Balanced regional development has become an important element of policy-making in nearly all countries. Since regional imbalances are especially intensified by differences in industrial development across regions, regional development policies are generally concentrated on guiding industrial location.

In most countries, industrialization occurred initially in towns lying along important trade routes which gave access to markets, or in areas possessing valuable natural resources, and specialization in certain advantageous manufactures took place in these areas. As these industries expanded, towns developed and attracted labour and capital. Concentration increased with urbanization, complementary industries and services emerged, as also those required by the rapidly-increasing local population. Early industrial agglomerations, therefore, were often either resource-based or market-oriented.

Once a regional pattern of industrialization sets in, it is accentuated by the very nature of industry. Industrial investment is lumpy and needs to be spatially concentrated for external and internal economies of scale. Regions which gain a lead tend to become more and more prosperous, and a cumulative increase of regional disparities takes place.\(^1\) A number of institutional factors have the effect

of perpetuating and even accentuating the existing locational pattern of industry. An insufficient availability of social capital in the poorer regions, reduction in wage differences across regions brought about by the growing strength of trade unions and the introduction of social considerations into national wage policy, the tapering rates of railway freight policy and the growing importance of road transport, the imposition of controls on rents, transport prices and the like in congested areas where, if the price mechanism was allowed to operate, costs of utilities and factors of production would become prohibitively high as a reflection of true social costs -- these are all factors hampering the spread of industry away from the existing spatial concentrations.² Hence, if industrialization is to be achieved together with balanced regional development, a definite regional policy needs to be incorporated within the framework of national policy.

**Cases For and Against State Intervention**

In the regional planning of industrial development, the primary conflict which arises is between national and regional growth objectives. The ensuing debate has crystallized into two viewpoints. One is that concentration of industry in a few regions is a natural tendency for most developing economies, and that such concentration is more profitable (on the basis of commercial and national profitability) than dispersal of industry. It is argued, therefore, that attempts to counteract this tendency are either futile or harmful, or both. On the other hand, it is argued that the external effects

of the regional concentration of industry are negative, and that private location decisions favouring further concentration are correct only from the point of view of commercial profitability. Hence, attempts directed towards preventing the regional concentration of industry are both fair to the less developed regions of a country and better for national industrial development.3

Lefeber holds the former view and states that "it is a paradoxical but inevitable fact that in order to accelerate the future development of retarded regions, the growth of industrially more advanced areas must be encouraged."4 If any attempt is made to promote development in the backward areas at the cost of the advanced regions, the effort will prove self-defeating. Lower investment in the advanced areas will reduce the overall capacity to save and, hence, to invest, as a result of which the development of the lagging regions will take even longer.

Rosenstein-Rodan argues similarly: "Efficient resource allocation requires an uneven growth of a country or region."5 A thin-spreading of resources effectively reduces the overall return to investment and, hence, promotes a non-optimizing function. Optimal growth, therefore, is necessarily uneven.

4. L. Lefeber, "Regional Allocation of Resources in India," in Friedmann and Alonso, op. cit., p. 642
The case against attempts towards balanced regional development is based on the argument that various economic factors lead to a certain pattern of location which is the most efficient and, hence, the most advantageous for the national economy. Any attempt to deflect firms from a freely chosen (and, therefore, most economic) location only leads to inefficient use of available resources. In time, when investment opportunities in the advanced regions have been fully exploited, so that returns to further investment are low and various other diseconomies have come into play, industry and capital will shift to other regions. Decisive shifts in the regional structure of economic activity take decades rather than years because the mobile factors of production are drawn towards established industrial centres. If larger immediate gains in output result from investing scarce resources in these areas, this will increase the investible resources available to finance the rapid development of the backward regions previously left out.

The case against attempts to develop retarded regions through deliberate policy measures is very strong, but rests primarily on economic considerations. One cardinal strategy of development planning in under-developed countries should be that purely economic valuation is seen in the wider context of social welfare considerations. Therefore, even if existing or potential location decisions are judged rational from the economic viewpoint, there could still be justification for State intervention to alter the location pattern such that a judicious balance between economic and non-economic considerations is achieved. 6

The most convincing economic argument for promoting balanced regional development is that a situation of persisting spatial inequalities represents an inefficient system of growth and development because resources, both human and physical, remain unknown and unutilized. It is argued that a free choice of location does not necessarily lead to the selection of the most economic locations because entrepreneurs are not 'really' rational; their reluctance to invest in problem regions may reflect subjectively high risks and uncertainties, as well as likes and dislikes, rather than lower expected returns to capital.\(^7\)

Another argument for regional dispersal of industry is that advantages of spatial concentration are eroded by pressures on physical resources and services, and environmental disruptions, in the urban-industrial concentrations. Over-concentration leads to diseconomies in the form of higher prices of factors of production, higher living costs, lower standards of living and greater social costs. As observed earlier, however, many of these diseconomies are not allowed to set in because artificial controls are imposed on prices in congested areas.

Regional development policies are supported by social and political arguments as well. Attainment of distributive justice makes it imperative for a welfare state to ensure that all regions share the gains from development. This is not possible if some regions are continuously allowed to develop at the expense of others. Developing countries, in particular, must treat the spatial elements of development as one of the goals of development strategy. In this context, while it is undoubted that industrial concentration provides

\(^7\) H. W. Richardson, op. cit., p. 398
agglomeration economies, it must be remembered that the ultimate goal of industrialization is to further economic development. This implies increased welfare as well as a more equitable distribution of welfare gains. If regional inequalities continue and increase (as they often do), there is bound to be unrest of a dissatisfied population in the lagging regions. On the other hand, dispersal of industry is required if further congestion of cities is to be avoided.

Thus, there are strong arguments in favour of both views. The question, however, should not be one of concentrated versus dispersed industrial growth, but of finding an optimal balance between the two. The solution seems to lie in a policy of 'decentralized concentration of industry'. Regional industrial policy must induce industry away from areas of over-concentration, but must also take cognizance of the importance of agglomeration economies; this suggests the adoption of a growth centre strategy.

**Issues in Policy Formulation**

Once it is decided that a deliberate policy is to be followed for controlling and directing industrial location, a process of induced industrial development has to be set in motion. The very fact that industry did not develop in some regions but grew in others implies that the former lacked certain conditions required for industrial growth. In order to offset the absence of such requirements, the State is called upon to provide various financial and non-financial inducements to industry in the lagging regions. The financial incentives seek to offset the higher costs incurred by industries in
less developed areas. Non-financial inducements such as the development of infrastructure, industrial facilities and services, and marketing assistance, attempt to improve the industrial climate of the depressed regions.

The provision of these incentives require considerable financial resources. There is a limit to an economy's investible funds, and capital is especially scarce in developing countries. Therefore, the development of all the lagging regions cannot (should not) be attempted simultaneously. Since a minimum level of infrastructure is necessary at a location for economic efficiency, the available resources must be invested in a spatially concentrated manner and at locations where they would show quick returns. This is where the concept of 'growth centres' may prove useful, favouring the concentration of efforts and resources in regions which are intermediate to congested areas on the one hand, and to undeveloped areas on the other. Regions should be selected on the basis of appropriate criteria such as future development prospects, the nature of the present infrastructure, and costs of adjusting this infrastructure to meet the new situation. The selection of areas where industry is to be induced needs careful consideration and should be the starting-point for any industrial location policy.

The Selection of Regions     The first requirement in selecting regions where industry is to be promoted is to identify the causes for the stagnation of the different lagging regions. Sufficient attention has not always been paid to the fact that the different

characteristics of depressed areas require a flexible regional policy.

In developing countries, most lagging regions have a preponderance of agricultural activities. This results in an absence of industrial tradition, and distance from industrial areas proves to be a barrier in inculcating new ideas. Predominantly agricultural regions can be of two kinds: regions where modern ideas and techniques of production have been absorbed, agricultural infrastructure and local markets have developed, and incomes and productivities are high; secondly, regions characterized by outdated and inefficient farming techniques and low incomes and productivities. In the former type of region, further development may be hampered by the lack of alternative employment opportunities for the surpluses of labour and capital. Here, special measures to promote industry may well prove useful and successful. If, however, agriculture in the region is poorly developed, measures to attract industry may not be useful. Investment in infrastructure may be wasted because the provision of infrastructure is not sufficient to induce industrial growth in isolation. "Both economic and social rationality indicate that in those regions where agricultural productivity is low, and the local markets are poorly developed, the first and foremost requirement is the creation of an adequate agricultural infrastructure and the upgrading of farm technology. This is all the more so since in these areas not even heavily subsidized small industries seem to be able to maintain themselves."9 This prerequisite of agricultural development may be circumvented only if the region possesses some other special

advantage, which can be economically exploited by suitable industries, or is particularly well-endowed with natural resources.

Another type of region where industry can be used to propel growth is one where existing industries are declining or stagnating, outmoded technology is used, and infrastructure and social capital have become inadequate. In this case, the major requirement of the region would be improved infrastructure, after which special schemes to assist the old industries and to promote new industries could be implemented.

The manufacturing sector, therefore, cannot be used to lift all lagging regions out of stagnation. It is desirable to bring industrial employment and income closer to the majority of the population living in the rural areas. "But it does not follow that the best way to do this is to seek to locate a considerable proportion of manufacturing industry directly in the villages, or even in the small urban centres (market towns)."¹⁰

What, however, if a region has no economically exploitable resources nor any other locational advantage to offer industry? The short-run solution may be to provide basic amenities and assistance for the development of local skills and employment opportunities through cottage or small industries. In the long run, it may be possible for more resources to be channelled into such regions, once development is at a higher level in the advanced regions, and can percolate outwards.

The Selection of Industries  A related policy question is the type of industries to be promoted in the selected areas. The industrialization policy must reconcile the industrial structure and the human, social and natural resources, and the locational requirements of the industries attracted. Local resource-based industries could be agro-based or mineral-based; such industries utilize untapped resources and have a comparative advantage. These traditional industries are generally slower-growing than the so-called foot-loose industries, but the latter may often be at a cost disadvantage in a backward location unless labour is much cheaper than in the advanced areas and labour-intensive technology is used.

One of the major problems entailed in using local labour in lagging regions is the lack of skills. Economic stagnation leads to the out-migration of skilled and enterprising people from the lagging regions, with the result that the labour left behind is not well-suited to industrial work. An indirect way of developing labour for industrial activities is through the development of infrastructure, which by itself is an essential pre-requisite for industrialization. The building and transport industries constitute an intermediate stage between agricultural and industrial work and should be used as 'stepping stones'.

A relevant question is whether this induced industrialization should be through large or small industry. The advantage of promoting small-scale industries in backward areas is that this would tap resources of capital, and especially of family capital, and entrepreneurship, which would otherwise remain unutilized. It would also, through entrepreneurship development, help in the formation of local skills.
These characteristics make small-scale industry a valuable agent for industrial decentralization. However, an excessive concentration on small scale enterprises could be as damaging to growth as their neglect.\textsuperscript{11} Economies of scale and modern technology concomitant with high capital-intensity are features of large-scale industry, and are essential for rapid growth and capital accumulation. While dualism in the structure of manufacturing with a creative interaction between the large and small sectors can be healthy, the impetus for rapid industrialization has to be provided by large industry. "Large firms can adapt themselves more successfully to the conditions prevailing in the hinterland. The size of the firm permits economies of scale for internalizing these externalities."\textsuperscript{12} In fact, because they can generate internal economies of scale, large firms are likely to withstand the absence of external economies in the less developed areas better than small firms. Large firms can also provide a 'core' for the development of growth centres; to play this role, they must be of a type capable of promoting ancillaryization.

When formulating a regional development policy, all these aspects need careful consideration, and have to be viewed in the context of specific national objectives. Regional economic policies followed in some other countries may be studied in the light of the issues discussed.


In most countries, regional imbalances are reflected in relatively high unemployment levels in certain 'problem' regions, together with excessive concentration in a few large urban agglomerations. Thus, regional problems usually require a two-dimensional policy: one, to develop the lagging regions and, second, to prevent further growth in and around the existing metropolises. In many countries, regional policies started with limited objectives basically consisting of assistance to certain problem regions which were characterized by high (and, often, increasing) unemployment levels. More and more, regional policies seek to deal simultaneously with regional and national growth problems, in an effort to optimize the use of available resources.

While regional policies in a number of countries have been observed, two countries have been given special attention because they are of particular relevance to India. These two countries, Italy and Yugoslavia, may be called developed countries, but both are characterized by a severe 'North-South' dualism. The different political systems followed in these two countries afford a comparison of the policies that evolve under different sets of political conditions.

Regional Development in Italy

The regional problem is a very old dualism and is caused by unfavourable factors of physical geography, social structure and traditions, and lack of resources other than land in the South (the Mezzogiorno), while political unification favoured industrial and commercial development of the North. The South has been characterized by
subsistence farming, low living standards, backwardness in skills, education, commercial activity and enterprise. The normal conditions for economic growth, such as savings and capital accumulation, enterprise, roads, water supply and infrastructure, were lacking and these problems were compounded by erosion and malaria. The country may be divided into three regions: the high income industrial region of the North West, a middle income but rich agricultural area extending up to Rome, and the poor South. There are some relatively backward areas in the North and Centre as well.

The strategy used to develop southern Italy has followed two stages. "First, the provision of an adequate infrastructure, especially roads, irrigation and water-supply systems, the elimination of malaria, land reform and the promotion of agricultural productivity. This was followed, at the end of the 1950's, by a second stage designed to secure an integrated economic and physical development principally based on the development of industry." 13

The first major move to tackle the backwardness of the Mezzogiorno was in 1950 when the 'Cassa per il Mezzogiorno' was created to promote industrial and agricultural development through a system of grants and incentives. The Cassa was responsible for the development of infrastructure as well. Industrial estates were laid out according to the district planning schemes and new industry was steered to these estates through the provision of infrastructure and incentives. Since 1965, the regional plan has been integrated with the national plan in order to achieve the required degree of co-ordination between

local, regional and central authorities.

The major incentives used are cash grants for the construction of plants and for the purchase of machinery and equipment, provision of factory buildings and industrial land and sites, loans at subsidized rates, concessions on investment and profits, tax exemptions, grants towards social security costs, assistance towards operating costs and moving costs of the firm, aids for manpower mobility and preferential treatment in government contracts. These were at first offered only to firms locating in the Mezzogiorno, but now aid is provided in the rest of the country as well, in a graduated manner. What is more important than the incentives alone is the selectivity applied in choosing regions and industries. 'Zones of concentration' and 'development poles' have been created so that "the richest zones -- those that best lend themselves to development -- are being developed first." 14 The projects selected are those best suited and with the most economic relevance to the particular region.

Some other schemes in operation may be mentioned. 'Contract programming' is used through which the authorities make agreements with private industrialists, whereby the former provide the infrastructure or help in the development of human capabilities by providing training and refresher courses. Legislation has provided for greater public investments in the South and an obligatory allocation of at least 40 per cent of investment expenditure by all public departments and State enterprises in Southern Italy.

14. UECD, ibid., p. 81
These strategies have not worked too well. Net per capita income in the Mezzogiorno, which was about 63 per cent of the national average in 1950, is still nearly the same because the per capita income of the northern and central regions has increased further. The contribution of the industrial sector to the Gross Domestic Product has increased slightly from 23.7 per cent in 1951 to 29.2 per cent in 1970. Though the proportion of non-agricultural employment in the South has increased, this has been in construction and commerce rather than in industry. The main reason cited for the slow economic changes is that too many industrial zones have been created so that the total impact of the regional schemes has been marginal.

Regional Development Policy in Yugoslavia

The southern part of the country is relatively under-developed. This area is mostly unsuited to agriculture, but is rich in mineral resources. The regions designated as backward, though changing from Plan to Plan, are the Republics of Montenegro, Macedonia, Bosnia-Herzegovina, and the autonomous province of Kosovo-Metohia. These regions were defined as backward on the basis of per capita income, which was 50 per cent or less in relation to the national average at the beginning of the First Five Year Plan in 1947.

"The core of this policy has been the development of backward areas at rates above the Yugoslav average."\(^{15}\) The principle agreed upon for the development of the lagging regions was rapid industrialization through the development of heavy resource-based industry. The

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Five Year Plan of General Economic Development of Yugoslavia, 1961-65, stated: "The fundamental way of development of underdeveloped areas should be the promotion of industry." The idea was to carry out the most effective and quickest mobilization of economic and human resources by creating industrialized nuclei. It was also considered equally important to develop economic and social infrastructure in the lagging regions. The Plan emphasized the development of basic chemical and metallurgical industries. While the backward regions were to be given priority in assigning investment funds, it was stressed that the advanced regions should also continue to develop at a rapid rate.

In 1957, financial incentives were provided in the lagging regions. The Second Plan, 1957-61, introduced two provisions: (a) 'guaranteed investment', which assured to each underdeveloped region a notable volume of investments, slightly below its share in total population but above its share in per capita income; 60 per cent of this investment was allocated to industry, and (b) a system of investment facilities consisting of (i) priority to backward areas for credit providing the projects satisfied certain 'benefit' criteria, (ii) reduced interest rates for credits, (iii) direct assignments of federal resources in favour of the investment funds of the backward regions.

The emphasis on heavy industry was reduced in the Third Plan when it was found that this policy was not proving successful in bringing

about rapid development in the underdeveloped areas. In spite of higher growth rates and per capita investments in these regions, their per capita incomes during 1947-60 had increased less than that of the northern region. The Third Plan, therefore, aimed at spreading manufacturing industries extensively over the backward region instead of concentrating aid to basic industrial activities. A special 'Federal Investment Fund' was set up for the underdeveloped regions to provide credits for the development of manufacturing industries. All the republics were to contribute to this Fund; the backward regions would contribute 30 per cent, and the richer areas the balance.

As a result of these policies, "major changes were produced in the structures of the economy and the population of all the insufficiently developed republics and the province of Kosovo. The fast industrial development of Kosovo, as the most underdeveloped part of the country, has helped reduce the share of its agricultural population from over 81 per cent in 1948 to 52 per cent in 1970." However, the costs have been heavy. The development of heavy industries in the backward regions required very large investments (especially because actual costs exceeded estimated costs) and did not result in the expected employment creation. This was mainly because the very nature of heavy industry, which was given the role of the 'leading' sector in the backward areas, is capital-intensive. In fact, greater employment opportunities were provided in the industrialized regions with the growth of manufacturing industry there. It is only in recent years that this anomaly has been rectified.

Regional Development Policies in Some Other Countries

In most countries, both positive and negative measures are used to simultaneously tackle over-concentration in some areas and economic decline or backwardness in others. A number of countries are applying growth centre strategies designed to concentrate aid, as well as public and private investments, in areas with the best growth potential.

Incentives to industry are used as an instrument of regional policy in all countries following a policy of regional development. The most frequently used incentives are:

1) Investment grants for industrial buildings, machinery and equipment;
2) Loan guarantees and loans at subsidized rates;
3) Provision of factory buildings;
4) Provision of land and sites;
5) Manpower training aids;
6) Aids for manpower mobility and relocation;
7) Assistance towards moving and settling-in costs of the firm.

Very few countries provide grants on social security or labour costs. Aid is provided in selected 'problem' regions, and is usually graded according to the degree of development of the place where the investment is located.

Geographical Criteria The criteria used for defining the degree of development of each area are based mainly on the relative levels of unemployment and structural weaknesses.
In the United Kingdom, assisted areas are defined with regard to actual and expected circumstances, such as the state of employment and unemployment, population changes and migration.

In France, aid is a function of the geographical handicaps of the region, population trends, the labour situation and manpower redeployment.

In Germany, job deficit, level of income and the state of infrastructure are used to assess economic weaknesses in each region.

In Greece, assisted regions are divided into five areas on the basis of unemployment, per capita income, share of agriculture, population movements, industrial growth, community facilities, regional and national roads, and so on.

In Austria, regions are classified on the basis of the 'degree of regional development' using criteria such as the rate of unemployment, agricultural ratio, population movements, and existence of community facilities.

Development Strategy

United Kingdom The first steps to a regional policy were taken in 1934. The problem areas were largely those in the peripheral regions of Scotland, the north of England and South Wales, which were heavily industrialized during the Industrial Revolution. The old basic industries, such as coal, iron and steel, shipbuilding and textiles in these regions, declined as structural changes took place in the economy, and modern industries developed in the south-east, especially around London. The main objective of regional policy was to stem the
economic decline of the older industrial areas.

The major economic strategy has been 'work to the workers' in these lagging areas. There are four categories of assisted areas and aids are provided in a graduated manner. The two main methods used for influencing the distribution of industry in favour of the assisted areas are: one, a system of financial incentives offered to industry in the assisted areas and, two, an 'Industrial Development Certificate' system used to discourage factory development in the more prosperous regions.

France The problem regions are of two kinds: those in the West, South-west and Centre which require development to offset the unemployment caused by modernization of agriculture, and those in the North and East where the decline of traditional heavy industries requires a conversion of their industrial structures. On the other hand, there is the Paris region with excessive over-concentration.

Regional development policy was introduced in 1954 with the division of the whole country into twenty-two 'Regional Action Areas', now called 'Programme Regions'. The main objective of regional policy has been balanced development, both between the various regions and within each region. Three main types of measures are used: (a) measures to guide employment to preferred locations, (b) an urban and town policy, and (c) an infrastructural investment policy. Thus, negative measures are used to curb growth within the Paris region and positive measures to direct industry to other areas. One of the main features of French regional strategy is the development of eight 'metropoles d'équilibre' (counter-balancing capitals) to act as
counter-magnets to Paris, both for movements of capital and industry.

Federal Republic of Germany  Regional policy began in 1951 with the delineation of certain 'emergency' areas, which were characterized by high rates of unemployment. The regional problem in Germany, unlike in most other countries, is basically intra-regional in character. Though certain areas are 'economically weak' in terms of significant above-average unemployment rates and below-average per capita incomes, these are not concentrated in large general regions, but are found in most parts of the country. There are a number of large cities which represent a decentralizing factor; there are no cities playing a pre-dominant role in the national structure like London or Paris.

A growth centre strategy has been followed. The centres were selected on the basis of minimum qualifications: a large local labour market, the presence of a minimum of community facilities and a pre-existing core of industrial settlement. The number of growth centres rose in number from sixteen in 1959 to eighty-one in 1968. Every two or three years, new growth centres were selected and assistance was discontinued to those which had reached a point where further assistance was considered unnecessary. Today, the problem areas have been grouped into twenty-one 'development areas' which have 300 designated growth points.

Some points that emerge from this brief review of regional policies in other countries are of relevance in the Indian context. The development of economic and social infrastructure has to be given top priority before any attempt is made to industrialize the backward regions. In fact, for regional development policies to make a significant impact,
efforts must be concentrated in regions which have the best potential for rapid growth. The projects selected for each region must be of economic relevance to the region in terms of utilizing natural, as well as human, resources. Finally, regional development policies must be subject to periodic reviews, and changes must be made where deemed necessary in the light of past experience.