The Parana' Pertinence
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Abstract

The following research essay is a case study of the Brazilian State of Parana’, with a specific focus on the municipality of Toledo. Toledo is an example of a municipality that operates a locally driven, funded and managed economic development program. The success that Toledo experienced during the 1980s raises the question of whether this type of program could offer a possible solution to economic decline in Australia’s secondary cities.

Key Words: Brazil, economy, development, regional, industry, decentralization.

The changing economic environment of the late 20th century has led to economic decline in many secondary cities. Old policies that attempted to attract industries from outside the region to initiate local economic growth were no longer as effective. Currently, there is growing empirical evidence that concludes that local growth is best achieved through an endogenous process (Ferguson 1992, p.246). This process encourages development that is initiated and organised from within a local community. Studies have suggested that this process could improve economic results in secondary cities. Endogenous development encompasses the idea of value adding. It supports the integration of local research, design, manufacturing and marketing. These elements combine to initiate firm development and job creation that exclusively benefit the local community.

Local economic development is a process where local government and/or community based groups work towards better management of their existing resources. These groups often enter into partnerships with the private sector to encourage economic activity and create new jobs. This economic activity is instigated through the use of local resident’s money and skills to create new industries (Zaatier and Sara 1993, p.129). For a local economic development program to succeed you need an association between local government, business leaders and the local community. Then a program needs positive interaction between these three groups. In Toledo this interaction was present, and is one reason why the local economic development program in this area of Brazil was so successful.

One of the main problems for the agricultural based municipality of Parana’ was the Brazilian military dictatorship’s government policies that were implemented during the 1970s (Ferguson 1992, p.248). These policies were aimed at encouraging aggregate growth in Brazil with little regard for the social costs. This government was never held accountable to the Brazilian people because between 1964 and 1985 it operated a military technocratic regime. When this dictatorship began to crumble in the late 1980s, the problems of social inequality and the declining rural sector that had appeared during the last 10 years became apparent (Goulet 1989, pp. 99-100). During the 1980s Brazil was severely affected by a financial crisis. In 1986 the reduction in foreign investment was acute. The Central Bank estimated that the level of did-
investment amounted to up to one hundred million dollars (OCED 1986, p.62). All of these elements combined to produce a depressed economic environment.

The state of Parana’ was facing the same situation of economic decline as the rest of Brazil during the early 1980s. Traditionally Brazil had followed a pattern of development that followed waves initiated by a number of different agricultural crops. This had led to an uneven development pattern following a boom and bust cycle which created an uneven regional distribution pattern (Hansen, Higgins, Savoie 1990, p.238). Of the 311 municipalities that operated in Parana’, eighty per cent of them were economically reliant on farming and livestock production (Ferguson 1992, p.245). The dominance of agriculture produced an economy that was unstable and linked to the fluctuations of the world economy. Agriculture dependent areas also generate relatively little tax, so local governments were forced to attract industrial development into the area to raise the available tax base. The cost of attracting industrial companies is high and the long-term benefits questionable (Sengenberger 1993, p.319). Despite these disadvantages the area of Parana’, like many other areas, followed this regional development path.

To encourage the relocation of industries to Parana’ local municipalities were forced to install large tracts of infrastructure, offer free land and tax breaks. Despite these attempts Parana’ found it increasingly difficult to attract industries for varying reasons. The regular stimulus for industry relocation in other countries was a national program of decentralisation. Industries were moving out of the large industrial centres to reduce land, infrastructure, congestion and labour costs. In Brazil during the 1980s there is little documented evidence that there was a large difference in salaries and productivity costs between the large cities and the outlying centres (Ferguson 1992, p.246). Therefore in Brazil there was little stimulus to encourage a broad-based decentralisation program. A situation was created because industries were expensive to lure out of the major cities, and even more difficult to retain (Sengenberger 1993, p.319). This occurred because the industries attracted were usually side factories, not the large central plants that stayed in the larger cities such as Sao Paulo. In times of economic recession these side factories were the first to close in any company downsizing, creating widespread economic disadvantages in the secondary centres.

Another negative effect on Brazil was the changing world market. The demand for coffee, Brazil’s traditional agricultural crop, was declining. With the decline of coffee there was an increased demand for soy beans which is a crop that is less labour intensive and more mechanical (Ferguson 1992, p. 248). All of these elements combined to produce massive immigration from the outlying rural towns towards the secondary centres.

These increased pressures thrust the government of the local municipalities into economic and social crisis.

- **In growing numbers the victims of economic dictatorship came pounding on the doors of the country’s 4000 municipios for relief, if not for redress.**
  (Goulet 1989, p.110).

This pressure was felt throughout Parana’; forty per cent of the 311 municipalities were unable to contend with the difficulties and have subsequently lost population in
the last two decades (Ferguson 1992, p.249). The other sixty per cent have fought the national government to implement a decentralisation policy, to force a new split in the countries’ resource distribution policy. The state of Parana’ was one of the leading campaigners for this economic restructuring (Goulet 1989, pp. 110-115). The changes were slow in arriving and it was largely left to the local municipality to reorganise the local economy and lift it from spiralling recession. A decentralisation program was implemented but the national government left the municipal level with more issues under their direct control with little extra funding (Armstrong and Taylor 1993, p.263). At the same time as this decentralisation program, the central government were failing to provide any answers to combat the widespread economic decline that was being experienced by most of Brazil (Wilson 1996, p.206). It is in this context that the success of Toledo needs to be measured to understand how successful it has been facing this economic environment.

This situation forced municipalities in Parana’ to think innovatively on the problem of encouraging local economic development. The national government was not providing the answers to fix the economic decline in Parana’. The power for economic development remained with the national government and was not officially decentralised. Some municipalities did use their local autonomy in the region to promote local economic development. In most cases the municipalities were forced to provide the answers, with little extra funding from the national government. This meant that the local government had to strengthen the local economy by improving management practices and revenue generation through the streamlining of the tax collection process. They also implemented policies of cost recovery on municipal service provision and privatised enterprises and services (Wilson 1996, p.206). The policy of local economic development recognised that available funds were better spent on local transport, communication, technical services, education and housing. This made the area a more attractive place for both local and external investors. It was a policy that emphasised qualitative rather than quantitative growth (Sengenberger 1993, p.326). Overall, local economic involvement in Latin America has remained slow (Wilson 1996, p.207). There have been examples such as Toledo however where programs have started and have been a notable success.

To understand the answers to the problems of local economic development it is important to understand the political arrangement in Brazil. The municipality is the only level of local government. These municipalities normally include both an urban area and a rural area. These secondary centres are one reason why the policy of local economic development worked so well in this case. The secondary city of Toledo was the perfect size for local development efforts. Toledo was big enough to enjoy urban amenities and the benefits of economies of scale, while at the same time it was small enough to avoid congestion, pollution and social problems that were a common problem in the larger centres (Ferguson 1992, p.246).

Toledo was the perfect size for local economic development policies to work but this was not the only reason for its success. For the process to work it is vital that the municipality has a number of active interest groups. A municipality needs a local community that is prepared to become actively involved, an entrepreneurial business community and a strong, innovative local government (Sengenberger 1993, p.322).
Toledo has a different historical settlement pattern than the majority of Brazil. The area of Toledo was settled by migrants from the south of Brazil who were family farmers of German and Italian descent. The distinction between this settlement pattern and the broader experience of Brazil is vital. Most of Brazil’s population settled on large plantations that were run using low paid immigrant workers and slaves. The history of Toledo had encouraged the building of a cooperative tradition that was needed for local economic policies to work. One of the first examples of this cooperative tradition in Toledo was a soft drink company that established in the city in 1974. The city hall donated land and many residents were persuaded to buy stocks in this company. The company was a fraud and did not deliver on the promises that it had made. Despite the mediocrity of their product, the residents continued to drink the product believing it was for the betterment of the whole community (Ferguson 1992, p.249). The cooperative tradition of the community combined to be the driving strength and wisdom behind the success of local economic programs in Toledo (Wilson 1996, p.212). Toledo’s success can be partly explained through the communities’ acknowledgment of the problems and their eagerness to fix them. Few of the local economic programs throughout the world recognised and engaged the energy of the local people to the point that Toledo did.

The strength of Toledo’s business community was built on the dominance of two main industrial organisations. The leading industry SADIA that consisted of a slaughterhouse and a meat packing plant employed 3034 local residents while the agricultural cooperative, COOPAGRO, employed 965 residents. The continual threat of economic decline and population loss had led to the creation of an organisation of the Association of Commerce and Industry of Toledo (ACIT). The president of this organisation was Albino Corazza who came to play one of the most vital roles in the reorganisation of Toledo’s economy. With the old economic policies and theories failing ACIT decided to promote a philosophy in the local community to retain and recycle local wealth by industrialising local raw materials (Ferguson 1992, p.250). A number of ideas were brainstormed within the ACIT organisation; this process included a consultation with the local community to hear their suggestions. They decided that the establishment of a local tannery would be the most economically viable option for Toledo. The local slaughterhouse could provide the raw materials and the local community already possessed many of the skills necessary to run a tannery business. Many feasibility studies were undertaken during 1980. It was approved and the tannery became Toledo’s first community industry on the 4th of August, 1980. The money to establish the tannery was raised locally using the reservoir of local investors and their strong belief in community input and cooperative traditions. The money was raised initially through 21 local wealthy investors and then through a slow process of persuading local families to also invest in the project. They succeeded, and funded entirely locally, the tannery began production in December of 1981. It was a huge success and helped to fund a number of other community projects during the next four years (Ferguson 1992, p.251).

The private business community stimulated the local economic development program in Toledo. The innovation of this group of people produced flow-on effects that infiltrated into the public sector. The president of the ACIT, Albino Corazza was elected mayor of Toledo in 1982. He played a vital role in promoting the local economic development initiatives and built the basic infrastructure that was needed to encourage new small and medium sized industries to establish in Toledo. Corazza
converted the image of Toledo from a declining agricultural region into a growing and economically prosperous regional centre. The role of Albino Corazza cannot be overstated. He harnessed the local community participation, improved the situation for the poor through a widespread expansion of social services, had personal links within the community and was respected by the business leaders. This respect between Corazza and the business leaders has also alleviated a common problem. There are normally suspicions between the public and the private sectors that are included in the establishment of a local plan. Corazza was a respected leader in both sectors, so he alleviated this basic distrust. He organised widespread publicity campaigns to change Toledo’s image and promote investment. Corazza also changed the image of local government within the local community. Latin America has had a tradition of conflict between citizens and their local government. It was common for the mayor to filter government funds to family, friends and business colleagues. Corazza helped to establish a tradition of ‘grassroots’ policies that actively informed the local people of the problems and took notice of their suggestions when deciding on a government response. In municipalities where funds are limited, the cooperation between community groups and governmental organisations can ensure the greatest benefits are reached from what funds are available (Ferguson 1992, Protest to Programs, p.12).

There were of course many problems associated with the local economic program in Toledo. There were examples where community industries became mismanaged. The basic problem was the lack of skilled managers. This resulted in these people being spread too thinly and losing the control of many of the new community industries. The situation was fuelled further when the lack of management led to production problems and ineffective marketing (Ferguson 1992, p.251). The community industries were forced to hire outside the Toledo area due to the deficiencies in the skill base among the local people. This subsequently led to the partial demolition of the whole structure of community ownership.

The problem, although important, should not mask the success of this policy change in the Toledo area. Between 1982 and 1985, when most of Brazil’s economy was stagnating, Toledo was experiencing rapid economic growth and a rise in newly established industries and connected service providers. This community driven industrialisation led to the creation of 3500 new jobs (Ferguson 1992, p.252). The industrialisation also had the added benefit of diversifying the local economy, making it more resilient to external influences such as world markets and national government decisions.

There are many problems that are encountered in local economic development policies. The first is that many critical economic and political parameters are set at the national level, out of the direct control of these local development groups. Secondly there are other factors such as pollution that originates outside the local area but can have a significant effect on the establishment of local economic programs in some instances. Thirdly, the policy can create problems of regional inequality where local areas appear from the distance to stand out "… as islands in a sea of stagnation" (Sengenberger 1993, p.325). Many local economic development plans have failed because of the high levels of control that are needed to be able to steer the movement of capital. This level of control is often the fatal weakness in local regional development. Toledo avoided the majority of these problems by having a local
government and business community that was united in their efforts. This level of agreement was unusual.

The new endogenous processes have been implemented in a number of secondary cities during the 1980s and 1990s. These areas include Toledo in Brazil, the subject of this case study. Toledo is not an isolated example; similar projects have also started in Cambe', a Brazilian municipality situated near Toledo. Lima, in Peru, has also begun a similar program (Zaaijer and Sara 1993, pp.127-141). This growth of local economic development programs shows that Latin America has the economic, social and political environment that leads these countries towards this type of development. Local economic development programs have also started in the United Kingdom and the United States, working with a different scale but with the same basic ideology.

It is important to realise that Toledo’s success does not imply that a regional or local authority can achieve long term economic success on their own. It is impossible for a regional authority to find all the relevant solutions within the local populations (Chisholm, 1990, p.107). The key to a long term, successful local economic development plan is to recognise the advantages of the local community and work in association with them, as well as the national government’s economic programs. It is important to avoid the situation where national and local governments are pulling in different directions. For the optimum advantage to be felt, using the available resources is vital for all elements to work together.

The benefit of a local economic development plan in Australia is still a highly debated issue. Australia has a number of disadvantages to overcome if a local regional development program is to be successful. Australia’s local entrepreneurs and small businesses have a lack of access to venture capital. These entrepreneurs also struggle to gain access to the most current information. These difficulties have created a general lack of entrepreneurial spirit and ability. There is also a lack of demand within the local market, and few policies that strongly encourage the use of locally produced goods and services (Cook and Hulme 1988, pp.225-226). These problems are a major hurdle to the construction of a local regional plan in Australia.

The vital cooperation between government, business and local population that was the driving force behind Toledo’s success is hard to imagine in Australia. The high levels of suspicion between both local business and local government are strongly established. Generally, there has also traditionally been a high level of community inactiveness and complacency towards local economic development plans. The areas of Australia that are most likely to achieve a successful local development policy appear to be the rural, agriculturally based communities. If an innovative local government was in office it would be possible, with complete involvement from local business, to create a local policy if at a smaller scale that was achieved in Toledo (McKinsey and Co. 1994, pp. 84-85).

The possibility that a local economic development plan could be successful in Australia can be improved. For this to happen it is vital that Australians create a learning environment that is conducive to improving Australia’s leadership personnel. This leadership stock needs to infiltrate both government and business sectors. Another change that needs to be made is a change in attitude at the federal level. Global economic crises such as that experienced during the 1980s will occur again.
The federal government must strive to create and economic environment that allows regional business and local government leaders to compete on the world market. Federally, the government must use decisive actions such as improving incentive structures and eliminating business constraints, to retain a level playing field for Australia’s innovative business and regional centres (McKinsey and Co. 1994, pp.8-9).

Toledo represents a very interesting case study on the question of local regional development. Toledo has been successful in establishing a local program but is now encountering a number of problems in maintaining the community industries. There are a number of points that are important in deciding whether a local economic development process would be successful. In Australia the traditions of strained government, business and community relations would make it difficult to create the cooperation levels that are the most important aspect in a local economic development plan. Despite the problems, there are tangible benefits to pursuing a local economic development plan and the possibility should be considered.

References


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