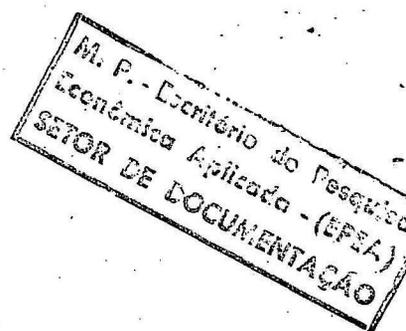


TOWARDS A REGIONAL POLICY FOR BRAZIL

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It will be my contention that a "regional" policy for Brazil should really be a "national" policy in the sense that the aim of economic policy should be to divide economic activity within Brazil so as to maximize certain overall national objectives. Let us see why this is not an empty statement.

Past Regional Policies

In the past the Brazilian economy has usually been examined as consisting of the dynamic Center-South, the well-off but less dynamic South, the empty Western frontier region, the empty Amazon, and the problematic Northeast. However, the real policy issues when talking about regional problems have usually revolved around the Northeast's relation with the Center-South. Its basic problems have been pictured as due to the periodic droughts, its antiquated agricultural structure which is closely linked to its generally antiquated socio-economic system, the drain of its best manpower and of its capital to the Center-South, and due to the industrialization policies of the past which have by-passed the Northeast and have been positively harmful because the terms of trade turned against this region which now had to get a good deal of its previously imported manufactured goods from the high-cost Center-South. Similar analyses exist for other non-South-Center regions.

Regional policy before the advent of SUDENE consisted of

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a haphazard combination of laws and emergency measures to redistribute income regionally, i.e. from the dynamic Center-South to the Northeast, Amazonia, etc. There exist the constitutional provisions for automatically transferring a certain proportion of federal tax revenue to certain less favored regions, the occasional drought emergency measures for the Northeast, etc. The new concept which was introduced by SUDENE was that federal money should be spent in the Northeast in a coordinated way, so as to change the structure of the economy of that region. The basic idea was to create a more balanced agricultural structure by increasing productivity of traditional crops in order to put more land into the cultivation of crops formerly imported from other parts of the country, create an industrial base through government infrastructure expenditures, provide credit for new industrial enterprises and attract such enterprises from other regions through the tax incentives of articles 18 and 34.

It is clear that this policy was not a "national regional" policy because its aim was to maximize activities in the Northeast in a fairly autarkic way. Its basic philosophy was to create an import substitution policy on a regional basis, using subsidies, tax privileges, and government expenditures instead of tariffs as the policy instruments. This is not to say that many of the policies followed were wrong and should not be continued, but rather that they did not take into account the possibility of a regional division of labor within Brazil, which would make it possible to use resources in each region to the best possible advantage to itself and to the country as a whole.

Basic Issues

We hope in the paragraphs below to outline a series of policy measures which would lead to a genuine national integration of the various Brazilian "regions" into the national economy. However, prior to coming up with concrete

suggestions, I would like to make another small detour by outlining what seem to be the basic goals and issues upon which policy of a national regional integration should be based. Some of the goals and issues will subsequently be useful to the policy maker in presenting his program to the public and in marshalling support for such a program.

One obvious and traditional goal for a "regional" policy in Brazil has been the redistribution of national income on a regional basis for equity purposes. Implied in the past when such policies were pursued was that this was a politically necessary but economically inefficient action. The time has arrived, however, when it can be argued on good economic grounds that such redistributive measures are necessary. The nature of Brazil's industrialization in the Center-South has been relatively capital intensive. This implies a concentration of the country's income distribution. This tendency in conjunction with a growing productive capacity could lead to a crisis of underconsumption unless a redistribution of income, among income groups and also regionally, will substantially increase effective demand.

Besides the demand argument, i.e. the creation of a national market, it can also be claimed that the external economies obtained by the concentration of economic activities in the Center-South will soon be outweighed by increasing external diseconomies. I have in mind the increasing difficulties which the congested centers of Rio and São Paulo are presenting and the substantial infrastructure investment which will have to be made should this concentration of activity continue at an undiminished rate. Given certain basic overhead facilities in other areas (which might cost less than the ones needed for the already congested areas) many industries might welcome the opportunity to build their expanded facilities in other areas.

Another important consideration is that Brazil is an area of continental proportions and since it is one single country,

it, in effect, has the possibilities of a genuine integrated national market. A national regional policy should thus strive to achieve a division of labor among regions based on the comparative advantage of each. Of course, besides efficiency, such a division of labor between regions should also take into account a "fair" distribution of income between regions, i.e. the share on the division of labor being based partially on the population weight of each region.

Last, but not least, one should emphasize the importance to Brazil of a geographical frontier. It is easy to argue that attention should be paid principally to the regions where at present the bulk of the population lives. However, it can be argued that the new regions present possibilities for the absorption of the population which at present is migrating to the cities where it can find little work (it is well-known that in the present industrial centers of Brazil the rate of labor absorption is only about 2.6% a year, while the rate of growth of urban population is 5.4%). There are also greater possibilities of new types of land settlements and organization since there are no traditional vested interests to block them. Most important of all is the non-economic argument that a frontier project can capture the imagination of a people, not only of the people within that region, but of the country at large. One should not underestimate the spirit which a few large frontier projects can give to a nation and call forth great efforts by all sectors.

Interregional Communications

Greater effort should be made to modernize the communication systems not only within the various regions, but among them. No division of labor among regions can be effective without adequate road and/or railroad communications. A firm which will be willing to expand by splitting up the stages of production among various regions can do so only if a reliable transportation system exists. It goes without saying

that regional division of labor has to be accompanied by a drastic modernization of interregional telecommunications and also an effective banking system (consisting principally of an effective system of branch banking). The former should be accomplished by government investment expenditures and the latter could be achieved by cooperation between the central bank and the private banking system (with possible changes in laws).

It is obvious that greater efforts at modernizing the communications system will involve substantial investment expenditures in a field which is relatively labor intensive. The labor absorption capacity of such a program lasting for over a decade should be substantial.

Initial Division of Regional Functions: A First Estimate

When speaking about interregional division of labor, I am always aware that each region has to have certain agricultural and manufacturing production for which it should not rely on far-off supplies. For example, milk production, fresh vegetables, etc. One should also be careful in developing regional policies with a national strategy that no region will feel that its "specialty" is inferior to others. A great deal of propaganda will be necessary for a region which will be encouraged to industrialize its agriculture instead of building a steel plant, pointing out that no specialization is inferior to another as long as it brings growth and rising living standards to the country. This is an extremely important political question which will have to be dealt with.

Present conditions suggest the following specialization among regions:

Due to present existing facilities and also due to natural resources, heavy industry should mainly stay within the São-Paulo-Rio-Belo Horizonte-Vitoria region. By this is meant steel, heavy machinery and possibly many types of durable consumer goods.

The possibility should be examined in future expansion to locate assembly plants in the Northeast for goods presently produced in the Center-South for that region, i.e. the main components being produced in the Center-South, while the production of other components and assembly would take place in the Northeast (this is what is happening, for example, with the Willys assembly plant in Jaboatao, outside of Recife). The same holds for the other principal regions of Brazil. Within the Center-South itself the possibility should be studied to decongestion places like São Paulo. With improved transportation and other improved means of communications there should be less need for the present extreme concentration. The possibility should be explored to guide expansion of industrial activities around certain existing nuclei. For example Volta Redonda, or the valley where the Monlevade-Acesita-Usiminas steel mills are located. The latter are also close to Belo Horizonte and the dynamic city of Governor Valadares. These centers would furnish excellent sub-regions for industrial expansion.

The South seems to have an advantage in continuing as a progressive agricultural region. Not only meat and wheat and rice production would seem to be the basis of its best future growth, but also its specialties, like wine production, special wood products, etc. Industry in the South would probably consist of the assembly of products for local consumption and the industrialization of its agricultural output (e.g. canning, bottling, etc.) Incidentally, the latter would also be useful in absorbing part of the labor force which is not productively employed in the minifundio system in parts of the Southernmost states.

It is obvious that the Northeast's agriculture needs the changes which have often been suggested in the past. Substantial efforts to increase the productivity of cotton and sugar lands will make it possible to produce many products for local consumption which are presently imported from other regions.

However, the Northeast should also think of industrializing certain food products for shipments to other regions and abroad. One should also consider that the food industry is relatively labor intensive and thus fits well into the many labor surplus areas of the Northeast. The canning of fruits, fish products, etc. are obvious possibilities. Also to be considered is the location of new textile capacity in that region in order to supply the rest of the country. Maximum use should also be made of natural resources based industries - e.g. in the Salvador area industries based on the products of Petrobras, or in Southern Bahia one would consider the industrialization of products derivate from the local cocoa and rubber plantations.

Tourism has never been fully exploited by the Northeast. This is a labor intensive industry and thus ideally suited for the region. An addition could be made to the present articles 18 and 34, making it possible for Brazilian citizens from outside the region to use, say, 20% of their income tax if these are spent on tourism in the Northeast; or, to generalize such a law, any Brazilian touring within Brazil can use such a provision if the tourism occurs, for example, within 700 kms. from his residence.

For the frontier region, I see presently the greatest possibilities in land using activities, especially cattle raising and related activities. In a previous report I commented on the possibilities of paving the Brasilia-Belem and the Acre highways and to build along those roads a series of agrovilles which would specialize in slaughtering, meat-packing, leather goods, and other ancillary activities. Thus, the agriculture in the frontier would be land intensive, while the new cities would be engaged in labor absorptive production, such as leather goods, meat packing, etc. Should such a policy be followed, every effort should be made to deflect a large proportion of the population currently drifting to the

established urban centers to these new agrovilles.

The immediate possibilities for Amazonas seem to be based on export industries, such as sisal, peppers, wood products, manganese, etc. Belem also seems the ideal port for exporting meat products being shipped from Goias along the new highway. The basic products mentioned above could also be industrialized more within the region prior to exports. Tourism also seems to be a great immediate possibility.

The above are only general suggestions rather definite recommendations of what the specialization of each region should look like. It should be noted that specialization includes also a division of labor for exports. Each region can also make its contribution to the country's foreign exchange earning capacity and policies for encouraging exports should be all pervasive - the Center-South exporting manufactures and coffee, the South wines and leather products, the Northeast agricultural products and sea products, the frontier region meat products. Amazonas exporting sisal, peppers, manganese, etc.

Planning for Regional Specialization

The exact decision on specialization can only be reached gradually. The ideal situation would be a general long-term plan, which should be periodically amended as more is known on the real endowments of each region and also on the changing factor availability and productivity.

I would suggest that the federal planning ministry and regional and/or state planning groups institutionalize their cooperation. Periodic meetings should be held by the federal planning ministry with regional representatives, first to develop a national plan for regions (or to regionalize a general development plan) and then to gradually implement it and/or amend it in the light of changing conditions. The regional and state planning organs should be made to consult with different economic groups in their area in order to

understand their problems and even to entertain suggestions for new projects and government actions. This information should filter up to the federal planning ministry which would, in turn, adjust its plans and policies. It is important to publicize widely the general development strategy the government intends to follow in each region in order to give the private sector some guidelines for their optimal investment strategies and also in order to marshal the enthusiasm of the federal and regional government bureaucracies.

A greater attempt should be made to have regional organs collect statistical information on production, employment, regional income, etc. on a sample basis. Little is presently done by regional and state agencies, which generally wait for data to arrive from Rio. Also, it should not be too difficult to collect information in order to draw up regional balance of payments estimates. If the federal planning ministry could obtain the information collected by the postes de fiscalização on the highways, by the railroads and by ports about the type of products shipped, with origin and destination, and if data from the banking system and from government expenditures can be obtained, in order to estimate interregional capital movement, an important additional information would be at the disposal of the government to conduct intelligent regional policies.

Policy Instruments

There exists a long list of traditional policy instruments which could be used to attain some of the above discussed objectives. There exist the various tax gimmicks designed to favor certain regions. There are the government expenditure policies, where allocation of investment funds have definite influences on regional income distribution. Finally, the monetary policies of the central bank, the credit policies of the Banco do Brasil, and the investment lending decisions of the BNDE have a definite bearing on regional activities.

Important new policy instruments should be sought after

which are more structural in nature. An important part of the regional disequilibria in Brazil is due to the manpower drain from the less dynamic to the more dynamic regions. This drain can only be reversed through the market mechanism. Not only should government officials in an area like the Northeast receive the same salaries as in the Center-South, but I would pay them considerably more, i.e. give them an incentive pay to stay in the region. For example, Israel pays its engineers and agronomists often more than twice the average national salary if they work in the Negev desert region. The same should be the case for teachers at various levels. For private industry, tax privileges for individuals should be given in order to induce them to find jobs in the region desired (i.e. engineers, doctors, etc.)

A politically and socially useful program would be the formation of a Brazilian peace corps to help the more backward areas. The option could be given to young men who have finished their university training to either spend one whole year in the army or to spend that year in a backward region to teach, practice medicine, etc. Not only would a great social need be served, but the pioneering and idealist spirit this would bring to the younger generation would be substantial.

Conclusion

Regional policy should be a policy of integrating the major regions of Brazil into the national economy. The goal should be to structure the individual regions' economies so as to complement each other. A crash program in transportation and telecommunications is a sine qua non for such policy. The federal planning ministry in cooperation with local planning agencies should draw up general development plans for each region having in mind the comparative advantage of each region and its population weight. Any plan should be flexible and frequently revised in the light of changing

conditions. Any plan should be carefully presented to the public in order to give the feeling to each region that the program designed for it will not leave it behind the rest of the economy and that its efforts are part of a federal effort at maximizing economic growth, while the benefits of this growth will be distributed in an equitable manner. The challenge of the Brazilian frontier should be made full use of. Imaginative projects in that region can have favorable psychological repercussions in the whole nation and can also absorb the population emigrating from the older rural areas. Trained human resources should be lured to the manpower deficit regions by salaries which include incentive payments and by appeals to the idealism of youth, the latter to be complemented possibly by the threat of military service.

The above remarks should be taken as a modest contribution to people about to formulate more concrete policies and not as a definite proposal to be immediately adopted.

Post-Scriptum for Planning Organs

The group specifically concerned with regional planning should be in constant touch with other sections of the planning ministry, since all sectoral planners (for industry, agriculture, foreign trade, etc.) must take the regional allocation of their programs into account. An iterative process should take place, where the regional section should draw on the information of the various other sectors, while at the same time presenting information on regional endowments to these sectoral planners which can take these side conditions into account in making their planning studies and proposals.

On a formal level, the regional people should obtain as much information on endowments of the regions (location of population centers, power availability, raw materials, etc.). Then information on potential domestic and foreign demand should be gathered through income elasticity studies and projections based on these. Then an attempt should be made

to optimize the allocation of the expected increased production among the various regions. Possibly transport policies should follow the results obtained. However, here we might again have the chicken and egg problem, since a changed transport picture also changes the regional resource endowments.

I would also recommend studies on economies of scale for various types of industries in order to see what point additional production in various industries can be more profitable when occurring in a different plant location.

No perfect regional plan can ever be elaborated. Any plan should be periodically amended with the changing reality. And this can only be done by institutionalizing a relationship between federal and regional planning groups whose purpose it would be to constantly adjust plans and policies to changing factor endowments.