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ECONOMICS OF REGIONAL DEVELOPMENT: Interaction of National and Regional Policies

by

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The subject of "economics of regional development" is broad. To limit our scope, we shall confine ourselves to the relationship of economic development to development policies originating at the national and regional levels.

Indeed, what happens in the development of one region depends critically on decisions and activities going on at these two levels of government. It is however necessary, to gain compactness and insight, to take these two separately. Some development in a given region may depend on the nature of economic policies at the national level, on nothing more. This is a case when local development is at the mercy of national economic decisions in the center of government and of the activities of other more imaginative regional economic units. However, in the truly dynamic and successful case of regional economic development, it is seldom that the above alone can be true. Initiative at the local level in the realm of economic policy can be decisive and, in some cases, may even be more significant than national policy.

Borrowing from the language of the calculus, a necessary condition for successful regional development is national

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economic policy which is conducive to economic development. A sufficient condition, however, is that vigorous and sympathetic decisions at the regional level be made to facilitate development within the region, not thwart it.

Rather than confine our discussions to the Iligan-Lake Lanao complex, it would be more appropriate to discuss general principles and applications. The reasons for this are two-fold: one is a confession of ignorance about specifics in the case of local developments in Iligan-Lanao;[1] the other is the more important reason that what we have to say can be a message to all regional and national policy makers.

NATIONAL POLICIES

An economy which grows at a real rate of expansion of 10 per cent per year contributes more to regional development than one that grows at 5 per cent per year. After all, the gross national product is nothing more than the sum total of all the gross regional products of all regions.

The character of national growth also determines the regional impact -- the types of regional resources which go into use in productive activities. A growth which is led by agricultural and extractive industries implies that land and

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[1]Aside from what I have quantified about the growth of the region in my study of Philippine regional economic growth and about my general familiarity with the industrial development based along the Maria Cristina Falls hydroelectric project. See {6}.

natural resources will find greater use in complement with labor and other resources. A growth led dominantly by industrial development can have one among a number of possibilities, depending on the nature of industrialization which gains emphasis. We shall discuss two variants and leave it to the reader to imagine the subvariants.

Variant I. Import dependent industrialization.

In an industrialization which is dependent largely on imported raw material inputs, especially in a setting in which these inputs are subsidized by excessive protection of the product being domestically produced and by acquisition of the imported inputs at cheap rates of foreign exchange, the effects of industrialization on employment of domestic resources is not widespread as to be profoundly useful. Employment, of course, is generated at the level of the industry, but the "secondary" or indirect impact on other industries -- the resource-supplying industries -- is minimal. The secondary impact is felt at the balance of payments end; there is a high predisposition to import for every unit of product produced. Thus, the secondary benefits are earned by other countries, not by other regional economies within the country. Domestic industries with competing supplied inputs do not grow fast enough; and "potential" industries are discouraged from getting established.

Thus, we note how during the period of exchange controls in the country, the natural location of many industries were in Metropolitan Manila. Although the relatively advanced social investments in this area would nevertheless have attracted some industries to establish there if the policies surrounding industrialization were different, it is not an exaggeration to say that the industries established in that locality because of the primary need to reduce transport costs from the major source of supplies -- the international port of Manila -- and transport costs from the plant to the market of distribution, which was again largely to the well-off population of Manila and its environs. And the latter -- the actual product market -- was not purely a matter of accident, either. Those gaining the fruits of new employment opportunities were citizens relatively concentrated in Manila because the industries were getting established there.

<u>Variant II. Realistically-price-directed industrialization.</u>

This requires explaining. We may "idealize" our example by first adverting to a hypothetical example.

Consider a situation in which the national government undertakes a vigorous industrialization, using as instruments of policy a "realistic" pricing of all resources used in production. Investment attraction incentives abound, but they do not have any predisposition to cheapen <u>one</u> resource relative to all others; in short they have "neutral" effects on the pricing of all key production resources. Such a policy of industrialization imply the following instruments of policy:

(a) tax incentives which might be generous on exemptions of net profits taxation, not on exemptions from the net taxable income, (b) absence of unduly artificial minimum wages, (c) realistic foreign exchange rate policy, or one which does not go out of line with the official rate very much; (d) realistic interest rates, etc.

Under a regime of realistic pricing policies, industries are chosen which are in line with the economic resources available in a given country. The means of production (that is, capital equipment) will also be in accordance with the twin considerations of using economically efficient technology conditioned by the existing prices of the resource inputs as the entrepreneur sees them. Decisions on the use of equipment and even on the types of industries <u>interact</u> closely with the prices of resources.

Industrialization which proceeds under this setting will have a far higher employment impact on all the relatively more abundant resources used in production. In our country, obviously, the abundant resources are labor, land, and natural resources.

Thus, this type of industrialization also has far more profound impact on regional economies. For under this setting, labor-intensive and other domestic resource-intensive industries arise. And the growth of employment in dispersed regions of the economy have other secondary effects on the development of commerce and service industries, not to mention the further effect on the creation of other ancillary industries which complement the existence of demand.

Under this setting, the country is bound to develop industrial exports which are labor-intensive in character initially, while excess labor supplies continue to be so. It would also yield a pattern of export growth which depends on the use of land and natural resources. With additional qualifying incentives for exports of manufactures, even agricultural and mineral exports stand a chance of expanding.

If this pattern of industrialization is more conducive to the development of different centers of industry rather than concentration to limited geographic areas, it is furthermore conducive to self-sustaining growth of different regional economies. This is not an empty syllogism. Regional economic centers develop a force of their own. They generate new regional markets for goods in those places where a high concentration of wage and income earners settle. Ancillary industries develop based on natural "regional" import substitution. Of course, they also promote within the context of a national customs union, greater internal trade among various regions. Such a setup, moreover, generates forces of separate attractions for the migration of labor and capital at the national level. In short, it provides incentives which tend to disperse the regional movements of movable factors of production;

it prevents any premature migration, especially of labor to single areas of employment attraction, even when the employment opportunities are not fully well expanded.

However, the course of industrialization cannot be based along these hypothetical lines. The problem is that, at least, in our case, there are powerful forces inherent in the nature of economic policies which throw us out of line from the ideal. Yet, corrective policies ought to be recognized which might bring the combined forces of economic policy closer to this ideal. In line with this, suggestions have already been made by the present writer. (See references {8} and {9}).

What Are the Relevant National Policies?

The usual battery of industrial incentives available in the country, as embodied in the Investment Incentives Act of 1967 which is administered by the Board of Investment, is neutral (i.e., has nothing to say) with respect to regional economic development. The BOI has tried its best to incorporate within its industrial priorities formula a positive weight so that industries proposed which are located outside the Metropolitan Manila could get favored treatment. The results, insofar as our acquaintance with their attempt is concerned, show that the ranking industrial priorities are not affected at all.

This result is not surprising. Within the framework of total BOI perspectives, many other factors are taken into account; regional location is only one of them. Second, proposals for new industrial enterprises are critically dependent on the pattern of industrial protection and general economic policy, which is biased in favor of industrial location (still) within the Metropolitan Manila industrial complex. Finally, the industrial priorities formula is not the crucial policy variable for inducing regional dispersal of industries.

The critical policy variables lie in exchange rate, transport and infrastructure, interest rate, tax, wage, and industrial estate policies. We shall try to devote some effort therefore in developing these points.

Exchange Rate Policy

We have documented the enormous shifts of income growth soon after the government adopted a sudden liberalization of exchange controls, in a policy widely known as "decontrol". (See {6}. Because this policy has powerful across-the-board impact on economic activities, it is an effective policy instrument for correcting price incentives as between industries and regions, when the price incentives implied by a foreign exchange rate policy go far out of line as to be inimical to further economic expansion.

Thus, after decontrol, agricultural and resource-oriented industries became more favored, when previously they were at the tail of economic priorities even in the view of private businessmen making investment decisions.

It also helped to remove the same artificial demand for industrial location in the Metropolitan Manila region. This is only partial, however; industrial incentives policy has impliedly favored still import dependent industrialization as an after effect of the system of tariff protection, which replaced exchange controls as an instrument of policy. (See {4} and {7}). Nevertheless, it has encouraged a more healthy direction of regional investments from the standpoint of regional location.

Thus, decisions on exchange rate policy in Manila are not remotely related to the pace of regional development. When exchange rate policy undervalues imports, especially of industrial raw materials, actual and potential industries located outside the major ports of international trade suffer. Consequently, the development of other regional economies is impaired.

Transport and Other Infrastructure Policy

One well recognized duty of government is the provision of social overhead facilities which are conducive to a healthy flow of economic activity. This can be roads and bridges, ports (air and sea), public utilities, including the provision of cheap power, irrigation facilities, etc.

This enumeration is almost platitudinous. Yet, national government decisions on the allocation of scarce funds available for infrastructure projects require the recognition that these projects be weighed heavily in terms of the social and economic benefits they generate, and translated in relation to their impact on income, employment, and regional development. It also requires the recognition of the basic principle that the government must be able to channel any increased resources it might generate from taxes and public borrowing into investment projects.

Interest Rate and Lending Policies

Interest rate policy of long term finance and commercial institutions as practised in our country is, on the whole, uniform. Since the interest rate is an important determinant of the cost of capital, no effective discrimination is exercised by government in the course investment decisions by investors to give regional dispersal of industries a meaningful weight. There is a case to be made for interest rates to be lower in regions outside of the industrial area which is most heavily favored by fairly advanced infrastructure investment, such as the environs of Metropolitan Manila. Such a policy reduces the burden shouldered by a firm in setting up within a region where transport costs and economic infrastructure are more disadvantageous. (A further qualification is suggested towards the end of this subsection.)

With the interest rate as the rationing instrument for investment funds, lending institutions immediately become the conscious instruments for promoting regional economic development. A realistic spread should probably be a 2 to 4 per cent interest rate differential, provided the basic rate is sufficiently realistic in the sense that it reflects, more or less, the scarcity premium to capital. In short, the basic interest rate should not be too low as to make it a meaningless guideline to industrial investors. Thus, if present longterm rates of interest are at, say, 10 per cent per annum, setting the basic rate at 12 per cent might be more helpful in balancing the objectives of realistic pricing than one based on 10 per cent. {The 12 per cent ceiling is due to the anti-usury law.}

Some information on the regional patterns of commercial and longterm funds may be gleaned from the following tables. Table 1 shows the consolidated outstanding loans portfolios of three major government financial institutions -- the Development Bank of the Philippines, Philippine National Bank, and the Government Service Insurance System. While between 1961 to 1966 the total loan portfolios of these institutions almost doubled, their regional lending patterns have remained stable. Metropolitan Manila received about 32 per cent of total loans. There is an illusion which makes the share of Metropolitan Manila even larger, but our data were not detailed enough to show the exact magnitude. Provinces in Central and Southern Luzon, located in the periphery of Metropolitan Manila, could very well account for close to two-thirds of loans going to these regions. Thus, the total loans benefiting Metropolitan Manila could very well reach a little over 50 per cent of the loans outstanding.

TABLE 1. CONSOLIDATED TOTAL LOANS OUTSTANDING OF THE DBP + PNB + GSIS (In Thousand Pesos)

	1961	Percentage Distribution	1966	Percentage Distribution
Metropolitan Manila	698,276*	32.19	1,352,862	31.64
Northern Luzon and Central Luzon	335,754	15.48	692,337	16.19
Southern Luzon and Bicol	447,077	20.62	924,000	21.61
Eastern Visayas	145,806	6.72	274,476	6.42
Western Visayas	353,118	16.29	586,410	13.71
Northern Mindanao, Southern Mindanao	188,692	8.70	446,267	10.43
Total, Philippines	2,168,723*	100.00	4,276,352	100.00

Source: Annual Reports of three institutions, plus unpublished information. The SSS was not included, because their lendings by regional classifications could not be made available to us.

*Excluding PNB loans for Metropolitan Manila.

Table 2 further dramatizes the flow of savings funds by regions. The data are derived from the loans and deposits portfolio of the Philippine National Bank, the largest commercial bank in the country. The bank obviously scoops up savings in some regions and transfers them to other regions as loans to finance demand for funds, a traditional function of banks. Ratios of loans to deposits are reported, and in the last two columns, the actual values of the loans and deposits aggregated for 1961 to 1967 are given. Some regions are therefore obviously net exporters of savings while some are net debtors. The PNB portfolio, as is well-known, has been heavily inclined to sugar financing. And Central and Southern Luzon as well as Western Visayas, the seat of the sugar industry, have in fact been fed with funds supplied by thrifty Ilocanos and even East Visayans and the people from the "land of promise"-- Mindanao.[2]

Such stable patterns of financing flows (as observed in the two cited tables) could be changed drastically if we reconsider the necessity of using discriminatory interest rate policies against centers of heavy commerce and industry as well as raising the interest rate on the most profitable, highly subsidized export industries (because of the US price premium) -- sugar. The last proposal may be a product of pure

[2]The data on loans and deposits in Metropolitan Manila in the case of PNB are incomplete to make us very guarded in making statements about Metropolitan Manila.

TABLE 2. RATIO OF PNB LOANS TO PNB DEPOSITS (PER CENT)

	1961	1962	1963	1964	1965	1966	1967	(Total) 61-67	1961-67 (Total) Loans (Million Pesos)	Deposits
All Regions (excl. Met. Manila)	110	108	111	140	153	144	144	132	4,112	3,125
Northern Luzon	38	43	44	57	58	50	59	51	261	509
Central Luzon	131	135	184	241	254	223	210	196	1,005	514
Southern Luzon	119	118	105	129	134	120	139	124	653	525
East Visayas	66	62	54	81	93	97	95	79	336	423
West Visayas	212	194	211	244	305	329	321	260	1,413	543
Mindanao and Sulu	66	65	60	80	82	76	76	73	444	611
Metropolitan Manila	-	-	90	40	33	38	25	34	231*	680**

*Aggregates of Total Outstanding from 1963-67.

**Aggregates of Total Deposits from 1963-67.

Source: Basic data courtesy of the PNB

wishful thinking, knowing as we do that the sugar premium has benefited only a minor segment of the populace, but that the sugar interests are highly entrenched in governmental decision-making machineries.

Wage Policy

Minimum wage policy is one controversial piece of legislation which is inimical, at our level of economic development, to greater employment creation in industry. There is no doubt that it is beneficial to those relatively few laborers who are able to earn gainful occupations under its shield. There is, of course, a two-way minimum wage, depending on whether an activity is classified as industrial (including large, commercial) or agricultural.

Some suggestions have been recently proposed by the writer (see {8} and {9} on how the high cost of industrial labor can be reduced, especially in export-related industries. But there are alternative, or supplementary, variations of getting about the minimum wage law problem, which imaginative local leaders can pressure Congress to think about. If they can introduce a clause, which would allow their localities to be exempted from the coverage of the minimum wage law, they might be able to generate more progress in terms of greater industrial development. We recognize that for any one to talk about such proposals is almost to become leprous, especially among politicians. But a fairly attractive compromise which allows exemptions from this law of specific regions, especially when they establish industrial estates, or which allows different regions to compete in setting their own minimum wage floors, which cannot be altered within, say, 5 year intervals, could provide an important dose of policy, which will benefit the imaginative regions a great deal.

Needless to say, a combination of discriminatory interest rate policy and differentiated minimum wages by regions could provide the attractive package that can stimulate the rapid development of some regions.

Industrial Estate Policy

Much talk has been made in the past few years about establishing industrial estates in the country. Some of it has been related with the rush to establish many regional development authorities, which suddenly became fashionable in the early 1960's.

Once decisions about specific industrial estates are made by the government and supported fully by it, it is hallelujah! for the locality immediately rewarded. But even for those regions not specifically rewarded by what might have been equivalent in the old days as a royal charter, it need not mean despair.

Thus, in searching for relevant experience with respect to the future impact of the Mariveles free trade zone recently established by law and now being speeded up for completion, it will be sufficient to quote a paragraph pertaining to the Kaoshiung Export Processing Zone (KEPZ) in Taiwan in our recent study of developments in that country. (See {7}, pp. 68-9).

> "{One} impact {of the export processing zone} is the {promotion of} linkage towards other industrial and raw material supplies industries within Taiwan itself. The evidence of this is not yet completely analyzed, but the preliminary impressions at the KEPZ seem to show this. This should dispel the argument that export processing zones tend to become 're-export' enclaves, with little effects on local raw material and capital goods supplying industries. The trick, of course, is that domestic sales to KEPZ enterprises are treated like imports (which are given liberal terms) by the same enterprises. That is, domestic sales to KEPZ are like exports to KEPZ! There are savings effected in terms of time, transport, and production costs by KEPZ enterprises by buying locally. Since imports of raw materials and equipment are also available at cheap rates from abroad, competitive efficiency among raw materials and industrial equipment suppliers is assured and comparable quality is maintained. Thus, the KEPZ industries have provided a source of indirect exports of the Taiwan economy, although these do not enter the export trade statistics."

Tax Policy

Tax policy, like interest rate policy, has been on the whole nondiscriminatory with respect to regional orientation. Again, we can make a good case for a tax policy which directly promotes regional economic development.

We shall discuss the tax powers available to regional economies under the heading of regional policies. Indeed, on this matter, Congress has enacted laws which have been applied uniformly to local governments. The arena of improving the fiscal base of the community therefore depends on leadership and initiative at the local level, with the institutional relationships already defined.

An example of a tax policy which favors conscious regional development is provided by Brazil.[3] We shall outline the bare bones of this scheme and then summarize the evaluation of its success as recently made by Hirschman. (See {2}).

Tax credit scheme for the Brazilian Northeast. A scheme established in 1961 and amended in 1963 gave permission to all Brazilian corporations to save one-half of their income tax liability so long as their savings are invested in projects approved by a development agency in the backward area of Northeast Brazil. With an income tax rate of 30 per cent, the corporate tax savings amount to about 15 per cent of the income tax and therefore represent a substantial sum. The tax savings are initially deposited in blocked accounts at the Bank of Northeast Brazil (BNB), and they revert to the Brazilian treasury if after three years they do not get committed to a specific project in the Northeast.

Tax savings invested are matched with "fresh" funds, i.e., non-tax savings. But this matching occurs only at the

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[3]Very much the same scheme had already been in use in Italy before Brazil adopted this scheme; see {1}.

level of the project, not at the taxpayer's level. The taxpayer may contribute his deposits to a venture organized by a corporate group willing to contribute the complementary fresh funds. The BNB can extend up to 50 per cent of the needed capital at the highly advantageous interest rate of 12 per cent compared with the usual commercial bank rates of 30 to 40 per cent. Thus, an industrial project needs only about 25 per cent of tax-savings deposits matched equally by another 25 per cent of fresh funds. The rest, 50 per cent, can come from the loan from BNB. A few other more advantageous financing features are included in the case of high-priority projects.

The scheme has attracted a continuing and increasingly encouraging flow of new savings from the developed regions of Brazil to the less developed Northeastern part. And the results are just beginning to unfold in grand fashion. Says Hirschman:

> "The current industrialization, brought under way by the {tax credit} scheme, is by far the most significant advance to take place in Brazil's Northeast for many decades; it is probably the most encouraging growth story to come out of Brazil since the fifties boom."

Hirschman has also noted one interesting by-product of the tax-credit mechanism. "Several large firms, which have remained closely held corporations in the {developed} South, have dozens of partners in the Northeastern subsidiaries. As a result, the corporate structure of firms in the backward are is more modern than that in the Center-South."

Certainly, a careful study should be made of whether the same policy, or a variant of it, can be adapted to our national economy. Our guess is that there is much that may be learned from this scheme as a means of encouraging new industries and internal capital flows to poorer regional economies.

REGIONAL POLICIES

We now move to the second part of our paper. Given all the national policies, what can regional economic units do to ensure that they are able to partake of a greater share in national economic progress? This, to a large extent, depends basically and firstly on a noneconomic variable -- the quality and imaginativeness of local leadership in appropriating the economic variables for their own advantage.

In one sense, it may be said that the success of other developing countries -- Hongkong, Taiwan, and South Korea -- in pursuing more rapid rates of progress than some other less developed countries, our country included, is that they have been able to seize opportunities which were naturally just as open to us, but which we have failed to appropriate. Thus, their industries have been initially in fairly labor-intensive lines of manufactures which have found even potentially large export markets in other countries. Now, they are surging fast and ahead of us. (See {7}).

In a parallel manner, an imaginative local leadership can take advantage of situations which are open to other regional economies, but which the latter forfeit. Such initial advantage can be highly decisive in promoting a rapid rate of development, especially at the initial phase of development.

We shall mention only two important regional policies that local units can consciously undertake. They are equally important, and, in a sense, one depends on the other. Firstly, local governments ought to know all their tax powers and maximize their collective efficiency. Secondly, local governments ought to have some development plan or perspective which enables them to see what they can achieve within their inventory of existing resources and to expand these resources.

Tax Powers of Local Governments

In addition to their share of national internal revenue taxes, local governments have limited tax powers, so that they should be able to exercise these more fully.[4]

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[4]Under several laws, these tax powers are:

(a) For cities and municipalities (Local Autonomy Act, RA 2264):
- (1) imposing license taxes on persons and businesses doing business within local units;
- (2) charging fees for services rendered by the local unit (e.g., operation of public market and abbatoir) and for reimbursement of the cost of regulating business (e.g., construction regulation permits); and
- (3) levying of other tax, except those specifically reserved for the national government.

An interesting study conducted in 1966 by the Joint Legislative-Executive Tax Commission gives us a summary of the level of awareness and utilization of tax powers by local governments. The study was a survey of the tax structures of Manila, its three neighbor cities of Caloocan, Pasay, and Quezon and of seven municipalities of the province of Rizal, all the progressive towns that form part of Metropolitan Manila, including Makati. Thus, we have the sample of the most economically progressive regional economies of the country. In addition, three other much poorer municipalities from Cavite, Laguna, and Bulacan were included.

The major findings of this study are summarized below:

(a) About 80 per cent of total income came from four tax sources: the internal revenue allotment, real property tax, municipal licenses, and receipts from operations. Of these, the internal revenue allotment accounted for 33 per cent, showing high dependence on national assistance.

(b) For cities (under special charters):
(1) additional tax powers granted under the city charter, including permission to impose real property taxes. {For Manila a flat rate of 1 1/2 per cent is provided; for some cities (like Quezon, Caloocan, and Pasay) a ceiling rate not exceeding 2 per cent.}

(c) For provinces and municipalities (Assessment Law, C.A. 470, amended): - real property taxes at the following allowable range of rates of assessed value:

provinces - from 1/8 of 1 per cent to 1/2 of 1 per cent
municipalities - from 1/4 of 1 per cent to 1/2 of 1 per cent.

(b) Of the internal revenue allotment, the "excess income" allotment represents the biggest share for the rich local units (more will be said on this below).

(c) Local taxing powers were not fully exercised. (Examples: In three cities, authorized <u>maximum</u> real property tax and imposition of sales tax was not availed of; the gasoline tax, local licenses and fees were conspiciously low.)

(d) A considerable number of businesses and individuals subject to local taxation were not included in the tax rolls.

(e) The local tax system suffered from low collection efficiency. Only about 46 per cent of taxes were collected when due; of the delinquent taxes, only about one-half were collected subsequently.

(f) There was no systematic classification of taxable subjects. Tax ordinances were not codified in two municipalities.

(g) Cities receivedmore income than municipalities, thereby encouraging "citification," because of bigger shares in allotments and greater taxing powers.

(h) The local tax system played a minor role in the establishment of industries.

Any one of the above findings could very well have been made by a World Bank survey team assessing the tax system of a less developed country. The point of the matter is that these

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(d) <u>For cities and municipalities</u> (R.A. 1435, 1956)
Additional powers to impose a tax on gasoline in addition to those levied by the national government, but not exceeding 1/4 of the national rates.

(e) <u>For Barrios</u> (Barrio Charter, RA 3590):
Barrios can impose an additional real property tax not exceeding 1/4 of 1 per cent.

These are all summarized in {3}.

findings reflect the local tax finance structure of the most advanced segments of the Philippine economy. The most undeveloped regional economies almost certainly present a sorrier picture. This therefore leaves a lot of elbow room for leaders of local regional economic and political units to exercise their imagination in increasing their tax resources, and, consequently, harness these for economic development.

To understand why increased development of the local economic units is a critical aspect in increasing tax resources considerably (aside from the fact that existing tax laws can be tapped more imaginatively), we only have to examine the internal revenue collection sharing formula. Table 3 shows the current distribution formula of internal revenue collections, excluding the amount which accrues to the Highway Special Fund (which, incidentally, also represents a potential source of increasing local development resources in terms of roads and bridges).

The last item, called "excess income", is the most important source of revenues of the richer local government units, as seen in Table 4. The "excess" is defined with respect to a fixed base set as the income tax collections Fiscal Year 1959 (in accordance with an amendment of the internal revenue code to increase local tax finances). Thus, the "excess income" is the difference of the income tax collections over this fixed base. Chartered cities get a 30 per cent allotment, i.e., the share of the province (10 per cent) and of

TABLE 3. DISTRIBUTION FORMULA OF INTERNAL REVENUE COLLECTIONS
(Excluding amount which accrues to Highway Special Fund)

Taxes	National	Provinces[a]	Municipalities[a]
Group A - (Distributed on the basis of population).			
1. Income	95%	2½%	2½%
2. Estate, gift and inheritance	95%	2½%	2½%
3. Residence	50%	25%	25%
4. Agricultural products	3/7	3/7	1/7
5. All other internal revenue taxes	88%	10%	2%
Group B - (Distributed on the basis of amount collected).			
1. Franchise	1/5	1/5	3/5
2. Mining Tax	80%	10%	10%
3. Forestry surcharge	50%	-	50%
4. Mine rentals	-	50%	50%
5. Weights and Measures	-	50%	50%
6. Excess Income[b]	70%	10%	20%

[a] A chartered city receives one share as a province and another share as a municipality, except in residence tax where it shares only as a municipality.

[b] The difference between total collection in any fiscal year from that of Fiscal Year 1959's collection is considered the excess.

Source: See Reference {3}, p. 9.

TABLE 4. EXCESS INCOME TAX ALLOTMENTS AS A PER CENT OF LOCAL TAX REVENUES -- MANILA AND ENVIRONS

Manila	67.0	
Neighboring Cities	41.3	
Quezon City		53.0
Pasay City		*
Caloocan City		12.8
Neighboring Municipalities of Rizal	90.9	
Makati		96.1
Mandaluyong		92.4
Pasig		85.1
Malabon		70.8
San Juan		-- (nil)
Parañaque		40.5
Marikina		92.2
Valenzuela (Bulacan)		56.0

Source: See Reference {3}, p. 11.

*As to Pasay City, the practice is to get their excess income tax allotment once every two years.

the municipality (20 per cent) put together.

If this sharing formula is not altered,[5] any increases in income tax collections, coming either from an increased income tax base (through further regional development) or from an improvement in collective efficiency, which exceed the 1959 base, can have a substantial impact on local revenue resources.

One result of the excess income tax revenue sharing formula is a further documentation of the propensity of our countrymen to respond correctly to monetary incentives. It is a good sign for economic development practitioners, which brings to light the importance of the incentive instrument used in inducing a positive entrepreneurial response whether at the local level or at the national. This is best described from the description of the phenomenon which has been called "payment-grabbing," in the Joint Legislative-Executive Tax Commission study {3}:

> "This involves the inducing of taxpayers to pay in certain localities, usually accompanied by favors to the taxpayers. Many localities, for example, have successfully requested business firms to pay in their localities by promising that they will not impose additional, nor increase existing, local taxes. In some instances, political support; in others, they influenced business firms to transfer their tax payments to places suggested by them."

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[5]The Joint Legislative-Executive Tax Commission has recommended a revised sharing formula, which will reduce the "excess income" share by substituting a "moving year" base. (See {3}, p. 31).

Regional Development Perspectives

As a complement to the assessment of local tax powers and increasing resources, local governments must learn the art of inducing industries to come within their tax jurisdiction. This involves several things done at the same time. We shall only try to outline a few guidelines here, since expounding on them may require another occasion.

(a) Local governments must become fully aware of the inventory of their regional resources.

This means that they should initiate or encourage research, in the schools or universities within their centers, so that the local leaders become fully aware of the region's potentials. Base line studies, as they are called, are a prerequisite to these. It is encouraging that different work is going on along these lines -- at the level of the (1) regional development authorities when they do their functions[6], (2) the local governments, and (3) the national government. The Presidential Economic Staff, the Presidential Advisory Council on Public Works and Community Development, the National Economic Council jointly with the US Agency for International Development, and the University of the Philippines Local Government Center have all been undertaking related work.

The question foremost in our mind is to pose the question, what is the level of awareness of the local leaders and technical

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[6]For the multifarious problems of the regional development authorities, see {5}.

men surrounding them, about this work? It is reassuring that Iligan City and the Lanao provinces are harnessing the potentialities that Mindanao State University and the University of the Philippines can contribute to their goal of expanding economic opportunities in their region.

(b) Local governments must be aware of national plans and priorities.

It may be that some regions have something to offer, given some knowledge of their regional resources, to the achievement of national goals and industrial priorities. This requires familiarity among local leaders of the industrial and agricultural programs, consultations with relevant units of the national government, and, most of all, the basket of industrial incentives available to all investors in the country. Local governments must have familiarity with the industrial priorities program as set out in the Board of Investment.

(c) Local governments must make their plans and activities known, especially at the national scene.

If they are to succeed, local regional units should have their plans and activities projected at the national level and, at a much higher stage of industrial development, even at the international level. This requires, essentially, the art of salesmanship. A program of investment attraction into the region should be pursued. In short, inducements must be made so that all forms of "foreign" investments, in the sense of coming from outside the region (whether actually foreign or national, it does not matter), can begin to consider the region as a potential regional location. This is also a requisite so that local citizens with investible funds are not attracted to invest in other regions. Perhaps this can be done by undertaking periodic advertisements in the trade journals and the national newspapers of wide circulation, and by circulating offprints of these or special pamphlets to prospective investors.

Those regions, like Iligan-Lanao, which already have an industrial base, can begin to take advantage of arguments such as enormous economies of scale that greater industrial concentration can give. Those regions without any headstart can parade the advantages that can be derived by potential "foreign" investors by citing their resources, their plans, and, most specifically, the incentives package they have to offer to new investors.

Most of all, it must be recognized that potential investors look at the tax incentives that regions can offer . . with one eye. Thus, local governments must learn to device, as some of the more progressive ones can tell from their experience, tax exemption laws which are sufficiently attractive. It is not paradoxical that the seemingly contradictory statement that follows is oftentimes true. To earn more taxes and to generate more growth, some taxes have to be foregone. We have to add, of course, the phrase "at the beginning."

It must be added that local governments have to complement tax incentives with a conducive investment climate, for this is where most investors probably use both their eyes not once but several times before they go ahead with their plans.

(d) Local governments must have a program of continuing self-improvement.

Local governments must put their resources wisely so that they can use them for improving investment in their environmental facilities. This requires some conscious infrastructure planning, including power and public utilities, and continuing education of the local citizenry towards achieving the regional goals, as planned. In this regard, they must be able to complement their view of the industrial future by encouraging the establishment of manpower development centers geared to their local requirements. In this regard, they ought to become familiar with what the recent manpower development act can do to their plans of labor upgrading within their region.

But, also, they should become aware of the restraints, maybe through special ordinances or self-policing, that have to be exercised by some local elements, who are unaware or unmindful of the region's economic future. In this regard, all we have to do is quote in part, a thoughtful editorial of the Manila Times on February 19, 1968, entitled "Industrial dispersal and local harassment."

"It is to the interest of suburban towns and cities to attract industrial establishments for a number of reasons. Factories mean more employment. They stimulate the development of other commercial and business activity in the area. And they pay taxes which could be very useful to the local government for its own development efforts.

"It is unfortunate, however, that in a few recent cases, some local town officials seem to have ignored these benefits of industrial dispersal and have, instead, chosen to consider new factories as targets for harassment. Sometime ago, one cement plant shut down in one town in Bulacan, reportedly after some officials made unreasonable financial and employment demands. There have been reports of similar demands made on newly established plants in the area along the South Superhighway....

"There should be no dispute as to the benefits that new industries can bring to local governments. More widespread industrial dispersal could pave the way for the uplift of our rural areas. For local officials, therefore, to insist on making unreasonable demands on new factories may be like killing the proverbial goose that lays the golden egg.

"In some disputes, the blame may lie on both sides. But it should not be too difficult for local officials and the management of new factories to come to agreements for their mutual benefit, and for the benefit of the economic development of the nation as a whole."

Not all local governments will be able to accomplish all the above guidelines. But some of them which are led by leaders with a vision of the future will certainly find means of taking them into account.

CONCLUSION

The dynamics of regional development depends on how national policies promote national economic development and on how these policies exercise a discriminatory influence on the flow of investment resources to other less developed regions. It also depends on how local governments harness the advantages that are open to them.

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