

## **Marxist Theories of Development, the New International Division of Labor, and the Third World**

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### **Introduction**

What are the implications for development in the Third World in light of the widespread intellectual retreat from Marxist theory and practice in recent years? This essay offers an answer to this question by focusing on the current debate concerning the rise of a new international division of labor (NIDL).<sup>1</sup> The debate over the NIDL has much significance given the growing interpenetration of various regional and national economies in an increasingly integrated global economy. But while one can safely argue that integration with the global economy is now essential to economic growth, the terms of the debate over that process appear to have shifted to the mechanism and conditions of integration for hitherto isolated economies. This essay will delineate the trajectory taken by the NIDL debate to date and will suggest how an historical-structural approach in the Marxist tradition, provides opportunities for furthering the discussion.

The essay first provides a brief overview of Marxist theories of Third World development, including the ideas of Marx, Lenin and key post-World War II dependency theorists. Next, it highlights key points of continuity and discontinuity between these older theories and the current debate on the NIDL. The essay then concludes with a discussion of both the structural and historically determined economic and political constraints on the incorporation of the Third World into the NIDL before setting out some questions for future research.<sup>2</sup>

### **Marxist Theories and the Third World**

Since much of what is referred to as the Third World was under colonial domination by the nations of Europe in the mid-19th century, Marx's views must be interpreted through his views on colonialism. (Avineri 1968). Because he saw capitalism as a progressive force, Marx thought that colonialism would benefit the colonies by introducing capitalist relations. Capitalism was progressive because it had an endogenous dynamism which earlier socio-economic systems lacked. The very survival of capitalism hinged on its continuing ability to revolutionize its means of production. As economic activity provided the basis for social structure, such dynamism extended to the

social realm too; even “traditional and unchanging” societies and peoples were inevitably drawn into its fold and rescued from the “idiocy of rural life” and old prejudices. Thus, Marx distinguished between what he saw as the objective laws of history and colonialism as a morally untenable practice.

Capitalism’s socio-economic dynamism was explained by the logic of its reproduction. This logic required the continuous extraction of surplus value from production. Essentially, the production process transformed nature into commodities for sale. The efficacy of such transformation depended on the technical means at the disposal of the capitalist. More important, it depended on the relations of production, since production also required the use of labor power. Indeed, to Marx, the labor input was the source of value. Marx saw the extraction of surplus and the immiseration of wage labor as the basis for class conflict. Such conflict would result in the eventual overthrow of the bourgeoisie and the establishment of a system where private property and the extraction of surplus by the subjugation of labor would be abolished.

While the issue of colonialism was never central to Marx’s writings, Lenin (1939) wrote more specifically on the subject in the early 20th century. In doing so, Lenin made an important departure from Marx, arguing that colonialism would retard development in the colonies. To Lenin, colonialism was the outcome of imperialism, the highest stage of capitalism. This stage was characterized by the formation of monopolies and a concentration of finance capital and production. Seeking new investment opportunities for capital and new sources of raw materials, the strongest capitalist nations partitioned the world into colonies. Thus, colonialism brought much of the non-capitalist world under the control of international capital and locked the new colonies into the international division of labor as suppliers of raw material.

By the 1960s, however, it was not clear that the world-wide spread of capitalism had led to the progressive transformation of all societies. Nor had political independence significantly improved the conditions of the former colonies. On the contrary, by most economic and welfare measures, much of the Third World was not faring well. It was in this context that dependency theory arose. Frank (1967), its most important spokesperson, drew on studies of Brazil and Chile to argue that since the sixteenth century, an expanding world economy centered in certain core regions had incorporated an *undeveloped* periphery in the form of colonies. But incorporation into the world economy had led to a systematic economic *underdevelopment* of the

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periphery; colonies were drained of surplus as they exchanged primary products for manufactured goods from the industrialized core regions. Frank and others argued that political independence did not alter this state of affairs since the interests of the dominant classes in the periphery were closely tied with those in the core.

In one sense, Frank's thesis linking retarded growth in the periphery to the spread of capitalism, continued Lenin's line of thought. However, the argument that development in the core would only lead to underdevelopment in the periphery was a problematic discontinuity. To begin with, it had only limited empirical validity. For instance, Brazil industrialized extensively since World War II; the 1960s was a period of rapid economic growth (Evans 1979). Evans showed how this growth was made possible by an alliance between the Brazilian State, local capital and multinational corporations (MNCs); he argued that development was not inconceivable even under conditions of dependency. The inability of Frank's thesis to account for such contradictory evidence highlights two broader problems in his arguments. First, it presented a static picture of relations in a changing world economy. Second, by making relations with the core the engine of all development, it failed to consider whether and how changing conditions within the periphery, such as shifting social alliances, could affect economic development.

These problems were a point of departure for Cardoso and Faletto (1979) who called for a more nuanced understanding of dependency. They and other authors acknowledged that dependency constrains development, representing "asymmetrical structural relations between social formations, such that the dependent society(ies) is shaped to a large extent by the social dynamics and interests generated in the dominant society(ies)" (Castells and Laserna 1989: 535). However, Cardoso and Faletto argued that a simple core-periphery formulation could not account for the wide variation in the conditions of dependency even among Latin American societies. Instead, they called for an "historical-structural" approach that "emphasizes not just the structural conditioning of social life but also the historical transformations of structures by conflict, social movements, and class struggles" (Cardoso and Faletto 1979: x). In other words, dependency is not so much a formal theory as it is a methodology for the analysis of concrete situations of underdevelopment (Palma 1978). The discrediting of dependency theory did not, however, prevent its reincarnation in a different form: theories of the New International Division of Labor (NIDL).

**Marxism and the New International Division of Labor**

One of the striking features of the post-World War II global economy has been the emergence of a new international division of labor, in which many countries that previously exchanged primary products for manufactured goods from advanced industrial regions are now emerging as manufacturing centers in their own right. Though the emergence of a NIDL is widely acknowledged among scholars, their efforts to theorize further changes in the world economy have adopted a logic similar to dependency theory, reproducing its flaws in the bargain.

Frobel *et al.* (1980) argue that a NIDL emerged out of changing market and production conditions in advanced industrial regions. The changes led MNCs from those countries to try to lower costs by relocating labor-intensive production processes to regions supplying cheap, unskilled labor. Many of these locations were in the Third World. MNCs were able to relocate production in part because of technological changes that simultaneously allowed for the reduction of transportation costs and the linking and coordinating of production across segmented sites by telecommunications and computers. Such relocations began to generate a world market for labor and industrial sites, as different regions competed with one another to offer the best conditions for the reproduction of capital. These efforts occurred to the detriment of important Third World developmental goals such as reducing unemployment (since there was a virtually inexhaustible global labor pool); raising skill levels of the work-force; reducing environmental damage; and so on.

While Frobel *et al.* emphasize the changing technological conditions of production, Lipietz (1982) places the NIDL in the context of broader institutional changes within capitalism. To Lipietz, writing in the tradition of the French Regulation school, the manufacturing dynamic in the Third World was driven by the crisis of Fordism in advanced industrial regions.<sup>3</sup> While there were many reasons behind the slowing growth in post-war prosperity, two are particularly relevant for rise of the NIDL: slackening productivity and the insufficient surplus being extracted from invested capital. To increase its surplus, capital sought locations with cheap labor to such an extent that labor processes under mass production were dichotomized between conception and production, between high-skilled and unskilled jobs.

The relocation of manufacturing fits well into the agenda of Third World elites seeking to exploit their comparative advantage in cheap labor markets. Lipietz sees the NIDL as the outcome of a collaboration between capital from the core and dictatorial States that support

“bloody-Taylorization,” or the repetitive performance of unskilled tasks under repressive conditions. Though Lipietz acknowledges the efforts of newly industrializing countries (NICs) in the periphery to improve their technological capability and go beyond exploiting a comparative advantage in cheap, unskilled labor, he is pessimistic about their prospects. While Lipietz posits a “global Fordism,” or the incorporation of the periphery into Fordism of the core, he argues that Fordist institutions do not develop in the periphery itself. The crisis of Fordism in the core will inhibit efforts by NICs to expand exports. At the same time, inadequate productivity growth will preclude the development of internal markets, as was the case with previous attempts to spur industrialization through import-substitution.

The limitations of NIDL theory become clear as we examine some of the empirical features of the phenomenon. For instance, evidence suggests that unskilled, low-wage labor alone does not adequately explain what happens once MNCs relocate to the Third World. Certainly, there has been significant relocation in sectors like electronics assembly and textiles which use such labor. But as Salih, Young, and Rasiah (1988) point out, MNCs running semiconductor plants in Penang, Malaysia, have not restricted their operations to unskilled assembly or packing. Instead, over time, they have invested heavily and automated the production process. As a result, they have moved away from unskilled labor toward more expensive skilled labor. In hiring skilled labor, the key issue has been not costs but discipline, the ability to learn, and productivity. Shaiken (1994) also shows that productivity levels in Japanese- and U.S.-owned automobile factories in Mexico compare favorably to those in Japan and the U.S., owing to the use of sophisticated technology.

While labor in Malaysia and Mexico, whether skilled or unskilled, certainly costs much less than that in the U.S., these examples highlight the importance of technology and productivity in determining location. Technological change, such as the increasing tendency toward automated production, significantly decreases the need for low-wage labor and the explanatory power of any simple cost-minimization argument. Jenkins (1984) argues that the main flaw with explanations for the NIDL is the assumption that absolute surplus extraction—in which producers force laborers to work long hours in difficult conditions—is the principal basis for capital accumulation. In reality, relative surplus extraction, through technological innovation, is the “general basis for accumulation in the capitalist mode of production.” Consequently, “relocation can be seen as a specific response which arises in circumstances when there are major obstacles

to increasing relative surplus value" (Jenkins 1984: 43). Castells (1989b) goes even further when he suggests that with growing technological sophistication, unskilled, low-wage labor no longer provides comparative advantage for a region. Productivity gains that come with applying better technology far outweigh the cost benefits of using unskilled low wage labor.

Neither Jenkins nor Castells suggests that the cost of skilled labor, as opposed to unskilled labor, is now becoming the determining factor for MNCs. Such an argument would only continue narrowly to emphasize production and supply factors to the exclusion of demand and competitive strategies. Instead, as Schoenberger (1988) argues, the location of MNCs is determined simultaneously by revenue maximization and cost minimization, production and competition. The decision to locate in the Third World is often driven by the desire to gain access to new, and often protected, markets in an increasingly competitive environment. Further, as incomes rise, national/regional markets become more discerning and differentiated. Under these circumstances, technology and product differentiation are as crucial in determining competitive outcomes as price. And linking production to research and marketing functions becomes an effective means of ensuring that the various demands of differentiated markets are met. Thus, instead of a simple geographic separation of functions that allows one to "read" an economy from the functions it hosts, the locational decisions of MNCs in the NIDL must be seen as a dynamic trade-off between supply, competition and technological change.

While the critique of the NIDL thus far has focused on the role of MNCs, there remains the larger question of the extent to which MNCs have been actually responsible for the emergence of the NIDL. Schoenberger (1988) suggests that NIDL theorists may exaggerate the role of MNCs. While U.S. direct foreign investment (DFI), for instance, has been increasingly directed toward the Third World, close to three-quarters of it is still directed to high-cost areas in the core, where the major markets are. The U.S. itself has become an attractive location for DFI from other countries. However, among Third World countries, only a handful of NICs in East Asia and Latin America account for most of the U.S. DFI.

In a more powerful critique, Amsden (1990) uses the instance of South Korea's rise as a major world exporter to challenge the view that endogenous development is not possible in the Third World. Amsden specifically criticizes Lipietz's thesis. She argues that the MNC-driven, export-led growth is too modest to explain the economic development and spread of manufacturing capability in the

Third World. Instead, she suggests a theory of government intervention to enable late industrialization in the latter half of the 20th century. In this period, she argues, the key to industrialization has been in raising productivity and international competitiveness, with State institutions playing a central role. While Lipietz's notion of global Fordism also has an institutional bent, its focus on the problem of underconsumption and on a narrow conception of the relative autonomy of the State distinguishes it from Amsden's argument.

Amsden argues that while the First Industrial Revolution was based on invention of new products and the individual entrepreneur, the Second was based on innovations that commercialized processes and products for mass markets. In the late 20th century, in countries with no new products or technologies, borrowing and learning became crucial. In Korea, explicit State policy took the form of subsidies to business (inputs and government investment to promote technological and economic linkages, foreign currency loans, etc.), whereas the policies behind the First and Second Industrial Revolutions were *laissez-faire* and infant industry protection respectively. Neither of these policies would have promoted learning to the extent that the Korean policies have done.

In emphasizing the role of subsidies, Amsden also directly challenges neo-classical economists [for example, Lal (1984)], who assert that economic development will automatically come from "getting the prices right." In exchange for subsidies to business, the Korean government extracted certain performance standards, primarily in terms of exports. The strategy has not led to dependence because it involved more than exploiting an early comparative advantage in cheap labor. Instead of being bogged down by "peripheral Fordism," Korean firms have rapidly ascended the technological ladder. They have done so by using a growing proportion of skilled labor supplied by an excellent higher education system, and by constantly training production workers and involving them in shop-floor problem solving.

While intolerance for labor dissent in Korea might lead one to jump to Lipietz's conclusions, labor control in itself proves an inadequate explanation for Korea's economic success. Labor control was practiced along with rising labor productivity—simultaneous absolute and relative surplus extraction. But even in a context of repressive labor laws and rising wages, which reflected the productivity gains, dissent was hardly unknown (Cho 1985). Though never officially acknowledged, the number of strikes steadily rose through the 1970s. The State was certainly authoritarian and repressive, but the State's developmental role—harnessing resources for higher productivity and

for export success through local firms (and not MNCs)—was the crucial variable in explaining economic growth.

In sum, Frobel *et al.* and Lipietz have merely reproduced the logic of dependency theory, along with its flaws, as they theorized new realities in the world economy. First, they present a static picture of the NIDL, ignoring countries like Korea that have rapidly ascended the technological ladder. Second, they have been too pessimistic about the ability of the Third World to take the initiative to change its position within the NIDL. They tie action taken in the Third World to actions in the core, and the only Third World actors they mention are States and elites. NIDL theorists ignore other elements within Third-World societies and deny their capacity either to act or to resist the exploitation to which they are subject. They continue to view Third World workers as no more than sources of cheap labor to meet the demands of capital. Further, no distinction has been made among different Third World societies and States, and consequently little thought has been given to how such differences might lead to divergent development outcomes.

### A Discussion

If the NIDL is a contemporary reality, what alternatives are there to the explanations discussed in the previous section? While the critiques of the NIDL theories above certainly provide leads, this concluding section of the essay will show how an historical-structural approach (Cardoso and Faletto 1979) offers an effective means for studying the NIDL. This section argues for such an approach and discusses its implications for development policy.

The emergence of an NIDL in the postwar era has been accompanied by rapid technological change, particularly in micro-electronics and information processing. As the ability to harness such technologies increasingly determines levels of productivity and economic development, technology has become a key structural determinant of economic growth. Indeed, the gap between regional economies that have access to new technologies and those that do not is leading to what Castells and Laserna (1989) term as the “new dependency.” Under these conditions, regional economies whose policies are based solely on supplying unskilled, low-wage labor and industrial infrastructure face the danger of being bypassed, as the technological basis of manufacturing changes. While such a policy might well be used to gain an initial foothold in the world economy, its sustained application will most likely ensure being trapped in the low value-added niches of the NIDL (Castells 1989b).

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Access to technology can take two routes.<sup>4</sup> One option is to generate new technologies, though this can be expensive and risky. For instance, as Sridharan (1989) points out, while the Indian State has invested heavily in research and in training skilled researchers in electronics, most of the research has fizzled out. Resources were spread thinly over many ambitious projects and the government failed to insist on commercialization. In the absence of major technological breakthroughs, the other option, as the case of Korea shows, is to absorb and adapt technology for higher productivity and growth. This latter option seems to be the more viable one for regions or countries facing a huge technological barrier. However, autarkic economic policies of self-containment, practiced to varying degrees by both socialist and non-socialist Third World countries, hinder exposure to and absorption of rapidly changing technologies.

Indeed, one could argue that along with the collapse of the Second World, the relative failure of autarkic models of development has played no small role in diminishing the relevance of Marxist analysis. Autarkic policies resulted in part from the analysis offered by First World development economists of the features perpetuating economic backwardness.<sup>5</sup> Such policies were also influenced by the Soviet model of industrialization and by dependency theorists who argued that isolation was the only way to overcome underdevelopment. India, for instance, adopted policies based on Mahalanobis' Soviet-style economic model under Prime Minister Jawaharlal Nehru, who admired the U.S.S.R.'s success with rapid industrialization through central planning (Chakravarty 1987). But India's policies yielded a sluggish economic performance; the lack of technological dynamism in a highly protected economy was an important factor. As Walker and Storper (1989) argue, a crucial inadequacy of Marxist analysis has been its general tendency to underestimate the role of technological change in sustaining capitalism by creating new products and markets, as opposed to their mere quantitative expansion. Ironically, Marx himself believed that capitalism would survive only by constantly revolutionizing the means of production. As technology changes rapidly, planning with static input-output models becomes meaningless.

Though autarkic policies are not conducive to technological change, history also suggests that the absorption and adaptation of technology will not happen without coordinated effort. Whether in late 19th century Germany (Gerschenkron 1962), in 20th century Japan (Johnson 1982), or in late 20th century Korea (Amsden 1990), the State has played an important developmental role. Explicit intervention becomes necessary since an open economy linked to the NIDL

does not automatically guarantee that the owners of sophisticated technology will part with it. Castells (1989b) argues that Third World States could bargain with MNCs, providing them market access only in exchange for technology. Though capital may be increasingly mobile, it remains dependent on markets for its reproduction. Similarly, in the absence of intervention, there is no guarantee that access to advanced technology will necessarily lead to its being absorbed and used as a means of furthering technological capability. This is clear from the very different impacts of importing and licensing of electronics in India and Korea (Sridharan 1989). In the protected Indian market, access to new technology became little more than a source of rent. In Korea, on the other hand, the subsequent research efforts of the *chaebols* were crucial in making Korea a leading exporter of products ranging from consumer electronics to dynamic random access memory chips. The Korean State played a central role in this success by brokering technology and capital in exchange for export performance.

Why are not all States successful in the role of developing a technological base for sustained improvement of a region's position in the NIDL? This question is particularly relevant in light of the very different development paths that Third World countries have taken. The term "Third World" originally applied to a large and diverse group of relatively poor countries that had been formerly colonized by First World nations. The extreme contrast in the 1990s between the hunger and poverty of Sub-Saharan Africa and the export-led prosperity of the East Asian NICs, however, suggests that Third World countries need not follow similar historical trajectories within capitalism, as Marx believed they would. Nor does development in the core have to come at the expense of the periphery, as suggested by dependency theory. In other words, all options are not structurally bound. There is room for agency and maneuvering in economic development, the parameters of which will depend on how structural conditions interact with the specific historical conditions of a society and its State.

In an attempt to specify the characteristics of a State that will play a developmental role, Evans (forthcoming) argues that "embedded autonomy" is essential. Evans defines embedded autonomy as a contradictory combination of a corporate coherence within the State that allows it to formulate a developmental project, and a set of ties to social groups that allows it to negotiate and implement that project. Evans suggests that different States have varying degrees of embedded autonomy. Those lacking it completely he calls "predatory States," in direct contrast to "developmental States." As instances of the latter,

Evans points to Japan, South Korea and Taiwan: powerful bureaucracies with a tradition of meritocracy that are nevertheless tied to private capital through a variety of formal and informal networks, allowing execution of a developmental project.

The Ministry of Trade and Industry (MITI), for instance, is credited with coordinating Japan's rise as a world industrial power (Johnson 1982). MITI was a powerful organization controlling investment loans and access to foreign technology and currency that private capital sought. It was also prestigious, attracting talented graduates from the best universities through a tough civil service exam. These aspects gave MITI its autonomy and corporate coherence, however, it was also closely linked to private capital. MITI and representatives of business and finance met on joint policy formulation organizations and, on retirement, MITI's staff went to work with the corporations they had previously regulated.

The underlying premise of the embedded autonomy concept is that successful economic transformation is most likely when carried out in partnership between States and their societies. Consequently, a State that is autonomous without being embedded, in the sense of being disconnected from civil society, will not have the social backing needed to legitimize a project. It now becomes easy to appreciate the limits of the dictatorial State that Lipietz sees as vital to repress labor in order to incorporate a society into the NIDL. In any event, autonomy does not guarantee corporate coherence. Evans points to the Mobutu regime in Zaire, which he sees as the predatory archetype, to show how an autonomous State can also take the form of a mere group of individuals pursuing their own agendas.

If autonomy without embeddedness is insufficient, so is embeddedness with insufficient autonomy. In the latter case, the State may be unable to formulate a coherent developmental project. Even if it did, it may lack the capacity to implement the project. Rudolph and Rudolph (1987), for instance, point out that though the Indian State has demonstrated a capacity to formulate developmental policies, it has become captive over the years to "demand politics." As a result, it merely reacts to the demands forced on it by diverse social groups, unable to sustain the pursuit of a project.

While embedded autonomy is a valuable analytical concept, as Evans himself defines it, it is a contradictory conjuncture in State-society relations, suggesting that it need not be a stable configuration. This consideration raises a questions requiring further investigation. First, under what conditions does embedded autonomy come about?

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Second, how does this characteristic change over time? In answering these questions, an historical approach is crucial.

As far as the first question is concerned, one needs to specify the conditions under which the State is able to legitimize a particular project by building ties with specific groups without challenges from others. Similarly, in the case of the second question, the issue is how the role of the State changes with incorporation into the NIDL. One possibility, as Evans suggests, is that the relevance of a State's developmental role may diminish once its society is firmly enmeshed into the technological high-end of the NIDL. But there are also other aspects to ponder.

In building a competitive economy, developmental States not only create the conditions of accumulation but also determine how surplus is invested. If incorporation into the NIDL occurs because of an alliance between the State and specific social groups, what roles have other groups played in determining the outcome, and how has the State legitimized its actions in their eyes? Such questions seem particularly relevant as the technological basis of economic activity in a society changes, as Castells (1989a) argues of the rise of the dual-city in the U.S.A.

The dual-city is a specific socio-spatial phenomenon that has resulted from the socio-economic restructuring accompanying the invention of new information technology. The new technologies generate their share of low-skill manufacturing and service jobs along with the high skill jobs. A polarization of skill requirements has led to the segmentation of labor markets, with the politically and economically vulnerable, and ethnically fragmented, immigrants and minorities dominating low-wage jobs. In the broader context of a shrinking Keynesian welfare State and the growing assertion of capital over labor, the prospects for upward mobility across segments are gloomy; groups with widely differing incomes have become more spatially segregated, reinforcing polarization by providing differential access to opportunities for skill enhancement. Such disparities produce a differential incorporation of social groups into the world economy. While Castells draws his empirical material from the U.S.A., one can also raise the possibility of an ironic internalizing of the "new dependency" in Third World countries as they move up the NIDL.

To avoid suggesting that events in the U.S.A. foretell what is to happen elsewhere, requires a close study of how social struggles over the control of resources determine political and economic outcomes in other societies. Struggles may take place on the basis of more than

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the economic or class identities suggested by Marx, but also gender, religion or race. For instance, Cho (1985) points out that young, unmarried female factory workers, whose docility was taken for granted in a patriarchal society, actively participated in the Korean labor movement. They became aware of their class position and gender subordination in the boarding houses they shared close to their factories. Unlike married women, these women were away from their families in the countryside and had spare time after work to exchange notes about working conditions, information about strikes in other plants and the reasons behind the success or failure of such strikes. These women exploited the shortages of female labor, to contest labor control, far more than males in supervisory or technical positions. Cho contrasts the consciousness of these women with the complete control exercised over female immigrant labor in a Japanese electronics assembly plant in California. Under these circumstances, Cho argues that locating in Korea becomes a much less attractive option to capital. Such unforeseen challenges to surplus extraction and legitimacy make different demands on the capacities of States to respond, potentially altering the structural constraints of development in particular countries and regions, and affecting subsequent position in the international division of labor.

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### NOTES

<sup>1</sup> Given the focus on the NIDL, the term development in this essay will refer to capitalist industrial development.

<sup>2</sup> At this point, it must be emphasized that the purpose of this essay is not to provide an exhaustive or even an extensive survey of the literature on Marxist theories of development; nor is the intent here to debate broader questions pertaining to historical materialism.

<sup>3</sup> To the Regulation School, which has a distinct Marxist lineage, capitalism goes through different phases of regulation. Each phase is characterized by a regime of accumulation or a pattern of economic activity and a mode of regulation or a set of institutions governing the regime of accumulation. The post World War II economic pros-

perity in advanced industrial regions is attributed to Fordism. Fordism was characterized by mass production with vertically integrated firms catering to mass markets. Mass markets were created as capital and labor (unions) reached a pact where capital was given control of the work process to ensure steady productivity gains. In return, labor was guaranteed wage increases which, in turn, sustained the demand for mass markets. The labor process was itself divided between skilled workers in charge of conception and unskilled workers on the production lines with well defined tasks. The Keynesian welfare State also played a key role—it mediated between capital and labor, provided appropriate macro—economic policies to maintain the balance between productivity and wages and supplied inputs such as education and health to ensure sustained productivity increases. While this brief description gives some of the key ideas of the Regulationists, there are many schools of Regulation. For a description of the different schools, see Jessop (1990).

<sup>4</sup> These two routes must be seen as ideal types, with a host of intermediate possibilities.

<sup>5</sup> Two particularly key features were, (i) the limits to capital accumulation due to a low propensity to save and (ii) the availability of unlimited supplies of labor that could be more productively employed in industry rather than agriculture. These features, along with the arguments that market solutions would only lead to uneven spatial and sectoral development, were used to justify some forms of state intervention (for details, see Hirschman 1981).

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