

Supplementary class notes

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Features of the Transition to Neo-/Post-Fordism

This is a short discussion of the transition from place-based, assembly-line **Fordist** production (the era of “**organized capitalism**”) to globally variegated and flexible **Neo-Fordist** production (“**flexible accumulation**”), or what is sometimes called an era of Post-Fordism (the era of “**disorganized capitalism**”). According to reigning interpretations in industrial geography, Neo-Fordism or “flexible accumulation” has two key features:

- A trend towards **flexible production methods** – combining **economies of scale** with **economies of scope** (hence, mass production with small batch production, just-in-time or JIT inventory systems, subcontracting, etc. – that are seen as efforts by capitalist firms to arrest declining rates of profit in the 1970s). Flexible production permits capitalists to control or reduce their wage bills by subcontracting production in semi-periphery and periphery countries where labor is, both, cheaper and more disciplined (or less prone to be unionized and militant). This raises their level of **absolute surplus extraction** from workers. Meanwhile, advancements in computer technology have also allowed capitalist firms to mechanize and robotize production systems in ways that permit them to augment labor productivity and engage in small-batch production of differentiated, high value-added, goods – thereby expanding **relative surplus extraction**.
- **Growth and transformation of financial markets** through the computerization and digitization of financial transactions; via the development of new financial instruments and markets (e.g., for junk bonds, options, and derivatives); and via the establishment of highly sophisticated systems of financial coordination of a global scale. The net result of these innovations has been to increase the geographical and temporal flexibility of capital accumulation. The ease and rapidity with which capital and information can flow across countries has altered the way in which people (particularly in globalized cities like NY, London, or Tokyo) apprehend and negotiate time and space. Some scholars label this transformation of economic activity and the corresponding experience of space & time, “time-space compression.”

The current importance of **transnational corporations** (TNCs) in the world economy is the outcome of an evolutionary process that can be separated into three distinct phases:

- **Phase I (late 1800s to 1940s)**: foreign investment directed at obtaining raw materials – mainly oil and minerals – for domestic manufacturing. Post-WWI breakup of Austro-Hungarian Empire led to resurgence of regional nationalism and decline in intra-European trade. Created impetus for transnational activity: setting up plants abroad. GM and Ford exported knocked-down cars. By 1926, GM had invested \$30 million in plant, equipment inventories and working capital abroad (and had \$100 million in sales abroad). GM acquired Opel in Germany in 1927 and had previously acquired Vauxhall of UK. Ford's assets in foreign plants totaled \$50 million by 1923. American multinational motor vehicle production was 309,000 in 1928. In 1927, 85 % of trucks and tractors in USSR were Ford-manufactured!
- **Phase II (post-WW2 to mid-1970s)**: Marshall Plan, post-WWII, led to expansion in US exports (some scholars even maintain that the Marshall Plan was designed to give American firms an advantage in the newly-reconstructed European markets). Foreign investment in overseas production operations was viewed as a means of penetrating foreign consumer markets and was later directed to the establishment of alternative, foreign, production sites. By the late 1970s overseas profits accounted for a third or more of overall profits for the hundred largest

TNCs in the world; and by 1970, 75% of US imports were transactions between domestic and foreign subsidiaries of TNC conglomerates.

• **Phase III (late 1970s to present):** But a crisis had been brewing for sometime. Average rates of profit for seven largest industrial economies and defined as net operating surplus divided by net capital stock at current prices, fell from 17 to 11 percent across all sectors between 1965 and 1980, and from 25 to 12 percent in the manufacturing sector. Most of it was tied to declining rates of productivity (or relative surplus extraction) rather than rising labor costs. The OPEC oil shock of 1973 prompted a period of stagflation (high inflation, flagging aggregate demand for capital and consumer goods, and rising unemployment); meanwhile, import penetration of US markets by European and Japanese TNCs (partly a result of the rise in the value of the US dollar after the Bretton Woods agreement collapsed in 1971), led to an “accumulation crisis” for US-based TNCs and forced them to restructure production processes (*note*: when the value of a currency rises, exports from that country usually suffer because they are now more expensive to importing countries).

This reorganization involved:

- downsizing – by eliminating the duplication of activities between domestic and foreign-based facilities and reorganizing the division of tasks between them (functional separation);
- divesting from relatively unprofitable manufacturing activities, and diversification into new activities that involved high levels of service inputs (banking, insurance, advertising, law, telecommunications, transportation, etc);
- rapid adoption of new technologies to boost productivity (cargo containerization; accelerated adoption of telecommunication technologies, such as fax machines and now the internet; switch to low inventory, just-in-time production methods, etc);
- compression of the ‘shelf life’ of commodities to maintain recurring demand;
- a focus on combining ‘economies of scale’ (mass production of standardized items) with ‘economies of scope’ (exploiting market niches and brand names in a wider space-economy – with corresponding emphasis on penetrating foreign markets, and an interest in establishing a variety of “free trade” arrangements, such as NAFTA, EU, and, now, under the aegis of the World Trading Organization (WTO));
- Rise of a ‘market access regime’ emphasizing improvements in global (rather than domestic) competitiveness of firms through trade, investments, and learning networks – thus making capital ‘global’ in character, and rendering nation-states an impediment rather than advantage to capital accumulation (indeed, nation-states begin to take on the role of corporations in this neoliberal environment, hence labels like UK, Inc., or USA, Inc. or Taiwan, Inc);
- Creation of a dual or two-tiered employment hierarchy of privileged and unprivileged workers (both, within countries and between them).

Clearly, though, the flexible production systems typical of Neo-Fordism could not have arisen without the availability of enabling technologies of two kinds:

**1. Circulation-related:** improvement in transport and communication technologies (wide-bodied cargo jets, containerization, fax, e-mail, optical fibre networks, satellite communications, etc.) that have reduced the time and costs of circulating raw materials, finished products and financial capital, bringing a wider space-economy within the reach of businesses. Such technologies have moreover accelerated the flow of images and ideas between countries, leading to a standardization of products across cultures.

**2. Production-related:** improvements in production technologies (electronically controlled assembly lines, automated machine tools, robotics, etc.) have permitted a finer degree of specialization in many processes *and* routinization of operations, ultimately increasing their separability. The development of synthetic materials has also reduced the dependence on localized raw materials.

In Neo-Fordism, the logic of mass production coupled with mass consumption (the so-called “virtuous cycle of growth” typical of the Fordist regime of accumulation) is modified by the addition of more flexible production, distribution, and marketing systems. The flexibility in production

systems allows manufacturers to shift quickly and efficiently from (a) **one level of output to another**; and (b) **one process and/or product configuration to another**.

Flexibility emerges both *within* firms and *between* firms. **Within firms**, the flexibility arises from the adoption of new computer technologies at various levels.

- At the level of **production**: computer machine tools that are capable of producing a variety of new products simply by being reprogrammed, often with very little downtime between production runs. Moreover, different stages of the production process (sometimes located in different places) can be integrated and coordinated through CAD/CAM.

- At the level of **raw material acquisition and inventories**: use of computer-based information systems to monitor retail sales and wholesale orders, thereby allowing producers to reduce the costs of raw materials stockpiles, parts inventories and warehousing facilities.

- At the level of **labor practices**: institution of a “dual labor market” system, consisting of skilled “primary” workers who have high employment security, a financial stake in the wellbeing of companies (through stock options, for instance) and an ability to perform multiple tasks; alongwith “secondary” workers – often in peripheries – who are largely unskilled or semi-skilled, have little or no employment security, and are paid piece rate.

- At the level of **marketing and product development**: sensitivity to demand, niche marketing and product differentiation (i.e. flexible product lines) – both, through the use of computer technologies which convert cash registers at flagship stores into point-of-sale terminals that make purchase data immediately available to strategists at company headquarters and by setting up stores and/or product lines that exploit several market niches – upscale, mid-scale, and mass consumption – simultaneously. Moreover, the homogenization of markets (that is, the standardization of consumers tastes/preferences) across core countries – as a result of expanding trade, international travel, and media and communication flows (think MTV, American movies and TV shows, international magazines, advertisements) – has caused market niches in these countries to merge, and made it possible for manufacturers to exploit economies of scale in the production of up-market products (thus, producers can sell virtually the same DVDs, digital cameras, perfumes, and fashion accessories in the US that they do in Australia, Canada, Europe, Japan, Brazil, Taiwan, Korea, or Thailand).

**Between firms**, the flexibility inherent to Neo-Fordism has been achieved through the *externalization* of specific functions:

- Increasing use of outside consultants, specialists and subcontractors in order to make the internal corporate structure flatter, leaner, and more flexible. This has led to a degree of **vertical disintegration** among firms, and towards **diagonal integration**.

- Trend towards **strategic alliances** involving design partnerships, collaborative R&D projects, and other sorts of joint ventures (thus, as Knox & Agnew inform us, 244 strategic alliances existed in 1996 between the world’s 41 largest auto makers, including parts-sharing agreements and joint ventures in research, as well as in manufacturing). Such alliances have become an important aspect of global economic geography in the 1990s as transnational corporations (TNCs) attempt to reduce costs and minimize the risks involved in multibillion dollar projects. Strategic alliances have several advantages: (a) they permit TNCs to link up with national ‘insider’ firms in order to penetrate and develop new foreign markets; (b) they allow information swapping on new technologies and organizational practices; and (c) they spread risk and lower the costs of product development and market research.

The globalization of economic activity has led to the emergence of **locational hierarchies and geographies that attempt to balance the benefits and costs of flexible production with the benefits and costs of clustering (harnessing “localization economies”)**. Hence, we see the emergence of production networks that are distributed in space (such as strategic alliances between international competitors, or General Motors’ assembly plants in Mexico) as well as new industrial districts (such as the craft-based Third Italy – high quality footwear, textiles, machine tools) and technopoles (Silicon Valley, Rt. 128 in Boston, Bangalore, etc).

But the globalization of economic activity *does not mean that every country has benefited in the same way or to the same extent*. Far from it. Commodity (trade) and financial (FDI and speculative) flows remain heavily concentrated in the world's **triadic core** – consisting of the US, western Europe, and Japan.

Moreover, this phase of **advanced capitalism** has arisen on a bedrock of corporate integration that includes:

- the **concentration** of economic activity, through elimination of smaller, weaker producers via competition and via mergers and takeovers
- the **centralization** of economic activity, through **diagonal integration**, that has led to the emergence of conglomerated, transnational corporations which have massive control over assets, jobs, production and other economic decisions. By the early 1990s, diagonal integration had become the preferred mode of merger, and nine out of every ten mergers in the US involved conglomerated companies. It should be noted that giant conglomerates are not limited to the US – they have emerged in Canada (Bombardier), Japan (Mitsubishi), Southeast Asia (Daewoo) and western Europe.

Finally, neo-Fordism has led to the emergence of “**new industrial spaces**” that include:

1. **Metropolitan decentralization and diffuse industrialization** – relocation of manufacturing and warehousing operations from inner cities to suburban industrial parks and peripheries;
2. **Inter-metropolitan decentralization** – corporate decentralization, facilitated by advances in telecommunications, that has resulted in a general decentralization of routine business and professional services down the urban hierarchies of core countries (Amex from NYC to Salt Lake City, Phoenix, and Ft. Lauderdale; Hertz's data-entry division to Oklahoma City and Avis' to Tulsa; Citibank's MasterCard and Visa divisions to Tampa and Sioux Falls; telemarketing operations to Omaha and San Antonio; process has occurred internationally too);
3. **Technopoles** (hi-tech hubs like Silicon Valley, Rte. 128 in Boston, Bangalore (India), etc.) and **world cities** (like London, NYC, and Tokyo, which are the hubs of the new world of global finance);
4. **Flexible production regions** - like the Emilio-Romagna region in northern Italy, which utilize 'economies of scope' to cater to market niches;
5. **Consolidation and agglomeration** – mergers and spatial consolidation of firms in the advertising, accounting, media, hi-tech and other sectors.