

Review Essay/Note de lecture

Profits, Equilibrium, and Regional Development

David L. Rigby
Department of Geography
University of California
Los Angeles, California 90024

Profit Cycles, Oligopoly, and Regional Development. A. Markusen. Cambridge, Mass.: MIT Press, 1985, 357 pages.

This is the first of two books by Markusen examining regional development in the United States. The purpose of this book is to situate regional change within the dynamic of competitive capitalist economic relations. The companion study softens the broad economic focus and details a subtler geography of cultural and political forces shaping regional development.

Markusen's aim in this first work is bold: "to pioneer an alternative approach to regional development studies that will enable us to cope with baffling changes in the contemporary economic viability of certain regions" (11). She contends that regional growth theory is in a moribund state, requiring a radical reconceptualization of the causal forces driving regional economic change. Her own reconceptualization is driven by the dynamic of capitalist competition, afforded a spatial dimension by the tendencies of industries to change locations as they pass through various stages of a profit cycle. This synthetic theory "builds on Schumpeterian and Marxist work on innovation and capitalist dynamics, on the product cycle theories of business economists, and on theories of oligopolistic behavior from industrial organization" (2).

Theoretical concerns occupy the first part of the book (Chapters 1-6). In Chapter 2, Markusen criticizes existing regional growth theory and persuasively argues that the sterility of the neoclassical model emanates from the way market conditions of supply and demand prescribe the roles of economic agents. The blind logic of this approach is shown to foster explanations of uneven development that focus

solely on the attributes of regions, ignoring the reality of interfirm competition and the processes by which regions are actively created and destroyed. Markusen demands an approach that grants discretionary power to economic decision makers operating in different and changing environments. Her solution is to marry the concepts of the industry product cycle and oligopoly. The resultant "profit cycle" model is detailed in Chapter 3. This model supposedly captures the evolutionary dynamic of industries as they pass through a sequence of five stages from birth through maturity to decline, following a regular path along which profits, employment, firm entry, and market power change in predictable fashion. Competition provides the dynamic of the profit cycle, forcing industrial development along recognizable channels, though oligopoly is seen to afford some sectors temporary respite from market pressures, leading to irregular patterns of development. The spatial manifestations of the profit cycle are presented in Chapter 4. A pattern of industry concentration and subsequent dispersal is proposed, reflecting the stringent demands of industries in early profit cycle stages and the later, more general search by firms, regardless of their sectoral orientation, for low-cost production sites. Chapters 5 and 6 outline the strengths and weaknesses of the profit cycle approach and the focus on individual sectors of the economy.

Part Two of the book, comprising Chapters 7-12, presents case studies of the growth and changing geography of 15 industries in the United States. The most detailed of these studies focuses on the U.S. steel industry, and the remaining accounts provide more limited snapshots of producer-goods, consumer-goods, and resource-processing industries at the four-digit Standard Industrial Classification (SIC) level. The sectors chosen for investigation cover a wide spectrum—from such mature industries as cotton and knitwear textiles to such relatively young industries as computers and semiconductors; from capital-intensive resource processing industries to labor-intensive apparel industries. The aim of this empirical work is to provide support for the profit cycle model by documenting the passage of each industry through a sequence of development stages. The stage status of each sector is identified by the timing of changes in employment, value-added, firm entry rate, and firm size data. The changing geography of production over the cycle is revealed through analyses of these same data by census region and by state.

The central results of the empirical investigation are summarized in Chapter 12. Markusen claims overwhelming support for the profit cycle thesis; the empirical accounts confirm the anticipated sequence of peaks in the number of firms, employment size, and output, respectively, in all but one of the 15 sectors studied. The spatial

distribution of production also confirms the prior theoretical claims of industry agglomeration and subsequent dispersal, except for the resource-processing sectors, which exhibited a greater propensity for rapid relocation along paths governed by natural resource availability. In several other industries the existence of oligopolies, revealed by concentration ratios, was shown to produce a truncated pattern of stage development, characterized by greater employment and output stability and a concentrated spatial distribution of production more resistant to the decentralizing tendencies of competitive markets.

Chapter 13 concludes the book by developing the implications of the profit cycle model for regional fortunes and assessing the likely success of a limited range of industrial development strategies. The profit cycle model makes it clear that the boom-bust cycle of industrial and regional development is an intrinsic feature of the capitalist economy. Markusen appeals for a greater awareness of the past history of regional development in planning and of the need to match planning strategy with the characteristics of regional economies.

Although the theoretical pedigree of Markusen's profit cycle model is long, this important attempt to reconceptualize the process of uneven spatial development is not without some serious flaws. In reality, the profit cycle vision of regional growth appears little more than an industry-mix model afforded a "dynamic" by the same competitive forces of supply and demand that figure so prominently in neoclassical theory. Some of the drawbacks of this theoretical framework are examined below.

The sectoral approach adopted by Markusen leads directly to a narrow conception of regions as simple aggregates of industrial capital. The role of labour, political, or cultural forces is entirely absent from the regional question, as well as any indication of the process by which industrial spaces are manufactured. This work follows most of the product cycle literature, which views regions in a static sense or simply as reservoirs of productive potential, each more or less suited to the requirements of capital in various stages of industry evolution. With regional performance governed solely by industry mix and regional variations in industry performance ignored, space plays a purely passive role as container in the profit cycle world. Discussion of the geographic aspect of competition is also limited by the implicit treatment of capital as perfectly mobile in space.

With regions characterized by their mix of industries and the stage status of those industries, regional change is logically introduced into the profit cycle model through the process of industrial restructuring. Endogenizing the determinants of industrial growth and decline within the causal mechanisms of the capitalist economy is

perhaps the central task of any viable growth model. While Markusen recognizes this, she offers only tantalizing glimpses of the theoretical apparatus needed to assemble such a model and does not explain how the components of this model might fit together.

The profit cycle depends crucially on three arguments, the viability of which remains unclear. First, the growth phase of the cycle, likened by Markusen to the upward swing of long waves of accumulation, is tied to innovation and rising profitability through the arguments of Marx and especially Schumpeter. (The connection between long waves and the profit cycle, a fascinating issue itself, is not elucidated by Markusen.) But what triggers a renewed round of economic growth and especially the lower turning point of the profit cycle is a mystery. While innovation is clearly given the principal role in this process, the types of innovation required to fuel growth, the volume of technical change and its sectoral focus, and the precise timing of innovation and its relation to the rate of profit are not addressed. Second, the downward path of the profit cycle is linked to Marx's arguments about the falling rate of profit. This work tends to assume those arguments are unproblematic. The microfoundations of the theory of the falling rate of profit have not yet been established, however. Third, the profit cycle model relies heavily on the generally accepted logic of the relationship between capital mobility and relative rates of profit—in particular, the view that capital will automatically respond to eliminate variations in that rate between industries and between regions leading to a state of equilibrium. Recent investigations of this issue have revealed that capital flows may not follow this simple logic. The profit cycle model rests too heavily on conventional notions of competition that carry the associated baggage of equilibrium. Rates of profit are never uniform, and competition does not act simply to reduce profit rates to the average. It should be noted that the theoretical concerns raised above ignore the conventional criticisms of the product cycle literature, developed most forcefully by Sayer (1985) and Taylor (1986). Many of these criticisms apply to the profit cycle thesis.

A number of questions also may arise about the empirical work in this investigation. First, it is odd that a study of the profit cycle directs so little attention to measurement of the rate of profit itself. The unreliability of published data is used as an explanation for this. The available data, however, do permit estimation of the rate of profit, and these data may be more reliable than published accounts. Second, the links between profitability, employment, and output may not be as straightforward as the profit cycle model suggests. For example, are reductions in profitability the cause or the effect of reductions in employment? The empirical accounts do not establish the

direction of the relationship between the variables examined. Third, it is difficult to imagine a situation in which the history of development of particular sectors—in terms of the growth of firms, employment, and output—would deviate from the path predicted by Markusen's profit cycle model, especially when oligopoly is introduced to “mop up” any significant outliers. The empirical analysis is valuable in its own right as an account of industrial and regional change in the United States, but it does not constitute a rigorous test of the profit cycle thesis.

Markusen's book represents an important addition to the literature on uneven regional development. The profit cycle thesis identifies the essential ingredients of an explanation of regional growth and decline, combining aspects of the theory of innovation, oligopoly, and the product cycle model in a novel fashion. This work also provides a detailed description of the development and geography of 15 industrial sectors in the United States, carefully crafted to complement the theoretical analysis. The major weakness of this book is its failure to combine rigorously the disparate theoretical foundations on which the profit cycle rests. Markusen has clearly outlined the arena for those wishing to address the regional question, and she offers economic geographers and regional economists the challenging task of assembling the theoretical pieces of the regional development puzzle.

References

- Sayer, A. 1985. “Industry and Space: A Sympathetic Critique of Radical Research”, *Environment and Planning D*, 3:3-29.
- Taylor, M. 1986. “The Product-Cycle Model: A Critique”, *Environment and Planning A*, 18:751-761.