CHAPTER 4

Old Paradigms and New Crises

EDS writers observed the global economic crises of the 1970s and 1980s, some of them had been development practitioners/advisers during the postwar boom decades. Consequently, EDS writers had a very sober view concerning development perspectives within the capitalist system and criticized respective explanatory theories and models. Existing paradigms of economic and regional development deemed odd and unsuitable or were even thought to have collapsed (Öström 1983: 2). If the concept of a 'Fordist' postwar model was of limited explanatory strength (cf. Becker and Weissenbacher, forthcoming), Fordism was at best 'incomplete' in the global and European South. Giunta and Martinelli (1995: 196) would call the 'Fordist' model for the South of Italy 'limited and biased'. With the crisis of the 1970s, however, it became apparent that core countries were passing through a period of structural change as well. This very broadly dashed remaining hopes on 'trickle-down' and 'spill-over' effects.

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4.1 The Old Development Paradigm 'From Above'

In both, core and periphery, theory and practice had been dominated by modernization theory and liberal economic theory in its neo-classical and Keynesian variant (Nohlen and Schultze 1985: 26). These conventional theories were unapt to overcome dependencies because they were, as Seers (1979: 25) put it, 'developed in the interest of dominant countries and for dominant countries, taking for granted their structural characteristics and interest in free trade'. Furthermore, they had shaped also social scientists in the global periphery. 'In a sense', argued Seers (1980: 6),

> their theoretical equipment was twice removed from reality – it reflected the doctrines developed for *other* countries in response to *earlier* events.

Seers held the nineteenth-century European tradition of political economy responsible for the shortcomings of economic development doctrines in the twentieth century. They were being Eurocentric and full of belief in 'the civilizing role of modernization' and (technological) progress (Box 4.1). Ironically 'colonial powers felt little need for planning their own future, but became increasingly concerned about the economic plight of their territories' (Seers 1983: 98). 'Developments plans' were first mostly lists of public infrastructure programs (roads, ports, schools, etc.), in the neo-colonial era, economic growth projections became the nature of 'development':

> The underlying model is crude, often a simplistic version of Keynesianism, with no place for the major strategic issues, especially greater self-reliance. [...] In the last quarter century, plans have mostly been derived from the Harrod-Domar model [...], which treats investments as the determinant of economic growth. Estimates of investment needs have relied heavily on incremental capital output ratios (ICORS): [...] these show great variation, especially over periods as short as five years. In fact, they can have little meaning if they cover groups of industries with very different technologies, less if they refer to the whole economy. Output is anyway also affected by many factors besides capital – e.g., apart from education, improvements in the health of the workforce. [...] In brief, the plans have not been about development, which surely implies social and political progress as well as economic [...]. (Seers 1983: 98 and 100)

Box 4.1: Development of productive forces: the fetish of TNC capitalism?

Dudley Seers (1983: 38) argued that 'after the mainstream of classical thought split in two', the Chicago school and the traditional Marxist school, which Seers both labeled neo-classical schools, 'both continued to develop in the same buoyant atmosphere of the nineteenth century, a time when the possibilities opened up by industrialization still seemed limitless'. But then, after the second world war,

> the economism of the main neo-classical schools has implied treating development as a largely, even purely economic phenomenon. They […] take some definition of national income based on neo-classical conventions as measure. […] The important test of even a capitalist country's progress is, in Marxist terms, the growth of its 'productive forces': by one route or another, economic growth will – in their view – ultimately force a change in social relationships, to the benefit of the people as a whole. It is, of course, this emphasis on economic growth which largely explains the touching neo-classical faith that there has been development in the last few decades, despite increasing inequalities and political repression […]. Since these appear implicit in some high-growth patterns, one could make out a case for arguing that growth is negatively correlated with development. (Seers 1983: 40f.)

Indeed, contrary to Karl Marx's nineteenth-century expectations, the development of productive forces (labour/workers in combination with the means of production) has not lead to such conflicts with the relations of production (the economic material base with class relations between owners and not-owners of the means of production) that would change the social formation and the mode of production. Moreover, twentieth-century philosophers who followed Marx' work pointed out that the very force that Marx saw as instrumental to overcome capitalism turned into a force helping to justify or even to maintain it. The same Marx, as Ernst Bloch (2000: 241) put it,

> who drove the fetish character out of production, who believed he had analyzed, exorcised every irrationality from history as merely unexamined, uncomprehended and therefore operatively fateful obscurities of the class situation, who had banished every dream, every operative utopia, every telos circulating in religion from

> history, plays with his "forces of production," with the calculus of the "process of production" the same all too constitutive game, the same pantheism, mythicism, upholds for it the same ultimately utilizing, guiding power which Hegel upheld for the "Idea […]".

The expectations of Marx had been overly optimistic, Theodor Adorno (1972: 363) argued similarly, that the productive forces would burst the relations of production. Marx, the sworn enemy of German idealism, had kept its key historical narrative: Emphasizing the role of productive forces for social change resembled Hegel's 'Weltgeist' and turned into justifications for later versions of the social order that Marx intended to change.

Twentieth-century TNC capitalism fragments global workers to a higher degree (with highly polarised incomes), employs ever less wage labor due to high productivity (but accepts extreme labor-intensive conditions in the periphery), wastes resources (with the consequences for mankind), and establishes uneven consumption patterns. The relations of production are treated as 'given' in mainstream thinking, technological innovations are being sought for in order to cure social and environmental problems related to the global mode of production. The 'development of the productive forces' experiences a 'strange non-death' (to borrow a phrase from Colin Crouch 2011). Theodor Adorno (1972) had elaborated as early as 1968, shortly after the period Arrighi and Drangel consider transitional years (when industrial production ceased to be a core activity), the underlying issues of contemporary capitalism: 'Late capitalism or industrial society?' It was 'the current form of socially necessary appearance', he argued (Adorno 1972: 368f.), '[t]hat productive forces and relations of productions are seen as one today and therefore one could readily design society from the productive forces'. It was a necessary appearance for society because it integrated formerly distinctive elements of the 'social process', including people. Material production, distribution, consumption are administered in common, the boundaries of which become blurred: 'All is one. The totality of mediation processes ["Vermittlungsprozesse"], truly of the exchange principle, produces another deceptive immediacy. It allows for the possible forgetting of differences and antagonisms, contrary to one's own perception, or to repress them from consciousness' (Adorno 1972:

369). The ideology of core countries in late capitalism blocks the view at different development experiences (and narratives that might diverge from bottom-up capitalism as free market success story). Relations of production go beyond ownership of the means of production and include elements of the state and its administration. Adorno (1972: 363) calls this the 'role of the state as institutional capitalist ["Gesamtkapitalist"]' which seems compatible with the symbiotic relationship between states and companies which Arrighi and Drangel talked about (above). The productive forces seem to resemble general technical rationality, and a situation is created that appears as if 'the universal interest is that in the status quo, and full employment is the ideal and not the liberation from dependent labor. This situation, however, which is with regard of foreign affairs extremely unstable, anyway, constitutes a mere temporal balance, the resultant of forces which threaten to tear it apart. Within the dominant relations of production, mankind is virtually its own reserve labor force which must be supported' (ibid.).

The relations of production have survived, argues Adorno (ibid.), and have 'continued to subjugate the productive forces. The signature of this age is the predominance of the relations of production over the productive forces, which have mocked the conditions for some time' (ibid.). 'It is exactly this fetishism of the productive forces', the French sociologist Pierre Bourdieu (2005: 176) tied in with Ernst Bloch, 'that is echoed by the prophets of neoliberalism and the archpriests of monetary stability and D-mark'.

Stöhr (1983b: 120) described as development paradigm 'from above', 'center-down', and 'from outside' a dependency on global demand and on effects of global innovation centers that are being diffused to the periphery in hierarchical processes by means of private capital transfer and public funds (Stöhr 1983c: 284ff.; Stöhr 1981: 61). Development 'from above' for countries and regions aimed at reaching a high degree of

> industrialization and urbanization resembling the structures of the most developed countries today, by a unilineal process of increasing the use of capital, technology, and energy, and by utilizing ever-increasing agglomeration and scale economies in order to participate with increasing specialization in the world market according to their comparative advantages in

> factor endowment, which in fact rarely occurs precisely in this fashion […]. (Stöhr 1981: 61)

Different approaches were seen as belonging to the 'center-down' paradigm:

> The center-down paradigm has its roots in the balanced versus unbalanced growth controversy of the 1950s. It was argued that the poverty of the developing countries and of less-developed subnational areas is a result of the low productivity of labour, which is in part a function of an inadequate supply of physical capital. But the shortage of capital is attributable in large measure to the persistently low levels of saving – caused in turn by low income, thus completing the vicious circle of poverty. Because low incomes and a consequent lack of effective demand generally spell failure for any heavily concentrated investment in a single consumer-goods industry, the balanced growth advocates proposed that investment should be diversified over a broad range of such industries. Each industry, it was argued, would then generate, through its factor payments, a demand for the goods of the other industries sufficient to keep all of them viable. Investment projects that might be individually unprofitable would, taken together, be profitable […]. (Hansen 1981: 15)

The theory of *balanced growth* (important proponents were Ragnar Nurkse and Paul Rosenstein-Rodan) was soon questioned regarding the costs and state planning abilities of such a 'big push' of industrialization. Furthermore an open economy would have to deal with the import pressure on infant industries. Famous theorists of *unbalanced growth* are often referred to as polarization theorists. They formulated concepts of positive and negative effects from core on peripheral regions: Albert Hirschman (leading sectors, 'trickle down'-effects, polarization), John Friedmann (core–periphery model of regional development), Gunnar Myrdal ('spread effects' and 'backwash effects'), and François Perroux (growth poles of industrial sectors, originally in purely economic terms), whereupon the latter two were distinctively more pessimistic regarding the development of peripheral regions (Hansen 1981: 16ff.; Friedmann 1983: 148f.). The 'polarization school' was by no means a homogeneous group either. They seemed indeed mostly theorists and development planners from the core, drawing from 'development experience' in the core but also from work experience in the periphery. But Hirschman, for example, believed into market forces in order to counter inequalities and disparities, while Myrdal urged for government intervention, and Friedmann was markedly critical of the prevailing 'polarized' development doctrine (Friedmann and Weaver 1979: 115f.). 'Basically this model assumed', as Stöhr (1983b: 120) points out:

> that development has to emanate largely from world-wide effective innovation centers and world-wide demand, and to spread 'downwards' towards less developed nations and regions. This was supposed to have been enabled by a hierarchic diffusion of demand multipliers (for instance via the export base model), by a hierarchic process of diffusion of innovation, and by a transfer of private capital and public funds, respectively, from the highly developed to the low developed regions. Hereby this model assumed – even if often tacitly – that the development of weaker developed countries and regions had to be based on impulses 'from above' and 'from outside'.

Crucially, development theories 'from above' followed similar assumptions as the prevailing liberal economic perceptions of regional policy that assumed, economic backwardness and development disparities had endogenous causes leading to 'modernization deficits'. The remedy was seen to come from outside impulses. The proposed solutions were following objectives of a national or global economic policy and should be market-based. Economic imbalances were meant to be overcome by functional and spatial integration, structural differentiation and specialization through division of labor (Nohlen and Schultze 1985: 27). Such a liberal market-based paradigm of regional policy was following a special modeling logic:

1. The logic of modeling treated regions as functional regions without history and geography. There is no regional unity that is historically grown. The region is functionally determined by the framework of overall national economic development;
2. Functional integration and specialization by division of labor is necessary to reach equilibrium (facilitated through 'trickle-down' effects). Market equilibrium was to be reached in the long-term. Development disparities are being accepted in the short run (or even stimulated) because the economy overall must first grow before wealth reached by economic growth can be distributed regionally (convergence theory);

3. Regional policy was subordinated to the national economy, whereby infrastructure investments furthered functional integration (functional barriers to growth, allocation and integration are being removed) (Nohlen and Schultze 1985: 27c.).

Nohlen and Schultze (1985: 30c.) emphasize that Keynesian and neoclassical concepts of regional development do not differ in their strategies but in the instruments they apply. When neoclassical economic convergence between rich and poor regions had not appeared, argue (Stöhr and Tödtling 1979: 138), regional policies were introduced—'as crutches to try to make the neo-classical model work'—such as manipulation of factor prices (capital and employment incentives) and distribution of external resources (public infrastructure investments)' (Stöhr and Tödtling 1979: 138). Both concepts, so Nohlen and Schultze (1985: 30c.), assumed endogenous causes and exogenous impulses to overcome market imbalances. Functional integration and specialization were deemed necessary to reach equilibrium, which was made possible by trickle-down effects from growth poles of modern industries. Both concepts focus on growth of the overall economy and link regional policy to the needs of the entire state. They follow the logic of capital utilization that depends on constant growth and concentration, the negative impact of which they wanted to counter in the first place. Therefore the framework of the original processes is not being overcome. As far as the instruments are concerned, the neoclassical visions trusted that imbalances could be overcome by self-healing effects of market mechanisms. Labor migration into core regions would also increase the peripheral regions income. Keynesian remedies went beyond such a 'passive rehabilitation'. Funding for infrastructure development was accompanied by direct and indirect investment incentives (subsidies, tax incentives) in order to stimulate growth and employment. Often such stimulation efforts for modern and capital intensive sectors could not recruit employment regionally and therefore had effects outside the region. 'The current doctrine', as Friedmann and Weaver (1979: 172) pointed out,

> which is based on the theory of polarized development, is fully consistent with the transnational ideology of development; it is a willing instrument in the hands of managers of unequal development.

Two basic strategies for regional development came from neoclassical economic theory. The export base model developed in the 1950s relied on an expansion of (international) demand outside the region, in order to stimulate growth within the region and reduce imbalances. The main focus was the comparative advantage in strategic raw material production plus attached industrial production. It was assumed that the setup and stimulation of an export production will increase overall demand because income for the region would also raise demand for goods and services from the region itself. This was supposed to have an expansive multiplier effect. Diversifying export production and increasing real income would create endogenous growth, short-time imbalances, and long-term equilibrium of development disparities via market mechanisms (Nohlen and Schultze 1985: 27c.). Also from the 1950s on, the growth poles concept assumed a pilot effect of modern industries being outsourced into peripheral regions. It was based on the perception that expectations of specialization and division of labor from sectoral process optimization would also work in a regional context and hence stimulate growth. Industries with above average expectation of growth in gross production, employment, and value-added were to be established. Such modern key industries in peripheral regions would have a high elasticity of demand and should be competitive in an interregional context. These growth poles would send manifold development impulses to the region by producing input and output linkages between up- and downstream companies. By doing so, growth poles also produce sectoral and regional polarization. Similar to the export base model the phase of polarization was considered temporal. Political measures and market forces would spike trickle-down effects that lead to equilibrium (Nohlen and Schultze 1985: 29).

In the late twentieth European framework 'development from above' policies had decreasing explanatory value because the economies were ever more differentiating, as Musto (1985: 2f.) put it: (a) 'Europe's industrial metropoles are experiencing a partial de-industrialization, a new type of underdevelopment', and (b) the newly industrialized countries that had managed to stimulate capitalist industrialization tended 'to impede the industrialisation process in the remaining part of the developing world'. In some countries, these policies included decentralization and increasing regional autonomy (i.e. Spain, Italy) but the result was perceived as 'blatant and meanwhile from all side stated failure' (Nohlen 1985: 10).

Moreover, industrialization and class relations in the European South markedly differed from alleged role models in modernization theory (cf. Hadjimichalis 1983; Giner 1985; Woodward 1985). Based on their study on Calabria, Arrighi and Piselli (1987) suggested that development paths could lead into different directions (core or periphery), even if points of departures were similar. Macro-processes of integration into the world market or into a nation-state could alter experiences decisively. 'Qualitative processes' could lead to peripheralization—as in the case of three subregions of Calabria—although 'the same kind of relations of production may be associated […] in another place [Prussia, Switzerland, the US, RW] with ascent to core position' (Arrighi and Piselli 1987: 694). They (Arrighi and Piselli 1987: 687) understand by 'peripheralization'

> a process whereby some actors or locals, that participate directly or indirectly in the world division of labor, are progressively deprived of the benefits of such participation, to the advantage of other actors or locales. The redistribution of benefits can take different forms, and each of our three roads to wage labor – as they unfolded in Calabria – illustrates a specific form of peripheralization: transfer of surplus, unequal exchange, and direct surplus appropriation.

Arrighi and Piselli (1987: 694) argue that the same microstructural relations and developments can lead to different paths of development because ascending to the core and peripheralization

> are macroprocesses of the world-economy, which have only indirect and partly indeterminate connections with the microstructures of production and reproduction. As a macroprocess, peripheralization is determined primarily by the relations in time and space among microstructures and only secondarily by the nature of the microstructures themselves.

Lastly, 'primitive accumulation' and free movement of labor was not a sufficient characteristic for future development toward a core region. 'The Calabrian case provides compelling evidence', concludes Piselli (2011: 37f.),

> in support of the need to critically rethink the assumptions about 'primitive accumulation' by means of which the dispossession of the peasantry is seen as a natural condition of successful capitalist development. In short: In the first place, systems of production that are often construed as successive stages in the development of capitalism (subsistence-production, small-scale commodity production, and large-scale commodity production) developed in Calabria next to each other and at about the same time. In the second place, if none of the three roads to wage labour can be construed as representing successive stages of capitalist development, neither can any of them be construed as a feature of core positions or of peripheral positions.

Geopolitical position, the state level, and the substate level (such as Calabria) influence the development path of microstructures. In the case of the three Calabrian subregions, historical developments at the level of the state, the geopolitical order, and integration into the world market and its developments converged their own development paths toward one peripheral region of Calabria:

'Actors, activities, and locals are shaped by history and geography, ecology and sociology, in complex ways', argue Arrighi and Piselli (1987: 696) against economism in development (economic growth or development of productive forces). But 'once a locale has entered a given path of development', they add laconically,

> the direction of change, if not its speed, is pretty much set for long periods of time. […] [E]conomic activities become embedded in social relations that form a cultural totality can only change as a totality. This is of course also true of economic activities in in core locales. However, it is plausible to assume that the greater command over world-economic resources of the actors endows them with better possibilities to do two things: one, to establish new activities in addition to, or substitution for, existing activities; and two to overcome social constraints and resistance to innovation.

The alleged modernization path was once more altered when transnational companies (TNC) began integrating Southern European countries into their realm in the 1960s, well before the Southern enlargement of the EC brought political integration (Vaitsos 1982: 143; Hadjimichalis and Varou-Hadjimichalis 1980; cf. Chapter 5.5). (A similar process of TNC activity was observed when Eastern Europe 'integrated' into the Western integration model from the 1970s onwards, Hager 1985: 67;

cf. Komlosy 2006: 85–91.) The expectation that development processes would be triggered by market mechanisms did not materialize. Instead, the institutional, cultural, legal and often military penetration of peripheral regions eroded the development potentials and increased dependencies (Stöhr 1985a: 229f.). With fading faith in trickle-down and spill-over effects, peripheral regions 'increasingly needed to consider making regional development more endogenous' (Stöhr 1983a: 7; cf. also Stöhr 1983c: 284f.; 1985a: 230). As a solution to the crisis, however, more spatial specialization prevailed, establishing a new international division of labor and further spatial hierarchization (Stöhr 1983b: 121; 1985b: 7 and 12). Regional policies of nation-states led to deeper integration into the world market, and motivating export orientation further increased the functional disintegration of regions: 'The increased opening up of regional structures to external influence, particularly in peripheral areas, led to an increased exposure to external shocks and a reduced resilience' (Stöhr 1983a: 11).

4.2 Transnational Companies: 'New' Actors Disguised by an Old Paradigm

TNC have been the dominant actors in transnational capitalism in Europe long before political integration (cf. Chapter 5.5). TNC capitalism appears to contradict drawing board assumptions by economic scientists that aim at constructing invariant empirical laws. But also some dependency thinkers had been criticized for not acknowledging the deep structural penetration of transnational capitalism which was perceived as dividing line among dependency theorists. As a Marxist economist, EADI member, and dependency school critic Tamás Szentes (1983: 109) put it:

> Contrary to those variants of the [dependency theory] which attribute primary importance to the type of dependence (and of exploitation) manifested in the exchange relations or in the transferred technology and consumption patterns [Immanuel Wallerstein, Arghiri Emmanuel, Oscar Braun, Celso Furtado], it can be proved both logically and historically that the most deeply-rooted, far-reaching and intensive type of economic dependence and of the asymmetrical relations in the international economy is the foreign control by ownership (not necessarily majority ownership) over the key sectors of economy, over the 'commanding heights'.

> This restricts the national sovereignty over the economy far more than any other type, and besides reproducing itself as a result of the local accumulation process of foreign capital, it also provides, by its structural effects, the basis for the rise or perpetuance of the other types of dependence. In so far as the investment decisions in the key sectors are made or strongly influenced by foreign capital, particularly by the giant TNCs, the production structure of the country is shaped according to foreign interests. What follows is that the biased production structure will largely determine a biased trade structure, and will also affect the technological and training conditions, the financial bottlenecks and the consumption pattern, too. Though there is, of course, an interaction, as long as ownership control exists (in its internationally asymmetrical pattern), and exerts its structural effects, the other forms of dependence appear rather as derivatives.

Following our discussion in Chapter 2, it seems as if neither Furtado nor Wallerstein would count towards authors underestimating TNC power. Also among the European Dependency School, there was awareness of the role of TNC. Eminently dealing with issues of TNC in the European Dependency School was Constantine Vaitsos (1980: 24):

> For a significant part of production activities and exchange relations, the underlying economic and behavioural forces can no longer be adequately understood or interpreted on an inter-national or an inter-areas basis. Instead, the appropriate framework of analysis appears to be one of corporate internalization. In such a context, decisions and information management, production and exchange activities, as well as the accumulation of resources and capabilities are integrated within the consolidated boundaries of a single enterprise control system, with affiliated or related firm operating in a number of national jurisdictions.

Central planning has long entered the capitalist mode of production but the appearance of market capitalism prevailed. TNC constitute meta-market institutions that operate on a dual structure, argued (Vaitsos 1980: 42): market mechanisms to the outside (if on oligopolist markets) and central planning, control, and discretionary decision-making to the inside. TNC 'have developed', as Vaitsos (1980: 34) put it almost four decades ago,

> into the most centrally planned, monitored, controlled and managed economic entities in the world economy. The Soviet or Chinese economies

> fall short of them in the extent of non-participation by constituent parts in central planning and overall decision-making. They also fall short in the locational concentration of certain strategic assets, such as technology and top managerial capabilities. Through the internalisation of decision-making on a worldwide scale, the apex of the capitalist system, namely the transnational enterprise, has evolved in an institution which, in its sizeable international operations, negates the foundations of pluralism upon which the market system was founded. In this case, serious conflicts exist between efficiency (in managing global operations) and distributional implications. One area where this administrative and non-participatory structure of decision-making is visible is the setting of transfer prices on goods and services exchanged among affiliates.

Also the 'regionalists' of the European dependency school were aware of the role TNC played in the capitalist mode of production. When dependency analyses were written in the 1970s, a power struggle in the international economy was prevailing. Friedmann and Weaver (1979: 163ff.) gave an account on the power struggle between states/governments and transnational companies which was, on an international level, carried out by and in organizations like the international labor organization (ILO) or the Club of Rome.

> Every national economy is, to a degree, both functional and territorial, but the actions to which these principles of social cohesion give rise often result in bitter struggle. In any event, the complexity of the response space does not allow of ideologically 'pure' answers. Territory and function are both needed for development. The real question is which principle is to be master: shall function prevail over territory, or territory over function. At the moment the transnationals appear to be gaining in this contest for dominion, but the arguments favouring the territorial principle are very strong, and territorial systems are, in any case, essential to the survival of corporate (functional) power. Without territory, corporate power could not shift the burdens of production on society. (Friedmann and Weaver 1979: 171)

Spatial development planning based on the theory of polarized development and with the 'growth centre doctrine as its principle tool' had become 'the handmaiden of transnational capital' and 'a willing instrument in the hands of the managers of unequal development' (Friedmann and Weaver 1979: 171). TNC had a strong influence on regional development, leading to monopolistic structures without modernization in industry (cf. Chapter 4.2). John Logan (1985: 150ff.) argued that integration into transnational capitalism had aggravated contradictions between traditional and 'modern' capitalist elites, which had finally led to the end of dictatorships in Southern Europe. He pointed out 'that "modern" elites […] are intimately interlocked with international capital. Their future is not a development pattern leading to a more independent national economy, but indeed in some ways to a more dependent role in the world-system' (Logan 1985: 150). Çağlar Keyder (1985: 147) emphasized 'the conflict between pro-European and pro-American fractions during the late 1960s and the early 1970s'. Following Poulantzas, Costis Hadjimichalis (1983: 136) refers to authoritarian statism, which 'corresponds to the current phase of advanced monopoly capitalism, in the way that the liberal state referred to the competitive stage of capitalism'. Most Western European countries had seen 'intensified State control over every sphere of socio-economic life, combined with extensive spatial policies' since the 1960s. In Southern Europe (Greece, Italy, Portugal, and Spain) this new form of state acquired distinctive features since 1975. They seemed 'to be more "open" and "democratic" compared to the recent experience of fascism and military dictatorship' (ibid.). New democratic liberties developed but integration into (new) international division of transnational capitalism brought a new authoritarian statism as well (cf. Chapter 3.1).

4.3 Spatial Specialization, External Dependency, and Disintegration of Peripheral Regions

Spatial specialization was seen to have increased markedly after 1945 (Stöhr 1983a: 7f.; 1985b: 2ff.): Single regions produced less products for growing markets. Specialization applied not only for products but also for factors of production and their functional relations. It supported the social and political differentiation among regions in terms of political power, social innovation, but also the degree of dependencies. To the consequences of such economic, political, and social interrelations belonged a narrow concentration of economic activities on few resources (raw materials, tourism) because there was demand in the 'large-scale interaction system'. Other resources remained little or not utilized. Century-old mechanisms that had regulated the relations among people, or between people and nature were often

> put out of action and are substituted by behavioural patterns and institutions from the outside, which cannot be adapted to regional requirements. Decision-making structures of trans-regional enterprises and national or international institutions are catalysts for this process. (Stöhr 1983a: 8)

With the global crisis of the 1970s, the dilemma of regional policy, which aimed at reducing the divergence of regional living and working conditions, became also manifest in industrialized countries (Tödtling 1983: 36). The studies by Stöhr and Tödtling (1977, 1978) suggested that 'spread-effects' were smaller than 'backwash effects', and that there was little sign of regional convergence (Stöhr and Tödtling 1979: 148ff.; Stöhr 1975). Where regional convergence was visible, it seemed to be accompanied by disparities at other levels (intra-regional or intra-personal). Regional policies had been based on the mentioned external conditions and following assumptions that ran out of validity in the early 1970s (Stöhr 1983c: 284). Regional disparities had not been eliminated during the upswinging conjuncture, and built henceforth the base for a new 'spatial division of labor' as it was called by Doreen Massey (1979) in her contribution to the conference 'The Death of Regional Policy': She considered it unclear if the level of convergence was owed to regional policies or rather to the behavior of industry during the conjectural upswing, and the consequences of interregional and international division of labor. Stöhr (1983b: 120f.) emphasized the role of economic growth in the temporary quantitative success of regional transformation that covered the (negative) qualitative and structural changes of transformation in peripheral regions, such as a decline in sectoral and functional diversification of peripheral economic spaces, a growing structural dependency from external key functions and decision-making, global economic and structural fluctuations, and external factors like capital and technology. The structural transformation would go along with the new spatial division of labor, which was introduced by multi-regional and multinational companies. They took advantage of existing disparities and were, as Herzog and Tödtling (1983: 111) showed in their critical study on funding institutions of Austrian regional policies, able to use incentives most successfully (access to public funding, inner division of labor in order to use regional division of labor).

Key functions of this new spatial division of labor (R&D, planning, decision-making) were concentrated in core regions, while executing parts of the production, with low rates of innovation and small sectoral differentiation, and routine functions were outsourced into peripheral regions:

> This can also be seen as process of *successive hierarchical outsourcing of production processes* into peripheral regions […]. This process of outsourcing often happens in many steps, as routine production from low developed regions in industrial countries relocates to developing countries that display a still lower wage level and an again lower organizational level of their labor force […]. (Stöhr 1983b: 121; cf. also Stöhr 1985b: 7 and 12)

A specialization pursued in accordance to the needs of core regions had—despite temporal growth successes also in some quarters of the periphery—undermined 'the substance of weakly developed regions and therefore [...] reduces their medium term and long term development potentials', which led to a functional disintegration of peripheral regions (Stöhr 1983b: 122).

> This is manifested in the discontinuities of local and regional economic circuits as well as of social and political interaction patterns (caused, for example, by out-migration or long-range commuting), in the idleness of regional resources, and in the decline of facilities catering to the daily needs of the population […] - access to employment, consumer goods, services, etc. (Stöhr 1983a: 9)

Regional policies in most countries tended to accelerate functional disintegration. 'Development' was promoted by world market integration ('integration into large-scale interaction systems'): development of transport infrastructure between core and periphery, new factories to transfer production from the core, investment incentives, and public transfers, 'export-base activities', facilitating tourism industry (Stöhr 1983a: 10). Regional economic cycles were being interrupted but satellite industries led to instable employment situations. Decision-making processes were being transferred to core regions (for example central government planning institutions). Setbacks in demand caused by the crisis of the 1970s confronted peripheral regions with 'negative export-base multipliers' (closing of factories, cut in public funds). It became obvious that qualitative economic, social, and institutional aspects of development had been neglected: production displayed a low level of diversification, employment was instable and export-dependent, local supply had become less accessible and of lower in quality: 'The increased opening up of regional structures to external influence, particularly in peripheral areas, led to an increased exposure to external shocks and a reduced resilience' (Stöhr 1983a: 11).

4.4 Dependent Industrialization and Peripheral Deindustrialization

Early departures to industrial development in Southern European countries had been frustrated, and 'the belated rise of industrial capitalism […] before and during the First World War was only the most visible trace of a deeper current, with a much longer past', argues Salvador Giner (1985: 316) from the 'Durham-network':

> What happened was not so much that these countries were 'late joiners' to the capitalist industrial transformation, but rather that their bourgeoisies had failed in their efforts to be among the 'first comers'.

Attempts of 'capitalist modernization' and 'catching-up' industrialization came in many countries of the European periphery in the form of Fascist regimes (as pointed out by the Binghamton network working on European dependency). Loukas Tsoukalis (1981: 96ff.), an author who wrote in Seers' EADI-network, seems to use a language that distorts the view on the nature of this 'modernization' when he talks of an 'economic miracle' and of 'rapid industrialisation' for the cases of Greece, Portugal, and Spain. He concedes, however, that it had been the opening of the three economies to the world market during the boom years of the 1960s and early 1970s that stimulated such tendencies. Acknowledging the critical view of dependency authors (Muñoz et al. 1979) he adds:

> If we approach the problem from a more critical angle, we can talk of an industrialization process which has led to an increasing dependence on foreign trade and technology. This has in turn created a dualistic economy, serious regional and structural disequilibria and a highly unequal distribution of income. It has also brought about the adoption of foreign consumption habits which do not correspond to the standard of living already achieved in those countries. Last but not least the rapid process of industrialization did not solve the problem of unemployment and this forced hundreds of thousands of workers to leave their country […]. (Tsoukalis 1981: 96)

Dudley Seers' (1978) report on the Portuguese situation unmistakably shows the legacy post-Fascist governments inherited from the period of Fascist modernization: growth without development.

> So, although economic growth was moderately fast (about 6–7% a year in real terms), social problems remained severe and some of them grew worse, aggravating the regional imbalance. Wages were held to levels which were becoming very low by comparison with those in France and West Germany, but nevertheless, the economy was incapable of absorbing the growth in the labour force. Two quasi-solutions emerged in response to the widening gap between wage levels in Portugal and elsewhere in Europe: labour emigrated in increasing numbers and a growing flow of foreign tourists commenced. By 1974, the economy was relying on emigrants' remittances and tourist earnings to cover a large part of import needs, including food. Thus, the country had become heavily dependent on events in North Western Europe as well as Africa. (Seers 1978: 2)

With the global economic crisis, the vulnerability of the three peripheral Mediterranean countries became obvious. They had few options compared to the core countries, 'while profoundly affected by the economic crisis and by the policies adopted by the core', they 'are severely constrained in their ability to respond or react in an autonomous fashion' (Pollis 1983: 212). If transnational capitalism could foster industrial development, it apparently also led to regional deindustrialization. Different authors have observed processes of deindustrialization in European regions of the periphery, such as for Eastern and Southeastern European countries during transformation processes (Becker et al. 2016) or the Greek, Portuguese, and Spanish EC/EU integration processes (Etxezarreta et al. 2014: 65; López and Rodríguez 2010: 8; Stathakis 2010: 110; Santos and Jacinto 2006).

Deindustrialization often appears to be used intuitively, this is why Francesco Lissoni (1996: 1) tried 'to put some order in the debate', and suggested two main views, a macroeconomic and a geographic one. The former equals a process of tertiarization, the latter describes changes in local areas, 'once specialized in a few traditional manufacturing activities, and nowadays threatened by plant closures and layoffs [...]'. More recently, UNIDO (2013: xv) defined deindustrialization as '[l]ong-term decline in manufacturing relative to other sectors. Typically measured in terms of share of manufacturing employment in total employment'. Changes in the share of the manufacturing sector in GDP or employment seem to be the typical measurement of changes in industrial development (Tregenna 2011: 5).

A reduction of employment, however, could also be caused by a higher productivity which could lead to constant or growing output—if not a sign of deindustrialization on the output side than still on the employment side. Furthermore a shrinking share of manufacturing in relation to the service sector (tertiarization) does not necessarily mean shrinking output or employment if both sectors grow overall. Last but not least, a definition of 'long-term' seems necessary in order to distinguish deindustrialization from short term effects. Of course, as Louri and Pepelasis Minoglou (2001: 398) put it nicely, '[f]or an economy to reach de-industrialization, it is thought that it has first to be industrialised'. Therefore the focus of the attention had been the advanced capitalist countries, with a peak in manufacturing output and employment between the 1950s and 1970s, and a steady decline afterwards (ibid.). Nicholas Kaldor is recognized as first having coined the term deindustrialization in the 1960s (Lissoni 1996: 2; Louri and Pepelasis Minoglou 2001: 398), relating relative decline of manufacturing (employment and output shares) to GDP growth. Later the role of manufacturing was extended to contributing to exports and structural effects (technical progress and productivity growth) (Louri and Pepelasis Minoglou 2001: 398f.). All in all the literature Louri and Pepelasis Minoglou (2001: 398ff.) review, suggest external dependence (demand for tradable products) and domestic failure to adapt to pressures by international demand (transition to high wage and high productivity production) as reasons for deindustrialization. A classification of 'three alternative hypotheses for explaining de-industrialization' is being offered, referring to a study by Rowthorn and Wells (1987):

> (a) the *maturity hypothesis*, according to which once a certain per capita GDP is reached, the share of manufacturing industry will inevitably start falling in favour of services (provided that the share of agriculture is already small), (b) the *specialization hypothesis,* according to which the trading patterns of an economy shape the structure of its product and employment and (c) the *failure hypothesis*, according to which it is the failure of manufacturing, possibly due to its structural weaknesses, to compete internationally, that makes its reduction inevitable. (ibid.: 399; cf. also Tregenna 2011: 6f.)

For overall processes of industrialized countries, a *maturity hypothesis* can then be interpreted in the framework of the phasing-out or 'maturing' postwar accumulation model in industrial societies that set in at the end of the 1960s, with shrinking profitability in the manufacturing sector. It heralded the age of 'postfordism' and 'financialisation'. A *specialization hypothesis* would then belong to the structural consequences of this transformation: tertiarization in the industrial countries and outsourcing of low-technology production to the periphery. (Fröbel et al. 1977; Smith 2012) Furthermore

> the 1980s switch in 'policy regime' in OECD countries (broadly speaking, from post-war Keynesianism to demand constraining monetarism) did also contribute to the huge 1980s drop in manufacturing employment[…] and [t]he technological revolution that took off in the 1980s also played a major role […]. (Palma 2008: 4)

For peripheral countries in Europe as latecomers in industrial development, the maturity hypothesis can be pretty much neglected. These countries ran through a process of dependent industrialization (and integration into the world market). From the 1950s to the 1970s, they were 'still showing signs of industrial dynamism' but

> in the 1980s and 1990s, many intermediate countries entered the stage of de-industrialisation without having reached either the high levels of industrial activity or the high per capita incomes of the advanced capitalist economies. Thus, their relative place in the global economy in terms of growth potential and living standards deteriorated, diminishing prospects of convergence. (Louri and Pepelasis Minoglou 2001: 398)

From the perspective of development studies, a 'failure hypothesis' (failure to reach full-fledged industrialization) is a relative of modernization theory, Palma (2008) uses a concept of 'pre-mature de-industrialization'. Modernization theory assumes that there are role models whose ideal path (or stages) latecomers in development can or should follow in order to reach a similar status. Modernization as a role model, however, is more an exception than the rule. If failure to reach full-fledged modern industrialization is the norm, then the few leading nations plus a couple of runners-up from the semiperiphery might be exceptions due to special circumstances. Moreover, if we take the analysis of Arrighi and Drangel (1986; cf. Chapter 3.2 above) than industrialization was just a temporal 'core-like' economic activity that was historically 'necessary' to attain or keep a core status. According to this analysis it is the control of commodity chains ('brain activities') in TNC capitalism that determines core status. Furthermore, it must be repeated that a symbiotic relationship between core enterprise and core state create a kind of 'path dependence' that is difficult to overcome in an attempt to upgrade, e.g. from semiperiphery to core status (cf. Chapter 3.2). Therefore it appears doubtful that a peripheral country can just ignore economic activities that have been considered core-like historically (industrialization) and just turn toward economic activities that are considered core-like today ('brain activities' and control).

However, historical tendencies toward policies of 'self-reliance' faced harsh adverse winds on part of the 'developed' countries, above all the United States, which included coups d'etat.

> The simple fact was however that it seemed increasingly clear that no amount of repression […] could contain the emerging social and political pressures as long as the manufactured export alternative did not become a more realistic option, at least in 'key' countries with particular geo-political significance. (Bienefeld 1982: 48)

Such considerations had the already discussed beneficial effect that they could also take pressure from the contradictory scheme within the developed block of OECD countries (outsourcing production and offering privileged market access):

> As competitive pressures between OECD producers intensified, the temptation for the lagging economies to improve their position (and hence sustain their profits and contain inflation) by taking advantage of cheap labour in the developing world became more and more irresistible. What the UK and the US had begun on a minute scale in Hong Kong and Puerto Rico, was now expanded dramatically to South Korea, Brazil, Taiwan, Singapore, Mexico and the European periphery. In addition a growing number of Export Processing Zones established as pure enclaves in a variety of countries […]. (Bienefeld 1982: 48f.)

The notion among the dependency school, namely that capitalist industrial development was possible in the periphery, had a double ironic twist: first, economic progress in industrial production happened under authoritarian rule, second, the obvious contradictions of capitalist development were covered by new success stories:

> [A] relatively heterogeneous set of economies, all (except Mexico and Yugoslavia) under extremely authoritarian right-wing regimes, emerged more or less simultaneously as the NICS [newly-industrialized countries], to be eventually acclaimed as models which vindicated the market as an adequate, and indeed, the optimal engine of rapid development […]. Their experience has become the basis for the militant application of equilibrium economics to development, as implicit in the use of cost-benefit techniques based on the practically unqualified use of international prices as relevant opportunity costs […], and effectively ignoring the many earlier counsels that this frame of analysis was inappropriate to the development context […]. It is somewhat ironic that this should have happened just when the inadequacies of that frame of analysis have become most evident in the developed countries. (Bienefeld 1982: 49)

The special cases of the cold war frontier 'tiger states' belonged to the set of arguments for a generalized capitalist development path and success. As Manfred Bienefeld (1982: 49) described this in the early 1980s:

> The new faith was immensely strengthened during the 1970s when a few of the smaller NICs – South Korea, Taiwan, Singapore, Hong Kong – attained effective full employment, and as a consequence saw real wages rise significantly in spite of continued political, and trade union, repression. This crucial evidence strengthened the argument that market-based policies which accepted initial inequalities could be economically and socially desirable in developing economies. The experience demonstrated once again that if the process of capitalist accumulation can be sufficiently concentrated in a particular economic space for an adequate period it has the capacity to generate full employment, and consequently to diffuse material benefits within this economic space. In this sense the notion of trickle down lives, as it has lived in Japan, and in the other industrialized countries before that. It still remains, however, to determine what conditions, both national and international, might allow such a concentration of accumulation to be sustained over time. In this respect the end of full employment in the industrial countries represents a strong warning against simplistic generalizations or undue optimism.

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