal, and other policies), whether favourable or unfavourable to its development, can vary so greatly, a matter of basic importance to the regional analyst is initially to determine the region's degree of similarity to or difference from some type of national average which has served - implicitly or explicitly - as a basis for the formulation of a given macro-economic policy.

This may be done, in the first place, by resorting to the simplest techniques of regional analysis. For example, a measure of the similarity between the intersectoral structures of a region and of the country may be obtained by means of the concept of the regional specialization coefficient.\[Q_R^R\]

The coefficient of regional specialization \((Q_R^R)\) is a measure of the degree of similarity between the intersectoral composition of activities in a given region and another intersectoral composition of activities which is used as a standard of reference. Normally this standard of reference is the intersectoral composition of activities in the country as a whole. The coefficient takes on values ranging from zero to unity. If the value of the coefficient if nil, this denotes identity between the regional structure and the national structure; a unitary value would point to a maximum differentiation of structure between the region and the country, conceivable only if the region concerned possesses a single sector of activity which at the national level represents a value close to zero in terms of its relative importance. Clearly this is an extreme situation of a theoretical character; in practice, if regional specialization coefficients are close to 0.5 they denote a widely differentiated situation.

The coefficient of specialization may be calculated on the basis of data for the economically active population, employment, sales, value added, etc., etc. The figures for the economically active population or employment are commonly used, since they are easier to obtain.

If \(V_{ij}\) represents, for example, employment in sector "i" in the region "j", the relation between this and total regional employment can be expressed as \(V_{ij}/\sum_i V_{ij}\). This ratio, therefore, measures the relative size of sector

\[53/\text{Several texts contain discussions and detailed examples of this and other techniques of regional analysis. See, for example, W. Isard, Methods of Regional Analysis, Cambridge, Mass., The MIT Press, 1960; A. Bendavid-Val, Regional Economic Analysis for Practitioners, New York, Praeger, 1974; S. Boisier, Técnicas de análisis regional con información limitada, Santiago, Chile, ILPES, 1980.}\]
"i" in region "j". Concurrently the relative size of the same sector, this time at the national level, may be calculated as $\sum_j V_{ij} / \sum_i \sum_j V_{ij}$. The difference between the two relative sizes provides a measurement - sector by sector - of how far the region is specialized in each sector. The sum of these positive differences constitutes an aggregate measurement of regional specialization, or, in reverse, of the degree of regional diversification. The commonest formal expression, however, takes into account the sum, in terms of absolute value, of all the differences in sectoral size, the result being divided by two, as shown here:

$$ q^R = \frac{1}{2} \sum_{i=1}^{n} \left| \left( \frac{V_{ij}}{\sum_i V_{ij}} - \frac{\sum_j V_{ij}}{\sum_i \sum_j V_{ij}} \right) \right| $$

This is not the only index that could be used. For example, Amemiya has proposed the construction of the following indicator or index of economic dispersion (IED):

$$ \text{IED} = \sum_{i=1}^{n} \frac{1}{n-1} (V_{ij} - \frac{1}{n})^2 $$

in which $V_{ij}$ has the same meaning as before and "n" is the number of sectors composing a regional structure. Amemiya's index ranges from 0 to 1; in the first case employment figures are exactly the same in all sectors in the region, whereas a unitary value of the index reflects a situation of absolute concentration. It should be noted, however, that this index does not compare the regional with the national structure in terms of relative similarity. In order to obtain a measure of their degree of similarity, the value of the regional index will have to be compared with that of the national index.\(^{54}\)

A more sophisticated way of assessing the similarity between the structure of a region and that of a country consists in the use of the economic distance method. This method is based on the concept of Euclidean distance. In this context, if a country is taken to be divided into $N$ regions ($1, \ldots, K, L, \ldots, N$) and "n" variables ($1, \ldots, i, j, \ldots, n$) are used to signify regional characteristics, each region will be represented

by a vector with "n" elements which constitute the coordinates of a specific point in an n-dimensional space. Within this space N points will exist which will be separated by a certain distance from one another and from their point of origin.

In terms of matrix analysis the vectors which represent the coordinates of the various regions from a matrix of data of the order of N x n. The generic element in this matrix, $x_{ki}$ expresses the level of the variable i in the region K. Similarly, the row $x_k$ -vector (of the order n), formed by one of the rows in this matrix, represents the value of the variables n in the region K. In parallel fashion, the columns in the matrix of data can be represented by n column $x_i$ -vectors (of the order N) which express the values of a specific variable i in all the N regions. The row $x_k$ -vector affords a profile of the economic structure of the region K, while the column $x_i$ -vector represents the spatial profile of one variable for all regions.

The distance between two regions can be expressed in terms of vectors as follows:

$$d_{kl} = \sqrt{(x_k - x_l)^T (x_k - x_l)}$$

making it possible to calculate $\frac{N(N-1)}{2}$ interregional distances.

The distances from each region to all the others can be used to obtain an average distance, which is an indicator synthesizing the information contained in the matrix of distances. A greater or lesser distance from the national average must be interpreted as an index related to the greater or lesser similarity of the regional economic structure to the average for the country.

In the case of sectoral policies the line of reasoning is very similar. A given sectoral policy will be interregionally neutral only if the sector or the activity in question is distributed among the regions in exactly the same way as some aggregate which is used as a standard of reference. For instance, if the policy concerned is directed towards the production of footwear, it will be neutral if employment in this activity (or any other relevant variable) is distributed among the regions in accordance with a standard pattern, equivalent, for example, to the interregional distribution of total industrial employment.

The difference between the interregional distribution of a given activity and the interregional distribution
corresponding to a standard of reference can be estimated through the use of the concept of location coefficient, which can be formally expressed as follows:

$$Q_s = \frac{1}{2} \sum_{i=1}^{n} \left( \frac{V_{ij}}{\sum_{j} V_{ij}} - \frac{\sum_{i} V_{ij}}{\sum_{i} \sum_{j} V_{ij}} \right)$$ (4)

The value of the location coefficient ranges from zero to one. If it is nil, it indicates perfect similarity between the regional distribution of the sector and the regional distribution corresponding to the standard of reference. A unitary value would show a situation of absolute concentration of the sector in one region, a purely hypothetical state of affairs.

The use of these elementary techniques is only a first step in the analysis of the impact of policies. They simply perform a task similar to that of traffic lights, providing stop-and-go signals to indicate in which cases an analysis in greater depth is needed.

The second level of analysis, directed towards making a more exact evaluation of the impact of an economic policy on a region which is already known to possess an economic structure different from the national average, may take shape through the use of simulation techniques, more appropriate from the standpoint of information requirements than the procedures of Tinbergen or Theil for evaluating the impact of policies.

In accordance with the policy simulation approach suggested by Naylor, it is possible to resolve the set of simultaneous equations in the model representative of the (regional) economy in such a way as to obtain a vector of endogenous variables expressed as a function of exogenous variables, of the lag values of the endogenous variables and, in certain instances, of a vector of stochastic discrepancies. The exogenous variables are fed into the computer as data. The lag endogenous variables are read as input information for the base year and are subsequently generated by the initial run of the model, for feedback in following runs. The policy variables are specified by the analyst himself.

The greatest difficulty as regards policy evaluation lies, of course, in the construction of the appropriate regional econometric model. It is a well-known fact that the considerable degree of openness of regional economies immensely complicates the construction of models. The difficulties of regional economic analysis (in comparison to global economic analysis) and their incidence on the formulation of regional econometric models, together with a review of six known attempts at construction of models of this type, are succinctly presented in a book dealing with the model constructed at the end of the 1960s for the Susquehanna river basin in the United States. 56/ Notwithstanding these difficulties, it is hard to imagine a technique that could take the place of construction of a simulation model to serve the purpose of evaluating the regional impact of macro-economic policies.

1. Fiscal policy and regional development

Needless to say, the State is not a neutral agent where economic policy is concerned, and still less so in mixed capitalist economies of whose resources a considerable proportion is directly controlled by the public sector. As noted in a recent study:

"The effect of public-sector action may be to intensify spontaneous trends stemming from the free play of market forces or, alternatively, to correct distortions or even to bring about a radical change in the distributive content of the process of economic growth."³⁷/

Just as the action of the public sector is not neutral from the standpoint either of the social or of the economic sectors, neither is it so in respect of the rate and level of development of the different regions of a country.

Fiscal policy, that is, the set of criteria and instruments applied in levying resources and allocating them to alternative uses, constitutes a part of the public sector's income and expenditure policy, the remainder being represented by the public enterprises subsector. For the purposes of the following analysis the Fisc is equivalent to the following subsectors taken in conjunction: centralized, decentralized, social security, financial enterprises and non-financial enterprises. It should be mentioned that in 1979 fiscal spending accounted for 73.4% of public expenditure.

There are, of course, very significant differences between the effect of fiscal policy on regional development in federal countries and its impact in countries with unitary systems of government. The chief of these differences

³/ Written in collaboration with Mr. Raúl Mezzano, Assistant Researcher, ILPES.

lies in the fact that in the former case, the federated units and even the local governments are empowered to establish their own tax patterns and consequently also enjoy a measure of autonomy on the side of fiscal expenditure. For example, in the United States, the participation of the Union States in total fiscal income reaches 87.7% in the case of sales taxes, with an average of 23.0%. The local governments in their turn collect 18.0% of total tax revenue.58/ A diametrically-opposed situation exists in unitary countries, where there is almost absolute concentration of public income and expenditure in the hands of the central government.59/

Consequently, in federal countries a regional fiscal policy can or does exist, and each state or region can handle "its" fiscal policy, each in accordance with its own specific combination of allocation, distribution and stabilization objectives. In unitary countries one can speak only of regionally differentiated effects of a single fiscal policy or of ad hoc regional instruments. The effects in question are of different kinds, however, according to whether they are viewed from the standpoint of income or from that of expenditure. As a general rule, the nominal rates of taxation which generate tax revenue and constitute the main source of fiscal income are uniform throughout the country. Nevertheless, they produce different effects in each region, chiefly because of the inter-regional differences in economic structure. Thus it is not uncommon to observe appreciable disparities in, for example, the tax burden. From the standpoint of expenditure, regional differences may correspond to a definite regional development policy, and consequently in many instances the effects produced are direct and fully intentional.

The interrelationship between fiscal policy and regional development has seldom been a subject of analysis in Latin America. An exceptional case is that of Brazil, where this question has been the focal point not only of


theoretical studies 60/ but also of meticulous empirical research,61/ and has been widely discussed in economic and political circles.

The aim on this occasion is to make a preliminary analysis of the regional impact of fiscal policy in Chile, a unitary country, highly centralized and at the same time with a long traditional in the sphere of regional development policy.

It must be acknowledged that, at least from the fiscal standpoint, information of the regional type has significantly improved in recent years, particularly since 1979, when the General Treasury of the Republic began to issue the Annual Report of the Public Treasury with data by regions. Regrettably, regional macroeconomic information is still lagging behind, and this has made it difficult to carry out the analysis for one and the same year. The best solution possible has been to work with macroeconomic data for the year 1977 (regional gross domestic product) and with fiscal data for the year 1979. Given the type of analysis proposed, the consequent errors are not of much significance.

The main purpose of the present essay, apart from that of buttressing the central argument of the immediately preceding chapter, is to demonstrate the non-neutrality, at the regional level, of Chile's fiscal policy, and the inconsistency between this policy and the country's regional development strategy.

2. An aggregate analysis of the interregional transfers caused by fiscal policy

With the above-mentioned reservation as regards the figures used (domestic product figures for 1977 and fiscal income and expenditure figures in national currency for 1979) the following initial comments may be ventured.

As is shown in table 5, the regional distribution of the gross domestic product displays marked differences; the Metropolitan Region generates 43.0% of the country's GDP, while at the opposite extreme it can be seen that region XI contributes only 0.6%. Region VIII, traditionally regarded as the "counter-magnet" of the capital, provides no more than 10.5% of the total product, which is

the same as the contribution of Region V, adjacent to the Metropolitan Region. It should be mentioned that the figures in column 1 are not appreciably different from those existing in 1970.

Column 2 in the same table shows the interregional situation in terms of the per capita gross product. If attention is paid only to the figures in this column, it can be seen that the regions with the lowest indexes are, in rising order, Region IX, Region X, Region IV, Region VII and Region VIII. If, however, the dynamic movement of this indicator over the period 1974-1977 is considered, the conclusion reached is that Regions VIII and X are the worst off: out of the group of regions with a low per capita product, they are the only two where at the same time the indicator shows a downward trend.

Table 5
REGIONAL MACROECONOMIC INDICATORS
1977

<table>
<thead>
<tr>
<th>Regions</th>
<th>(1) Percentage distribution of GDP</th>
<th>(2) Per capita GDP a/</th>
<th>(3) Variations 1977/1974</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>2.6</td>
<td>2.83</td>
<td>Negative</td>
</tr>
<tr>
<td>II</td>
<td>7.3</td>
<td>6.10</td>
<td>Positive</td>
</tr>
<tr>
<td>III</td>
<td>2.7</td>
<td>3.57</td>
<td>+</td>
</tr>
<tr>
<td>IV</td>
<td>2.2</td>
<td>1.46</td>
<td>+</td>
</tr>
<tr>
<td>V</td>
<td>10.7</td>
<td>2.29</td>
<td>-</td>
</tr>
<tr>
<td>VI</td>
<td>6.3</td>
<td>2.84</td>
<td>-</td>
</tr>
<tr>
<td>VII</td>
<td>4.5</td>
<td>1.64</td>
<td>+</td>
</tr>
<tr>
<td>VIII</td>
<td>10.5</td>
<td>1.85</td>
<td>-</td>
</tr>
<tr>
<td>IX</td>
<td>3.2</td>
<td>1.25</td>
<td>+</td>
</tr>
<tr>
<td>X</td>
<td>4.8</td>
<td>1.42</td>
<td>-</td>
</tr>
<tr>
<td>XI</td>
<td>0.6</td>
<td>2.53</td>
<td>+</td>
</tr>
<tr>
<td>XII</td>
<td>1.6</td>
<td>3.95</td>
<td>-</td>
</tr>
<tr>
<td>M.R.</td>
<td>43.0</td>
<td>2.70</td>
<td>-</td>
</tr>
<tr>
<td>Total/Average</td>
<td>100.0</td>
<td>2.36</td>
<td>Negative</td>
</tr>
</tbody>
</table>

Source: ODEPLAN, Compendio de estadisticas regionales, 1979.

a/ Pesos at 1965 prices.
### Table 6

**REGIONAL DISTRIBUTION OF FISCAL INCOME AND EXPENDITURE**

**1979**

*(Thousands of pesos)*

<table>
<thead>
<tr>
<th>Regions</th>
<th>Income</th>
<th>Expenditure</th>
<th>Income</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>4213272</td>
<td>2258862</td>
<td>2.6</td>
<td>1.5</td>
</tr>
<tr>
<td>II</td>
<td>3586594</td>
<td>1064982</td>
<td>2.2</td>
<td>0.7</td>
</tr>
<tr>
<td>III</td>
<td>944430</td>
<td>486564</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>IV</td>
<td>1878397</td>
<td>802685</td>
<td>1.2</td>
<td>0.5</td>
</tr>
<tr>
<td>V</td>
<td>42432945</td>
<td>10655878</td>
<td>26.6</td>
<td>7.0</td>
</tr>
<tr>
<td>VI</td>
<td>1890327</td>
<td>830930</td>
<td>1.3</td>
<td>0.6</td>
</tr>
<tr>
<td>VII</td>
<td>2390416</td>
<td>1303272</td>
<td>1.5</td>
<td>0.9</td>
</tr>
<tr>
<td>VIII</td>
<td>9646531</td>
<td>3551412</td>
<td>6.0</td>
<td>2.3</td>
</tr>
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<td>IX</td>
<td>1535018</td>
<td>1234018</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>X</td>
<td>3061594</td>
<td>2397948</td>
<td>1.9</td>
<td>1.6</td>
</tr>
<tr>
<td>XI</td>
<td>276950</td>
<td>940244</td>
<td>0.2</td>
<td>0.6</td>
</tr>
<tr>
<td>XII</td>
<td>1356926</td>
<td>1243651</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>M.R.</td>
<td>86126778</td>
<td>124989557</td>
<td>54.0</td>
<td>82.4</td>
</tr>
</tbody>
</table>

**Total** 159340138 151760446 100.0 100.0


In 1979 fiscal revenue totalled 159,340,138,000 pesos at the current year's prices, while fiscal expenditure amounted in all to 151,760,446,000 pesos. The regional distribution of income and expenditure is to be found in table 6.

The figures reveal, at a first analysis, a very high degree of correlation in rank between the regional contribution to the product, to the generation of fiscal income and to the absorption of expenditure. Indeed, as appears in table 7, the ranking is so similar as not to warrant the use of a test such as Sperman's.
### Table 7

**REGIONAL RANKING FOR PRODUCT, FISCAL INCOME AND FISCAL EXPENDITURE**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>M.R.</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>V</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>VIII</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
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<td>7</td>
</tr>
<tr>
<td>III</td>
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<td>13</td>
<td>5</td>
</tr>
<tr>
<td>I</td>
<td>10</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
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<td>11</td>
<td>8</td>
</tr>
<tr>
<td>XI</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>11</td>
</tr>
</tbody>
</table>

*Source: Tables 5 and 6.*

The study of table 7 might lead one to the hasty conclusion that Chile's fiscal policy is "neutral" from the regional standpoint, in view of the close correlation between the three indicators. But nothing could be farther from the truth.

A more detailed analysis reveals, in the first place, that for every 100 persons levied, the regions receive extremely heterogeneous amounts in the shape of fiscal spending. For example, the Metropolitan Region obtains 145 pesos out of fiscal expenditure per 100 pesos of tax paid, and Region XI receives 340 pesos per 100 pesos contributed to revenue, these being the only two regions in which such a situation arises. In contrast, Region V gets only 25 pesos per 100 pesos contributed to fiscal income.
Table 8 shows (in column 1) the relation between regional percentage shares in fiscal income and in the country's domestic product, together with (in column 2) the relation between shares in fiscal expenditure and in the product, and (in column 3) the difference between the two indicators. This last index distinguishes between subsidized regions (negative values) and taxed regions (positive values).

The regional neutrality of fiscal policy must be interpreted on two complementary levels: on the one hand, neutrality among regions, and on the other, neutrality with respect to each region in particular.

As fiscal policy will be neutral in interregional terms only if the combination of fiscal income and expenditure does not affect: (i) interregional allocation of resources; (ii) interregional distribution of income; and (iii) stability (as a result of fiscal deficits or surpluses in one or several regions).

As can be seen, the conditions for neutrality (without even taking into account the effects of feedback) are

Table 8

PROFILE OF DISTRIBUTION OF FISCAL INCOME AND EXPENDITURE IN RELATION TO REGIONAL PRODUCT

<table>
<thead>
<tr>
<th>Regions</th>
<th>% of (1) % of Income/Product</th>
<th>% of (2) % of Expenditure/Product</th>
<th>(3) Difference (1)-(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>1.000</td>
<td>0.577</td>
<td>0.423</td>
</tr>
<tr>
<td>II</td>
<td>0.301</td>
<td>0.096</td>
<td>0.205</td>
</tr>
<tr>
<td>III</td>
<td>0.222</td>
<td>0.111</td>
<td>0.111</td>
</tr>
<tr>
<td>IV</td>
<td>0.545</td>
<td>0.227</td>
<td>0.318</td>
</tr>
<tr>
<td>V</td>
<td>2.486</td>
<td>0.654</td>
<td>1.832</td>
</tr>
<tr>
<td>VI</td>
<td>0.206</td>
<td>0.095</td>
<td>0.111</td>
</tr>
<tr>
<td>VII</td>
<td>0.333</td>
<td>0.200</td>
<td>0.133</td>
</tr>
<tr>
<td>VIII</td>
<td>0.571</td>
<td>0.219</td>
<td>0.352</td>
</tr>
<tr>
<td>IX</td>
<td>0.313</td>
<td>0.250</td>
<td>0.063</td>
</tr>
<tr>
<td>X</td>
<td>0.396</td>
<td>0.330</td>
<td>0.066</td>
</tr>
<tr>
<td>XI</td>
<td>0.333</td>
<td>1.000</td>
<td>- 0.667</td>
</tr>
<tr>
<td>XII</td>
<td>0.563</td>
<td>0.500</td>
<td>0.063</td>
</tr>
<tr>
<td>M.R.</td>
<td>1.256</td>
<td>1.916</td>
<td>- 0.660</td>
</tr>
</tbody>
</table>

Source: Tables 5 and 6.
so restrictive that in practice it is difficult to imagine a neutral interregional fiscal policy. Accordingly, what is of interest in a study of the present type is the impact of policy biases on, for example, the objectives of a national regional development policy.

Even if in practice situations of interregional neutrality might be found, the same policy might still be non-neutral at the level of one individual region, but again the existence of feedbacks between regions would tend to counteract the supposed interregional neutrality. The following analysis stresses the impact of fiscal policy on the regional development objectives commonly accepted in Chile.

The data on fiscal income and expenditure are standardized in table 8 in such a way as to eliminate the effect of the economic size of regions. Taking this device into consideration, an interregionally neutral fiscal policy would mean that the differences shown in column 3 of table 8 ought all to be nil. If in each region the revenue levied coincides with expenditure, fiscal policy could still have distributive or allocational effects within each region, but not interregionally.

In so far as the index in column 3 of table 8 shows values other than zero, it points to the redistributive character of fiscal policy and therefore to its non-neutrality. However, it remains to analyse and account for the direction in which redistribution operates.

Table 8 clearly indicates the direction of the interregional transfers caused by fiscal policy. The whole set of regions is sharply divided into two groups, one comprising Region XI and the Metropolitan Region, in a favourable position from the standpoint of fiscal income and expenditure, and another composed of the remaining regions, in which, without exception, the Treasury collects more than it spends.

A cautious approach must of course be adopted in studying the figures, especially in view of the country's unitary régime. The volume of tax revenue recorded in the Metropolitan Region looks artificially bulky owing to the fact that many large-scale productive activities, typically national although located in specific regions (copper, pulp, electric energy, etc.), pay their taxes in the capital, since that is where their head offices are normally established. In the case of Region V, which includes the country's principal port, tax revenue also appears overlarge owing to payment of the value added tax on imports.

From the expenditure angle, too, the figures are subject to distortions of an institutional nature, as is obvious in the case of the Metropolitan Region. Since we are dealing with a unitary country which in addition has
a markedly centralized and concentrated administration, it cannot be thought too surprising that the region where the capital is should absorb a sizeable slice of fiscal spending. The question at issue, however, is not exactly this fact but the Metropolitan Region's disproportionate share in expenditure and, as will be seen later, its rising trend.

Notwithstanding the foregoing considerations, and irrespective of the book-keeping distortions occurring in the figures, it is clear that Region V is heavily penalized by fiscal policy, with Regions I, VIII and IV, in that order, following at some distance behind.

Apart from the disproportionate tax burden born by Region V, it may be noted that Regions VIII and IV belong in the group with the lowest per capita product indicators (see table 5), while, as remarked earlier, Region VIII is one of the two regions that are relatively worst off.

3. Main components of fiscal income and expenditure at the regional level

The item which made the biggest contribution to total fiscal income in 1979 (159 340 138 000 pesos) was tax revenue, which accounted for 95.80% of the whole. The remaining items (operational income, sale of assets, transfers, other income and borrowing) are relatively insignificant.

As regards expenditure, the two most important items were non-committed fiscal transfer payments (76.33% of the total) and payments of subsidies (11.82%). Supplementary operations and public debt servicing absorbed the balance.

Table 9 shows the regional distribution of the principal components of income and expenditure.

The main component of tax revenue is the tax on transfer of goods and services, which represents 46.30% of total fiscal income. Almost the whole of the transfer tax, in its turn, corresponds to the sum of the value added tax (VAT) and the value added tax on imports.

Table 10 shows the regional distribution of revenue from VAT in 1979.

The tax burden, i.e., the relation between tax revenue and the gross domestic product, was estimated by the National Revenue Service at 23.8% for 1979, taking the country as a whole.

Clearly, the same indicator at the regional level is extremely useful for the purpose of analysing the inter-regional progressiveness or regressiveness of tax policy.

Since data for the regional product are not available for 1979, the tax burden may be indirectly estimated, in the following manner.
### Table 9

**REGIONAL DISTRIBUTION OF MAIN COMPONENTS OF FISCAL INCOME AND EXPENDITURE**

**1979**

(Percentages)

<table>
<thead>
<tr>
<th>Regions</th>
<th>Income</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tax revenue</td>
<td>Subsidies</td>
</tr>
<tr>
<td>I</td>
<td>2.70</td>
<td>8.20</td>
</tr>
<tr>
<td>II</td>
<td>2.26</td>
<td>1.85</td>
</tr>
<tr>
<td>III</td>
<td>0.59</td>
<td>0.16</td>
</tr>
<tr>
<td>IV</td>
<td>1.19</td>
<td>0.66</td>
</tr>
<tr>
<td>V</td>
<td>27.58</td>
<td>3.58</td>
</tr>
<tr>
<td>VI</td>
<td>1.20</td>
<td>0.32</td>
</tr>
<tr>
<td>VII</td>
<td>1.52</td>
<td>1.29</td>
</tr>
<tr>
<td>VIII</td>
<td>6.16</td>
<td>10.67</td>
</tr>
<tr>
<td>IX</td>
<td>0.96</td>
<td>1.42</td>
</tr>
<tr>
<td>X</td>
<td>1.91</td>
<td>5.67</td>
</tr>
<tr>
<td>XI</td>
<td>0.16</td>
<td>2.05</td>
</tr>
<tr>
<td>XII</td>
<td>0.84</td>
<td>3.63</td>
</tr>
<tr>
<td>M.R.</td>
<td>52.93</td>
<td>60.76</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

*Source: General Treasury of the Republic, Informe Financiero del Tesoro Público Ejercicio 1979, Santiago, Chile, Febreruary 1980.*

Let $CT_R$ be the tax burden in region $R$ and let $T_R$ be the ratio between the tax revenue levied in region $R$ and total national inland revenue. Lastly, let $p_R$ be the relative share of region $R$ in the country's gross domestic product. Then

$$CT_R = \frac{IT_R}{FGR}$$  \hspace{1cm} (1)
<table>
<thead>
<tr>
<th>Regions</th>
<th>General rate of VAT</th>
<th>%</th>
<th>General rate of VAT on imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>974 013.7</td>
<td>2.46</td>
<td>1 226 122.2</td>
</tr>
<tr>
<td>II</td>
<td>526 671.6</td>
<td>1.33</td>
<td>1 254 439.6</td>
</tr>
<tr>
<td>III</td>
<td>276 385.9</td>
<td>0.70</td>
<td>98 444.4</td>
</tr>
<tr>
<td>IV</td>
<td>449 633.2</td>
<td>1.14</td>
<td>349 150.9</td>
</tr>
<tr>
<td>V</td>
<td>4 267 385.1</td>
<td>10.78</td>
<td>20 702 734.1</td>
</tr>
<tr>
<td>VI</td>
<td>705 727.5</td>
<td>1.78</td>
<td>646.3</td>
</tr>
<tr>
<td>VII</td>
<td>901 671.4</td>
<td>2.28</td>
<td>1 903.4</td>
</tr>
<tr>
<td>VIII</td>
<td>1 956 715.5</td>
<td>4.95</td>
<td>3 208 410.5</td>
</tr>
<tr>
<td>IX</td>
<td>651 321.0</td>
<td>1.65</td>
<td>3 510.6</td>
</tr>
<tr>
<td>X</td>
<td>1 305 798.0</td>
<td>3.30</td>
<td>109 651.2</td>
</tr>
<tr>
<td>XI</td>
<td>61 825.8</td>
<td>0.16</td>
<td>48 565.9</td>
</tr>
<tr>
<td>XII</td>
<td>539 939.3</td>
<td>1.36</td>
<td>51 420.9</td>
</tr>
<tr>
<td>M.R.</td>
<td>26 949 580.1</td>
<td>68.11</td>
<td>3 380 740.1</td>
</tr>
<tr>
<td>Total</td>
<td>39 566 668.1</td>
<td>100.00</td>
<td>30 435 740.1</td>
</tr>
</tbody>
</table>


\[
T_R = \frac{\pi}{IT} \quad (2)
\]

\[
P_R = \frac{PGB_R}{PGB} \quad (3)
\]

\[
CT_R = \frac{T_R}{P_R} \cdot \frac{IT}{PGB} \quad (4)
\]

but \(\frac{IT}{PGB}\) is the national tax burden \(CT\), so that:
Now, if the value of \( p_R \) for the year 1979 does not significantly differ from the value of the same coefficient for 1977, the error committed in estimating \( CT_R \) is negligible. There are sufficient theoretical arguments and empirical data for the similarity of the vectors \( p_R \) for the years 1977 and 1979 to be reasonably attested.

Table 11 gives the estimates of the regional tax burden.

What immediately stands out is the considerable heterogeneity of the tax burden by regions, and, in particular, the case of Region V, for which it is more than double the national average. Another striking case is that of Region IV, which is one of the regions that according to several indicators are relatively worst off, and which is shouldering a tax burden considerably heavier than that observable in regions whose relative position is better. In contrast, the Metropolitan Region, with a tax burden very similar to the national average, is seen to be at an advantage if its level of activity and other variables are taken into account.

Even if the calculation excludes the tax revenue deriving from the VAT on imports, 90% of which is generated in Regions V and VIII and the Metropolitan Region, the situation does not alter to any very significant extent. At all events, the tax burden of Region V would thereby be reduced to 39.0%, and that of Region VIII to 11.4%, while that of the Metropolitan Region would increase to 34.5%.

The interregional disparities appearing in the tax burden are partly due to differences in the intersectoral composition of regional economic activity. For example, there is a very close correlation between the degree of regional economic diversification and the tax burden; the four regions that are least diversified or most specialized (II, III, VI and XI, in that order) have very similar tax burdens, ranging from 4.5% to 7.4%. The two most diversified regions with a high level of GDP (V and M.R.) also sustain the heaviest tax burdens, and the two (IV and XII) whose economy is highly diversified but whose product is low in absolute terms bear tax burdens that are almost identical.

Once again, this substantiates the basic proposition previously put forward with regard to the discriminatory impact on the regions of homogeneous economic policy measures, since the disparity in regional tax burdens is, in the last analysis, linked to homogeneous sectoral rates of taxation which, owing to the different composition of production in the regions, are reflected in different average regional rates. Similarly, the varying level of capital endowment
per person employed in similar activities in different regions will affect the regional average rate in so far as the rate of taxation differs for profits and earnings.

The regional tax burden is basically determined by the proportion of total tax revenue which the Value Added Tax (including that on imports) represents, and which amounts to 39% in the Metropolitan Region, reaching 62% in Region V. In its turn, the VAT varies from sector to sector. Taking the information supplied by the input-output matrix for the Chilean economy (1977), it can be seen that indirect taxes (of which the most important is the VAT) represent widely varying proportions of the value added in each sector; for example, they correspond to 9% of value added in the agricultural sector, 3% in that of livestock production, 2% in copper mining, 14% in the

<table>
<thead>
<tr>
<th>Regions</th>
<th>(1) Relative distribution of tax revenue</th>
<th>(2) Relative distribution of product</th>
<th>(1)/(2) = (3)</th>
<th>(T_{R}/P_{R})</th>
<th>Tax burden by regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>2.70</td>
<td>2.60</td>
<td>1.038</td>
<td>24.70</td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>2.26</td>
<td>7.30</td>
<td>0.310</td>
<td>7.38</td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>0.59</td>
<td>2.70</td>
<td>0.219</td>
<td>5.21</td>
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</tr>
<tr>
<td>IV</td>
<td>1.19</td>
<td>2.20</td>
<td>0.541</td>
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<tr>
<td>V</td>
<td>27.58</td>
<td>10.70</td>
<td>2.578</td>
<td>61.36</td>
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<td>0.190</td>
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<td>0.338</td>
<td>8.04</td>
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<td>4.80</td>
<td>0.398</td>
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<td>0.60</td>
<td>0.267</td>
<td>6.35</td>
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<td>0.84</td>
<td>1.60</td>
<td>0.525</td>
<td>12.50</td>
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</tr>
<tr>
<td>M.R.</td>
<td>52.93</td>
<td>43.00</td>
<td>1.231</td>
<td>29.30</td>
<td></td>
</tr>
</tbody>
</table>

| Total or average | 100.00 | 100.00 | 1.000 | 23.80 |

Source: Tables 5 and 9.
food industry, 15% in the clothing industry, 18% in that of metal products, and so on.

It is precisely because tax policy does not appear to embody any type of regional criterion that the figures for the regional tax burdens point to situations which in principle are out of keeping with a regional development strategy, in respect of Region I (prioritised in accordance with geopolitical criteria), IV (prioritised in consideration of poverty criteria), V (prioritised in difference to deconcentration criteria), VIII (prioritised by virtue of deconcentration criteria) and XII (prioritised in the light of geopolitical criteria).

Where fiscal expenditure is concerned, as noted above, subsidies and non-committed fiscal transfer payments are the major components.

Subsidies (transfers to the private sector) include the following items: 1. Unemployment Absorption Programme (PEM); 2. Subsidies proper; 3. Labour Bonus, under D.L. 889/75; 4. Assignment in respect of Additional Manpower Taken on, under D.L. 2239/78; 5. Return of VAT to Exporters; 6. Bonus on Investment and Reinvestment, under D.L. 889/75; 7. Afforestation Bonus; 8. Maintenance of Business Operation (after bankruptcy); 9. Special ENCSA (National Coal Enterprise) Programme. Only two of these items (Labour Bonus and Bonus on Investment and Reinvestment) stem from regional development considerations (D.L. 889/1975); they represent 16.0% of subsidies and 9.1% of fiscal spending. Table 12 shows the regional composition of the various subsidies.

In connexion with the figures in table 12 it must be borne in mind that of the total for "Return of VAT to Exporters" (column 5) allocated to the Metropolitan Region, between 40 and 50 percent goes to the Copper Corporation.

The other major component of fiscal expenditure is constituted by the non-committed fiscal transfer payments. Out of the total number of 131 heads under which this expenditure falls, 7 absorb 50.63% of spending on this item. These seven are the Primary Education Department, the Under-Secretariat for War, the National Health Service, the Under-Secretariat for Naval Affairs, the Under-Secretariat for the Police Force, the Social Security System for the Armed Forces and the Department of Public Works. These seven institutions together receive 58 651 462 000 pesos out of the non-committed fiscal transfer payments.

The only category of free fiscal assignments which can properly be called a fiscal policy instrument of a regional type is the National Fund for Regional Development (Fondo Nacional de Desarrollo Regional - FNDR), set up under D.L. 575/1974. Table 13 shows the total amount of the FNDR between 1974 and 1979.
Table 12

REGIONAL ALLOCATION OF SUBSIDIES
(Thousands of pesos at 1979 prices)

<table>
<thead>
<tr>
<th>Regions</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>62 209</td>
<td>45 580</td>
<td>856 133</td>
<td>17 945</td>
<td>42 787</td>
<td>443 835</td>
<td>1 468 489</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>1 202</td>
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<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>III</td>
<td>21 203</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IV</td>
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<td>305</td>
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<td></td>
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<tr>
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<td>443</td>
<td>24 056</td>
<td>2 453</td>
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<tr>
<td>VI</td>
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</tr>
<tr>
<td>VII</td>
<td>377 800</td>
<td>429</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VIII</td>
<td>261 441</td>
<td>3 081</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IX</td>
<td>207 073</td>
<td>2 011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>592 452</td>
<td>840</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>XI</td>
<td>373 859</td>
<td>2 490</td>
<td>443</td>
<td>24 056</td>
<td>2 453</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>XII</td>
<td>369 462</td>
<td>840</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M.R.</td>
<td>361 257</td>
<td>193 349</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2 000 321</td>
<td>252 774</td>
<td>1 514 631</td>
<td>442 106</td>
<td>10 739 239</td>
<td>1 342 153</td>
<td>205 456</td>
<td>137 500</td>
<td>1 295 729</td>
<td>17 939 909</td>
</tr>
</tbody>
</table>

Source: General Treasury of the Republic, and the author's own estimates.

a/ Expenditure on the minimum employment programme (Programa de Empleo Mínimo - PEM) was distributed in accordance with the regional profile of average annual employment (1979) under this Programme, and on the assumption of a uniform wage.

In 1979 the FNDR represented barely 1.8% of total fiscal expenditure, and was distributed among the regions as indicated in table 14. It should be pointed out that in 1980 the Fund accounted for a lower proportion (1.58%) of fiscal expenditure.

According to official government declarations and documents, the priority regions from the standpoint of regional development are I, X, XI and XII, and their priority is based on geo-political rather than on developmental criteria. These four regions absorb 43.21% of the FNDR ($1 955 953 000 pesos), an expenditure item which represents only 0.78% of total fiscal outlays. In the only case in which any degree of coincidence can be found between the FNDR allocation and the socio-economic situation of the region (Region X), the FNDR contribution corresponds to 0.3% of fiscal expenditure.

Table 15 shows the effective real investment of the FNDR in the year 1979. Financial investment, which does not amount to much in any case, is not included. Unfortunately the available figures show only the sector executing the investment, which in several instances is not the same as the sector of destination.

Almost half the FNDR is invested in public works, which clearly shows that the Fund mainly represents a different way of managing part of the fiscal budget rather...
Table 13

NATIONAL FUND FOR REGIONAL DEVELOPMENT
(Millions of dollars, average for 1979)

<table>
<thead>
<tr>
<th>Year</th>
<th>Global amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>35.27</td>
</tr>
<tr>
<td>1975</td>
<td>36.76</td>
</tr>
<tr>
<td>1976</td>
<td>63.31</td>
</tr>
<tr>
<td>1977</td>
<td>60.12</td>
</tr>
<tr>
<td>1978</td>
<td>66.34</td>
</tr>
<tr>
<td>1979</td>
<td>68.31</td>
</tr>
</tbody>
</table>


than a new regional financing mechanism. What really happens is that regional expenditure, which prior to 1975 was effected on a centralized basis through the Public Works Department of the Ministry of Public Works and on a decentralized basis through the various regional development agencies (Junta de Adelanto de Arica, Corporación de Magallanes, Junta de Desarrollo Industrial de Bío-Bío, Comité Programador de Inversiones de Iquique y Pisagua, etc., etc.) is now channelled through the FNDR.

The foregoing figures point, in the first place, to the meagreness of the country's regional development effort, at least from the angle of fiscal policy, and, secondly, to the fact that there is little congruity between the distribution of the main policy instrument (the Fund) and the relative situation of the regions in respect of underdevelopment.

As has previously been shown, regions VIII and X are the two that are relatively worst off (it should be noted incidentally that Region VIII has always constituted the growth pole alternative to Santiago) and, as indicated in table 8, in these two regions fiscal policy an adverse effect. It is interesting to look into the question of what would have to be allocated out of the FNDR to the two regions concerned for the sole purpose of neutralizing the effect of fiscal policy.
For fiscal policy to be neutral with respect to Region VIII, fiscal expenditure in the region in question would have to represent 6.0% of the national total (9,105,624,000 pesos). Thus the corresponding index (table 8, column 3) would be null; if from effective fiscal expenditure in the region (3,551,412,000 pesos) the contribution of the FNDR (172,648,000 pesos) is deducted and the result is subtracted from the theoretical figure, the conclusion is reached that the FNDR should contribute 5,726,860,000 pesos to the Region to do no more than neutralize the negative effect of fiscal policy.

A similar exercise with reference to Region X leads to the conclusion that 875,173,000 pesos should be assigned

Table 14

DISTRIBUTION OF THE NATIONAL FUND FOR REGIONAL DEVELOPMENT

1979

(Thousands of pesos)

<table>
<thead>
<tr>
<th>Regions</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>766,827</td>
<td>8.58</td>
</tr>
<tr>
<td>II</td>
<td>172,649</td>
<td>6.24</td>
</tr>
<tr>
<td>III</td>
<td>177,444</td>
<td>6.41</td>
</tr>
<tr>
<td>IV</td>
<td>191,832</td>
<td>6.93</td>
</tr>
<tr>
<td>V</td>
<td>196,881</td>
<td>7.12</td>
</tr>
<tr>
<td>VI</td>
<td>163,057</td>
<td>5.89</td>
</tr>
<tr>
<td>VII</td>
<td>196,627</td>
<td>7.11</td>
</tr>
<tr>
<td>VIII</td>
<td>172,648</td>
<td>6.24</td>
</tr>
<tr>
<td>IX</td>
<td>203,821</td>
<td>7.37</td>
</tr>
<tr>
<td>X</td>
<td>389,673</td>
<td>14.08</td>
</tr>
<tr>
<td>IX</td>
<td>251,905</td>
<td>9.10</td>
</tr>
<tr>
<td>XII</td>
<td>316,895</td>
<td>11.45</td>
</tr>
<tr>
<td>M.R.</td>
<td>95,915</td>
<td>3.47</td>
</tr>
<tr>
<td>Total</td>
<td>2,766,827</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: General Treasury of the Republic.
### Table 15

**Effective Real Investment of the National Fund for Regional Development, by Executing Sector and Region**

1979

(Thousands of pesos)

<table>
<thead>
<tr>
<th>Regions</th>
<th>Public Works</th>
<th>Housing and Town Planning</th>
<th>Education</th>
<th>Health</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>102,742</td>
<td>36,621</td>
<td>12,181</td>
<td>3,139</td>
<td>57,631</td>
<td>212,314</td>
</tr>
<tr>
<td>II</td>
<td>85,651</td>
<td>15,906</td>
<td>26,002</td>
<td>20,228</td>
<td>20,327</td>
<td>268,114</td>
</tr>
<tr>
<td>III</td>
<td>68,436</td>
<td>26,873</td>
<td>26,822</td>
<td>-</td>
<td>31,799</td>
<td>153,890</td>
</tr>
<tr>
<td>IV</td>
<td>82,888</td>
<td>16,242</td>
<td>14,521</td>
<td>20,464</td>
<td>48,217</td>
<td>182,332</td>
</tr>
<tr>
<td>V</td>
<td>88,366</td>
<td>4,320</td>
<td>28,498</td>
<td>21,612</td>
<td>12,363</td>
<td>155,159</td>
</tr>
<tr>
<td>M.R.</td>
<td>20,554</td>
<td>-</td>
<td>9,058</td>
<td>9,075</td>
<td>38,162</td>
<td>76,849</td>
</tr>
<tr>
<td>VI</td>
<td>67,117</td>
<td>12,225</td>
<td>30,046</td>
<td>27,332</td>
<td>38,795</td>
<td>175,515</td>
</tr>
<tr>
<td>VII</td>
<td>86,377</td>
<td>7,054</td>
<td>53,259</td>
<td>10,080</td>
<td>49,903</td>
<td>206,673</td>
</tr>
<tr>
<td>VIII</td>
<td>59,694</td>
<td>-</td>
<td>31,909</td>
<td>32,055</td>
<td>31,744</td>
<td>155,402</td>
</tr>
<tr>
<td>IX</td>
<td>50,195</td>
<td>65,130</td>
<td>37,342</td>
<td>3,511</td>
<td>7,619</td>
<td>163,797</td>
</tr>
<tr>
<td>X</td>
<td>141,029</td>
<td>978</td>
<td>12,119</td>
<td>7,291</td>
<td>162,406</td>
<td>323,823</td>
</tr>
<tr>
<td>XI</td>
<td>162,627</td>
<td>5,970</td>
<td>17,537</td>
<td>10,532</td>
<td>32,453</td>
<td>229,119</td>
</tr>
<tr>
<td>XII</td>
<td>190,141</td>
<td>-</td>
<td>13,263</td>
<td>23,950</td>
<td>60,706</td>
<td>288,060</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,205,817</strong></td>
<td><strong>191,319</strong></td>
<td><strong>312,557</strong></td>
<td><strong>189,269</strong></td>
<td><strong>920,085</strong></td>
<td><strong>2,491,047</strong></td>
</tr>
</tbody>
</table>

*Source: Ministry of the Interior, Regional Financial Programming Department.*
to that Region by the FNDR, once again merely to neutralize the impact of fiscal policy.

In short, if the FNDR were to operate as an instrument of compensatory fiscal policy for these two regions alone, it would have to amount to 8 806 539 000 pesos, i.e., rather more than three times as much as at present, if nothing else is to be changed, and in particular if the fiscal surplus is kept constant. The above figure would represent 5.8% of total fiscal expenditure, a smaller percentage than is assigned to the Department of Primary Education, or to the Under-Secretariat for War, or to the National Health Service, or to the Under-Secretariat for Naval Affairs, or to the Under-Secretariat for the Police Force, or to the Social Security System for the Armed Forces. It is also less than the fiscal surplus in 1979.

Table 16 shows the non-committed fiscal transfer payments and some of the sectoral expenditure items at the regional level which are of most interest from the standpoint of their regional impact. The expenditure in question is not deliberately intended to benefit regional development, although its incidence on this is undeniable, but corresponds to the regional allocation of funds in relation to the programmes of activities of certain central agencies.

To bring this analysis to a close, it is of importance to point out that, at least between 1979 and 1980, the regional impact of fiscal policy aggravated the prevailing situation. As shown in table 17, between these two years fiscal spending increased by 10.4% in all, rising by 17.2% in the Metropolitan Region, and by 6.9% in Region XII, while it decreased in all the rest.

4. Conclusions

Even when all due allowance is made for its exploratory character, interesting conclusions can be drawn from this study.

In the first place, it clearly demonstrates the non-neutral nature of fiscal policy, from the interregional standpoint. This being so, there seems to be no possible pretext for a regional development policy founded on competition among regions on the basis of their comparative advantages, such as is current in Chile today. The elimination of the regional franchises existing in the past, in the last analysis, be justified if, at the same time, fiscal policy did not penalize the poorer regions and did not disproportionately favour the country's most developed region.

Secondly, there is absolutely no accord between current fiscal policy and the country's regional development policy, if the latter can be fairly represented by the
Table 16

NON-COMMITTED FISCAL TRANSFER PAYMENTS BY REGIONS, AND SOME SIGNIFICANT SECTORAL EXPENDITURE ITEMS BY REGIONAL ALLOCATION

(Thousands of pesos at 1979 prices)

<table>
<thead>
<tr>
<th>Regions</th>
<th>Total non-committed fiscal transfer payments</th>
<th>Ministry of Education</th>
<th>Ministry of Health</th>
<th>Ministry of Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>792 184</td>
<td>570 114</td>
<td>324 077</td>
<td>227 978</td>
</tr>
<tr>
<td>II</td>
<td>750 134</td>
<td>604 554</td>
<td>387 740</td>
<td>338 792</td>
</tr>
<tr>
<td>III</td>
<td>447 557</td>
<td>317 582</td>
<td>174 117</td>
<td>181 080</td>
</tr>
<tr>
<td>IV</td>
<td>782 240</td>
<td>684 168</td>
<td>397 168</td>
<td>401 751</td>
</tr>
<tr>
<td>V</td>
<td>10 153 936</td>
<td>1 686 258</td>
<td>1 318 742</td>
<td>1 048 208</td>
</tr>
<tr>
<td>VI</td>
<td>770 500</td>
<td>783 556</td>
<td>440 148</td>
<td>389 662</td>
</tr>
<tr>
<td>VII</td>
<td>1 064 754</td>
<td>1 146 168</td>
<td>715 750</td>
<td>379 659</td>
</tr>
<tr>
<td>VIII</td>
<td>2 970 402</td>
<td>2 673 099</td>
<td>1 722 201</td>
<td>767 430</td>
</tr>
<tr>
<td>IX</td>
<td>1 080 116</td>
<td>1 224 857</td>
<td>662 999</td>
<td>312 760</td>
</tr>
<tr>
<td>X</td>
<td>1 511 365</td>
<td>1 485 261</td>
<td>909 939</td>
<td>327 569</td>
</tr>
<tr>
<td>XI</td>
<td>490 327</td>
<td>240 585</td>
<td>134 316</td>
<td>157 649</td>
</tr>
<tr>
<td>XII</td>
<td>563 192</td>
<td>257 696</td>
<td>222 017</td>
<td>208 271</td>
</tr>
<tr>
<td>M.R.</td>
<td>94 520 642</td>
<td>6 841 531</td>
<td>5 338 573</td>
<td>3 985 458</td>
</tr>
<tr>
<td>Total</td>
<td>115 543 349</td>
<td>18 512 432</td>
<td>12 747 787</td>
<td>8 776 267</td>
</tr>
</tbody>
</table>

Source: Data furnished by the Ministries.

a/ Figures do not correspond to the sum of the sectoral columns.
b/ Not including the Universidad de Chile.

Priorities established under D.L. 889/75. Fiscal policy actually transfers resources only to the Metropolitan Region and Region XI (the transfer to this latter is equivalent to 0.44% of fiscal expenditure). The region most affected by fiscal policy, in aggregate terms, is Region V, followed by I and VIII.

If fiscal expenditure per capita is considered, the inconsistency between fiscal policy and regional development policy becomes still more patent. Actually, the regions which display the worst development indicators
Table 17

PERCENTAGE VARIATION IN FISCAL INCOME AND EXPENDITURE
1979-1980

<table>
<thead>
<tr>
<th>Regions</th>
<th>Income</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>22.6</td>
<td>(5.8)</td>
</tr>
<tr>
<td>II</td>
<td>14.0</td>
<td>(21.8)</td>
</tr>
<tr>
<td>III</td>
<td>6.3</td>
<td>(43.1)</td>
</tr>
<tr>
<td>IV</td>
<td>(5.3)</td>
<td>(52.5)</td>
</tr>
<tr>
<td>V</td>
<td>(0.9)</td>
<td>(5.7)</td>
</tr>
<tr>
<td>VI</td>
<td>2.9</td>
<td>(53.7)</td>
</tr>
<tr>
<td>VII</td>
<td>(2.6)</td>
<td>(52.7)</td>
</tr>
<tr>
<td>VIII</td>
<td>(5.3)</td>
<td>(39.7)</td>
</tr>
<tr>
<td>IX</td>
<td>4.7</td>
<td>(60.5)</td>
</tr>
<tr>
<td>X</td>
<td>8.7</td>
<td>(32.1)</td>
</tr>
<tr>
<td>XI</td>
<td>8.7</td>
<td>(20.6)</td>
</tr>
<tr>
<td>XII</td>
<td>19.7</td>
<td>6.9</td>
</tr>
<tr>
<td>M.R.</td>
<td>18.9</td>
<td>17.2</td>
</tr>
</tbody>
</table>

Source: General Treasury of the Republic.

(GDP) obtain less than 25% of national fiscal expenditure per capita, whereas the Metropolitan Region receives a per capita fiscal outlay equivalent to 216% of the national average. These figures are shown in table 18.

Even if the Metropolitan Region were left out of account, whereby national fiscal expenditure per capita would drop from 13.78 thousand pesos to 3.94 thousand pesos, the fiscal expenditure channelled into Regions IX, X, IV, VII and VIII, which show the lowest GDP per capita values, would still fall short of the new national average.

Despite the overall divergence between fiscal policy and regional development policy, a part of fiscal expenditure - specifically some of its components in what are traditionally considered social sectors, i.e., education, health and housing - corresponds quite closely to the interregional distribution of certain focal population groups: in this case, to the relative interregional distribution of the population described in official studies as "poor".

81
### Table 18

**FISCAL EXPENDITURE PER CAPITA, BY REGIONS**

1979

<table>
<thead>
<tr>
<th>Regions</th>
<th>Population</th>
<th>Fiscal expenditure (thousands of pesos)</th>
<th>Per capita fiscal expend. (thousands of pesos)</th>
<th>Percentage of average</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>236 345</td>
<td>2 258 862</td>
<td>9.56</td>
<td>71.00</td>
</tr>
<tr>
<td>II</td>
<td>310 787</td>
<td>1 064 982</td>
<td>3.43</td>
<td>24.89</td>
</tr>
<tr>
<td>III</td>
<td>196 771</td>
<td>486 564</td>
<td>2.47</td>
<td>17.92</td>
</tr>
<tr>
<td>IV</td>
<td>413 706</td>
<td>802 685</td>
<td>1.94</td>
<td>14.08</td>
</tr>
<tr>
<td>V</td>
<td>1 220 292</td>
<td>10 655 878</td>
<td>8.73</td>
<td>63.35</td>
</tr>
<tr>
<td>VI</td>
<td>564 598</td>
<td>830 930</td>
<td>1.47</td>
<td>10.67</td>
</tr>
<tr>
<td>VII</td>
<td>703 372</td>
<td>1 303 272</td>
<td>1.85</td>
<td>13.42</td>
</tr>
<tr>
<td>VIII</td>
<td>1 464 430</td>
<td>3 551 412</td>
<td>2.43</td>
<td>17.63</td>
</tr>
<tr>
<td>IX</td>
<td>655 544</td>
<td>1 234 461</td>
<td>1.88</td>
<td>13.64</td>
</tr>
<tr>
<td>X</td>
<td>858 627</td>
<td>2 397 948</td>
<td>2.79</td>
<td>20.25</td>
</tr>
<tr>
<td>XI</td>
<td>62 718</td>
<td>940 244</td>
<td>14.99</td>
<td>108.78</td>
</tr>
<tr>
<td>XII</td>
<td>107 781</td>
<td>1 143 651</td>
<td>11.54</td>
<td>83.74</td>
</tr>
<tr>
<td>M.R.</td>
<td>4 215 512</td>
<td>124 989 557</td>
<td>29.65</td>
<td>216.00</td>
</tr>
<tr>
<td>Total</td>
<td>11 010 483</td>
<td>151 760 446</td>
<td>13.78</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: INE, Compendio Estadístico 1979, and table 6.

The purpose of table 19 is, precisely, to show the relative interregional distribution both of the "poor" population and of fiscal expenditure in the three sectors mentioned.

Gini's index for these two distributions reaches the figure of 0.07, showing almost complete congruity between allocation to the three sectors indicated and the "poor" population. This warrants the conclusion that the discrepancy between fiscal expenditure policy and regional policy has its origin in the General Administration and Economic Services areas.

Thirdly, tax policy is regressive in interregional terms if it is taken into account that the tax burden of the Metropolitan Region - the most highly developed - is
### Table 19

**INTERREGIONAL PERCENTAGE DISTRIBUTION OF "POOR POPULATION" AND EXPENDITURE ITEMS IN SOCIAL SECTORS**

<table>
<thead>
<tr>
<th>Percentage of total represented by the poor</th>
<th>Cumulative</th>
<th>Percentage of total expenditure b/</th>
<th>Cumulative</th>
<th>Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.5</td>
<td>0.5</td>
<td>1.7</td>
<td>1.7</td>
<td>XII</td>
</tr>
<tr>
<td>2.0</td>
<td>2.5</td>
<td>1.7</td>
<td>3.4</td>
<td>III</td>
</tr>
<tr>
<td>2.0</td>
<td>4.5</td>
<td>2.8</td>
<td>6.2</td>
<td>I</td>
</tr>
<tr>
<td>1.6</td>
<td>7.1</td>
<td>3.3</td>
<td>9.5</td>
<td>II</td>
</tr>
<tr>
<td>4.1</td>
<td>11.2</td>
<td>1.3</td>
<td>10.8</td>
<td>XI</td>
</tr>
<tr>
<td>5.3</td>
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a/ Data for 1970.

b/ Including only the education, health and housing sectors.

Similar to the national average and far less heavy than the tax burden of Region V. Regions VIII and X have tax burdens greater than might be expected in view of their position as the two regions with the biggest socio-economic problems, and the tax burden of Region I exceeds the average.

Fourthly, what may properly be called a regionally-oriented fiscal policy instrument (National Fund for Regional Development) is of little practical significance, representing only 1.8% of fiscal expenditure. Using FNDR as a compensatory instrument to palliate the fiscal impact on Regions VIII and X would imply raising its share of fiscal expenditure to 6.0 per cent.
It can also be seen that the FNDE, rather than representing additional resources for regional development, simply constitutes a mechanism for a different way of channelling funds which in any event were earmarked for the regions.

Fifthly, the situation takes a turn for the worse if the evolution of fiscal income and expenditure between 1979 and 1980 is taken into account. Fiscal expenditure increased only in the Metropolitan Region and in Region XII, decreasing in all the rest. In particular it declined by 39.7% and 32.1%, respectively, in Regions VIII and X.

Unfortunately, there has not been enough information available to permit of a detailed analysis of fiscal expenditure, either as regards its destination (General Administration, Social Services and Economic Services) or with respect to its nature (Operational, Transfers, Public Investment). Other limitations have likewise made it impossible to study a time series for fiscal policy in regional terms.
Chapter IV

SOCIAL ORGANIZATION AT THE REGIONAL LEVEL

In chapter I a distinction holding good for any region was drawn between the processes of economic growth and of development. Economic growth is a necessary condition for development, but the latter is a qualitatively different phenomenon which implies a regional internalization of the surplus generated by growth itself, as well as a gradual increase in the region's ability to control the main variables that are the causes of growth (or to influence the agents that handle these variables); it also implies rising levels of social inclusion in terms both of political participation and of the distribution of the social product; and, likewise, development includes the adoption of a position with regard to the conservation of the environment.

These processes do not occur spontaneously but depend upon the existence and behaviour of certain political and social structures, some of which may be created by means of appropriate public policies and central government action as well as through action on the part of the regional community itself.

1. Increase in regional decision-making capacity

The question of autonomy is indissociably linked to the very idea of development, at the national level. An absolutely dependent development process would be simply inconceivable, nor would it be possible nowadays to imagine absolutely independent development, necessarily autarkic. Thus, these two extremes are ruled out of the discussion, which is therefore confined to the search for a situation in which maximum capacity for autonomous decision-making is compatible with a completely unavoidable and actually increasing interdependence among countries.

At the regional level, in principle, the issue is much the same. A regional development process would be meaningless if unaccompanied by an increasing regional capacity to control the forces that determine growth,
within a framework of interdependence among regions (and consequently between each region and the nation) indubitably tighter than the equivalent framework of interdependence among countries.

In recent years, as part of the international effort to define "another development", several proposals have emerged aiming mainly at broadening the base of the regions' autonomous decision-making. Generally speaking, these proposals seek to counteract the trends towards the "functional" integration of countries, which is effected via the penetration of the centre into the periphery, as shown in chapter II, by means of the identification of processes and policies to activate "territorial" integration.62/

These proposals, in declining order of utopianism, include the following at least: the creation of agropolitan districts,63/ the selective spatial closure strategy,64/ and the negotiated regional planning strategy.65/ In the Latin American sphere there are at least two other studies on this last topic which are of importance, one because of the analogy between the situation of regions and that of small-sized countries, from the standpoint of their respective planning strategies,66/ and the other because of its direct immersion in subnational planning practice in Brazil.67/

65/ S. Boisier, "Regional planning: what can we do before midnight strikes?", CEPAL Review, Santiago, Chile, 1979.
66/ J. Martin, Planificación en países de pequeño tamaño, Santiago, Chile, ILPES (mimeographed text), 1981.
The alternative that consists in increasing regional autonomy or decision-making capacity through the adoption of a planning procedure designed to maximize the region's bargaining capacity vis-a-vis the leading agents exogenous to it (central government, enterprises, etc.) is based, firstly, on recognition of the effect of economic size on planning procedure, and, secondly, on revitalization of lobby functions and of advocacy planning.68/

The great majority of the regions where, in practice, planning is undertaken constitute essentially small economic systems, both in relative terms (percentage participation of the region in the generation of the country's domestic product) and, in a good many cases, in absolute terms as well.69/

The immediate consequence of this should be recognition of the extreme importance of what we might call the parametric environment in planning the development of a specific region. In other words, the conditions, events and decisions external to the region will normally have a more significant impact on its development than the internal elements themselves.

However an economic plan is defined, it implies a finite and arbitrary collection of decisions which are taken a priori to affect the probable course of certain events. These decisions mainly concern the allocation of resources and administrative forms and procedures (including the setting up of new institutions). A decision is only such when it affects a variable or circumstance which is contained within the sphere of control of the decision-maker (I cannot "decide" to put an end to racial segregation in South Africa, for example). As will be seen at once, this interpretation of the nature of a plan calls into question the very idea of a "regional plan" in many cases, at least when the plan for the region is regarded as instrument of and for the regional administration, that is, as a regionally autonomous process.

What are the economic resources which can be managed by regional administration? If we confine the scope of the question to the financial aspect it is not difficult to answer. First, the region may use resources stemming from the product of certain direct and indirect taxes which the tax legislation concedes to the local regional governments (some taxes on property, certain taxes on services,

69/ The following comments are extensively based on S. Boisier, "Regional planning: What can we do before midnight strikes?", CEPAL Review, No 7, Santiago, Chile, 1979.
etc.). Secondly, the region may use its own revenue (holdings and shares in certain regional economic activities). Thirdly, the region may in some cases make use of the local, national or international capital market, either by issuing bonds and debentures or by contracting obligations. Fourthly the region may use resources transferred by the central government.

Are these resources substantial? The reply in general is that they are not. In view of the centralized tax and budgetary systems prevalent in many countries, the regional or local tax income is minimal, as any local authority would hasten to confirm. Local revenues are, in the overwhelming majority of cases, quite negligible; only in exceptional cases connected with the exploitation of a natural resource or the enjoyment of some special privilege are they significant. The regional utilization of the capital market is still in its infancy in most of the developing countries and it seems unlikely that the poorer regions could benefit from such a system, although the possibility cannot be entirely discounted. The transfer of resources from the central government, potential in some cases and real in others, constitutes the most reliable and important source of help. This excludes, of course, the budgetary allocations assigned to the region by sectoral government agencies, since these grants are decided by the agencies and not by the region. It follows, therefore, that when speaking of transfers we are thinking of fixed sums which the central government places at the free disposition of the regional administration. The empirical evidence is that, even in the countries where national regional development funds have been established, these transfers are not very substantial.

It is clear, therefore, that regional decisions on the allocation of resources are necessarily very limited and in any case insufficient to contribute in any marked degree to the solution of the main problems of the region.

With regard to institutional or administrative decisions, the situation is no better. Given the pronounced degree of centralization of the public administration in many countries, and particularly those of Latin America, the regional administrative machinery consists (when it exists as such) chiefly of regional branches of the national agencies and only to a very small extent of genuinely regional bodies. Even though such branches may be formally subject to the regional authorities, there is no doubt that in a real sense they are subject to the authority of their own central headquarters. Thus the scope of regional decisions in this field is also very restricted and, with scant resources, it may be unrealistic to think of establishing new institutions.
These brief considerations should be sufficient to rule out (in most cases) the possibility of making a regional plan in the classic sense, i.e., a set of decisions controlling variables which are really controllable. A planning process for a region should therefore be designed to make viable and to maximize the capacity to intervene in the parametric environment of the region.

The form which such intervention takes will depend on the relative balance of power between the intervener and the intervened. The greater the relative power of the intervener, the greater likelihood of an authoritative or forceful intervention; the less this relative power, the greater the likelihood that the intervention will become negotiation. As we have seen that the typical size of a region is relatively small, it is reasonable to assume that the power of regions to intervene in their parametric environment will be limited, and it is equally reasonable to assume that in such a case the region will tend to change the possibility of intervention into negotiation with the agents comprising the parametric environment, basically the central government and secondarily the national public and private enterprises, the transnational corporations and the external market itself.

In this case the main objective of regional development planning will not be to mobilize the internal resources of the region (though this will always be a component of regional development) but to maximize the regional capacity for negotiation.

Accordingly, it seems clear that in practice regional planning is as much a process of negotiation and management as a technical exercise, and the decision-making framework within which the planners and other groups function stands out as a subject worthy of special analysis. Precisely this argument is put forward by Dunham in a recent study on regional development research requirements.70/

If the central purpose of the planning process of a region is to strengthen the regional bargaining power vis-a-vis the agents of the parametric environment, questions such as the following must be answered: who negotiates or who conducts the process on behalf of the region? What is negotiated with each agent? What practical measures can be taken to provide the poorest regions with the indispensable technical know-how to back up the negotiation?

70/ D. Dunham, "Algunas opiniones sobre la investigación en el campo del desarrollo y planificación regional", in S. Boisier et alii, op. cit., 1981.
The bargaining process must, of course, be conducted by the regional political authority. This simple statement, however, involves a number of complex issues.

A step prior to the establishment of formal negotiation machinery is to imbue the community with a sense of regional identity, i.e., a collective sense of belonging to a geographical entity characterized by common cultural forms and territorial loyalties. This is essential for establishing regional legitimacy, without which a process of regional negotiation cannot be established.

As might be guessed, the previous paragraph points directly at the definition of a region as a basic condition for it to be able to negotiate, or for the negotiation really to represent the region, as a social entity, instead of representing only the thinking of planners. We will not go any further into this subject, which has in any case been thoroughly analysed, but it is necessary to stress the importance of how a region should be defined, and also to remember the many examples of the failure of regionalization processes which have overlooked the problems of regional identity. In this connexion, a well-known political scientist remarks:

"The legitimacy of the institutions and authority of a government are necessary means for achieving a substantive aim, a social programme or project that will arouse a national society's will to change. Without this, planning may be a fascinating scientific discipline but it will not be linked with the political action of the State."[71]

An indispensable condition for establishing a process of negotiation is the existence of the will of the parties concerned to negotiate. It is assumed that the region has a genuine desire to negotiate, but is this so in the case of the other parties, the government, enterprises, etc.? It seems clear that a negotiation process such as that proposed means that it must take place within a certain political system. In view of the unequal power relationship between the region and the government, for example, the latter will only be willing to negotiate when the implicit cost-benefit ratio of the negotiation is lower than that of the use of authoritarian force. This situation may derive from a doctrinary conviction (democracy) or from tactical considerations (even the strongest and most authoritarian governments consider it best, on occasions, to avoid the use of force. However, not only is the will

[71] E. Boening, Procesos sociales, planificación y políticas públicas, Santiago, Chile, ILPES (mimeographed text), 1976.
to negotiate required in order for the negotiation to take place; it is also necessary to define a common area of transaction for all the agents of the parametric environment, in the light of a set of resources, interests and symbols which determine the stock of elements possessed by each negotiating party and the possible limits to transaction.

An important question here is that of the regional authority's representativeness for conducting the negotiation process. Who does the regional authority represent? If the authority is elected, the representativeness derives from an electoral consensus and the higher the consensus the higher the representativeness, but if the authority is appointed, either through an established institutional mechanism or by ad hoc procedures, this power must be legitimized in the eyes of the regional community. It should be remembered that in any country with a unitary system of government, the regional authority is designated by the Executive and represents the Executive in the region; this must be altered so that the authority also represents the region in its relations with the Executive, which is something that cannot be achieved by decree.

The basis of legitimacy and structure of power of the political system affects the nature and possibilities of the plan, not only because they help to create inequalities in the capacity of the various social agents to acquire or maintain their status as such agents, but because they directly affect the capacity to influence the (exogenous) adoption of decisions.

One way of increasing the representativeness of the authority or legitimizing its power may be sought through the social activation of the region, i.e., through the region's incorporation into the whole planning process and its consequent mobilization in support of its authorities. What is required is activation on the basis of a dialogue and the pursuit of a common destiny for the region, and from this dialogue no regional group can be excluded. "A plan which calls for mobilization must also be capable of channeling the consequent participation, and this involves the complex task of setting up social organizations capable of co-ordinating the demands of the mobilized agents, while it also entails establishing a harmonious relationship between their aspirations and the goals envisaged in the plan. This requirement is, in its turn, linked with the reconciliation of political intermediary organizations (generally political parties) and bodies responsible for corporate representation and, in a different perspective, with the relations between the ruling
élites or minorities and the broad masses at the social base."72/

Enhancing the level of representativeness of the regional authority is also imperative in order to facilitate its access to the central decision-making level. Even so, political support alone is not very effective in negotiating if at the same time the regional negotiator lacks technical arguments. Boeninger notes:

"Persuasion and the social pact or contract, backed by the accumulated weight of technical experience and the utilization to the full, as a power resource, of the prestige provided by scientific knowledge, are perhaps the most effective instruments in a basically consensual society."73/

The second question in relation to regional negotiation is what can be negotiated and how. This will usually depend on the nature of the agent of the parametric environment with whom the negotiation is to take place.

With the central government the region can negotiate:
(i) administrative questions linked with procedures to be abolished or established, as the case may be; (ii) the cancelling-out of the indirect negative effects of macro-economic or sectoral policies through regional differentiation of such policies or through the adoption of compensatory policies, as proposed in earlier chapters; and (iii) decisions relating to the location of productive activities or services, favourable to the region and desirable for the country as a whole.

The second most important agent in the regional environment may be that made up of the public or private enterprises located in the region. With regard to these enterprises, the negotiation will include discussions on the possibilities of an increase in production (subject to market conditions), new investments, and especially the greater economic and technological integration of these enterprises in the regional economy. Why does this or that enterprise buy a good part of its inputs outside the region when equivalent inputs are available in the region? Why are certain advisory services contracted outside the region, when similar regional services exist? This situation sometimes derives from mere administrative routines and not from fundamental causes. This type of question should be formulated by the regional working team in order to be able to present viable alternatives to those with whom they are negotiating. No less important in this case is the discussion of the selection of technologies by public enterprises and their impact on regional employment.

The external market (both national and international) can represent an agent of considerable importance for the region, especially if the region in question has a clear export potential. The difficulty in negotiating with an agent like this lies in its diffused character, but an effort may be made, first, to identify the location of the external markets for each of the principal export products of the region (if a regional product has national importance as an exportable commodity, its market situation will doubtless be handled by the national government or by large companies) and, secondly, to identify the main marketing systems (companies specializing in international trade or in wholesale national distribution) with which negotiations might be started to increase regional exports for boost the local value added.

In a type of planning such as that proposed, the quality, training and motivation of the regional technical groups (particularly those that act as direct advisers to the regional authority) is of decisive importance in providing the rationale which the process requires.

In this connexion, a specialist voices the following opinions, their background being the way in which a negotiation process similar to that described was conducted in the State of Bahia (Brazil) at the end of the 1960s:

"The viability of the strategic concept of regional development depends in great part on the realism timeliness with which the interrelations between the regional and the national economy are handled. In countries like Brazil, endowed with extraordinarily dynamic growth, transitory economic changes are very frequent, compelling the region to develop its own analytical capacity and mechanisms to ensure a swift and timely political intervention. This is essential if the region is to take advantage of the dynamic factors of exogenous growth and avoid as far as possible the depressive effects which frequently accompany foreign investments within a model of dependent growth.

"In practice, within this type of model, the action of the public and private peripheral sectors consists essentially of responses or reactions to actions initiated in the centre. This does not necessarily mean, however, that the responses cannot be creative or innovative in so far as they are realistic and are based on the capacity to take advantage of the opportunities occasionally provided by the development of the centre.

"The possibility of creating this dialectic capacity in underdeveloped regions of countries which are themselves underdeveloped might seem Utopian if it were
not that the lack of political rationality need not necessarily stem from underdevelopment. The existence of economic liberation processes in countries which were originally capitalized by foreign investment and, on another level, experiments such as that of the petrochemical industry in Bahia, indicate that it is possible, though admittedly by no means easy, to give rise to growing processes of economic autonomy beginning from investment concentrations generated by external factors.

"To make all this possible, however, it is necessary to introduce institutional changes in the technical and administrative procedures of the region. In the first place, it will be necessary to provide the region with a permanent capacity for analysing the regional economy and the national situation. There is no development plan or economic diagnosis which does not have to be systematically and periodically revised in order to be adapted to the dynamic nature of development. Regional development strategy needs a modern information system and instruments of analysis. The underdeveloped regions do not possess, for example, systems of social accounting, nor means for the regional quantification of economic and social phenomena. Generally the scanty information available has such a low level of synthesis that it is practically useless for a study of the internal situation of the region. It is interesting to note that the degree of synthesis of information is always related to the interest of the user and therefore the present supply of statistics is determined by the interest of the centre and not of the region.

"The establishment of institutions responsible for information and regional economic analysis is therefore indispensable for the preparation, execution and continuous revision of a regional development strategy such as that which is suggested here.

"It will also be necessary to introduce institutional reforms in the sphere of administration to raise the capacity of political intervention in questions as important as the central decisions which affect the region, the reinvestment within the region of the product generated there, the generation of strategic projects, the location of economic activity and the internal market. Another requisite will be to achieve greater political continuity and to expand the basis of participation in the processes of political decision-making production and consumption. The incorporation of the local elite and of an ever-increasing proportion of the labour force, the training of local
personnel and the stimulation of the development of regional technical services are ways of achieving greater integration and of promoting the growth of local capacity for initiative and identification with the region.

"In many respects regional development is a conflict of interests between a powerful centre and a periphery which needs to unite all its forces for an unequal battle. Only the integration of local capacities and a real sense of regional identity can produce the conditions for success. This is especially the case in strategic projects, which it would be difficult for technical groups from outside the region to identify and study. For this reason it is imperative to carry out the systematic training of technical cadres both in the public sector and in private enterprise. The development of a region in the present conditions requires a system of intellectual support formed by the technical-political élite of the government, the university and local firms of consultants. To create the conditions for the development of this system is one of the main responsibilities of the public sector in the field of development.

"In addition to increasing efficiency in the formulation of political options (regional analysis) and in the capacity for political action on the part of the administration, it will also be necessary to initiate a gradual process of improvement in the internal administrative system and the methods and procedures used in it. A programme of this type is essential to ensure that the reforms that might result from the two levels of action previously mentioned are consolidated in permanent form by the regional administration. The remodelling of the administrative machinery of the region is always a lengthy process which needs continual renewal to adapt itself to the strategy. It may be that a start should be made with the programming system, beginning with the conversion of the general terms of the development strategy into sectoral goals and programmes at the level of the whole State (government programme), integrated in spatial programmes (microregions). The budget should be prepared on the basis of a preliminary definition of programmes and the availability of resources. The co-ordination of the execution of programmes and projects should constitute a parallel sub-system in the hand of co-ordinating units in the central and decentralized executive agencies of the public sector. Finally, another sub-system, that of assessment, should analyse the achievements of the
programmes and projects at the end of each accounting period in order to incorporate the actual results of the process into the future programming.

"All these tasks are of course difficult to carry out and require trained and psychologically motivated personnel. But the difficulties should not be a reason for abandoning the effort to rationalize the development process, especially considering that this effort is one of the few instruments that can be used to achieve regional objectives and goals which otherwise would depend on the free play of external forces and the emergence of spontaneous solutions. Past experience provides enough examples to show that this form of development is far from efficient and cannot always ensure regional development, even though there may be growth."74/

This long and interesting quotation from Neira introduces an important additional viewpoint inasmuch as it clearly shows that an intra-regional planning practice as heterodox as "negotiated" planning presupposes a change of direction in the professional training of regional planners. As a general rule there has been very little that is innovative in their training and they have been conditioned to think of the regional universe as a self-contained world. In so far as the way in which a regional economy is inserted in the national context is recognized and explicitly defined, strategic thinking and the modalities and techniques of strategic planning become more and more important.

From a different angle, in his research on planning in small-sized countries - an undertaking analogous in several respects to regional planning - Martin remarks that the operational dimension of the planning process in a small country might be conceptualized as the control of an open system through the use of an adaptive form of planning. In practice, as already noted, the action of small-sized countries constitutes responses or reactions to action of external origin.

Nevertheless, the same author goes on to say, within such a model two major groups of planning tasks must be distinguished: on the one hand, those aimed at enlarging the "space for manoeuvre", consisting mainly in measures design to alter the parametric environment, and called, after Friedmann, tasks of innovation; and, on the other

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hand, tasks of allocation subject to the constraints of the parametric environment.  

The conception of regional planning as a process of negotiation rather than as a mechanistic procedure to establish objectives, targets and policies, has crossed the threshold of theory into practice in some of the federated states of Brazil, with ambiguous results, of course, since the prescription is not infallible.  

With reference to recent planning experience in the State of Minas Gerais, Haddad makes the following observation:  

"In operational terms, the state planning experiment in Minas Gerais in the 1970s consolidated the plan- ning for negotiation style (underlined in the original text). On the basis of what was known of the priority programmes and existing resources in the federal area, of lines of financing, of special funds and of the conditions governing access to them, the state (of Minas Gerais) opted for an adaptive planning style through which it prepared innumerable programmes and projects for negotiating with the federal institutions and thence obtaining resources.  

"However, planning for negotiation presents both positive and negative aspects. It has shown itself to be an appropriate way of dealing with specific state problems of national interest, especially in the fields of transport, basic sanitation, export crops, import substitution in respect of basic inputs, etc. On the other hand, this planning style does not afford the means of viably resolving certain problems peculiar to and important for the state, which find no support in programmes or in special funds at the federal level."  

In the case of the State of Pará, also in Brazil, da Costa expresses the following views on the "negotiating style" established in the Government Action Directives for 1975-1979:  

"Besides rejecting state planning subject to orthodox practice, on the grounds that 'the action of the state authority is in a high degree supplementary and, if it is to be effective, rational and compatible with decision-making autonomy, must bear in  

mind those aspects that concern the programmes emanating from the national government - either through the Planning Secretariat of the Office of the President of the Republic, or as a function of the sectoral directives drawn up by the several ministries - and those that relate to the definitions prepared by the organs of regional action', and therefore openly acknowledging the limited autonomy of the governments of the federated units as regards decision-making and planning activities, the Government Action Directives advocate the adoption of the heterodox planning style called 'planning for negotiation'. Furthermore, with the explicit expression of a preference for 'innovative planning' as against 'allocative planning", it became obvious that the government machinery needed to be adequately and technically equipped to negotiate and 'to propose new goals and new methods as guiding lights for planning activities'."

Later on, the same author offers the following critique of this experiment:

"Both the Plan of Directives and Strategies (PDE) and the System were duly equipped and structured to proceed with the experiment in what is known as 'planning for negotiation' in the broadest sense of the term, strictly adhering to the specifications of the design for negotiated planning. That is: a nucleus of professionals of the highest technical level was available - a vital prerequisite for actualizing State bargaining capacity - and had the necessary specialized training, obtained mainly through courses given by the Economic Commission for Latin America (CEPAL), by the Centre for Training in Economic Development (CENDEC) and by the Nucleus for Higher Studies of the Amazon Basin (NAEA); a general model was set up which was theoretically appropriate for negotiating with the central government and with the other agents of the parametric environment of the state; simplification of the usual methodological procedures followed in planning was opted for, the definition of objectives, the specification of targets and the selection of policy instruments being shelved, and emphasis being placed, in contrast, on the delineation of the image-objective, on the definition of strategy and on the process of rendering operational the whole set of instruments of action and integration.

"Given the synchronism between the 'regional developmentist' ideology which characterized state aims, and the interest of the nation as a whole, planning for negotiation was reasonably successful at first."
In a subsequent phase, however, the reluctance of the federal sphere to give continuity to the negotiation process - a direct consequence of the conflicts which have marked the recent political life of Pará - bears decisive witness to the misfortunes of negotiated planning. Nevertheless, to try to explain them in this way is to go so far astray as to miss the real Achilles' heel of planning for negotiation.

"The greatest frailty of this mode of planning lies in the tendency of the means to outrun the need of the ends. Or, to put it another way, the weakness of planning for negotiation consists in relegating to a secondary level of priority the crucial problems of strictly State interest for which national objectives afford no support.

Naturally, in the course of practical application of a theoretical model such as that of negotiated regional planning problems of various kinds arise, its possible weaknesses are clearly brought to light and an attempt is made to improve upon the original proposal. After all, every planning process is a social learning process and as such is susceptible of self-improvement. For the moment, however, there seem to be no better alternative proposals, since to go on practising the orthodox procedure appears to hold out no prospects.

2. Regional internalization of growth

How can it be ensured that a significant proportion of the economic surplus generated in the course of a regional growth process is retained and reinvested within the region, thus guaranteeing the long-term maintenance of its development?

This will depend, *prima facie*, on the growth opportunities themselves that the region offers, and on the way in which the surplus is appropriated (as between the public sector and the private sector), as well as upon the use made of the surplus by whoever lays hands on it.

A variable proportion of the regional surplus will be appropriate by the State through indirect mechanisms such as tax policy or directly in cases where a public

enterprise sector exists in the region. Its (regional) use will be determined in this instance by fiscal policy itself (fiscal expenditure in the region) or by the policy of reinvestment of profits pursued by public enterprises. In the last analysis, the use of the surplus appropriated by the public sector will depend both on the State's general policies and on the region's capacity to influence these.

Since in the context of the present discussion the private sector plays an important role in respect of productive activity, it must be recognized that regional reinvestment of the surplus depends to a very significant extent on the private sector's behaviour. As Dunham asks:

"If we are talking about capitalist societies, why not admit it? Why not be more explicit in discussion of the interests at stake, make less rigid assumptions and give more precise consideration to the political aspects of regional development and planning?"78/

Analysis of the way in which the regional surplus appropriated by the private sector is reinvested in the region or withdrawn from it must therefore be approached through analysis of the structure of the entrepreneurial groups operating in the region.

By geographical origin, these groups can be divided into two categories: those of extraregional origin, national or transnational, and those of regional origin. This distinction is useful for the purpose of establishing where reinvestment decisions are taken, inside or outside the region.

The entrepreneurial groups operating in a given region are regional, national and international according to the size of the markets in which they operate. This distinction too is useful, since the decision to reinvest will partly depend upon the predicted behaviour of demand. A cross between the two classifications can be attempted in order to establish - in a first analysis - the probable degree of articulation between origin and markets. Possibly - for on this point factual information would be required - it is with the regional markets that the enterprises of regional origin have the strongest links, while those of national origin are articulated mainly with the domestic market and the transnationals with both the domestic and the international markets. This is important, since the three types of market may show differentiated patterns of change in the future.

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78/ D. Dunham "Algunas opiniones sobre la investigación en el campo del desarrollo y planificación regional", in S. Boisier et alii (compilers), op. cit., 1981.
For the transnational and national enterprises located in a particular region, reinvestment in that region will depend upon market forecasts and on the permanence of the initial factors which made them decide to settle there. These factors may relate to classic questions of locational analysis (availability of raw materials, labour, etc.) or to provisions and measures dictated by official policy which have operated as inducements.

In the case of regional enterprises, decisions with respect to local reinvestment are certainly influenced by regional market forecasts, but they also depend upon the behaviour patterns of regional entrepreneurs as regards their "identification with the region" and their "regional loyalty". It is assumed that entrepreneurs native to the region have a different ethos from the rest. In McClelland's terminology, the "n-achievement" of this class of entrepreneurs is likely to include a locational component with a deep-rooted localist content.

While the general topic of the entrepreneur's role in economic development has been widely dealt with in sociological and economic literature from the time of the writings of Weber and Schumpeter, studies on the differential behaviour of regional entrepreneurs are noticeably scarce, at least in Latin America.79/

One of the most interesting pieces of research in this field, although relating to the broader concept of "regional élite", is Walton's study on the development of the cities of Monterrey and Guadalajara in Mexico and Medellín and Cali in Colombia. It is worth while to reproduce here two of Walton's conclusions:

"Theoretically, then, it can be concluded that a relatively complete explanation of the experience of regional development or underdevelopment requires at least three elements: knowledge of the internal organization of elites (and their class bases), factors (such as the historical timing of development) accounting for dependency status, and the manner in which interests are expressed through political class action.80/

"Regions such as Medellín that combine egalitarian social structures, relatively autonomous control over

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79/ For an excellent synthesis dealing with the subject in general, see A. Solari et alii, Teoría, acción social y desarrollo en América Latina, México, Editorial Siglo XXI, 1976.

80/ It should be noted that this is the same thesis as is postulated in the present book, although with a very marked emphasis on the role of élites, i.e., with a predominantly sociological rather than an economic approach.
the economy, and powerful coalitional elites tend to develop in terms of both material achievements and the distribution of an enhanced standard of living. In the absence of egalitarian social structures and a diversified elite, autonomy may lead to aggregate economic progress but not necessarily to distributional gains, as the case of Monterrey suggests. Conversely, a relatively egalitarian social structure and coalitional elite may produce development in the quality of life but limited economic growth to the extent that autonomy is sacrificed to metropolitan interests, as in the case of Guadalajara. Finally, the Cali experience suggests that restrictive social structures, ties of dependency, and narrow, conflictual elites result in continuing underdevelopment."81

Walton's analysis pursues a more totalizing line than is followed here, since the regional group of entrepreneurs is absorbed into the notion of élite, which includes several types of dominant groups, not all of them necessarily entrepreneurial. At all events, its focal point is the same: the role of social groups and institutions in regional development.

With respect to Peru, some writers attribute the relative success of regional development policies in the south of the country to the existence of a regional entrepreneurial bourgeoisie in Arequipa, while the relative failure of similar policies in the north of the country is ascribed to the low propensity to reinvest in the region displayed by the entrepreneurs of Chimbote. It is of interest to reproduce part of a book by Cabieses, Kruijt, Lizarraga and Vellinga on industrialization and regional development in Peru. With reference to Arequipa, the authors note:

"In Arequipa there is a genuine regional bourgeoisie which runs the city in an economic, financial, political and administrative sense. The structural reforms introduced during Velasco's period in office made no substantial difference to the structure of property, and the power structure subsists today in an even more concentrated form than before.

"Land tenure in Arequipa is based on medium-sized properties, so that many of the estates were not affected. The agrarian reform in Puno, where more than 2 million hectares were expropriated, did, however, have an impact on Arequipa. Most of the resources of those who felt its effects were invested

in construction and real estate. But also, as in Piura, conversion of agricultural property into industrial property occurred; former owners of haciendas in the region, allied to old Arequipan families, took advantage of their Agrarian Reform Bonds - both the Belaunde and the Velasco issues - to invest in industry and mining. A promoter of this move was the Chamber of Commerce and Industry of Arequipa (Cámara de Comercio e Industria de Arequipa - CCIA).

"The base of economic power in Arequipa is now formed by the industrial, business, financial, construction and real estate sectors. These are sectors which have many owners, shareholders and managers.

"The great Arequipan landowners, with latifundia mainly in Puno, transferred their capital to other activities in Arequipa, maintaining or strengthening their economic power through the 'Agricultural Defence Front of Arequipa' ('Frente de Defensa del Agro Arequipeño'). This Front gained some successes, such as the promulgation of D.L. 2013b, which accorded immunity to properties of less than 15 hectares, and other legal provisions.

"Similarly, the industrialists, organized through the CCIA, succeeded in defending their interests, with the result that changes were introduced in the legislation on Industrial Communities, and influence was exerted on regional industry legislation. The business sector was expanded by an inflow of capital from agriculture. A high percentage was channelled into the motor-vehicle branch of commerce. There are also commercial groups traditionally dealing in agricultural products: sheep and alpaca wool. Despite the Agrarian Reform and the creation of enterprises such as Incolana and Alpaca, both in the sphere of social property, to combat them the groups in question kept up their control over the market, where they were by no means in the rearguard, thanks to their family contacts with English brokers.

"The financial group centres upon the Banco del Sur. It too is formed by families that have ties with industry and trade. It constitutes the economic prop of commercial and industrial activities and of services. The regional banking system channels its loans mainly into industry and commerce.

"The industrialists, businessmen and financiers are closely interlinked by family relationships and participation in one another's enterprises. There are some few families, generally of ancient Spanish stock, by which the region's most important economic enterprises are owned and directed. The direction of CCIA is in their hands."
"Associated with the power groups are the leaders of some political parties. Christian Democracy had its origin in Arequipa and up to 1968 its memberships included Arequipan citizens. Others are members of the People's Action (Acción Popular). And today the People's Christian Party (Partido Popular Cristiano) counts scions of old Arequipa families in its ranks.

"Furthermore, the aristocracy of Arequipa has always had links with regional public administration. On the list of mayors of the city in the present century almost all the old family names appear.

"Generally speaking, the power groups in Arequipa are closed, and interconnected by family ties. Their lifestyle is puritanical and hardworking, and characterized by attachment to the land (which is their own).

"The financial base is the Banco Regional del Sur del Perú, whose directors are the biggest shareholders in the large enterprises. Apart from the Banco de Crédito, this is the only private banking institution. It is formed by Arequipa capital and is one of the region's major financial instruments. In 1976, its 8 directors held 75 blocks of shares in industrial and commercial enterprises in the region.

"The year 1897 witnessed the founding of the Chamber of Commerce of Arequipa, the second in the country after the Tacna Chamber. It is worth noting that the founders were mainly foreigners (Mitchells, Ricketts, Gibson, etc., wool traders operating in external markets). Up to 1945 the businessmen, basically the exporters of wool, were predominant, second came the other wholesale traders and in the third place the industrialists. At the end of the 1960s the Chamber of Commerce was fused with another industrialists' organization to create CCIA. Nowadays CCIA is dominated by the industrialists.

"CCIA defines itself as a pressure group vis-à-vis the national government. Although there are minor clashes between the industrialists and the businessmen, they are outweighed by the two groups' interests in common.

"An important theme in the ideology of CCIA, during the period of military rule as well, is regional development and the regionalization of the economy. CCIA was influential in securing the possibility of converting agrarian reform bonds into bonds for industry. It also expressed strong views on behalf of the economic decentralization bill launched at the end of 1979 by the Ministry of Economic Affairs and Development.

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"In Arequipa an interesting contradiction occurred: the bourgeoisie did not lose its power. On the contrary, it strengthened its economic, financial and industrial base, but administrative power, and therefore planning, were in the hands of bureaucrats and officers of the armed forces who had no experience or interest in industrial development. The industrialists described these as imposed administrators, as 'birds of passage', with no vocation for assisting the development of Arequipa and interested above all in the future of their own careers, a matter which is settled in Lima.

"Interaction between the State and the bourgeoisie was uneasy during the period of military rule. Yet ten years before, regional development in Arequipa, given impetus by the State through the creation of the Council for Rehabilitation and Development of Arequipa in consequence of the earthquake in 1958, but largely implemented by the bourgeoisie, had signified a boom in industrialization in the south. De facto, the Council was dominated by the bourgeoisie of Arequipa, in association with the Chamber of Commerce and Industry (CCIA). Four members of the Board of Directors of the Chamber are representatives of the key families in Arequipa.

"Generally speaking, the regional public administration apparatus in Arequipa is adversely affected by the centralism exercised from Lima: there is a partialized decision-making structure, a lack of budgets, a quantity of red tape which hampers regional planning.

"The administration itself describes its own shortcomings as follows: insufficient decentralization; little autonomy; inadequate rationale; lack of an operational structure."82/

Concluding their comparative study on Chimbote and Arequipa, the same authors remark:

"In the cases analysed very different roles are played by the regional bourgeoisie with respect to the development of the region. The differences observable can be largely explained by the historical factors mentioned before. In Trujillo there is a lack of dedicated interest on the part of the local power group: the great industrial enterprises

are managed from Lima. The capital generated through
the fishing industry booms in Chimbote and transferred
to Trujillo by entrepreneurs of the latter city, was
mainly invested in the construction and real estate
sectors and, in a smaller proportion, in industry.
"Of the capital accruing from the fishing industry
in Chimbote, very little was reinvested in the area,
most of it being channelled into Lima or Trujillo.
Chimbote became an enormous and chaotic 'industrial
park' whose gains were transferred outside the region
without in any way benefiting the social environment
of a city of which over 60% is constituted by de-
pressed areas.
"Arequipa witnessed the emergence of a dynamic bour-
geoisie with an entrepreneurial and industrial voca-
tion. To this bourgeoisie the development of Are-
quipa is largely due.
The role of the State, as an entrepreneur and promoter
of industry, has been weak, and not a determining
factor in Arequipa's development. It may be asserted
that the rise of Arequipa has taken place in spite of
the State, and irrespective of the domination which
this city exercises over the surrounding rural areas
and even over Puno and Cuzco."83/

Another interesting case in the same context is that
of Balán's study on the Argentinian bourgeoisies of Tucu-
mán and Mendoza with reference to the consolidation of the
sugar beet and wine-growing industries, respectively. The
most valuable feature of this research is that it shows
how the bourgeoisies of the two provinces - through polit-
ical alliances with the State - managed to exert decisive
influence on the formulation of (national) economic policies
favourable to their interests. One paragraph of the con-
clusions reached in Balán's studies is illustrative in this
connexion:
"The analysis was focused on the role played by the
bourgeoisies of the said provinces in the implement-
ation of economic policies which, through the protec-
tion accorded to their products in the domestic market,
resulted in a rapid development of the regional eco-
nomies under their direction. The thesis maintained
is that this role was important because of the combi-
nation of three interrelated elements. In the first
place, the insertion of the wine and sugar bourgeois-
ies in the provincial oligarchies, whose power was
consolidated under the new political order that took
concrete shape in 1880, gave them easy access to

83/ Idem., (p. 154).
national and provincial power; secondly, within the State apparatus a receptive attitude was displayed to demands emanating from provincial oligarchies which constituted its principal basis of power and with which it was united by whole networks of very close social and economic relationships, apart from the fact that the demands in question were often consistent with other objectives; and thirdly, the relation between the interests of the bourgeoisies concerned and those of other classes and extraregional groups often took the form of alliances or at least of non-interference; major clashes and conflicts occurred only with sector of Buenos Aires industrial bourgeoisie of immigrant origin and with the middle and lower classes in the Pampas provinces, which were politically weak up to the early years of the present century. These political and social conditions permitted the initial consolidation of the provincial industries and cast the regional question in the mould of a peculiar triangle formed by provincial oligarchies, by the national State and by other social classes. They were to undergo gradual changes in consequence of the very historical process to which they had given rise and were to remodel this triangular relationship.

"The success of the policy set in motion by the provincial bourgeoisies, with the backing of the national State apparatus, led to a process of rapid growth which transformed the structure of production of the different sectors and introduced substantial changes in regional societies. The sugar and wine-growing industries, although still located in the provinces of the hinterland, gradually ceased to be identified with the local bourgeoisies, albeit these latter remained the leading sectoral entrepreneurs. Extraregional capital rapidly acquired an interest in them through investment in the railway which transported their products, marketing, provision of machinery, financing of production and direct investment, although this last was limited. The increase in the scale of production also meant that even the enterprises which were still owned by provincial capital moved their offices and systems of control to the city of Buenos Aires, changes which as time went by took place in greater depth and largely robbed these firms of their regional identity."84/

Other works on the same subject deal with it from a more personalized point of view, rather after the fashion of studies on "captains of industry", both from a sociological angle and on the basis of a purely apologetic approach.85/

In some cases, the regional entrepreneurial groups not only fulfil their primary function - the constant expansion of their activities inside (and outside) the region - but concurrently organize activities of which the benefits exceed the immediate requirements of the enterprises themselves. A case in point is the creation of the Technological Institute of Monterrey (Mexico), established by the Garza family group, and regarded as an institute of acknowledged academic excellence whose beneficial work stretches far beyond the training of engineers and executives for a specific group of regional enterprises.

A different and very interesting example of a distinctive ethos on the part of regional enterprises and entrepreneurs, concerned not only with the business of their respective enterprises but also with more inclusive and functional forms of regional development, is to be found in certain regional entrepreneurial groups, structured not as co-operative class organizations but as regional institutions proper. An example of this is the Industrial Corporation for the Regional Development of the Bio-Bio Region (Region VIII) (Corporación Industrial para el Desarrollo Regional de Bio-Bio – CIDERE) in Chile.

This Corporation was founded in 1965 by a group of "managers" of enterprises located in the region, with support from the Government in office at the time and with a small initial contribution of funds from the Inter-American Development Bank (IDB) in the neighbourhood of US$ 50,000.

In 1980 CIDERE, a private corporation, had a total membership of 55 affiliated regional enterprises. Of this total, 4 are banks and financial institutions, 5 are universities, one is an important regional newspaper enterprise and 45 are productive enterprises proper, 8 public and 7 private (among the latter there are four transnational corporations). In accordance with the pertinent legal rules of procedure, the members appoint a Board of Directors composed of a President, a Vice-president, six Directors and a Manager; the Corporation is of course a non-profit-making organization. Its object is the integrated

85/ I should like to express my thanks to Carlos de Mattos for having drawn my attention to this type of literature. See, for example, José de Souza M., Conde Matteazzi, O empresario e a empresa, Sao Paulo, HUCITEC, 1976; and J. Fuentes, Monterrey. Una ciudad creadora y sus capitanes, Mexico, Editorial JUS S.A., 1976.
promotion of every aspect of the development of the geographical area comprising the provinces of Arauco, Bio-Bío, Concepción, Malleco and Nuble. In line with this objective, the productive activities to be set up by CIDERE must aim at:

- taking advantage of the region's natural resources, industrial waste and other forms of potential;
- making their exploitation possible through the use of simple technologies, within the grasp of unskilled labour;
- generating sources of work and income over the short term with emphasis on rural areas;
- creating, in general, small or medium-scale productive activities with modest investment requirements.86/

This Corporation has been particularly successful. In 1980 it received income totalling about US$ 220 000, 70 per cent of which was contributed by its members and 30 per cent by the government. In the same year, global invoicing of the goods produced amounted to US$ 24 million, jobs being created for an estimated 21 000 persons.87/

What is most noteworthy about this result is that it was attained by means of projects of a very primary character which nevertheless managed to place their products successfully on the international market. These projects included an immensely wide range of activities: the substitution of sawdust for petroleum as industrial fuel, micro-power stations, industrial processing of wild fruit, frog farms, bee-keeping, vegetable yarns, etc., etc.

The success of this private Corporation has led the present government to encourage the formation of similar bodies in almost all regions, but, with few exceptions, these corporations set up to some extent within the framework of the "centre-downwards" paradigm have not proved successful.

Admittedly, in connexion with the topic of regional entrepreneurial groups history records some of the outstanding successes, but little or nothing is said of the doubtless innumerable examples of failures and disappointments. What is the explanation of the fact that formerly flourishing communities, with small but very active entrepreneurial groups, virtually disappear over what is almost invariably the short or medium term? In some instances these groups are absorbed by economic groups at the national level; in other major changes take place in the spatial

86/ These objectives were defined in 1966, some considerable time before Schumacher advocated small scales or Illich an interpersonal scale.
87/ CIDERE Bio-Bío, Decimocuarta Memoria Anual, Concepción, Chile, 1981.
structure itself (consolidation of new axes and corridors of development which geographically marginalize the communities in question); in others again natural resources which serve as the economic base for such communities and for their groups have suddenly become obsolescent (as in the case of rubber in Manaos, nitrate in the north of Chile, etc.). Many examples are left for which the explanation must lie more in the field of sociology than in that of economics.

With regard to the cases recorded as successful — of which only a few of the best-known have been referred to here — it would be necessary to postulate some hypotheses, however provisional, in order to go farther in explaining them and consequently to make progress in relation to the possibility of deducing practical recommendations.

There is one factor that stands out clearly in most cases. As a general rule the groups which are ultimately identified as regional entrepreneurs are of immigrant origin. This has at least two possible implications. One, à la Toynbee, in the sense of challenge-response dialectic; an unreceptive regional social environment would seem to act as a stimulus to economic self-betterment, a means in its turn of securing the social integration of the immigrants with the pre-existing social structure. Another, perhaps complementary, turns on the fact that several of these groups came from countries at more advanced stages of capitalist development, which would have made it easy for them to introduce into quasi-feudal societies the technology (in a broad sense) of capitalist development. In this connexion it should be borne in mind that these regional groups appeared on the scene in the last third of the nineteenth century, the take-off period of native capitalism.

If these hypotheses are true, they are in any case insufficient to explain the emergence of regional entrepreneurial groups. To consolidate them, it would at all events be necessary for relatively captive markets to have been available, a situation which was, moreover, common in Latin America at the end of the nineteenth century and even well into the twentieth, owing to the countries' lack of physical integration and the subsequent geographical segmentation of markets. Colombia has been repeatedly cited as a case in point.

88/ Lebanese in the case of Monterrey (Mexico); English in that of Arequipa (Peru); Italian in that of Sao Paulo (Brazil) and that of Mendoza (Argentina; French and English in that of Concepción (Chile); and German in that of Valdivia (Chile), to cite only a few examples. A different case is that of Medellín (Colombia).
From another angle Neira notes, when commenting on the vicissitudes of growth pole policies in Latin America:

"However, these cases (in which the role of regional entrepreneurs has been important) have not always been the result of planning, and have rather been the product of circumstances that more have to do with particular local cultural characteristics than with any zeal displayed by the national government in decentralizing its economic activities. It is interesting, therefore, to stress the point that while the creation of new growth poles is normally envisaged as a deliberate national government policy, there is a regional component (spirit of enterprise? existence of Schumpeterian élites? exploitation of special conjunctures?) which is indispensable for the success of decentralizing policies and which in specific instances may take the place of deliberate intentions on the part of national governments."\(^{89/}\)

Obviously, in relation to the question of regional development there is need to escape from a purely determinist approach (the inexorable logic of resource allocation) as well as from a purely happy-go-lucky one (development occurs if the region is fortunate enough to possess entrepreneurs); and there is equal need for much more research on the question of how favourable conditions for development can be deliberately created, especially the psycho-social conditions associated with that process.

3. Social participation

The third prerequisite for turning a process of regional growth into one of development relates to its inclusiveness. As has been pointed out, this has reference to at least three orders of things: (i) income distribution; (ii) participation in political processes and in planning itself; and (iii) the establishment of a network of formal structures which facilitate liaison between the non-organized regional social groups and the formal channels through which both the State and much of the private sector operate.

The question of interpersonal income distribution within the region and its evolution through time has been the object of several not altogether conclusive studies in Latin America. Among others of more or less recent date,

reference may first be made to that of Gilbert and Goodman, who, in analysing the situation in Brazil and in particular the position of the North-East, suggest that an interregional convergence of per capita income seems to have been accompanied by a turn for the worse in intra-regional income distribution. In their own words:

"The focal point that should be highlighted, however, is that as policy objectives, the quest for spatial equity and greater personal equity in a backward region may not be mutually consistent. In practice, the relative reduction in income differences at the national level, achieved by means of measures directed towards increased efficiency or maximization of the product, may be accompanied at the regional level by an increasing concentration of personal income." 90

Other authors also note that - apparently and in some specific cases de facto - a regional convergence of income is apt to be associated with a deterioration in income distribution in backward regions. 91 In the case of European countries, Stöhr and Todtling comment:

"From more detailed analyses available for some countries it seems that spatial development policies in general were not able to change spatial inequalities in material living levels significantly. In cases where this was possible at one scale (e.g., at the interregional one), it was usually accompanied by an increase in disparities at other scales (e.g., at the intra-regional or inter-personal ones). Such shifts in disparities from one geographical scale to another could be observed particularly where policies of "concentrated regional development" were applied, usually combined with sectorially unbalanced development (mainly industry) and a strong emphasis on overall efficiency (Brazil and Spain, and to a lesser extent France and Italy)." 92


91/ This is one of the working hypotheses postulated in the joint ILPES/ISS research on La dimensión territorial en las disparidades sociales; it is based on research by Kritz (1977) and by Couriel (1978) in relation to Peru, as well as on the study by Gilbert and Goodman cited above.

The conclusions reached by the authors quoted suggest several observations. In the first place, the increase in intra-regional disparities seems to be inevitable in the case of the priority regions marked out for urban-industrial development (Chapter II), owing to two facts: (i) it is precisely in such regions, as has been discussed, that the development pattern will closely follow the description given by Stöhr and Todtling; (ii) the growth brought about in these regions will generate powerful signals that will stimulate additional migratory flows to the regions in question; some at least of the immigrants will work for relatively long periods in informal sectors or in formal sectors where productivity and income are low, thus forcing income distribution downwards. This is perfectly consistent, moreover, with a decrease in inter-regional income disparities, since the growth of per capita income in the regions concerned will exceed the average.

Conversely, in regions where the pattern of development seems to diverge to some extent from the prevailing development style, and where development processes may be brought about through the exploitation of natural resources (especially agricultural) on the basis of labour-intensive technologies and intersectorally balanced programmes, the possibilities of improving intra-regional income distribution seem to be substantially greater, although the average level of income that may be reached is only moderate.

Accordingly, this is a complex and rigid situation, from which there is no easy way out, in view - once again - of the macro-constraints that limit the field of manoeuvre of regional development planning. However, in the case of priority regions destined for urban-industrial development, government measures can be adopted which may have a favourable effect on the capacity of individuals to opt for relatively better paid jobs. Levels of education and of health are among the main determinants of the productivity of low-income workers. Basic education and vocational training for unskilled personnel are generally provided by the government through the public educational system. Health and nutritional conditions can be improved through public health programmes, including a plentiful availability of health establishments.

It follows, therefore, that a significant way of improving the share of the poorer groups in regional income is through the provision of educational and health services to such groups as rapidly as possible, so as to facilitate their access to the labour markets where wages are higher.

Consequently, public policies for the provision of basic social services, including housing policies, may be a partial response or a partial corrective to the deficiencies in income distribution generated by the industrializing style itself.
The argument that income distribution will deteriorate in the priority regions earmarked for urban industrial development is, on the other hand, well supported in the familiar thesis of Kuznetz. Starting from the fact that per capita income is higher in the urban sector than in the rural sector (because of differences in technology and in productivity) and that variations are greater in the former case than in the latter (owing to the different intersectoral composition of activities), the theory may be postulated that income distribution in such regions will inevitably deteriorate as the population emigrates from the rural to the urban areas, until the level of urbanization has risen high enough, from which point onwards the situation tends to be reversed. If this hypothesis is correct, it reinforces the argument in favour of social policies as the most effective means of reducing intraregional disparities over the short term.

Consequently, if development were to be measured only through the prism of participation in the distribution of the region's economic product (i.e., only through income distribution) the conclusion would have to be reached that it is impossible for the regions in question to produce, simultaneously and over the short term, economic growth and development within the frame of reference described. There would necessarily be a dephasing between the two processes, which does not preclude an average rise in income. But development does not live by income distribution alone, and must rather be envisaged as a combination of several processes, of which the appropriation of the product is one.

The second order of things to which the broad concept of "social participation" relates is the active participation of the regional population in political processes in general and planning in particular.

"In the advanced industrial countries and in some socialist experiments, and, generally speaking, in situations where organizations have in the past attained a high degree of representativeness, participation has been envisaged as the pressure of claims in face of increasing alienation, the view being taken that it possesses an intrinsic value, and that the mere performance of the activities it involves is a source of personal satisfaction. Conversely, exclusion from the processes of deliberation, decision and implementation would imply a subjective cost, which, even though compensated by achievements such as greater efficiency in the provision of services, for example, ought to be taken into account in evaluating the level of welfare reached."
"Furthermore, the demand for participation has an instrumental significance which points to the lack of correspondence between the contents of activities and the interests of their supposed beneficiaries."93/ The existence of regional political processes largely depends upon whether the country concerned functions, as regards its internal government standpoint as a federal or as a unitary system. Obviously, a federal system offers the greater possibilities of creating regional political scenarios, where questions such as the region's own development process become political issues over which the population can take sides and express its preferences via the polling-booth. In unitary countries, on the contrary, political processes and machinery are essentially national, and it is seldom that a regional question crops up to the heart of political debate.

Even in cases like these, however, the existence of elected regional bodies (regional development councils or committees) affords an opportunity for political discussion of regional affairs, an important requisite for mobilizing the population and committing it to a specific regional development project.

Participation in the planning process is in itself a form of political participation, irrespective of whether specific points in it are clad in eminently technical apparel. It is on this plane that it is of interest to identify the "actors" in a participative planning process.

Flisfisch, Franco and Palma state that in speaking of participation reference is made to actors with a legitimate title and only to specific kinds of behaviour defined as legitimate. Thus, acts of violence, acts of civil disobedience and others of a similar nature are excluded, despite the fact that they may have a decisive impact on the planning process and its results.

As regards participants in the planning process, three levels may be distinguished, according to each actor's degree and quality of organization:
(i) Institutional actors with a high degree of normatively defined formal organization, permanently active, and governed by relatively rigid modalities in opting for ends and means. Cases in point are State actors and those pertaining to international agencies;
(ii) Actors displaying significant degrees of organization - formal or informal -, whose action tends to be more intermittent through time and subject to

93/ A. Flisfisch, R. Franco and E. Palma, Dimensiones de una planificación participativa, Santiago, Chile, CEPAL (mimeographed text - E/CEPAL/ILPES/R.18), 1980.
flexible modes of procedure in opting for ends and means, examples being political parties, corporative associations, and non-State productive, cultural, ethnical, regional and territorial actors;

(iii) Actors with a low degree of organization or none at all, or whose nature precludes their organization, including urban workers' pressure groups, certain ethnic actors, communitary movements and phenomena and, above all, particular social categories (the unemployed, the underemployed, the critically poor, the marginal population groups, unorganized peasants, etc.).

"The first and third categories indicated above would constitute polar examples of the actor's possibilities of participation and the second would be an intermediate case.

"The first category is one of exacted or compulsory participation, as in the case of the planning organ itself.

"In the second, participation is up to a point optional, whether it does or does not become effective depending upon the relevance of the planning process to the actor's specific interests.

"Thus, for example, a rule establishing the presence of trade unions in a given phase of the planning process may be complied with in a purely ritual or symbolic fashion. But once questions are raised that affect industrial workers' interests, an autonomous trade-union response may be expected in the form of real involvement and commitment, with no need for exogenous activation. This is the typical case of optional participation.

"Lastly, given their low levels of organization, the actors included in the third category need exogenous activation as a requisite both for their initial involvement and for its steady continuance. Although the planning process significantly affects them, if they lack organization they will neither mobilize nor participate, unless they are activated from outside."^{94/}

To follow up the preceding classification, this last case may be described as one of induced participation. Although in the study quoted the authors present this classification from a national standpoint, there can be no doubt that the same actors are easily identifiable at the regional level. In fact, the document itself takes account

^{94/} A. Flisfisch, R. Franco and E. Palma, op. cit. (pp. 20-22), 1980.
of the regional dimension later on, as one of the areas in which there are promising possibilities of articulation between planning and participation.

"In development plans mention is often made of Regional Development Councils or other similar bodies, to which is assigned the task of co-ordinating the planning efforts of a region or regions of the country concerned.

"In the majority of cases, the experiments of these agencies have not been worthy of note. There have aroused social interest and expectations. These experiments are generally carried out in currently depressed regions that have lost their political and economic autonomy, usually owing to the changes undergone by the national economy through its insertion in world markets.

"This background of frustration may or often does generate a regional-identification type of social movement.95/ Where this happens is in regions that have previously enjoyed a boom period, and think of themselves as 'a case of frustrated development', to paraphrase Aníbal Pinto's well-known expression.

"The pursuit of regional identity, with the backing afforded by various experiences in regions at once depressed and belligerent, has led regional planners to seek for a regional negotiation strategy.

"Once the region has been defined as a social actor in the planning process two important questions arise. The first stems from the fact that not all regions have historical roots with a mobilizing potential. On the national peripheries there are some that are contemporary creations, almost ex nihilo, whose inhabitants have not yet attained levels of cultural socialization. This situation resembles that of certain depressed marginal communities which imperatively require exogenous activation of a compensatory character.

"The second question is of more decisive importance, inasmuch as the problem it reflects aggravates and generalizes regional heterogeneity. It might be stated as follows: do regional inequalities reproduce the class differences and social strata of the national society or do they add a specific ingredient, distinct from the functional divisions of the production process? Obviously, the point at issue is the social causation of inequalities, not the patent fact

95/ E. Palma, Estado y planificación: el caso de Chile, Santiago, Chile, ILPES (mimeographed text), 1976.
that the conventional yardsticks reveal significant intra-regional disparities.

"While it is undeniable that a radical difference of interpretation is involved here, so far there is a lack of such empirical evidence on social revaluation movements as would enable an inquiry into the 'ultimate' determinants to meet with a more clearly-defined response.

"In practice, those who assign less weight to the regional framework as a factor of inequality at least agree that the social action of planning must also be framed in a regional setting.

"An option exists: the specificity of territorially decentralized participative planning. As will be seen later, this option is based on an intermediate theory, which seeks to decentralize conflicts in order to prevent a plethora of these from accumulating at the summit of the system.

"In any event, various currents of thought and practical experiences have led to the region's being conceived as a social actor in national planning. This new emphasis will make the spatial distribution of power the focal point of future discussion."26/

With respect to the types of actors mentioned above, something has already been said of the participation of institutional actors (political authorities and administrative bodies) in the regional development process and of some actors whose participation is optional (entrepreneurs). It remains to study the category that is left, that of induced participation. It is precisely this group of actors that is representative of the third order of things to which social participation relates.

It would appear that the basic tasks in connexion with this type of group are two in number. First, the creation of formal structures, and secondly, the existence of an agent of inducement.

In view of the low degree of organization which characterizes many members of this group (small farmers, artisans, etc.) and precisely because of the marginality by which they are also characterized, some of the components of the group become the "target populations" of several economic and social policies, generally designed by the central State bureaucracy. These policies are often instrumentalized through formal institutions and channels, for the simple reason that it is through these that the State operates, normally, moreover, on a large

scale. This is another by-product of the predominant "centre-downwards" paradigm. What happens, then, is that the "target populations" in question are unable to benefit by such policies because they have no formal procedures and structures that can be linked up with the likewise formal channels used by the government agencies.

Who, for instance, has not witnessed, directly or indirectly, how credit programmes especially designed for small farmers fail because their instrumentalization is handed over to formal agencies (State banks) which fit such programmes into the framework of their formal procedures and demand deeds of ownership or guarantors? How many programmes of focalized subsidies come to grief because they are put into operation through impersonal mechanisms?

Fuller enjoyment of the benefits of certain economic or social services policies is not, however, the only reason for creating a veritable regional network of organizations representative of groups that are relatively marginal to the system. This constitutes a partial reply to the question posed by Hilhorst as to what would be the strategies and policy instruments usable in designing regional policies in poorer countries so as to strengthen the position of the poor in backward regions and give them readier access to public policies. But in addition, the formation of organizations of this type has an intrinsic value inasmuch as it facilitates inter-personal interaction, the emergence of patterns of co-operation and the transfer of experience. Even if, for example, small farmers meet only to exchange ideas and experience under the aegis of a formal structure, this is already of some value and in any event will be an improvement on an atomized and markedly individualistic line of conduct.

Non-governmental organizations may play an important part as agents of inducement in the organization, mobilization and participation of groups such as those under discussion. In some cases non-governmental organizations have decisive advantages in this role: they are not victims of the widespread mistrust of public officials; they operate on more human scales and therefore generally have a deeper understanding of the characteristics of the region and of its groups; their operational procedures are less formalized and are, in general, regarded as more legitimate, at least from the standpoint of their regional

representativeness, even if they are themselves part of great functional organizations, such as the Church, certain political parties or specific trade unions.98/

Participative planning undoubtedly constitutes an alternative to the predominant model in which, de facto, there is a single agent or actor, a team of technical experts equipped with a theory as to the legal norms - in a scientific, not a juridical since - governing the essential domains of economic life, and accepting a doctrine which guarantees the validity of a set of ends, generally closely linked to positive theory. According to the approach adopted by Flisfisch, Franco and Palma, participative planning aims at the introduction of change through social pacts, through negotiation. It is just what has been tentatively put into practice on an experimental basis in the State of Minas Gerais in Brazil under the Community Development Programme, in operation since 1979; in the Municipality of Cali (Colombia) through consultation and incorporation of the entire community in the definition of programmes; or, again, in the Municipality of Lages (Brazil), where an innovative "prefect" (mayor) has succeeded in mobilizing the population and incorporating it directly in the quest and implementation of "socially satisfactory" solutions for such persistent problems as those of education, health, housing and energy consumption.

Participative planning is not possible if it is conceived only as a decentralizing device. It will be a viable alternative only if it is based, first and foremost, on the establishment of local institutional capacity. As Bendavid-Val and his colleagues assert in a document on the subject prepared for Appropriate Technology International:

"This project was initiated with the premise that sustainable economic development is impossible without local participatory organizational frameworks through which the intended beneficiaries of development activity can plan and act on their own behalf.

98/ A supremely interesting example of how a non-governmental agent of inducement (the Catholic Church) is succeeding in organizing and mobilizing the whole of an extremely poor regional community in a defensive campaign against nothing less than an alliance between the Chilean government and a transnational corporation (Marubeni Co.), is to be found in the discussion on the project for shipyards in Chiloé, known as the "Proyecto Astillas-Chiloé". See A. Barros, "Astillas de Chiloé: ¿Desarrollo regional o negocio particular?", EURE, Vol. VI, No 18, 1980.
It is concerned with the institutions that foster and support such local beneficiary capacity and the methods they use to do so. It is not concerned with single-function programs. It is not concerned with 'community development' programs, or 'self-help' schemes whereby villagers are invited to contribute their labor to a public works project that has been determined by someone else to be of benefit to them. It is not concerned with 'decentralized planning' associated with administrative decentralization. It is not concerned with the techniques for public participation with regard to particular projects. Rather, it is concerned with the long-term institutionalization of participatory, sustainable economic development processes.99/

It is no easy task to implement a participatory style of planning, but this is clearly an indispensable requisite for any regional development process or for "another regional development" in any form.

There is an additional element which nowadays is indissolubly bound up with the concept of development, whatever the geographical scale. This element is the environment and its protection. A process which debases the environment or irresponsibly squanders non-renewable natural resources is no longer admissible as development.

If we accept as a definition of environment "the natural biophysical environment and its successive artificial transformation as well as its spatial evolution",100/ its regional specificity is clearly apparent in several respects, particularly as regards its control. Examining the concept of "ecodevelopment" Gutman makes a very pertinent remark:

"In this latter perspective, regional planning proves a specially appropriate framework for the promotion of ecodevelopment. The regional planning approach coincides with the emphasis which ecodevelopment places on diversity of styles and on maximum exploitation of the opportunities afforded by the local ecosystem."101/


The interrelationships between the environment and regional development are acquiring a dimension of their own, so broad that within the context of the present book all that is possible is to mention them, to draw attention, in a sense to the necessary environmental dimension of a regional development process.
Chapter V

ALLOCATION, COMPENSATION AND ACTIVATION FUNCTIONS OF REGIONAL PLANNING

The interpretation of the regional development process propounded in the preceding chapters is an alternative to those currently entertained in the sense that it attaches particular importance to the mechanism of interaction among three factors that have been unilaterally treated in the literature of the profession: resource allocation, economic policy and the region's institutional and social structure. The textual references have made it clear that each individual factor has been dealt with by several writers, but they also spotlight the very different degrees of importance assigned to each factor, as well as the different times at which each appears in the relevant literature. Undoubtedly, resource allocation has been the favorite factor in current interpretations of regional development.

Thus, from one point of view, the novelty of the analysis just presented lies more in the simultaneous treatment of the factors cited than in the originality of any one of them.

In placing the emphasis on the way in which these three factors interact, similar importance is also attached to the role of institutions and social groups in regional development. This in turn underlines the role of two essential actors: the State and the region, the latter conceived not as a mere geographical entity, but as a social actor in the planning process. The development of a region depends, in the last analysis, upon the pacts, compromises, conflicts and bargaining capacity of these two actors, and, finally, the changing articulation occurring between them at given points in time. To paraphrase Holland, it is a matter of "State versus regions".

Both actors assume several roles, represent several dramatis personae. The State is directly responsible for the allocation of resources and at the same time for establishing the general rules of the game: economic policies. Unfortunately in the fulfillment of this function it does not behave with the impartiality that Buddha attributes to the Sun. The region, for its part, acts as a negotiator
and at the same time is largely responsible for converting growth into development, at the best, or, on many occasions, for turning decline into growth.

No interpretation of development and no proposal for its orientation is devoid of an ideological content. In this respect, what is opted for here is an ideological framework in which concerted action, social agreement, negotiation and participation are the distinctive elements. This in no event eliminates the conflictive quality that may or in fact does characterize the relation between the State and the region and their respective interest, but what is ruled out is the use of the class struggle and exacerbation of the conflict as an instrument of change.

Of course, other authors will envisage the process of regional development as the mechanistic result of the logic of capitalist expansion, and others again will see it as the successful outcome of head-on collisions occurring in the course of a radical change in the economic system, and will therefore deny the possibility of regional development under a capitalist régime.

However worthy of respect they may be, both these views leave in an awkward position the regional planner who is operating under capitalist systems of varying kinds and whose only possibility of getting anything done as a planner in such a context is constantly to broaden the room for manoeuvre, the "bounds of possibility", in order to maximize the effect of regional development propositions, which in the last analysis is not the development of regions but the development of human beings.

When the logic of interregional resources allocation was discussed in chapter II, the impression may have been produced that this is a simple process involving a single decision adopted by the State at a given point in time, in consonance with the logic imposed by the system's need of reproduction. To put it almost caricatureously, an unwary reader may conclude it to be affirmed that each year on 31 December the State decides, for example, how much it will invest during the following year in each region. Nothing could be farther, of course, from the real approach to interregional resource allocation.

This is virtually a day-to-day proceeding, traceable only in its results, rather than in the form of budget estimates. The region have a permanent capacity (latent or real) to influence the amount of resources allocated; State decisions, furthermore, are not linear, but correspond more to a tactical management of resources, in the sense of a set of flexible short-term operations.

Accordingly, although the process of interregional allocation of resources is governed by a logic which, under the system, the style imposes, this must not be
understood as something completely rigid, with no possibility of modification. On the other hand, it is clear that such modifications are necessarily of only relative importance, and the rough outlines of the process are therefore predictable.

Resource allocation has been the main operational component of regional development strategies. As was discussed in the relevant chapter, when this allocation is examined in real terms (as opposed to the discourse contained in the regional development proposal at the national level), the high degree in which it is a function of the global style becomes apparent. Hence the accuracy of the assertion made by Helmsing and Uribe-Echevarría to the effect that there was no reason for the strategies in question, at the ideological level, to meet with a priori opposition on the part of the dominant or hegemonic sectors. The scanty tangible results of many regional development proposals should therefore be attributed, at least in part, to the restricted character of their strategies, which were conceived almost exclusively as a framework for the question of transfer of resources from the centre to the periphery.

Still from the standpoint of the role of the State, in chapter III it was precisely this weakness in current regional planning practice that was stressed when attention was drawn, in contrast, to the importance of the indirect effects of economic policy on certain regions. Consideration of these effects ought therefore to constitute an equally important component of any strategy.

Furthermore, the study of the regional impact of economic policy should be seen as the most efficient mechanism for inserting and articulating the question of regional development within the broader and more politically committed framework represented by the (national) programme of economic policy. This would do with the character of an almost self-contained problem (implying an almost self-contained solution) which seems to have been mistakenly ascribed to the regional question. It would even bring back into focus a short-term dimension which has been entirely absent from regional propositions. While it is indisputable that significant changes in the regional system are proper to broad horizons, validity still attaches - in the field of regional development - to the aphorism that "the long term is made up of many short terms".

All this reinforces the central thesis of the argument in chapter III: in practice there are no such things as

neutral policies, either long-term or short-term. Every economic policy has a regionally differentiated effect, and therefore every economic policy must include a regional dimension.

It seems that from different starting-points the same conclusion is always reached: the need to change the entire concept of a regional development strategy. According to Dunham, the problem is not simply one of developing a "new regional strategy" which will be more applicable, or of adapting preceding strategies to make them more appropriate to changing conditions. On the contrary, given the direction of current events, it will seemingly be more important for planners to be able to identify the type of regions and functions with which they are working, in order to look at them in the perspective of national needs and consider the possibilities of devising different approximations and methods for formulating policies for each type of region.103/

But even a "new" way of understanding regional development strategy, now fully inserted in the framework of national policies, might still err in the direction of partiality (and of economism) unless the other actor - the region socially conceptualized - is also fully incorporated in the strategy proposed. This is the topic discussed in chapter IV, in which the accent was placed on the political and social aspects of the regional development process.

While the strengthening of regional bargaining capacity seems to represent an increasingly acceptable point of view, it must be noted that difficulties of different kinds apparently exist in connexion with the role of the "bourgeoisie" or of regional entrepreneurial groups in the process of converting growth into development. The problems seem to derive from the difficulty of establishing a priori a specifically regional behaviour pattern for such groups: this perhaps has to do with the smallness of the stock of knowledge on the subject, a reflection of the scarcity of empirical research.

The region is not, of course, the only setting in which social participation in planning can be structured. The province, the municipality and even the country itself represent alternative scenarios of greater or lesser viability. But from the standpoint of economic policies (as a concrete and operational element of planning) the region, as an intermediate geographic category, offers advantages.

103/D. Dunham, "Algunas opiniones sobre la investigación en el campo del desarrollo y la planificación regional", in S. Boisier et alii (compilers), op. cit., 1981.
over other territorial units. The same opinion can be expressed with regard to the decentralization of the State administrative system. This fact, as has been mentioned on other occasions, seems to be increasingly acknowledge by the national governments themselves. At least if the situation is to be judged by what is happening in Latin America, attention should be drawn to the importance that the region-participation duo is acquiring in political projects, both official and oppositional.

Clearly, this is neither a gracious concession on the part of the central governments or demagogy on the part of the opposition. Demand for more regional autonomy has become one of the major political problems in the last quarter of the twentieth century. As the new technological transformation of the world (the transformation which the American sociologist Tofler has called, with his well-known journalistic flair, "the third wave") gains more and more ground, restructurizing the system of international relations and threatening to destroy a relatively recent social invention - the Nation-State -, populations are demanding greater local identification, and this inexorably entails greater regional autonomy.

Consideration of regional development as the result of the interaction of resource allocation, economic policies and regional social organizational capacity seeks to become a new paradigm in so far as - to follow Kuhn - it can be connected into a "matrix" of ideas, techniques and ideologies underlying the analysis of regional development. As such, it would represent an eclectic position, mid-way between the predominant "centre-down" paradigm and the attempt to formulate a radically different "bottom-up" paradigm, which is by no means free from a strong flavour of utopianism. In line with this position, very firmly established elements of the predominant paradigm are maintained and apparently viable elements of the alternative are incorporated.

The book as a whole does not offer a prescription for organizing regional planning. A prescription would be a distorted expression of a certain level of specificity imparted to the analysis, a point which was in fact discussed in the first pages of the book. But the analysis does pinpoint the factors which would deserve special attention in any regional planning effort within the framework afforded by the system and by the prevailing development styles; and consequently the different but simultaneous functions of regional planning are identified, as well as the broadest categories of regions. Above all, therefore, the book proposes possible lines of reflection and research on the functions and nature of regional planning.
The first function falling within the competence of regional planning is one of allocation. The interregional distribution of national resources can neither be based solely on the dictates of the logic of expansion of the system, nor be independent thereof. Regional planning, in its capacity as an allocative activity, must establish development priorities in geographical terms, guarantee the programmatic coherence of proposals for change in relation to all regions and establish practical procedures for the interregional channelling of resources.

As was discussed in chapter II, regional planning practice at the national level has been dominated by this same allocative aspect, so that stressing this function has simply meant recognizing an existing fact. This is not to say, however, that the practice in question has been unblemished by methodological vices, errors and weaknesses. Sometimes, in fulfilling its allocative function, regional planning has proposed formulae that are utterly remote from the system's real modus operandi; on other occasions, the allocation function has been conferred only for performance in strict keeping with the mechanics of resource allocation as rigidly laid down by the system and the style; lastly, on yet other occasions, the regional proposal has been technically inconsistent. Much still remains to be done from this point of view.

A second function proper to regional planning, which emerges very clearly from the paradigm proposed, is that of compensation. This function is linked to the depressive effects of macro-economic and sectoral policies on certain regions, and implies, for regional planning, a combination of technical studies and analyses with action of a political type through the medium of the region's political and administrative system. The compensation function seeks to offset the negative impact of economic policy, both through regional discrimination and by securing the adoption of compensatory policies, such as, for example, a more vigorous and better-directed use of fiscal policy.

104/ Not long ago de Mattos prepared a thorough analysis of the main spatial effects deriving from the modus operandi of a capitalist economy, in a paper presented to the First Latin American Seminar on Regional-State Planning (I Seminario Latinoamericano sobre Planejamento Regional-Estadual), organized by CENDEC, UNDP and ILPES in Brasilia, under the title of Condiciones, Restricciones y Posibilidades en la Acción Regional. El caso de la planificación subnacional (Regional Action: conditions, constraints and possibilities. The case of subnational planning).
Other writers have conceived of compensatory planning (at the national level) as a subsidiary activity of State, intended to correct the more pernicious social effects of liberal development styles, and covering, for example, programmes to eradicate extreme poverty, programmes to benefit certain population groups (old people, children, etc.) and so forth. Here, on the contrary, the idea of a compensation function presupposes a type of State action other than subsidiary, directly intervening in more aggregate economic processes and aimed at correcting more generalized rather than punctual situations.

Recognition of the compensatory function of regional planning is based partly on consideration of the region not as a passive organism and still less as a geographical artefact, but, on the contrary, as a "social actor in the planning process" and therefore playing an active part in it. This necessarily leads to some measure of deviation from the predominant "centre-down" paradigm, and to the gradual introduction of elements of the alternative paradigm.

But compensation pure and simple must, in addition, be complemented and supported by a third function of regional planning, that of activation. Activation must be understood to mean the set of procedures (and agents) used to generate a specific societal attitude in the region by which the qualitative transformation of growth into development can be made viable. As was shown in the analysis presented in chapter IV, activation implies giving real expression to certain latent attitudes and values through the creation of structures representative of the various regional social groups and through the performance of given roles or tasks assigned to each. As no economic growth process can be turned into development (which implies a long-term sustainment of change) unless a part is also played by a process of generation, appropriation and local reinvestment of the surplus, it is worthwhile to insist once again on the key role incumbent upon the groups — whether private or public — that control the region's productive activities.

Important as these groups are, they are after all groups which require less activation than others, inasmuch as they respond more efficiently to economic messages. Much of the activation function of regional planning is directed towards incorporating regional groups that are quantitatively significant but qualitatively marginal.

It is in the activation function that the master key is to be found for opening the gates to participative planning, from the regional standpoint. Participation in the planning process by the various groups representative of the region's social forces takes up one of the central elements of the "bottom-up" paradigm, in so far, of course as this participation is more than merely ritual.
What are, finally, the implications of the analysis carried out so far with respect to the designing of regional development strategies?

In the first place, it seems clear that national strategies for regional development can no longer be conceived solely as a framework within which to insert policies for the interregional transfer of resources. A regional development strategy at the national level will have to address itself both to the traditional question of resource allocation and to those aspects that derive from the application of the (national) economic policy programme, as well as those relating to the regions' social and institutional organization.

Consequently, a matter of importance in the designing of a comprehensive regional development strategy at the national level will be the diagnosis of the relative significance, in each region, of each of the three processes discussed. There is no reason whatever to assume that they will carry the same weight or be of similar importance in all regions. In some, the central issue may be resource allocation, in others it may be the depressive effect of economic policies, or the lack of adequate social structures, or a combination of both these factors. The diagnosis in question will make it possible to work out a more exact definition of particular strategies directed towards specific regions.

Secondly, a strategy conceived in the context of the arguments set forth in the course of the present book will be necessarily multidimensional, not only embracing the traditional economic questions but also including alongside them the political and social dimensions. On another plane, this should lead to a reformulation of the content of teaching programmes on regional development and planning, which are unduly slanted towards the purely economic aspects of the problem.

The three determinants of regional development discussed are not, of course, independent, as was clearly indicated at the outset, and consequently it would be of little value - except from the analytical angle - to study them as separate phenomena. The three processes are intertwined by virtue of a sort of positive feedback loop. In the following graph a triangle is used to represent the three basic processes and the arrows indicate the direction of their interaction.

The vertex of the triangle represents the activation function and its corresponding social dimension, and so on in succession. The feedback operates through increased social activation whereby a social basis can be given to the negotiation processes (compensation), which in their turn make for the viability of a change in the regional allocation of resources.
An additional factor which on some occasions may come to be decisive in the economic growth and regional development processes, and which has not been incorporated in the analysis, has to do with the role of transnational corporations. There can, of course, be no question as to the part they play in the international propagation of technical progress, in creating new ways of inserting the developing countries into the international economy and in putting spoliatory mechanisms into practice, all this irrespective of a number of positive contributions made by such firms to the development of the countries concerned (the competition nowadays unleashed, regardless of differences in economic systems, to attract the transnational corporations' investment could hardly be explained otherwise). It is obvious, furthermore, that the transnationals are located, in the last analysis, not in the national space in the abstract, but in concrete regions of the countries in question, and, of course, the presence or installation of a firm of this type in a region may constitute the key element in the explanation of that region's situation; but it seems somewhat out of proportion to postulate - in Latin America at least - spatial transnationalization.\footnote{J. J. Villamil, "Investigación y planificación regional", in S. Boisier, \textit{et alii} (compilers), \textit{op. cit.}, 1981.} Discussion on the role of the transnationals in developing countries has tended to be polarized between detractors and defenders a l'outrance; what
ultimately matters - as Hansen points out - is not so much the phenomenon of the transnational corporation per se, an apparently inevitable fact in the present stage of international industrial development, as how to improve the national governments' capacity for bargaining and control in their dealings with the transnationals and - how - in a narrower perspective - to make use of these corporations on behalf of regional development.

In short, this additional factor is one which on some occasions is decisive at the regional level, but which does not yet play so determining and at the same time so widespread a part in regional development as to be included in a paradigm designed to provide a relatively generic answer to the question of the determinants of regional development. But this, it is worth-while to insist, does not negate its importance in particular cases.

The desire for a better understanding of the reasons for regional development or for the lack of it is not a mere academic concern with knowledge for knowledge' sake (although in any event that would be perfectly legitimate) nor can it be construed as a matter of interest only to the little world of specialists in this field.

Regional development, the factors which unleash and the factors which curb it is a subject of vital interest to the inhabitant of a provincial town, to the politician, to the city-dweller, to the peasant, to the operative and, above all, to whomsoever has to shoulder the task of defining policies for State action. For, of all the factors discussed, the State is the one primarily responsible for the presence or absence of regional development, whether the economies in question are capitalist or not, and whatever the development style adopted.

Unless national societies prove capable of more effectively shaping the manifestation of growth and development in geographical space, the creation of democratic societies in the broadest sense of the term - political, social and economic - will continue to be an unattainable ideal, although such a pronouncement may seem - even within planning circles - a professional divagation or a sign of lack of realism. We must go on clinging to the famous graffito of 1968: "Let us be realistic, let us ask for the impossible".
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In January 1974 the Committee of the Whole of the Economic Commission for Latin America, taking into account the valuable contribution that the work of ILPES had signified for the region, decided that it should be placed on the footing of a permanent institution, with its own identity within the CEPAL system.

THESE CUADERNOS

Under the common name of Cuadernos, in 1967 the Latin American Institute for Economic and Social Planning launched the first of a series of publications, which harbour, as a whole, one and the same purpose: that of transmitting to a wider public information on some of the Institute's work in the fields of research and teaching which is bound to undergo continual modification, whether because of new directions in which science is pointing or because of the emergence of problems formerly unknown. The aim is to present this information in the Cuadernos in such a way that it is, as it were, an invitation to a dialogue that can really constitute a basis for authentic intellectual co-operation. The best way of attaining these goals is to make some of the Institute's tasks communicable in their formative stages. Accordingly, these are studies or fragments of studies that advance no claim to full maturity of style or content and therefore must in due course be modified, as far as possible in accordance—and that would be the ideal to which the Cuadernos aspire—with the scientific consensus emerging from dialogue and discussion. This has happened on several occasions, and has resulted in the issue of publications of greater importance which form the series known as ILPES Texts.

Consequently, these Cuadernos are presented to the public in full critical awareness of all their limitations, since it is precisely in this awareness that the Institute sees the most effective stimulus to the work that lies ahead.