

# Chapter 2

## Facing the Need for Regional Policies in Latin America

Juan R. Cuadrado-Roura and Patricio Aroca

### 2.1 Introduction

From the perspective of results in terms of growth as a whole, Latin America and particularly some countries of the continent are experiencing an economic stage that could be described as fairly pleasant. There are, of course, differences among countries, but several of them have reported GDP growth rates of over 4 % in real terms since 2000. The impact of the international economic-financial crisis had its worst manifestation in 2009, when Brazil, Chile, Venezuela and especially Mexico reported real negative rates in the variation in their GDP. However, in 2010, all of them returned to very positive rates of expansion (7.44 % in Brazil; 5.2 % in Chile; 5.39 % in Mexico; 4.13 % in Bolivia and over 8 % in Peru and Uruguay). This put the average real growth in the region for 2010 at around 4.1 %, which was estimated to have increased two more decimals in 2011 and would only decrease to slightly below 4 % in 2012.<sup>1</sup> As some reliable reports have suggested, Latin America and the Caribbean (LAC) confirmed its economic power in 2012 because the region was capable of resisting international economic instabilities and maintains expectations of growth of 3.5–4 % for the next 2 years.<sup>2</sup>

---

<sup>1</sup> Data extracted from World Bank reports, *Anuario Estadístico de América Latina y Caribe 2012*, and statistics and forecasts through 2012 published by ECLAC (CEPAL). When this text was written, reliable data on 2012 results were not available.

<sup>2</sup> See *Perspectivas económicas de América Latina 2012* (OECD-CEPAL 2011) and the more recent report by the International Monetary Fund.

J.R. Cuadrado-Roura (✉)

Department of Applied Economics, University of Alcalá, Madrid, Spain

e-mail: [jr.cuadrado@uah.es](mailto:jr.cuadrado@uah.es)

P. Aroca

University Adolfo Ibañez, Viña del Mar, Chile

e-mail: [parocanet@gmail.com](mailto:parocanet@gmail.com)

One of the factors that explain these results has undoubtedly been the exporting sector, in which the two most important clients – the United States and Europe – were recently joined by a third that has become a source of stimulus: China, the recipient of many of the exports of mining products without any prior processing. However, one must keep in mind that the national accounting data also reflect a notable and nearly constant increase in internal consumption, domestic investments, and flows of entries of external investments, though this latter is more limited than it was in the past. In several countries on the continent all of this has been accompanied by the application of macroeconomic policies designed to maintain stability. In fact, the policies applied during the years of strong growth (2003–2008) frequently allowed the margin for other social policies to be generated and broadened. For example, some Latin American nations used monetary policy and particularly fiscal policy (OECD-CEPAL 2011) in a counter-cyclical manner during the worse period of the international financial crisis of 2008–2009, which helped them to avoid a deep recession and soften the negative effects of the crisis on the most vulnerable sectors of society.

The data provided and consolidation of adequate macroeconomic policies should not hide the fact that some countries present behavior and results that are far from the average for the region. This is the case in several Central American nations, for example. Furthermore, there continue to be risks for the future derived from the strong dependence on some exports to the evolution of China and other emerging nations, the low levels of productivity in some economic sectors and inflationist movements that gain steam from the increase in the prices of primary materials and energy and from social spending policies.

It would not make sense to continue to expand upon the issues mentioned above in this text, though they undoubtedly merit more extensive comments and some fine-tuning. There are, however, three problems or questions that merit special attention, one of which will be taken as the foundation for the thesis that is set forth in this chapter.

The positive data in terms of growth, exports and social improvements do not impede the existence of significant problems now and looking to the future. The need to maintain the stability of macroeconomic balances may be the first of them, as the goal of closing gaps in infrastructure, education and innovation is maintained, which would allow most Latin American economies to continue to grow more and better in the long term. But there are two others that are directly related to income distribution and the well being of the citizens who also are and should be a cause for concern. The first is the unequal distribution of income at the individual or household scale given that the differences that exist in this area in Latin America and Caribe (LAC) are well-known. Some countries in the region are even among those that have the greatest level of inequality in the world. The second, different but strongly related to the first, is the significant economic disparities that exist in Latin America from the territorial perspective, that is, among the states, provinces or regions of each country. This is not something new, as it is a problem that began decades ago and has barely improved over the past few years. In some cases, it has been exacerbated as a result of clear processes of concentration of production in

metropolitan areas or specific sectors of the country, as several chapters in this book demonstrate. In Argentina, the highest per capita GDP in 2010 (Santa Cruz province) was 7.85 times that of the poorest province in the country (Formosa).<sup>3</sup> In Brazil, the per capita GDP of the Federal District is 7.35 times higher than that of the state of Alagoas. In Mexico, the richest state's per capita GDP is 9.3 times that of the poorest state (Campeche and Guerrero, respectively). In Peru, that figure is 7.8 and in Colombia it is four. The differences are just as high or higher in other LAC countries.

These strong interregional economic disparities in terms of production per inhabitant also frame very important differences connected to the productive structures of states, provinces or regions and very limited or null perspectives for improvement for the most delayed territories if one does not measure the implementation of specific regional development programs to promote their transformation. This also should affect regions that are temporarily in a phase of high growth rates and the expansion of employment based on the exportation of natural resources, because the continuity of that activity may be limited due to changes in international markets or the economies of the countries that are their main clients.

This chapter starts from the need to promote new regional development policies, capitalizing on the positive economic situation that many countries in the region enjoy. In the case of LAC, implementing regional policies is not a whim or an 'accessory' policy. The realities that the content of several chapters of this book reflect lead us to state that the territorial issue and the development of the most delayed regions should occupy a very high-profile position on government agendas. The reflections presented in the pages that follow are designed to justify the need for such policies and underscore some of the characteristics that should accompany those that are implemented as well as those that are ongoing, of which there are undoubtedly few at this point in time.

## **2.2 Regional Policy in Latin America: Preliminary Observations**

### ***2.2.1 A Brief Description of the Recent Historical Context***

The recent economic history of Latin America (LA) has been marked by a set of policies generated in order to address the varied problems that have emerged not only as individual countries but as a set of nations that shares histories, from their Independence processes to their languages, culture, some characteristics of their productive systems, and certain policy proposals and economic strategies.

---

<sup>3</sup> It is important to keep in mind that Santa Cruz is responsible for exceptional energy production that increases the average per capita production.

The 1950s and 1960s were marked by an economic policy proposal built by the group of LA countries and formalized by the Economic Commission for Latin America (ECLAC) in which the development of a continent that was closed off to commerce with developed countries was proposed. There was active promotion of import substitution for domestic products and the specialization of the countries in different manufactured goods.

The main justification for this approach lay in the fact that evolution in terms of exchanges mainly benefited developed nations, which exported manufactured goods, unlike LA nations, which exported basic agricultural, mineral and energy products. At the same time, the model proposed defended the need for the government to play a very active role in the production of goods and services in both the manufacturing and agricultural sectors. In the latter case, agrarian reforms were implemented based on the fact that a significant portion of the land was purchased with speculative intentions.

This set of changes with a strong emphasis on the role to be played by the government was complemented by political reforms dominated by a liberal governing class that sought greater equality and affected the economic interests of large multinational corporations that had investments in those countries and local wealthy groups. This led to a significant decrease in both local and foreign investment and governments used inorganic emission to finance the growing demand of its operations. This led to growing inflation in numerous countries on the continent towards the end of the 1960s and throughout most of the 1970s.

The 1960s saw serious attempts to implement regional policies, as several chapters in this book point out, rampant inflation and the stalling of production generated characteristics that were described as ‘stagflation.’<sup>4</sup> The solution to this was the focus of most of the economic policies of the following decade, and the approach taken was the application of stabilization programs.

The stabilization plans applied in Latin America in order to manage the imbalances were accompanied by military dictatorships and characterized by a strong contraction of government demand in order to decrease budgetary deficits and try to reduce the continuous increase in the level of prices that was seen in most Latin American nations.

The majority of these adjustment programs enjoyed the support and conditioning of the International Monetary Fund (IMF), whose set of recommended measures for countries, which they were required to implement in order to have loans approved by that agency, had positive consequences for control of inflation but not economic growth with one exception. However, at the same time the reduction of the size of the government through privatizations and particularly through spending reductions oriented towards the poorest sectors of society caused a significant increase in

---

<sup>4</sup>The content of this expression – stagflation – was also applied to several European nations, neither the causes, the levels that inflation reached, nor the limited growth and scant job creation are comparable to the situation of various Latin American nations, as in the cases of Peru, Ecuador, and Brazil.

inequalities of income at the individual level. A second and equally or more important element was the increase in territorial inequalities within each country, as many studies have shown for years and as is very clearly reflected in several chapters of this book. Existing interregional differences were not decreased and in many cases, they worsened or remained unchanged.

Despite the fact that these territorial inequalities are recognized in the political discourses of various governing coalitions, the economic policies that were given priority after the stabilization are those that promote growth and, with much less importance, those focused on reducing poverty. In fact the poverty levels increased dramatically during the adjustment period that took place throughout nearly the whole of the 1980s and that have allowed it to be described as “the lost decade of Latin America.”

The following decade – the 1990s – began to show signs of economic and social recovery in the region. The military dictatorships gave way to returns to democracy and, as part of this process, decentralization policies were implemented in order to ensure the transition towards a full republican government. However, though these policies were the subject of proposals and were implemented in some countries, as Burki et al. (1999) note, progress in that direction was only made in a few cases. Otherwise, there is no clear link between the limited decentralization efforts and the reduction in territorial economic inequalities.

### ***2.2.2 The Intellectual Contribution***

There is a long history of intellectual contributions to understanding the effect of location, interaction and spatial heterogeneity in economies and the generation of territorial inequalities. However, it was likely Nobel Prize-winning economist Paul Krugman who helped focus the consideration of space in the center of the discussion or at least in the mainstream of traditional economics in the 1990s. This gave way to a new area of Economics as a science that took shape and continued to grow stronger based on then-new contributions known as the “New Economic Geography” (NEG). One of the main conclusions that this analytical current proposed starting from a look inside of the countries was that concentration or increased density promotes growth (Fujita et al. 1999). This complements and supports one of the main recommendations of economic policy that were present in the 1990s through the early twenty-first century: grow and then distribute.

This idea, which has existed for some time in traditional regional economics (Capello 2007), was presented in a much more formalized context and thus adapted more and in a better fashion to the current mode of doing economics, with microeconomic foundations and a piece that had been absent of a greater puzzle that sustained the design of regional policies (Baldwin et al. 2003). At those time, mainly following these approaches, the majority of Latin American nations not only smiled upon processes that favored concentration but also promoted them,

generating a significant increase in the already concentrated distribution of economic activity and population in space.

The extension of a theoretical body of NEG has begun only recently in which, motivated by the fact that some countries present behaviors similar to those suggested many years ago by Williamson (1965), more attention has been paid to the thesis that the excesses of concentration negatively affect growth. In fact, various contributions show that under certain conditions, excessive concentration around a region of a country may negatively affect the entire growth process (see Cerina and Mureddu 2010) and may produce new increases in socio-economic disparities among the regions within countries.

### 2.2.3 *The Interest of International Organizations*

The territorial inequality that exists in Latin America undoubtedly has deep roots. It began to show signs of reaching concerning levels some time ago, levels that could affect economic efficiency as well as the stability of the region. The emergence of the Zapatista movement in Chiapas, in southern Mexico, to the north, and more recent protests in Punta Arenas, Chile, on the southern end of the continent, were based mainly on the resentments produced by territorial inequalities, as Armstrong and Taylor (2003) have observed. It is likely that this has moved international organizations to increasingly pay attention to the growth of territorial inequalities.

In its flagship report from 2009, *Reshaping Economic Geography*, the World Bank began the study of the countries in the world with an intra-country gaze. This work, which was strongly influenced by the ideas of NEG, proposes adopting policies that generate concentration or increase density in order to continue to grow. The companion book for Latin America and the Caribbean that was published by the same entity extends and expands this idea for Latin American nations (World Bank, 2009).

Also in 2009, ECLAC (CEPAL) published the book *Economía y Territorio en América Latina y el Caribe: Desigualdades y Políticas* in which regions within countries on the continent are classified as winners and losers. However, the analysis is again focused on growth of the GDP and ignores how it is distributed in the territory and how that affects the wellbeing of different areas of countries, which present fairly strong internal disassociations. This is particularly true for regions or areas that focus on the exploitation of natural resources, an activity that is highly intensive in use of capital and strongly oriented towards exports. The noteworthy aspect of the ECLAC analysis is how aligned it is with the position adopted by the World Bank given that the two institutions have traditionally promoted clearly contradictory visions of development in Latin America.

That same year, the OECD published volume focused on the study of Chile and its regions (OECD 2009a) following the formal invitation extended to that nation to become a member state of the organization. The OECD's perspective is different than the one described above for the World Bank and ECLAC. The main conclusion

of the OECD report is that Chile needs to make better use of its regional assets and reduce concentration around the Santiago metro area given that this would allow the country to achieve greater economic growth and a reduction in territorial inequalities. Other OECD publications (2009b, 2010) have more generally presented this same idea, though with a fairly formal and even more ascetic approach.

In 2010, the Corporation for Andean Economic Development (Corporación Andina de Fomento, CAF) focused its annual report on economics and development on the topic (CAF 2010). The publication was entitled: *Desarrollo Local: hacia un nuevo protagonismo de las ciudades y regiones* (Local Development. Towards a new protagonism of cities and regions). In it, the CAF argues that there are territorial and city-region cases that have been very successful with their goal of promoting the productivity of their firms and industries and improving inhabitants' quality of life. The report shows and concludes that regional policy and regional development are key for explaining the cases of successful cities and regions of its member states that were considered for the study. As was the case with the OECD report (2009a), the influence of NEG on the CAF study is minor and, as is noted in the text, the goal is to “contribuir al entendimiento de los patrones de desarrollo local y regional, así como a identificar opciones de políticas públicas que con una fuerte participación de los gobiernos e instituciones sub-nacionales, tanto en el diseño como en la ejecución, permitan compatibilizar el crecimiento económico con un desarrollo balanceado de los territorios al interior de las economías” (*to contribute to the understanding of the patterns of local and regional development and identify public policy options that with strong participation by sub-national governments and institutions in their design and execution, allow economic growth to be made compatible with balanced development of the territories within the economies*).

### 2.2.4 The Challenges for Politicians and Regional Policy

It would seem that LA is once again facing the dilemma of choosing between promoting more market and promoting more government in policy, particularly in the case of regional policy. Increasing importance is being given to the fact that inequalities are beginning to generate strong movements that are opposed to continuing with the concentration of power and wealth in certain territories within each nation or certain groups within the population.

Over the past few years, we have moved from the privatizing current of the 1980s and 1990s to nationalization processes, which have been implemented in several nations. Also, there are a growing number of localized movements on the periphery of the countries that are fighting to achieve more and greater opportunities for their inhabitants. In this context, there is no doubt that regional policy has an important role to develop and that the current circumstances also constitute a great opportunity because several countries are experiencing a clear

overall economic improvement of their economies. Whether said policies are designed, implemented and successful in their results depends a great deal of the related assessments. Understanding the processes of concentration and the creation of greater opportunities on the margins of the territories is thus a key aspect, as is discovering the right institutions for the culture and levels of development of the different areas of LA. All of this constitutes a fundamental task that will allow policymakers to be provided with the tools they need to design the new regional development policies that Latin America currently needs. The issue clearly merits more careful study, which is what we propose to do in the following sections.

### 2.3 On the Advisability of and Justification for Implementing Regional Policies

The need for Latin American nations to implement ‘regional policies’ finds clear support in everything that has been presented in the introduction and preceding section. It is very especially clear when one considers the persistence of territorial disparities over the past few decades and in the majority of the region’s nations.

As we have already indicated, and as some of the texts included in this book have underscored, the implementation of this kind of policy has a notable history in the region, mainly through the 1980s. Currently, however, the agendas of Latin American governments rarely include policies of this kind despite the fact that they have recognized the need for them formally and in many government programs. Over the past 10 years, administrative decentralization programs and territorial development policies have been approved, but many of them continue to be stuck in a very primary phase or are under review.

The processes of economic concentration and strong interregional disparities that exist in Latin America are clearly manifest in many chapters of this book. The authors highlight the need to design and implement regional development policies and do so *precisely now*, when the evolution of the economies is very positive in terms of economic growth. South Korea may represent an interesting reference in this regard. Its officials understood a little over a decade ago that the strong growth that the economy was experiencing could not continue to be concentrated in and around the capitol and that there was a need to take advantage of the economic abundance to achieve more territorially balanced development (Sang-Chuel Choe 2012). In fact, from the beginning of this century, South Korea has re-centered the focus of its problems on *local and territorial development* rather than on national problems, on *quality of life* rather the economic problems, and on *local and regional government* rather than problems of administrative centralization.

When this type of approach is shared, the objective that we present here is to try to clarify what we are talking about when we talk about regional policies, the motivations that justify it and the types of fronts or lines of action that seem to be most important based on the international experience that has been accumulated.



The ideas and suggestions presented below require more space than we can provide for them here.<sup>5</sup> However, we must present them – albeit in a summary format – during such a crucial phase in Latin America’s history in which issues of politico-administrative decentralization and the need to correct disparities between states, provinces and/or regions is the focus of demands that merit a clear response.

### **2.3.1 Regional Policy, Social Equality Policies or Regional Development Policies?**

The role of the market in the economies and the one that officials should play when it comes time to correcting the market’s ‘faults’ has been one of the liveliest topics of debate that has taken place among economists and, of course, at the political level. The *critical* literature on the effective functioning of the markets is fairly extensive. In many studies, the list of problems that the market fails to address or does not resolve properly<sup>6</sup> has allowed authors to defend *the need* for officials to intervene in order to resolve these problems or at least to alleviate their consequences. However, there is another set of studies whose critiques of the market have evolved towards much more radical positions. They demonstrate that the capitalist system based on the free market does not function adequately and fails to address real needs and social objectives. The conclusion to which the latter approach leads one is the need to ‘substitute’ the system, albeit radically, through the annulment of private property and creation of a system of planning and centralized decisions or a combination of central planning and market. By contrast, the option initially presented leads to a mixed system of market economy<sup>7</sup> in which government interventions is legitimated though in a level that is comparatively uneven by country and according to their respective constitutions.

If we situate ourselves in the context of mixed economies, which is what we find in nearly every Latin American economy currently and, of course, the system in place in the majority of the most developed nations, the issue of *disparities of income and wellbeing among the various regions in a country*<sup>8</sup> is introduced or forms part of the concern over the improvement in *income distribution* among

---

<sup>5</sup> See for ex.: Cuadrado-Roura, 2010, 2012.

<sup>6</sup> These ‘lacks’ include at least the following: the existence of non-competitive markets; the failure to consider external effects; the deficient or non-existent assessment of public goods; the existence of increasing production of scale; the lack of consideration for income distribution; the failure to resolve imbalances and growth of the economy; the existence of preferential and undesired needs; the lack of solidarity that the market promotes in social conduct; the flawed allocation in relation to the ‘moral risk’; and the ineffectiveness of the market when urgent problems develop.

<sup>7</sup> This is also sometimes called the ‘social market economy.’

<sup>8</sup> Or of a set of countries if one is considering nations linked to an economic integration process, like the European Union, or connected through an agreement that is more limited to the commercial realm, as MERCOSUR essentially continues to be, or like NAFTA.

citizens, an aspect that market mechanisms clearly do not address. However, it is important to note that one must not confuse inequality in terms of personal income (inequality in the *level of wellbeing* or in regard to the level of *per capita income*) with inequalities in the *spatial distribution of production* and the population, though both types of inequality are or can be linked.

In theory, one would have to present the possibility that the social inequalities that a country suffers in terms of per capita income would be reproduced equally in all of its regions, states or provinces. This would mean that, in practice, disparities between regions, provinces or states would not exist and that the objective of economic policy to be considered in this area could consist only of ensuring that socio-economic inequalities among individuals would be progressively reduced (Polèse and Shearmur 2005; Polèse and Rubiera 2009).

However, this type of situation is unthinkable in reality because in all nations both types of inequality or disparity exist simultaneously and require different treatments. In effect, though they are related, these are actually two different issues. On the one hand, there is a problem of personal distribution of income and, on the other, disparities in the levels of development that can exist among provinces, states or regions within a country. The latter also have to do with the former, mainly in terms of average levels, but personal inequalities in income can and tend to occur in more dynamic and developed regions as well as more delayed ones. In fact, the struggle against regional disparities does not in and of itself ensure the achievement of greater social equality.

As simple as it seems, the above reasoning allows one to reach a clarifying conclusion: introducing income redistribution policies through the tax system and spending and subsidy or government aid policies is not the same as implementing territorial or regional rebalancing policies or vice versa, though they may influence each other. In some Latin American countries, regional policies as such are not being implemented at this time, but the governments are introducing social and income and quality of life policies for the poorest citizens through subsidies, aid and personal transfers like those are included in anti-poverty programs. However, confusing these types of policies would be and clearly is an error, particularly when we introduce the concept of *regional development policies*.

The question that must be asked is thus, what do we call regional policies and/or regional development policies?

The answer is simple, at least on the surface. Both are policies that take as their point of reference *the territory* and, as such, the whole of the population that utilizes it, the economic activity developed in it, its economic structure and the endowment of social and wellbeing-related infrastructures. However, it is possible to identify two major types of socio-economic policies in regional matters: regional policies (RP) and regional development policies (RDP).<sup>9</sup>

---

<sup>9</sup>The possible confusion may increase when the concept of 'territorial organization policies' is included. These policies have a different meaning than the other two, though they can be incorporated as part of them. 'Organizing' a territory is not the same as economically balancing

The former essentially seek to reduce regional disparities or inequalities in terms of per capita income and employment (Armstrong and Taylor 2003). In order to achieve this, actions are developed that generally try to refocus the spatial distribution of economic activities throughout the entire countries as sources of new income and employment. For example, business location incentives may be offered or specific public investments may be made. In the context of such policies, transfers may be made to the regions in order to even out the availability and access to basic social services such as education and healthcare, thus reducing disparities that may exist between poorer regions and more dynamic and better endowed ones.

Regional development policies (RDP) are aimed at the ‘development’ of some regions that are more delayed than others or have suffered some sort of setback due to the exhaustion of their main resources or as a result of a crisis in specific productive sector, be it agriculture, manufacturing or services. From this perspective, the concept of ‘development’ looks to achieve in the medium and especially long term economic, social and qualitative objectives<sup>10</sup> that truly imply a profound change in favor of one or several delayed regions and their inhabitants. The action is thus *more selective* from the territorial perspective given that it focuses on *developing* a specific number of regions, states or provinces and the goals that are sought cannot be compared to those of *redistribution* policies, nor do they only seek regional economic growth. They are clearly different from regional parties, whose nature is frequently more ‘aid-oriented’ than the promotion of ‘development.’ This is particularly the case because RDPs must always incorporate a *long term vision* aimed at resolving the economic and social problems that delay or under development of a specific territory or territories within a country pose, transforming their structures from the outset.

From a conceptual perspective, the difference between the two policies is fairly clear, though it is not as much in practice given that they can and tend to become entwined. There is often a move to promote the ‘development’ of delayed or less favored regions as part of an anti-inequality policy. An important differential characteristic is that regional *development* policies (RDP) always require the participation of the region and the various agents present in it, while regional policies tend to be more horizontal – they cover or tend to cover an entire nation, though there are some differences – and vertical at the same time: the protagonist is the State, that is, the central government.

---

the regions of a country or a group of countries. Territorial organization looks to do something that is much more closely linked with a respectful treatment of space, evaluating the consequences – mainly physical, of respect for nature, etc. – that may come from any public action (transportation networks and new infrastructure) and urban problems and systems, rural areas, natural spaces that must be protected, etc.

<sup>10</sup> The differentiation between simple economic growth and ‘development’ is the subject of a broad body of literature that we do not need to list here. See Furtado (1968); Thirlwall (1972, 1999) and Eatwell et al. (1987).

### 2.3.2 *Economic and Non-Economic Arguments That Justify the Implementation of Regional Development Policies*

There is broad agreement with the idea that regional policies in general and *regional development policies* in particular can be justified and have been justified *not only* due to *economic* reasons but also because of *political and social* reasons based on principles of *equity*. This has led economists who believe that the market is a mechanism that guarantees greater efficiency in the allocation of resources to criticize the implementation of any type of regional policy, just as they do with practically all policies that involve government intervention in economic processes derived from the free market.<sup>11</sup> The reason that they give is that the application of such policies is not justified from the perspective of efficiency or improved allocation of resources in the short or especially the long term.

However, it seems clear that there are *economic arguments*, and not only extra-economic ones that justify the application of regional rebalancing policies in favor of the most delayed regions of any nation.

#### 2.3.2.1 *Economic Arguments*

These arguments revolve around two clearly related issues: (i) whether interregional disparities in terms of income and employment exist and their causes and (ii) whether the mechanisms of the market will tend to correct disparities or if they will tend to remain and even increase. It is important to note the following regarding these matters, however briefly:

- (i) The empirical evidence shows that *economic imbalances exist at the territorial level* in all types of economies both in those considered more developed and those that are emerging or developing. From this point of view Latin American nations are not only an exception but, as was noted in the introduction to this chapter and as many of the texts included in this book show, the territorial disparities of Latin American countries are – almost without exception – higher than in other areas of the world and with strong resistances against decreasing over time.

The reasons for the existence and development of territorial inequalities in Latin America can be attributed, as in other cases, to various causes. There are clear differences in available resources; the geographic location of the regions, in some cases very far removed from the more dynamic centers of the country; the play of certain favorable or unfavorable effects of attraction for different regions, such as the ‘capital effect,’ which generally favors the city named as the capital of the country; the attraction that large urban nodes exercise, which

---

<sup>11</sup> By contrast, deregulation policies, privatizations, etc., that is, elements that are favorable to the free movement of the market and competition, are accepted.

means that they constitute to grow; certain policy decisions made in the past such as transportation networks, the priority nature of a port, etc.; the differences in terms of the entrepreneurial spirit or ‘social capital’; the climate, etc. But over the past few decades, industrial relocation processes and the crises suffered by specific productive activities also have played a role. In some cases, these activities are very concentrated due to technological changes, the development of substitute products or simply the exhaustion of the natural resources that constituted their initial basis. As a result, regardless of the causes, it is the existence of elevated interregional differences, in terms of production, average per capita income and employment.

- (ii) The immediate question to be asked is whether the territorial disparities that existed within each country would tend to *increase* or *decrease over time* thanks to economic evolution if authorities do not intervene or specific development programs are not implemented (Cuadrado-Roura 2012).

Economists have offered fairly different responses. This should not come as a surprise given that Economics is a social science and, as such, the theories and arguments implicitly or explicitly take up ‘values’ and value judgments<sup>12</sup> that, along with some, suppositions, condition the recommendations of said theories or models and their results, as eminent economists such as Myrdal (1953), Blaug (1962), David (1988), Higgins (1951) and Schlefer (2012) have noted. This is also what happens in the interpretation of economic disparities at the territorial level and their possible evolution. Those who base their claims on and defend the principles of the *neoclassical model* argue that the existence of said territorial disparities should not be a reason for special concern. The system of exchange of the market, if it acts freely, handles or adjusts the prices and quantities in a certain time period (Borts and Stein 1964; Harris and Trainor 1997; Hulten and Schwab 1984; Barro and Sala-i-Martin 1992, 1995) such that, in the long term, interregional convergence in terms of income, employment and productivity will be assured. According to this approach, which is associated with neoliberal policies, the free play of the market is always better than any type of regional policy given that the latter involves introducing restrictions or impediments to the free circulation of goods, services and factors of production that push the market when it is allowed to operate with the necessary freedom. Convergence – in terms of per capita income, productivity, etc. – will be the result of successive adjustments through the functioning of the market if the distortions that affect its operative capacity are reduced or removed.

This approach comes, as is known, from a set of previous suppositions such as the existence of perfect information, constant performance of scale and the

---

<sup>12</sup> Some could qualify them as ‘preferences’ or ‘value judgments’ of those who build any theory. Regarding the ‘Hume rule’ on the need to establish a border between what ‘science’ can contribute and preferences around specific ‘values’ have been – as G. Myrdal demonstrated in his doctoral thesis – a common note for all economists (Myrdal 1953).

complete divisibility of all of the factors, which lead, through the key factor, – *free trade and free mobility* – to a world of perfect competition.

However, many other authors have been openly critical in regard to the real operation of market mechanisms in economies and their ability to resolve the existing disparities in the regional environment and elsewhere. These include the arguments developed years ago by Myrdal (1957), Hirschman (1958), Friedmann (1963), and Kaldor (1970), among others. There are also more recent theoretical developments including some of the conclusions of the modern ‘new’ theories of growth.

The accumulative model of economic development states, for example, that “*el libre juego de las fuerzas en el mercado tiende normalmente a aumentar, en lugar de disminuir, las desigualdades entre las regions*” (*‘the free play of market forces normally tends to increase rather than decrease inequalities among regions’*) (Myrdal 1957). Once some regions have out-performed others thanks to an initial advantage (Clark 1966), there tend to be new increases in activity and growth in expanding regions due to their own advantages and the dynamic that the markets develop. As a result, the convergence among countries and long-term convergence of regions in a specific country is not something that one can take as a given (Kaldor 1970; Dixon and Thirwall 1975; Thirwall 1980). And though effects of concentration and dispersion stand in opposition to one another, there is a need for policies to promote the development of delayed regions and promote the “effects of dispersion” through investments in social capital and/or the use of specific development and stimulus funds in order to create businesses and attract new domestic or direct foreign investments.

The contributions of modern international commerce theory and theories on super national integration processes also support the idea that it is very unlikely that commercial and economic integration processes among countries will reduce regional disparities. In fact, these tend to increase. Those integrating processes reinforce the advantages of “central” regions or nuclei for the location of new businesses and increase competition in the markets, not infrequently to the detriment of more marginal or rural regions. All of this has a negative impact on less efficient producers or those that have a lower capacity to react as seen, for example, in the cases of NAFTA and the European Union.

Based on the ideas and approaches presented above, regional policies have found support in a set of important economic arguments:

- Efficiency is not fully guaranteed by the market and its mechanisms of adjustment.
- The market is blind to the redistribution of wealth and it alone does not contribute to decreasing disparities in terms of income and wealth.
- The lack of adaptation and delay of some regions implies improper use or underutilization and the abandonment of their resources and infrastructures, which will always hurt the country as a whole.

- The movements of the population (migration from less developed areas to capital cities and more dynamic areas) present economic, social and cultural costs that the market does not assess.
- In addition, the accumulation of the population from rural areas in large urban centers creates high costs related to problems of infrastructure, sanitation equipment and education apart from negative externalities such as congestion that tend not to be considered.
- Finally, numerous analyses have shown that the development of a delayed territory benefits the entire country given that it promotes better use of the resources available in that area and avoids the abandonment of facilities and equipment.

Several recent studies, specifically Chaps. 5 and 6 of this book, offer empirical evidence showing that the *income disparities* among regions and *production and income concentration* processes in Latin America hamper the overall growth of the countries analyzed.<sup>13</sup>

### 2.3.2.2 Ethical-Political and Historical Arguments

In addition to the economic arguments there are *extra-economic reasons and arguments* that have provided clear support for the need to introduce RDP or at least RP. Thus the principles of *equity and solidarity* support the need to move towards greater equality in the living conditions of all citizens and in favor of the distribution of global benefits provided by economic growth. In this sense, the existence of significant economic and quality of life differences among the regions of a country is not socially acceptable or advisable because it will eventually produce instability. Nor is it acceptable from a collective perspective for a large number of citizens and their families to be forced to leave their places of origin and roots in order to be able to find a job and sufficient income to live, which generally produces negative impacts for the individual and their family.

The need to implement regional policies also has found support in some *political arguments* which underscore the need to balance a country's social and economic situation and suggest that it is generally difficult to maintain the social and political stability and cohesion of a State when there are territorial conflicts or significant inequalities among its various regions or areas. Several Latin American countries (Bolivia, Brazil, Colombia, etc.) provide solid examples of this. On the other hand, it is easy to 'believe in' the advantages and benefits of a process of supranational integration (such as that of the EU, for example<sup>14</sup>) or the benefits derived from the

<sup>13</sup> See Chap. 5, Cuadrado and González: "Growth and Regional Disparities in Latin America" and Chap. 6: Atienza and Aroca, "Concentration and Growth in Latin American Countries."

<sup>14</sup> In the case of the EU, the main argument in favor of a shared regional policy is linked to the concept of social and territorial 'cohesion,' which was introduced for the first time in the Maastricht Treaty of 1992. This document states (Art. 130 a) that "Con el fin de promover un

intensification of free trade through various global agreements (such as NAFTA and MERCOSUR) when some of the countries or regions affected by that integration feel that the advantages of it do not benefit them at all.

Finally, the arguments that are not strictly economic in nature that justify the implementation of regional policies also have included *historical reasons* or some punctual facts of the past that allow one to suggest that some of the decisions that have been taken have led to territorial inequalities that must be corrected or “compensated.” These include the location of the capital of a country, the design of the highway or railway network, or the existence of international borders that decisively influence behavior in border regions.

## 2.4 The Objectives of an RDP: Long Term Vision, Concentration, and Continuity

The main problem that justifies the implementation of regional policies is, as we have just noted, the existence of disparities among the regions, states or provinces of a country and the need to ensure that they do not increase or to reduce them. But given that it is not a matter of generating subsidies or turning more delayed regions into ‘aided’ ones, the idea is to create the basis for *promoting a development process* in those areas. The problem cannot be limited to the economic sphere. The goal is not only to foster growth in the regional production level (GDP) or, where possible, to put that number somewhere over the national average, which could guarantee a process of convergence. Nor is it true that the differences in territorial per capita income lead exclusively to a line of convergence. On the one hand, the GDP and per capita income are indicators that leave aside many non-economic elements that should be considered. On the other, one must refer to what other authors have called *the tyranny of the averages*, which is a result of the use of very simple indicators such as per capita GDP that inadequately reflect the real economic and social differences. RP in general and RDP in particular are currently posited as a basic objective for the achievement of a *greater social and economic cohesion*. This does not only mean reducing economic territorial gaps within a nation, but something more. ‘Economic cohesion’ implies reducing differences in terms of economic variables, GDP, per capita GDP, productivity and employment, which should lead to greater collective wellbeing. And, on the other hand, ‘social cohesion’ means that one must move towards other fronts that

---

desarrollo armonioso del conjunto de la Comunidad, ésta desarrollará y proseguirá su acción encaminada a reforzar su cohesión económica y social. En particular, la Comunidad tendrá por objetivo reducir las disparidades entre las diversas regiones y el retraso de las regiones menos desarrolladas, incluidas las zonas rurales” (*In order to promote harmonious development of the entire Community, it will develop and pursue action aimed at reinforcing economic and social cohesion. Specifically, the Community will seek to reduce disparities among its various regions and the delay of less developed regions including rural areas*).



imply the reduction of territorial differences in terms of the quality of life of all citizens. This means health, education, access to transportation and communications as well as the wellbeing of needier groups and the lack of differences based on gender, race and/or culture.

This goal of achieving increasing ‘social and economic cohesion’ at the territorial level is what should represent the basic goal of RDP. This would eliminate the search for possible short-term results, always so highly valued by politicians, given that it forces a country to introduce *long term goals*. The essential condition for this is that the policies and actions that are designed must have *continuity* over time. This condition has not exactly been the dominant characteristic of the policies designed in Latin America. When they have existed, political changes have frequently led to the abandonment of programs and policies before the results were visible and the design of new actions that also were not implemented properly or for long periods of time.

In the context of the OECD and in the EU the most positive regional development experiences present two main conditions or principles. On the one hand, there is the *principle of concentration*, which means that RDP are presented for regions with problems and not as policies for the distribution of incentives, subsidies and investments throughout the entire territory of the country or ‘sprinkler’ policies, as some call policies that try to address all regions in one way or another. On the other hand, it has been found that successful policies are designed and applied with *long term* objectives and actions because both structural changes and the development of new activities or improvement of social conditions and quality of life require time and continuity. RDP can never be short term policies.

Several years ago, the OECD (2009a, b) identified the factors that would seem to be most relevant for regional growth. In a more recent report (OECD 2012), the entity has reaffirmed and developed this idea at the general level and based on the lessons learned from the analysis of 23 cases of regions in OECD member states, including four regions in Mexico (Chiapas, Durango, the State of Mexico and Jalisco). Those factors are listed below in no particular order:

- *Infrastructure*. They have a positive impact on regional growth when other key factors such as human capital and innovation are also present.
- *Human Capital*. The absence or limited presence of people of working age with only primary school education and the presence of individuals with tertiary education has a positive impact on regional growth.
- *Job Market*. The activation of the labor force<sup>15</sup> can play a very positive role in regional development.
- *Innovation*. In the long term – 10 years or more-, this factor can and tends to have an important impact on regions’ growth.

---

<sup>15</sup> This concept includes both unemployment and labor participation rates. Policies related to labor activation seek to improve skills and abilities, looking to better match supply and demand and other aspects of the labor market rather than simply focusing on the reform of labor markets in terms of salaries.

- *Productivity*. This is a key factor (measured in GDP by employee) whose improvement is decisive and depends on various factors including efficiency in the use of factors and the organizational aspects of companies, their size and their competitiveness within the country and abroad.
- *Clustering and connectivity*. Clustering also has an effect that is generally positive on regional growth. It stands in contrast to the dispersion of actions.

## 2.5 Policy Design: Centralization Versus Direct Participation of Regions

There is a final question that must be pointed out. It addresses who should take responsibility for designing and implementing RDP. Offering an answer is not merely a technical issue – though it is also this-, but implies matters directly related to power and distribution. The matter of whether government officials are seen as being linked to such policies or whether responsibility for the development of any state, region or province should be shared and cooperative between the central government and regional officials and social agents definitely does have an impact.

Three options can be presented in regard to who can play a leading role in the design and implementation of any RDP, though there can be formulas with a less Cartesian profile.

The first basic option is the top-down RDP. This corresponds – with some slight variants – to cases in which these policies have been or are clearly centralized. Territorial problems and aspirations are considered, but the central power – the government and its administration – handles the design and to a significant extent the execution of development programs. In other words, here RDPs are designed in the ‘center’ and managed from the ‘center,’ though there may be ‘delegations’ responsible for the monitoring and execution of the programs with limited levels of autonomy. This type of approach was the most common one during the 1950s and 1960s in Latin America as well as Europe, and it continues to be present in the approaches that have emerged much more recently.

The second option corresponds to cases in which the government is much decentralized, as it occurs with countries that have very well developed a decentralized confederal or federal systems. In this case, the RDP can come ‘from’ and ‘by’ the state or province – if it is called that – to which the policy refers. This could be described as a ‘down – down’ policy and it requires, as a premise, significant decentralization of power in terms of both strictly political-administrative aspects and the finance system that has been adopted in the country for its states, which must ensure the high level of territorial autonomy.

Finally, it is important to refer to a *mixed* RDP in which priority is placed on cooperation between central and regional officials with broad autonomy of the latter in the design and execution phases of the regional program. This could be described as a ‘*top+down*’ distribution of responsibilities during the design phase given that the elaboration of the program and its policies is handled jointly by the central government and that of the state or region that would benefit. The process continues

with the execution of actions that would mainly be handled by the region or state (down) and a final assessment of the execution and results obtained that would again involve cooperation between the center and the state/region (*down+top*).

From various points of view, one can state that in order to be effective, RDPs require *very significant participation of the involved regions* in regard to the existence of a government or authority in that region and the incorporation of various agents – business people, social representatives, civil organizations, etc. – in the planning and final assessment phases. The most adequate political-administrative setup is thus the third option. The executor agency also should have a regional profile, though the national officials also should be present. The essential aspect of the model is that it is decentralized, though based on cooperation between the central and regional administrations and representatives of the same. With various nuances, this final option has been used for years to implement the European Union's Regional Policy for Cohesion – and others – under the principle of partnering, that is, participation and cooperation between the European Commission, the governments and the regions.

The aspect considered in this section is undoubtedly a very important one. It is clearly an issue that is directly related to governance and the structure that is adopted. A *very centralist* approach can be successful when the country is small and the administration is very centralized without any or almost any power being transferred to regional and local administrations in the territories for which the RDP is designed. The best experiences, however, – as the OECD has stated and as can be deduced from the EU experiences – correspond to a *decentralized* approach similar to the one described above as the third general option. This approach is based on the principles of self-reliance and cooperation, which are absolutely essential to the achievement of successful results.

There is one additional condition: RDPs must have a duration and implementation that is not subject to possible political changes at the national or regional levels. This is frequently simply the result of elections (national, regional, municipal) and their calendars. There is no doubt that political changes introduce – or can introduce – levels of instability that are contrary to one of the characteristics that must accompany RDPs so that they can be effective: their *continuity* and the *long term as a horizon*.

## 2.6 Final Remarks

The issues presented in this chapter cannot be fully explored in a text whose length must be limited. There is no denying that many of them require significant development and careful consideration. However, we can outline some important points that represent the messages that we have wanted to communicate. They can be summarized as follows:

- A significant number of LAC countries have experienced a fairly pleasant economic phase over the past few years in function of the growth rates reported for their economies, the level of stability that they have achieved, their improved position on an international scale, and the positive results that all of this has provided for the people and their wellbeing.
- Territorial socio-economic disparities in LAC countries are very concerning for two reasons: (1) their magnitude; and (2) the fact that they have continued for several decades without variation (and where there were variations, they have not been always positive).
- There are sufficient elements and signs to suggest that interregional inequalities merit more attention than they have received over the past few decades. The need to correct them or ameliorate their real effects is included in political and government agendas but there are very limited current examples of regional policy.
- The most recent theoretical arguments and reports issued by many organizations (OECD, ECLAC, CAF, World Bank) contribute more than enough arguments for LAC countries to consider the need to promote policies focused on the development of the most delayed regions in their respective countries. These arguments are entwined with others that are already known but forgotten that were very much present in the past.
- RDPs cannot be confused with simple redistribution policies or more horizontal measures taken to reduce poverty and improve the wellbeing of low-income individuals or families.
- RDPs cannot only be justified on the basis of equity or political arguments but are equally justified from the economic results and better and more efficient use of each country's resources. In fact, the empirical evidence demonstrates that excessive concentration even threatens growth.
- Some principles must be taken into account and respected when designing and implementing new regional development policies. One very important principle is accepting that this policy is and always must be a long term one. The development of more delayed areas requires profound changes that cannot be achieved through short term policies.
- This requires that the policies designed have the continuity that they require and that they must not be subject to changes that may be produced as a result of electoral processes or governmental changes. However, this continuity does not exclude the revision of the objectives and the efficiency of the measures so that they may be refined. This also requires the existence of a medium term (ongoing) assessment system as well as evaluation at the end of the program (ex post).
- Another condition that the available experiences support is the concentration of actions regarding dispersion. Regional development policies must be selective in regard to the regions at which it is directed and not address all regions or states.
- Finally, a necessary institutional question is that of regions/state/provinces that are the object of the RDP participating very directly in the assessment and design of the actions to be developed as well as their execution. This implies transferring power to the territories – decentralization – and the implementation of

principles of cooperation and partnering between the central government, the regions, and social agents.

## References

- Armstrong H, Taylor J (2003) Regional economics and policy, 3rd edn. Blackwell, Oxford, particularly chapter 8
- Baldwin R, Forslid R, Martin P, Ottaviano G, Robert-Nicoud F (2003) Economic geography and public policy. Princeton University Press, New Jersey
- Barro R, Sala-i-Martin X (1992) Convergence. *J Polit Econ* 100:223–251
- Barro R, Sala-i-Martin X (1995) Economic growth. McGraw-Hill, Boston
- Blaug M (1962) Economic theory in retrospect. Cambridge University Press, Cambridge, Trad. al español del FCE con el título: *Teoría Económica en retrospectiva*, México, 1985
- Borts GH, Stein JL (1964) Economic growth in a free market. Columbia University Press, New York
- Burki SJ, Perry GE, Dillinger WR (1999) Beyond the center: decentralizing the state. World Bank, Washington DC
- CAF (2010) Desarrollo local: hacia un Nuevo protagonismo de las ciudades y regiones. Publicaciones CAF, Caracas
- Capello R (2007) Regional economics. Routledge, London
- Cerina F, Mureddu F (2010) Is agglomeration really good for growth? Global efficiency, inter-regional equity and uneven growth. Working Paper, CRENoS
- Clark C (1966) Industrial location and economic potential. *Lloyds Bank Rev* 82:1–17
- Cuadrado-Roura JR (2010) Regional policy, economic growth and convergence. Springer, Heidelberg
- Cuadrado-Roura JR (2012) Regional policy: what (it seems) we have learned from some European experiences. In: Cooke P, Parrilli MD, Curbelo JL (eds) Innovation, global change and territorial resilience. E. Elgar, Cheltenham, chapter 14th
- David WL (1988) Political economy of economic policy. The quest for human betterment. Praeger, New York/London
- Dixon RJ, Thirwall AP (1975) A model of regional growth rate differentials along Kaldorian lines. *Oxf Econ Pap* 27:201–214
- Eatwell J, Milgate M, Newman P (1987) Economic development. Macmillan, London
- Friedmann JRP (1963) Regional economic policy for developing areas. *Pap Proc Reg Sci Assoc* 11:41–61
- Fujita M, Krugman P, Venables AJ (1999) Spatial economics. MIT Press, Boston
- Furtado C (1968) Teoría y política del desarrollo económico. Siglo XXI, México/Madrid
- Harris RID, Trainor M (1997) Productivity growth in the UK regions, 1968–91. *Oxf Bull Econ Stat* 59:485–510
- Higgins B (1951) What do economists know? Melbourne University Press, Victoria
- Hirschman AO (1958) The strategy of economic development. Yale University Press, New Haven
- Hulten CR, Schwab RM (1984) Regional productivity growth in US manufacturing, 1951–1978. *Am Econ Rev* 74:152–162
- Kaldor N (1970) The case for regional policies. *Scott J Political Econ* 18:337–348
- Myrdal G (1953) The political element in the development of economic theory. Routledge and Kegan Paul, London
- Myrdal G (1957) Economic theory and under-developed regions. Duckworth/Harper, London
- OECD (2009a) Territorial review: Chile. OECD Publishing, Paris
- OECD (2009b) How regions grow: trends and analysis. OECD Publishing, Paris
- OECD (2010) Regional development policies in OECD countries. OECD Publishing, Paris

- OECD (2012) Promoting growth in all regions. OECD Publishing, Paris
- OECD-CEPAL (2011) Perspectivas económicas de América Latina, 2012. Publicaciones de CEPAL, Paris/Santiago
- Polèse M, Rubiera F (2009) Economía Urbana y regional. Civitas-Thomson Reuters Ltd, Madrid
- Polèse M, Shearmur R (2005) Économie Urbaine et régionale, 2nd edn. Economica, Paris
- Sang-Chuel C (2012) Introduction: reshaping regional policy in Korea. In: Richardson HW, Chand-Hee CB, Sang-Chuel C (eds) Reshaping regional policy. E. Elgar, Cheltenham, chapter 1
- Schlefer J (2012) The assumptions economist make. Belknap Press of Harvard University Press, Cambridge/London
- Thirlwall AP (1999) Growth and development, 6th edn. Macmillan, London, First edition of 1972
- Thirlwall AP (1980) Regional problems are balance of payment problems. Reg Stud 14:419–426
- Williamson JG (1965) Regional inequality and the process of national development a description of the patterns. Econ Dev Cult Chang 13:3–45
- World Bank (2009) Reshaping economic geography in Latin America and the Caribbean. Companion Volume to the 2009 World Development Report, Washington, DC, World Bank

Regional Problems and Policies in Latin America

Cuadrado-Roura, J.R.; Aroca, P. (Eds.)

2013, XIX, 569 p. 136 illus., 74 illus. in color., Hardcover

ISBN: 978-3-642-39673-1