

# Developmental capitalism

Luiz Carlos Bresser-Pereira

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**Abstract:** In this paper, I return to the stages of capitalism, and taking as the key criterion the coordination capability, I compare developmentalism with economic liberalism. The first historical form of developmentalism was mercantilism, which was also the era that gave birth to the Industrial Revolution. The 19<sup>th</sup> century was the time of economic liberalism, but its failure, in 1929, opened room for a second developmentalism, the Golden Years of Capitalism. After that, the Neoliberal Years of Capitalism were a failed attempt to return to liberal capitalism. Actually, when compared with economic liberalism, developmentalism is a superior form of coordinating economically capitalism. The market is an extraordinary institution regulating capitalism, but is unable to coordinate the non-competitive sector of the economy, as well as the whole macroeconomic system. The complementary coordination by the state is required, and turns more important or strategic, the more complex are modern societies.

**Key words:** Capitalism, developmentalism, economic liberalism, social democracy  
**JEL classification:** P2, O1

For more than one hundred years social theory viewed capitalism as a historical system that began mercantilist, changed into liberal, and, according to Marx and Engels, was supposed to change to socialism and communism, but, actually, changed into technobureaucratic or organized capitalism. The study of capitalism could adopt a Marxist, a Weberian, or even a modernization or pluralist approach, but it was historical; the ideas of stages and of progress were always present. Yet, when the really existing socialism in Soviet Union and in China ended into statism, the major social theorists lost their vision of the future, which turned still more uncertain that already was, and, besides an anti-historical new institutionalism, a non-historical literature on the models or varieties or diversities of capitalism prospered. In this paper I return to the historical stages approach, and discuss developmentalism as a really existing form of economic and political organization of capitalism opposed to economic liberalism. In the last ten years I have been discussing extensively *new developmentalism*, which I understand as the political and the economic theory aimed to understand how developing countries, particularly middle-income countries. This paper is part of the political economy of new developmentalism,

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Luiz Carlos Bresser-Pereira is emeritus professor of Getúlio Vargas Foundation. [bresserpereira@gmail.com.br](mailto:bresserpereira@gmail.com.br), [www.bresserpereira.org.br](http://www.bresserpereira.org.br). I express my thanks to Robert Boyer, Ben Ross Schneider, Cecilia Heise, Claudio Gonçalves Couto, Hideko Magara, Hiroshi Nishi, Eunmi Choi, Ilan Bizberg, Pierre Salama, André Singer, Cícero Araújo, Cristina Helena Pinto Mello, Daniela Theuer Linke, José Marcio Rego, Marcus Ianoni, Nelson Marconi, Pedro Paulo Zahluth Bastos and Vitor E. Schincariol, who commented this paper and contributed to its improvement.

whose antecedents are development economics (or “original developmentalism”, post Keynesian macroeconomics, and the French Regulation School.<sup>1</sup>

In this paper, which is part not of the economic theory but of the political economy of new developmentalism, I discuss developmental capitalism as a historical ideal type – as a form of economic and political organization or a mode of regulation of capitalism. Instead of insisting on the concept of models or in the diversity of capitalism – an approach that does not help to understand to where capitalism is headed –, I will try to understand why capitalism was born developmental, in the mercantilist phase, turned liberal in the 19<sup>th</sup> century, and returned to be developmental after 1929. Instead of looking for differences in the form of organizing production in one and another variety of capitalism, I will adopt a coordination approach, and I will look for the role of the state and of the market in providing such coordination. My general argument is that there are two basic modes of regulation or two forms of economic and political organization of capitalism – developmentalism and economic liberalism.<sup>2</sup> According to the coordination approach, what matters is how capitalist societies are coordinated or regulated, that is, how productive factors are allocated, how social roles, rights and obligations are defined, how political objectives are set, what are the rules of the social game. In taking this route, instead of the models of capitalism approach, I am adopting the same line of thought of Wolfgang Streeck (2009: 1) when he remarks “the time has come to think, again, about the commonalities of capitalism”. I am not disputing the merit of the models of capitalism approach. I just want to spotlight economic coordination as the core criterion in distinguishing the forms of capitalism, to emphasize that either the state or the market will play the key role in the coordination process, depending on the industry is internally competitive or non-competitive, and, from the analysis of the historical process, to conclude that developmentalism, which combines market and state coordination (not economic liberalism, which limits economic coordination to the market) is the normal or *default* form of coordinating capitalism. In any case, in the stages or in the models of capitalism approach, my understanding is that what essentially defines the form of capitalism is the nature of its major and overarching institution – the state. When the state is developmental, capitalism will be developmental; when it is liberal, capitalism will be liberal. Other institutions associated with the forms that business enterprises assume in technological, administrative and political terms are significant, but much less than the form the state assumes. In this paper I am interested in the economic coordination of capitalism, and, so, on its developmental character. I will also discuss the liberal alternative and neoliberalism, but I will argue that economic liberalism is unable to coordinate satisfactorily the increasingly large and complex character of contemporary capitalism.

Developmental capitalism corresponded to mercantilist capitalism when the first today rich countries (the UK, Belgium and France) realized the Industrial Revolution; was also the form that assumed capitalism in latecomer countries when they realized their industrial revolutions; and is the dominant form of capitalism in rich countries since the 1930s, despite the permanent attempt of neoliberal politicians, economists, rentier capitalists and rentiers of retuning to

the economic liberalism that was dominant only in 19<sup>th</sup> century. Thus, I am adopting a broad concept of developmental capitalism, because they combine moderate but effective state intervention in the economy with market coordination. Some associate developmentalism to social democracy, because the Golden Years of Capitalism after World War II were social-democratic, but, by definition, social democracy is a center-left political orientation, whereas developmentalism may be conservative or social-democratic. Actually, social democracy is always developmental, but developmentalism is not always politically progressive. Developmentalism and economic liberalism may be seen as alternative ideologies and growth strategies, but I argue in this paper that economic liberalism is not a real alternative form of the economic and political organization of capitalism to developmentalism, because it is a overcome mode of regulating capitalism. Economic liberalism was the coordinating principle of 19<sup>th</sup> century Liberal Capitalism, which long ago (in the 1930s) proved definitely unable to be an alternative to developmentalism. The recent neoliberal attempt to go back to economic liberalism failed, once more confirming what I am saying.

Many view liberal capitalism as the alternative to socialism, but this view assumes that capitalism is inherently liberal in economic terms, what is just not true. What is historically associated to the rise of capitalism is *political* liberalism, which was, in the 18<sup>th</sup> century, a conquest of humanity. But, contrarily to the liberal rhetoric, political liberalism is not dependent on economic liberalism. First, the civil rights are consistent with modern developmental capitalism, which, in the rich and increasingly in the middle-income countries, proved to be democratic, social, and consistent with the free individuals who define their own goals and preferences. Second, the capitalist class and the working class are both historically liberal in political terms – in defending civil rights or the rule of law –, but not in economic terms. The bourgeoisie always lived the dialectic contradiction of being economically liberal (or neoliberal) and developmental, of reclaiming free enterprise but counting on the support of the state.<sup>3</sup> Third, capitalism was not born liberal but developmental, with mercantilism. Statism is inconsistent with civil rights, not developmental capitalism. When Friedrich Hayek, in his book *The Road to Serfdom* (1944), opposed liberal capitalism to socialism, socialism was still viewed as a possible short-term alternative to capitalism. After the Budapest uprising of 1956 and the Prague revolt of 1968, it became clear that the Soviet Union was not socialist, but a statist society. At that time, it seemed that statism was effective in promoting growth and represented a challenge to capitalism. In 1961, the Soviet Union experienced accelerated growth, and Nikolai Khrushchev predicted that in 20 years the Soviet economy would surpass the American. Yet, after the early 1970s the Soviet economy stagnated, what showed that statism could be effective in achieving primitive accumulation and promoting heavy industrialization, but it was incapable of coordinating efficiently a complex economic system.

### **The historical forms of society**

The essential element to be considered when we discuss the forms a given society assumed historically is its character of its institutional coordination. The institutions that coordinate a given society tell us how social roles are defined;

how the division of labor is achieved; how factors of production are allocated; how rights and obligations are shared; how common goals are set; how wealth and power are distributed; how the class struggle is resolved; how cross-class coalitions are formed; how they become more cohesive and form a nation; and how they are more or less open to social innovation. These elements involved in the social coordination process make clear the fundamental role that coordination plays in putting together and strengthening a given society.

Considering this, we can divide the history of mankind in three major *stages*, according to the form of coordination that prevailed in each one. These stages are primitive community, slave society, and capitalist society (Table 1). In primitive societies, tradition and religion were the two main institutions coordinating society; in slavery or in the ancient empires, religion and the ancient state performed this role; and, in capitalist societies, the modern state and markets are the main coordinative institutions. The ancient state was essentially an instrument of the military and land-owning oligarchy devoted to the war with the purpose of conquest and the reduction of men to slavery. With capitalism, the state turns rational, big, gains bureaucratic structure, and shares the coordinating role with a new institution: the national market. The constitutional and rational state that Locke championed and Hegel first understood is the state that originally expressed the interests of the monarch, its aristocracy, and the rising bourgeoisie, but, gradually, became liberal, responding to the interests of the bourgeoisie more than anything else, and, finally, democratic, opening itself to the three social classes that define modern capitalism: the bourgeoisie, the technobureaucracy, and the working class. In consequence, today the state also represents the popular classes, while guaranteeing the profit rate, and, so, the reproduction and growth of capitalism. The market, on its hand, is the national institution regulated by the state that performs its coordinating role through economic competition. Since capitalism was also the first mode of regulation to be coordinated by markets, it is often called “market society”. Before capitalism, markets were rather local fairs, and played a marginal role in social coordination. Under capitalism they assumed a new and major role. As Marx well noted, capitalism is the mode of production where money and commodities endowed with exchange value are the two core economic institutions; it is the society where the process of *commodification* – the transformation of almost everything into commodities, beginning with the labor force – turns into its main logic or dynamic force together with the process of capital accumulation.

**Table 1: Historical forms of society and respective coordination**

Forms of Society	Forms of coordination	Territorial political unit
Primitive	Tradition & Religion	Tribes
Slave	Religion & state	Empires
Capitalist	State & markets	Nation-states

We may also view these three stages in Table 1 in terms of the political territorial unit that defines or characterizes each of them: the tribe is the loose territorial unit in primitive societies, the empire is the ever-expanding or narrowing

political territorial unit in slave societies, and the nation-state is the clearly defined political territorial unit that today covers the whole earth. Following Ernest Gellner (1983), in the ancient empires there was a state that only coordinated the core of the imperial system, and was not interested in transferring its superior culture to the colonies, which were just supposed to pay taxes, not to integrate with the center. Completely different are the capitalist nation-states, in which the state is associated with a nation, and together they are supposed to spread the superior culture existing in the core of such nation-state to the society, so that the whole nation shares a common basic knowledge, which is required for the continuous economic growth of the nation-state. Whereas in the pre-capitalist societies the concept and the objective of economic development was absent, in capitalist societies it turns a main goal for the state, as profits become the crucial goal for the business enterprises.

Both mercantilist and classical political economists knew that their discipline became possible only when markets assumed the role of coordinating modern societies, but they also knew that political coordination remained central. For that reason they called “political economy” the new science they were founding, a science that makes sense only if the coordination process remains essentially political but is powerfully completed by markets. Neoclassical economists lost view of this simple truth. Fascinated by the power of the new coordinating institution based on competition – the market –, which is *apparently* a self-regulating form of social coordination, independent of the will and the say of the powerful, the economists of the neoclassical as well as of the Austrian school of thought transformed it into a kind of myth, and attributed to it a role that is far beyond its capacities. The state and markets are the main institutions coordinating capitalism, but the coordinating role of the state is superior to that of markets, because the state is not only the government or the administration but also the legal system. The state is the overarching institution endowed with sovereignty, while the market is an institution regulated by the state that is able to coordinate the competitive sectors of the economy, where prices are set competitively, what excludes, in microeconomic terms, a large non-competitive sector, principally the infrastructure, and excludes the whole economy in macroeconomic terms, because markets already proved definitely that they are unable to lead national economies to financial stability and growth without the regulation of an active macroeconomic policies – fiscal, monetary, exchange rate and financial policies.

### **Defining developmental capitalism and the developmental state**

I don't believe that history converges to a given goal, but I believe that throughout history, since the capitalist revolution, men and women have defined for themselves their main political objectives (social order, security, national autonomy, individual liberty, economic well-being, social justice, and protection of the environment) and are involved in the social *construction* of the main political instruments to achieve these goals: the nation, civil society, and the democratic state. This belief is associated with the fact that the countries that realized their national and industrial revolutions have experienced since then progress, making it clear that history is not a succession of cycles, each one defined either by a civilization or an empire. Since then economic development

turned into a self-sustained reality; since then the gradual achievement of the political objectives defined by modern societies ceased to be a mere utopia. At world level, after the Industrial Revolution in England, this social construction gained momentum and relative consistency. This construction is sometimes the outcome of republican values, other of just class interests; it is always an informal practice, a complex and contradictory effort to share values, define institutions, make institutional compromises that set limits to conflicts, which, being successful, will make societies more tolerant and cohesive. In the case of the state, this social construction assumes a formal character, because it involves the permanent reform of the normative and administrative institutions that shape the state and regulate national societies, but, again, the institutions don't emerge from a spontaneous social process, nor, on the other extreme, are fruit of a purely rational choice, but are the outcome of strategies and compromises. As Bruno Amable (2009: 12) remarks, "institutional design reflects conflict over distributional conflict... institutions are endogenously determined rules of the game". In this social construction modern society and the modern state (the fundamental institution of modern societies) are so deeply intertwined that when we refer to the liberal state we are also referring to liberal capitalism, and when we refer to the developmental state we are referring to developmental capitalism.

Within modern societies we may have diverse degrees of state intervention in the economy, going from liberal capitalism to statism, with developmentalism in between. Capitalism is liberal when it attempts to be coordinated almost exclusively by the market; is developmental when it combines state and market coordination. When coordination is almost exclusively made by the state, capitalism ceases to exist, and we have a statist or purely technobureaucratic society. Neoliberals confound statism with a strong developmentalism. China, for instance, was a statist society, which, since the 1980s, turned into developmental capitalism. Today a capable and authoritarian state and a strong market coordinate the Chinese capitalism.<sup>4</sup>

It is now the moment to offer a short definition of the two forms of capitalism. Economic liberalism is a mode of regulation in which it is sufficient that the state guarantees property rights and enforces contracts, keeps its finances balanced, and maintains the supply of money under control; all the rest is supposed to be coordinated by the market, if not optimally, almost. In contrast, developmentalism is a mode of economic and political organization of capitalism in which the market coordinates the competitive sectors of the economy, while the state, besides conducting the overall coordination of society through macroeconomic policy, coordinates closely the non-competitive sector of the economy (infrastructure, basic industries, and major financial institutions), *and* assumes a proactive role in macroeconomic policymaking, industrial policy, distribution policy, and environmental policy. In other words, economic liberalism assumes that economic growth with price and financial stability is the outcome of market-coordinated actions, while developmentalism presupposes that it is the outcome of a political design, where markets have a major role, but the will of citizens acting politically through the state is the crucial variable.

Given this broad definition of developmentalism and of the developmental state, I argue that this general mode of regulation encompasses many forms of economic and political organization of capitalism. We may see as expressions of developmental capitalism in (a) mercantilism, (b) Fordism including the New Deal and the Golden Years of Capitalism, (c) the Japanese strategy of growth since the Meiji restoration, (d) other cases of late industrial revolution going from Bismarckian years in Germany and Kemalism in Turkey to the national-developmentalism in Brazil and Mexico, and (e) the case of all the fast growing Asian countries including India and China. In this list I included only successful cases, but we also have many that failed, as the Egypt of Gamal Abdel Nasser, the Iraq and Syria of the Baath secularist parties, and the Peru of Juan Velasco Alvarado. On its turn, liberal capitalism, the alternative general mode of regulation, expressed itself in (i) 19<sup>th</sup> century's Laissez-faire Capitalism, in (ii) the attempts of local and dependent oligarchies in developing countries in adopting contradictorily economic liberalism without political liberalism and democracy, and (iii) in the Neoliberal Years of Capitalism, which corresponded to financialization and Finance-Led Capitalism.

Developmental capitalism supposes the existence of a developmental state, not in the narrow sense adopted by the main originator of the concept, Chalmers Johnson (1982, 1999), who took Japan as the model, but in a broader sense. If the state coordinates the non-competitive sector of the economy, has an active development oriented macroeconomic policy including exchange rate policy, and practices industrial policies, it will be a developmental. Contrarily to what conventional knowledge believes, the state will not be liberal because it adopts responsible fiscal policies to control inflation and responsible exchange rate policies to avoid balance of payment or currency crises. Often macroeconomic prices are not in equilibrium in developing countries: the exchange rate is overvalued in the long term (when there is non neutralized Dutch disease) and the level of interest rate is high, what makes the wage rate and all other revenues artificially high, and the expected profit rate minus the cost of capital, depressed, insufficient to motivate business entrepreneurs to invest. In consequence growth will be hampered, whereas foreign indebtedness increases, and the country faces cyclically the threat of balance of payment crisis. When this happens, either the developmental state proceeds a firm macroeconomic adjustment involving the depreciation of the national currency, a tight monetary policy and fiscal adjustment to control the inevitable short run increase in the inflation rate.

Between developmental and liberal capitalism there is a grey area. There are moments when it is difficult to say which is the character of capitalism, because governments turn liberal in their policies, but the capitalism in that country cannot be viewed as liberal. In the Neoliberal Years of Capitalism something like that happened in the European countries which didn't turn objectively liberal, but neoliberalism turned the dominant ideology and politicians followed neoliberal policies. Today, after the 2008 Global Financial Crisis, capitalism is again developmental since, objectively, the state acted as the rescuer of last instance and recovered a major role in coordinating the economies, but governments are confused if not just neoliberal, and, so, unable to act as developmental governments should.

Developmental capitalism has developmentalism as the general mode of regulation and as the legitimizing ideology, whereas Keynesian macroeconomics, original developmentalism (or development economics), and new developmentalism orient economic policymaking. A developmental class coalition offers direct political support to the developmental state. Its social composition changed historically. Today, in an era of globalization and technobureaucratic capitalism, its main participants are the industrial business entrepreneurs, the entrepreneurs and executives associated with the new information technologies, the public technobureaucracy, the non-rentier sectors of the middle classes, and the workers. Thus, the developmental class coalition is a broad class coalition whose members are directly interested in economic growth, because their revenues come from profits, salaries and wages.

The adversary class coalition – the neoliberal coalition – is narrower, associating rentier capitalists, including middle class rentiers, financiers, and the high executives of the great business corporations.<sup>5</sup> It is a narrow class coalition, whose members' incomes consist, of real interests, rents and dividends, high salaries, commissions and bonuses, what explains why it gives priority to interest and dividends over profits,<sup>6</sup> and to low inflation over growth. Or, in other words, why its logic is the one of short-term *shareholder value maximization* instead of the classical capitalist logic of long-term profit maximization, which was more so the logic of mid 20<sup>th</sup> century technobureaucratic capitalism. That is the reason why we may view neoliberal capitalism as conflicting with the capitalism of professionals, but, eventually, the interests of the top executives of the great corporation coincide with the shareholders or rentier capitalists because the absurdly high salaries and stock options of top executives are legitimized by the assumption that being capable they are able to change in the short run the flow of cash of the corporation, and, so, its market value.

The two class coalitions are loose and fluid, always changing. In moments in which the capitalist class feels threatened by left wing political parties, it tends to get united; in normal conditions, their conflicting interests overcome the common ones, and they pursue political routes different, the rentier-financier always coalition committed do economic liberalism or neoliberalism, while the business entrepreneurs-working class coalition adopting some form of developmentalism. Often it is difficult to distinguish the entrepreneurial from the rentier capitalists, but they are essential to explain capitalist societies. Between the two coalitions there is a changing and undefined "middle", which is populated by people who have little interest in politics and little weight in civil society.

Behind the two forms of capitalism and the two forms of state there are the respective schools of economics that legitimize them and orient economic policy. What is not surprising, given that economics is a highly ideological social science. Behind developmentalism are the original developmentalism or development economics, Post Keynesian macroeconomics, the contributions of the modern political economy, of modern Marxism, the French Regulation School, and new developmentalism, including developmental macroeconomics. Behind liberal



capitalism and the liberal state are neoclassical economics and the Austrian school of economics.

### Three stages

Marx's capitalism was a dynamic mode of production that would fall into a major crisis and would be replaced by socialism. For liberal economists, it is just a market coordinated economy, whereas for developmental economists is a state and market coordinated economic system. It is an economic and political organization that is permanently changing because of technical progress, because business enterprises and individuals are involved in a permanent relation of conflict and cooperation, and because individuals are permanently building their nation, their civil society, and their state, by devising new institutions and reforming the old. Among such institutions the state is the more encompassing and powerful; it is so powerful that it defines capitalism: for each type of state there is a respective form of capitalism. Thus, capitalism is not something that is given to us, but something that we also build, considering that such social construction is not only the outcome of rational and peaceful cooperation, but also of a harsh competition and conflict. The essential *contradiction* in capitalism is that it depends on the existence of cooperation – on a reasonable cohesiveness of its members – to be effective, but collective action is always feeble, below from what should be expected, because competition has precedence over cooperation. Liberal capitalism bets only in competition; developmentalism does not dispense competition, but supposes that cooperation is possible and necessary.

I discussed in the previous section the definitions of developmentalism and economic liberalism having as criterion the form that national economic systems are coordinated, because one of my objectives in this paper is to amplify the concept of developmentalism while a really existing form of capitalism, it is to proceed its semantic widening, so as to see developmentalism not just as a style or a strategy of policymaking, but as *form* of economic and political organization of capitalism, at the same time that I distinguish it clearly from original developmentalism and new developmentalism, which are *theories*, ways of thinking economic development. My methodological slant in making this semantic widening is to combine an ideal type approach to define developmentalism with the historical method, which sees the evolution of capitalism as a process where the identification of *new* historical facts is crucial to understand change.<sup>7</sup> Equipped with these definitions of developmentalism and economic liberalism, which are general, we are able to discuss historically the complementary stages and the coordination approaches to capitalism.

Considering the main institutions that coordinate societies, we may apply the stages approach to understand social change *within* capitalism. I will not undertake here a survey either of the stages tradition, or of the alternative models of capitalism approach, because this has already been surveyed competently.<sup>8</sup> Taking as reference the “original countries” (England, France and Belgium), in which, unlike with the latecomers, the stages of capitalist development did not get superimposed but reasonably followed, one after the other, I see *three* stages of capitalist development: Mercantilist Capitalism, which

was the first historical form of developmentalism, from the 16<sup>th</sup> to the 18<sup>th</sup> century; liberal capitalism, from 1834 to 1929; and, since the New Deal, Fordism or Social Developmentalism, which is the second historical form of developmental capitalism.<sup>10</sup>

**Table 2: Three stages of capitalist development**  
(considering England and France)

Period	Mode of regulation	Stages
16 <sup>th</sup> to 18 <sup>th</sup> c.	Developmental mercantilism	Mercantilist capitalism
1834 - 1929	Economic liberalism	Liberal capitalism
Since 1930	Fordism (Social Developmentalism)	Developmental capitalism

Mercantilist capitalism, that encompasses the 16<sup>th</sup>, the 17<sup>th</sup> and the 18<sup>th</sup> centuries, was the phase of transition from feudalism to capitalism, the time of the absolute state, of primitive accumulation of capital, of the formation of the first nation-states, and, last but not least, it was the moment of the Industrial Revolution – the economic revolution which, definitively, gave rise to capitalism or modernity.<sup>11</sup> Mercantilism was the time of the *first* developmentalism in so far as it was based on a developmental class coalition formed by the monarch, the aristocrats around him, and the emerging great bourgeoisie. According to Amiya Kumar Bagchi (2000: 399) “the first developmental state to emerge since the 16<sup>th</sup> century was that of the northern part of the Spanish Netherlands, which, after the reconquest of the southern part by Spain, evolved into today’s Netherlands”. The mercantile bourgeoisie originally derived their wealth from the long-distance trade of luxury goods, but soon, with the rise of manufactures, they became interested in the formation of a secure and large domestic market, which would make possible the mass production of cheap industrial goods that defined the Industrial Revolution. With this medium-term objective in mind, while reaping short-term gains from the mercantilist monopolies awarded by the monarch, they financed with their taxes the wars led by the monarch – wars that defined the territorial space of the first nation-states and opened the way for the Industrial Revolution. Was Mercantilist Capitalism as bad as liberal economists claim it was? Definitely not. To have been the moment of the Industrial Revolution proves that it was enormously successful.

After the Industrial Revolution, in England, and the French Revolution, the bourgeoisie becomes the dominant class, and in 1834, after the United Kingdom reduces its high import duties, we come to the liberal state and to Liberal Capitalism. It was an industrial capitalism that arose in the new nation-states, which offered large and secure domestic markets for the industrial production of cheap and standardized goods. It was characterized by miserable working conditions, since no social rights were acknowledged. It was a dynamic capitalism, in which capital accumulation and the expansion of the business enterprises with the incorporation of technical progress ceased to be a choice to become a necessity, a condition for their survival.

This capitalism was industrial because it was led by industrialists; it was liberal in economic terms because characterized by small and medium-size business

enterprises, and liberal in political terms because the new ruling class – the bourgeoisie – had been able to secure the civil or liberal rights, rights that eventually would spread to the rest of the world. Political liberalism – the guarantee of civil rights – would become a major *conquest* of humanity. Liberal ideologues, aware of what the progress that the guarantee of civil rights represented, always say economic liberalism is a required condition for political liberalism. But this is false, as the historical experience of the social democratic and developmental countries demonstrated.

Liberal capitalism was never a “pure” liberal capitalism, because the state remained present in the economy under many ways; but state intervention was small enough in the three original countries to legitimize the claim that economic liberalism was dominant. Was economic liberalism – the general mode of regulation consistent with liberal capitalism – successful? *Not* much. Certainly much less than could be infer or predict after reading the harsh critical analyses of the mercantilist mode of state intervention by 19<sup>th</sup> century liberal political economists. Economic growth was highly unstable, marked by repetitive financial crises and huge inequality, and was relatively slow: the UK and French average annual rate of per capita growth was 1.4%, – a substantially lower rate than that of these same countries in the 20<sup>th</sup> century, in their second developmental experience – the 30 Golden Years of Capitalism (1946–1973) – when it was 3%.<sup>12</sup> The first economic liberalism began in a revolutionary mode, challenging the conservative *ancien régime* and defending civil liberties; but, as the bourgeoisie came to power, it gradually moved to the right – to the conservation of the new liberal social order. A hundred years later it ended with the 1929 crash and the Great Depression.

Liberal capitalism was also the time of modern or industrial or modern imperialism, which was led by the United Kingdom and France in the 19<sup>th</sup> century.<sup>13</sup> The Industrial Revolution in these two countries made them sufficiently powerful in economic and military terms to dominate Asia and Africa – something that could not be done in the mercantilist period, because the local empires were sufficiently strong to resist colonization. In this century, the European-led modern imperialism in Asia and Africa was characterized by direct colonial rule, whereas in Latin America, by ideological hegemony combined with financial dependency and the cultural dependency of the local elites. After World War II, when former Asian and African colonies turned independent, American-led *hegemony imperialism*, which was proper of Latin America, turned dominant everywhere – an imperialism characterized by the *occupation* of the local markets by unequal trade, finance, and the multinational corporations without due reciprocity, and by the cultural and political dependency of the local elites, which makes them to accept the policy recommendations and pressures from the empire.<sup>14</sup> The essential thing is to persuade developing countries to open their domestic markets, and to try to grow with “foreign savings”, i.e., with foreign indebtedness to be financed by loans in foreign currency and the direct investments of the multinational corporations, despite the fact that if they neutralize their Dutch disease they will necessarily display a current account surplus – what means that the *don't* need capital from the rich countries.<sup>15</sup>

Liberal capitalism was characterized by massive urban poverty and social dislocation, which gave rise to the deliberate reaction of the popular classes

asking for socialism and democracy, and eventually winning the later and social protection or the upholding of social rights. The seeds were sowed for the rise of a second developmentalism and for the social democratic capitalism or the welfare state. Economic liberalism had proved to be just a moment in the history of modern societies, as Karl Polanyi (1944) well remarked.

### **The second developmentalism and the neoliberal regression**

In the turn to the 20<sup>th</sup> century, Developmental Capitalism – and the respective mode of regulation (Fordism) – was born out from four major changes: first, the Second Industrial Revolution based on the invention of electricity and the power engine; second, the Organizational Revolution, i.e., the moment that the basic unit of production ceased to be the family to become the modern business enterprise or the organization; third, the transition of rich countries to democracy in so far as they assured the right to the universal suffrage; and, fourth, the New Deal. The first two revolutions opened room for the rise of the modern capitalist corporations, and the emergence of the professional or technobureaucratic class; the affirmation of democracy as the preferred political regime was the outcome of long fight between the people and the liberal bourgeoisie, which feared the “tyranny of the majority”. But the technological and social changes and the transition to democracy in the rich countries only gained a clear political content when, reacting to the Great Depression, Franklyn Delano Roosevelt led the New Deal – a profound political revolution in a country that had become highly conservative.

In this paper I am not focusing on democracy, but it is necessary to remark that in England, Belgium and France (the first countries to industrialize) the first developmentalism (Mercantilist Capitalism) was authoritarian, as was authoritarian the 19<sup>th</sup> century Liberal Capitalism, in so far that the universal suffrage was denied; the difference is that the former didn't guarantee civil rights, whereas the later did. Only in the turn of the 19<sup>th</sup> to the 20<sup>th</sup> century, Liberal Capitalism turned democratic, with the acceptance by the bourgeoisie of universal suffrage. But latecomer European countries, like Germany and Italy, which formed their nation-states late and industrialized late, and were not able to build a modern empire, adopted, after the defeat World War I, and ethnical and resented nationalism and got lost in fascism and Nazism. The more advanced countries, in the turn of the 19<sup>th</sup> to the 20<sup>th</sup> century, under the pressure of the popular classes, finally turned democratic, abandoning the liberal argument against democracy (that it would cause “the tyranny of the majority”). The rise of the liberal democracy and its subsequent transformation into a social democracy and a social developmentalism showed that capitalism is consistent with democracy, because, contrarily to what occurred in the pre-industrial societies, capitalism is an economic and political system where the appropriation of the economic surplus by the elites don't depend on the direct control of the state (Bresser-Pereira 2012). The immediate response to the final crisis of Liberal Capitalism, which began with the 1929 financial crash, was the New Deal, which would open a new era for capitalism and democracy, and for a mode of regulation of capitalism that the French Regulation School would call Fordism.

In the 1930s, President Franklin Delano Roosevelt's New Deal was the first and major sign of the new times that were emerging, John M. Keynes (1936) and Michal Kalecki, the first economists who offered a theory to explain the new times, and Andrew Shonfield (1969), Jean Fourastié (1979), Michel Aglietta (1976) and Stephen Marglin (1990), the analysts who detected the Golden Years of Capitalism, which I understand to have been the second developmentalism. In rich countries, this second developmentalism was the time of the Bretton Woods system (which regulated international finance and exchange rates), of indicative planning, of industrial policy, of the presence of the state-owned enterprises in the non-competitive industries. On the other hand, except for Germany and Italy, developed countries were liberal democracies. After World War II, all developed countries turned democratic, and, responding to the increased power of the people, we saw the rise of the welfare or social democratic state, characterized by a huge increase of social expenditures to finance health care, education, social security, and social assistance, and by the affirmation of labor entitlements in the capital-labor nexus – entitlements to be paid directly by business enterprises.<sup>16</sup> In synthesis, this was the time of developmental capitalism, and of social democracy or of Fordist class coalition; it was a period of fast growth, impressive financial stability, and a relative reduction of inequalities.

These times ended politically with the 1968 student revolution, which marked not the beginning but the *end* of an era, and with a relatively *minor* economic crisis in the United States and the United Kingdom in the 1970s – minor in relation to the Great Depression of the 1930s and the 2008 Global Financial Crisis. This crisis was generated by the profit squeeze caused by the successful demands of organized labor, by the exhaustion of the Second War wave of innovations, by the 1971 American repudiation of the last vestiges of the gold standard (what increased the instability of the capitalist economies), by the 1973 first OPEC oil shock, and by the rise of the newly industrializing countries, which since then have been *competing* with rich countries in the export of manufactured goods. The crisis was characterized, in economic terms, by a fall in profit and growth rates and by stagflation, and, in political terms, by the defeat of the US in the Vietnam War and by its loss of hegemony in world affairs.

The response to all this was the neoliberal turnaround that took place with the election of the British Prime Minister Margaret Thatcher and the American President Ronald Reagan, in 1979 and 1980 respectively. This second economic liberalism, now called “neoliberalism”, was a response to economic crisis. From the ideological side, the role of major neoliberal intellectuals like Friedrich Hayek, Karl Popper, Milton Friedman, Robert Nozick, and James Buchanan, the control that they achieved over the universities, and the capacity of the financial system to hire a large number of neoclassical economists formed in these universities were essential to this victory. Although really existing socialism had turned purely *statist* and the Soviet Union, which was the model for it, collapsed in 1991, the neoliberal rhetoric continued to ignore developmental capitalism and presented economic liberalism as the only alternative to statism.

The Neoliberal Years of capitalism were also the time of *finance-led* capitalism or of financialization, which emerged from the abandonment of the gold guarantee to the dollar in 1971, and, principally, from the neoliberal deregulation of the

financial system, the big bang of 1986 in the US and in the United Kingdom. This mode of regulation of capitalism was extensively discussed by François Chesnais (1994), by the French Regulation School, particularly by Michael Aglietta (1995) and Robert Boyer (2000), by Gerald Epstein (2005), and by Robert Guttman (2008). Financialization of Finance-led Capitalism was the financial expression of the rentier-financier class coalition that characterized neoliberalism. In this paper, the focus is not in it, but in developmentalism and in economic liberalism, from which neoliberalism and financialization were the failed expression of the same phenomenon viewed from two different angles. But this is only true if we give to financialization a restrict concept, as proposes Robert Guttman (2008): “a historic shift in the preferred form of credit from loans to securities” made possible by a series of financial innovations” which created, following Marx, a fictitious capital – “fictitious inasmuch as they had no counterpart in real physical asset values”; or, as Bresser-Pereira (2010): “Financialization will be understood here as a distorted financial arrangement based on the creation of artificial financial wealth, that is, financial wealth disconnected from real wealth or from the production of goods and services”. Instead, if we give it a broad meaning, as, for instance, a regime of accumulation where finance plays a strategic or important role, the concept loses specificity and relevance, since finance is always important in capitalism.

At the beginning the 1980s, neoliberalism achieved hegemony in the US and in the United Kingdom, and soon hegemony imperialism spread out over the other countries the new policy regime; given the “hegemony constraints” created by soft power, economic policies that were just on the interest of the rentier capitalists and financiers were accepted by most *as if* they were real economic constraints for all.<sup>17</sup> For the rise of neoliberalism, the initial success of certain policies was important. The most famous neoliberal achievement was the defeat that Margaret Thatcher inflicted on Britain’s coal miners, but the most important neoliberal success came from a policy that had no real connections with neoliberal ideas: the monetary policy adopted by Paul Volcker as President of US Federal Reserve Bank in 1979 – a violent raise in the interest rates to fight stagflation.<sup>18</sup> The unexpected consequence of this imperial policy was a strong appreciation of the dollar, huge current account deficits in the US, a reduction of inflation, a raise in real wages and salaries, a new political strength for the hegemon country, and the reelection of Ronald Reagan. Was it a neoliberal policy? No, including because its originator, Paul Volcker, was a democrat designated by President Jimmy Carter. An orthodox policy? Either, because current account deficits are not orthodox. A Keynesian policy? Also not. It was a creative policy, which achieved its objective (to control inflation) at practically no cost for the US, since the current account deficits are financed with dollars – a policy that made the neoliberal administration successful and popular.

At first, neoliberalism was interpreted as a conservative ideology, but it is not, because conservatism is never radical, whereas neoliberalism soon turned radical and reactionary. Its objective was to reform the whole society and return to a mythical liberal 19th century. While conservatives criticized the utopian character of the left, neoliberals built their own utopia. Without realizing, they were offering another example of tragedy repeating itself as a farce.

### Two modes of regulation and two grades of social cohesiveness

In the discussion of capitalist societies, besides considering two modes of regulation, we must take into consideration their *degree* of cohesiveness. The higher the cohesiveness, the stronger will be the nation and the civil society (the two politically oriented forms of modern societies), and, in consequence, the more capable will be the state. Social cohesiveness depends on the capacity of their members of building a society that (a) shares a common history and common interests, (b) gives priority to collective action, whose central expression is the state and its law, nevertheless being internally competitive, (c) agrees on the political objectives that became relatively consensual in modern societies (social order, freedom, material well-being, social justice and protection of the environment) and the individual obligations involved, and (d) is able to make compromises among themselves, without which life in common is impossible. In so far that a society is relatively cohesive, or, in the words of Durkheim, it is organic, the state will be a legitimate and capable state.

Considering these two criteria (mode or regulation and degree of social cohesiveness), we are able to build a simple two entries table and have four possibilities. Table 3 has, in the two columns, the two modes of regulation of capitalism or the two forms of economic and political organization of capitalism: developmental capitalism and liberal capitalism; and, in the two lines, how cohesive is the society.

**Table 3: Modes of regulation of capitalism and social cohesiveness**

	Modes of regulation of capitalism	
	Developmental capitalism	Liberal capitalism
Low social cohesiveness	Mercantilism (1 <sup>st</sup> developmentalism)	Economic liberalism
High social cohesiveness	Social developmentalism (2 <sup>nd</sup> developmentalism)	(Void by definition)

Table 3 is self-explanatory. Mercantilism is the first form, but is characterized by low social cohesiveness because society was highly hierarchical, unequal and authoritarian, the idea of human rights being ignored. Economic liberalism is characterized by high inequality and violent individualism, and is also low in social cohesiveness although civil rights are already respected. The second developmentalism, after the Great Depression and the Second World War, was necessarily a “social” developmentalism because it happened in the realm of democracy, where the popular classes are strong enough to achieve the social protection that defines the welfare state and social democracy, and proved reasonably cohesive, because social democracy is essentially the outcome of a class compromise. Note that the slot 3 is void. The Third Way or social-liberalism proposed long time ago by Carlo Rosselli (1930) and more recently by Anthony

Giddens (1994) was an attempt to fill this void – an attempt that for some time I endorsed.<sup>19</sup> On the other hand, economic liberalism is adamantly critical of a large tax burden to finance the great number of social services that characterize social democracy. Thus, it is reasonable to leave this slot void.

Note that in the three stages in Table 2 and in the four alternatives in Table 3, I *did not* consider a second economic liberalism, although the Neoliberal Years of Capitalism were dominant between 1979 and 2008. The reason is because neoliberalism was a regressive *moment* in the history of capitalism, which can hardly be viewed as something relatively permanent, something that represents a real progress in relation to the previous stage, and, so, has not the possibility of being a durable mode of economic and political organization of capitalism. In this period, a reactionary and narrow class coalition concentrated power, income and privilege: the famous 1% richest people. It was a moment of high financial instability, huge increase of inequality, and democratic decay for rich countries, principally for the US – a time when the rule of law discourse was intensified while civil rights were often ignored, a time when, besides the working class, the technobureaucratic class and the state bureaucracy were under attack, a time when state agencies were deprived of effective power as they became “independent”, what mostly meant that they were captured by the regulated corporations.<sup>20</sup> The neoliberal policy regime was a failed attempt to return to liberal capitalism, which, between the early 19th century and the first 29 years of the twentieth century, was a mode of regulation of capitalism that produced slow growth, high financial instability, and inequality.

Thus neoliberalism was not a new stage of capitalist development. It was unable to really change capitalism. It was not even able to reduce the tax burden, which is the best measure of the size of the state organization, despite this being one of its major objectives. On the contrary, the share of taxes and of state expenditures in GDP increased. And it was not able to reduce regulation except in the financial industry and in relation to labor entitlements. In many areas, regulation increased in the neoliberal years of capitalism.<sup>21</sup> It is true that it was able to reduce the labor entitlements paid by the business enterprises, thus flexibilizing labor contracts, but this was a response to the increased competition of developing countries, and, as a trade-off, the state increased its protection configuring the flexsecurity system.

Actually, it is difficult to relate this radical form of economic liberalism to the development of capitalism, given the size and complexity that the major modern economies have reached today. While industrial or liberal capitalism was related to the Industrial Revolution and the prominent role of industrialists, and developmental capitalism to the Second Industrial Revolution, to the Organizational Revolution and to the emergence of the professional class, what would neoliberal capitalism be related to? To the increased complexity of national economies? To the information and communication technology? To globalization? I don't see any relationship, in so far as increased complexity requires increased coordination, and neoliberalism preaches reduced coordination; in so far as the development of information and communication technology opens room for more, not for less planning and control. I rather view neoliberalism as an anachronistic form of economic and political organization of



capitalism, which was short-lived; it cannot be seen as the natural form that capitalist societies assume, or the path towards which they are oriented. The second developmental capitalism came to a crisis in the 1970s, but neoliberalism was not its successor; it was, rather, an extension of the crisis.

### **The coordination-complexity argument**

The liberal state and neoliberalism failed essentially when tried to coordinate the modern capitalist economies – which are extremely complex – having as coordinating institution almost only the market. Markets are an extraordinary and irreplaceable institution. Capitalism proved more efficient than any other form of economic and political organization of production because markets embody a system of automatic coordination (competition or the price system), and because it is flexible and open to all kinds of innovations. But, as economic development takes place, the division of labor increases, as well as the number and variety of goods and services produced. It follows then that economic systems become increasingly complex, and it turns simply *impossible* to coordinate such systems and stimulate innovation just with markets, or, in other words, without a continuous increase in state regulation. Left alone, markets are ineffective if not in all industries, in many of them where some form of market imperfection is present; and they are just hopeless when they are giving roles that they cannot perform because competition is just not available. The more complex a society becomes, the more it needs market coordination *and* state coordination; in this case it does not make sense to think in trade-off terms, in having more market in place of more market, and vice-versa. No matter the ideology of the governing political party or coalition, the greater and more complex an economic system is, the larger and more detailed will be the regulatory system provided by the state, whereas the more this state will try to defend what is left of competition. Despite its prevalent economic liberalism, the US, for instance, hosts an astonishingly large and complex regulatory system. This is not the outcome of a “bureaucratic distortion”, as is often assumed, but a proof that markets require regulation, and, more, that complex societies require complex regulations, which are provided mainly by the state, but also by markets and by a myriad of private individual and group agents involved in permanent self-regulation.

I understand that developmentalism, as a form of economic and political organization of capitalism, is superior to economic liberalism, and tends to prevail, not because it is more “rational” (this is a too strong word), but because it is more *reasonable*, and, in being so, because it takes into consideration the capabilities of markets and the complexity of modern societies. The neoliberal bid to coordinate advanced capitalism almost exclusively with the market is as inefficient as proved to be the statist bid to coordinate it almost exclusively with the state. I know well that my claim will be received indignantly by liberal fundamentalists, who, despite all evidence, continue to view as a magic mechanism, and also for radical critiques of capitalism, for who this would be an admission that, otherwise, capitalism could continue to offer positive economic results and survive. I have no hope of persuading one or the other part, but just help my readers to reason about.

The complexity approach, which is gaining increasing influence not only in the social but also in the natural sciences, combined with the coordination approach, helps us to understand why regulation of all sorts must increase as capitalist societies become more prosperous. “Complexity” is an expression used to characterize systems whose multiple elements interrelate in many ways, producing outcomes that are different from the sum of the components. Emile Durkheim, one of the founders of sociology, understood clearly that a social system is different from the simple sum of its parts. Simple coordinating or regulatory instruments may coordinate simple systems; only increasingly complex instruments are able to efficiently coordinate complex systems. When Marx wrote *Capital* and Keynes *The General Theory*, they were thinking in terms of complex systems. As Sheila Dow (1996) and Victoria Chick (2004) have remarked, economies are open systems because it is impossible to include in a model all their relevant variables. Robert Delorme (2010: 74), who has long been studying deep complexity in the social sciences, relates complexity to the concepts of organic interdependence, inductive probability, and uncertainty – elements that are present in Keynes’s vision of the economy – and calls for “anchoring”, a component of complex systems that is implicit in that vision; he understands anchoring to be the “means by which substantive openness is submitted to a procedural closure”, or, in other words, a response to “the question of the validity of arguments that are not underpinned by formal logic”. Ash Amin and Jerzy Hausner (1997: 1) remark that the complexity approach “assumes that both society and social knowledge are regenerated interactively and procedurally”, and that in governing complexity dogmatically pursued neoliberal programs are impotent, like impotent state-led schemes. As Hélio Schwartzman (2013) observes, “there are few things more complex than the economy. In it, millions of agents making the same thing always produce outcomes qualitatively different from those that just one person would produce acting in this way”.

In the moment that we view economic systems as increasingly complex, we have to design increasingly complex institutions to coordinate them. In modern societies, this is the role of politics and policymaking. It is to strengthen the state or make it more capable, so to develop increasingly detailed and complex institutions to regulate the economy and society as a whole, either directly, or by regulating markets and making them more competitive. Developmentalism, not economic liberalism, is the form of economic and political organization of capitalism consistent with this growing complexity.

But what to say on the two models of capitalism – the European and the American? The European capitalism is more developmental than the American. Considering only these two countries, the economy of the US is less regulated by the state than the economy of Germany or of France. Nevertheless, its income per capita is higher. Thus, when I speak about the American economy, do I mean that it was so successful *despite* having adopted a more “liberal” model or variety of capitalism? I am not saying that; the US was not more successful than the developed European countries. First, when we think along the lines of the stages approach and take into consideration the coordination-complexity approach, we are not associating the American economy with a given model or variety of capitalism, but with a stage of capitalism. And the American economy is at the

same stage of developmental capitalism as Germany or France. In the 19<sup>th</sup> century, despite the US had profited from extraordinarily good conditions for economic growth and was probably the country that made least use of state support in making its industrial revolution, the role of the state was nevertheless decisive, particularly in both protecting American manufacturing industry and neutralizing a moderate but real Dutch disease that its abundant and cheap natural resources caused. Import tariffs were extremely high in the US up to 1939, so high that is reasonable to suppose that part of it was protection, another and larger part, neutralization of the Dutch disease on the import side. Once, on the eve of World War II, when the American manufacturing industry was already highly developed, competition from Europe collapsed, President Franklyn D. Roosevelt was able to lower dramatically tariffs. After the 1929 crisis the US, with the New Deal and the Fordist class coalition, the US had again turned clearly developmental, and the trade opening didn't represent a threat to its economic growth, which would skyrocket during the war.

Second, if we compare Germany, France and the other advanced European countries with the US society in terms of human development, of how close they are in relation to the five political objectives defined by modern societies (security, individual liberty, economic well-being, social justice, and protection of the environment), the European countries are ahead, even in the economic well-being aspect. As many social indicators show, the quality of life that they proportionate to their people is superior than the one offered by the US.<sup>22</sup>

### **The competence variable**

When we take into account that modern societies are the outcome of a social and political construction, and consider that modern societies have defined historically *five* major political objectives (security or social order, individual liberty, economic well-being, social justice, and protection of the environment) that characterize progress or development, the only form of organizing capitalism consistent with these assumptions is the one where the state is a democratic, a developmental and a social state, and where the tax burden is high because it finances large social and scientific services. It is by governing the state and regulating its market, not by leaving the market on its own, that each society achieves its major political objectives. Developmentalism is not a state-led form of organizing capitalism, but a *state-and-market-led* form of organizing capitalism, where the state has precedence over the market, but the two institutions operate together. By getting involved in permanent reform of institutions, by having as main tools the law and public policies, nations build their state, their markets, and the other required institutions. In this social construction, in the coordination of the economy, the *subsidiarity principle* applies: whenever competition exists, markets are the first option to be considered. But when they don't exist, it makes little sense nevertheless to privatize the industry and create regulatory agencies to define the prices as if the market existed. In this case, state planning is required, and mix state-private ownership will be the best option. It makes little sense to assume that quasi-monopolist firms will act *as if* competition exists because regulatory agencies would be able to define prices as if a competitive market would. It makes no sense to resort to other smart devices

to create markets, such as, for instance, the failed Kyoto Protocol that attempts to control climate change through “emissions trading” – the creation of a market to regulate emissions of carbon dioxide. It would make much more sense to impose a tax on emissions.

Developmental capitalism may be authoritarian or democratic, progressive or conservative, successful or not successful; and may be competently or incompetently governed. In rich and middle-income countries they are reasonably well governed, but the same is not true of the poor or pre-industrial countries, that didn't closed their capitalist revolution by industrializing and assuring to themselves a capable sum of business entrepreneurs, elected politicians, and non-elected public technobureaucrats. My claim that developmentalism is a superior form of economic and political organization of capitalism to economic liberalism is only true if the developmental state that coordinates this capitalism is a *capable state*, and with count with reasonably competent politicians to run it. A capable state is, first, legitimate in relation to its nation or its civil society (its law is enforced); second, administratively capable (well endowed of competent elected and non-elected officials); and, third, financially sound, what means that the accounts of the (the fiscal accounts) and the accounts of the nation state (the current accounts) are sound, neither the state nor the nation being heavily indebted. If these conditions are not present, but politicians and economists try to make the state developmental, the probability that they will fail will be almost as high as will be high the probability that they will fail by recurring to economic liberalism. Developmentalism is a superior form of organizing economically capitalism, but this does not mean that developmentalism does not face serious problems. The difference between the developmental state and the liberal state is that, even in the case of a capable state as the ones that exist in rich countries, the liberal state will fail in promoting the industrial revolution and fast growth, because investment will not be sufficiently motivated, and because the assumptions of self regulated markets and that the private sector is always in equilibrium will necessarily lead to low growth and financial crisis, whereas the same is not true to developmentalism. But often the state will not be a capable state, principally in poor and pre-industrial countries. In this case, the probability that the government or administration will not be competent is large.

One economic risk that both the developmental and the liberal developing countries face is *economic populism* – a concept that economists have been using since the 1980s. Economic populism must not be confused with political populism. It just means that either the state, or the nation-state, or both are spending irresponsibly more than they get. When the state expends irresponsibly more than it gets, and incur in large fiscal deficits – this is *fiscal populism* – the populism that neoclassical economist know and attack. But the nation-state, the whole country including the private sector, may also expend irresponsibly more than it gets, and incur in large current-account deficits – this is *exchange-rate populism*, because the ensuing appreciation of the exchange rate increases artificially revenues and lowers inflation. The problem with the developmental state is that it may incur in both fiscal and exchange rate populism when it is poorly managed, whereas the liberal state is prone to incur

in exchange rate populism, not so much in fiscal populism. Since liberal economists assume that the private sector is always in equilibrium, they don't care for current account deficits; on the contrary, they see them as an indication that the country is growing with foreign savings – and, so, even when the country is “well” managed, it will easily incur in exchange rate populism and will fall into currency crisis. But the same is not true in relation to the fiscal side; the mistake that liberal governments often make is to adopt excessively austere fiscal policies, whereas the mistake that developmental economists make is to be too soft of the budget deficit.<sup>23</sup>

When developmental capitalism responds to the demands of the people in democratic societies, it is politically *progressive*, and the political form that it assumes is social democracy, which is, essentially, a *class compromise* among the social classes, as developmentalism is also a *coordinative compromise* between market coordination and political coordination. Yet, contrarily to what neoliberal ideologues affirm, this double compromise does *not* implicate a loss in efficiency; there is not a trade off between increased political coordination and economic growth. On the contrary, provided that the degree of state regulation and involvement in the large non-competitive sector of the modern economies is moderate and transparent, the economy will grow with more stability and efficiency than if accepted the neoliberal recipes.

Considering the historical experience and the coordination-complexity argument, developmentalism is a superior form of organizing capitalism than economic liberalism, but another caveat is required. This does not mean that in actual and specific cases developmentalism produces always better outcomes than economic liberalism. The competence of the politicians in office must be taken into consideration. At specific moments, developmental policymakers may be more competent, or more incompetent than alternative liberal policymakers, or, in other words, they may be less endowed of more or of less Machiavelli's *virtù* – and this makes a difference in favor or against developmentalism. I am arguing that modern societies organized in developmental terms will have greater probability of achieving development or progress than those organized in liberal terms. Economic liberalism leads the economy necessarily to major financial crisis, and the distribution that it produces is hugely unequal. This is what the recurrent failure of neoliberalism has been telling us; this is what stems logically from the shortage of coordination that characterizes economic liberalism, and from its incapacity of protecting the republican rights, mainly the ones related to the protection of a public good as is the environment. And we should not forget that markets are fully unable to guarantee the non-economical objectives of modern societies. In short, markets were not created to replace the state, but to complement its coordinative role.

Whereas liberal economists suppose that market failures are less severe than government failure, developmental economists admit that government failures may be big, but in democratic societies they tend to be substantially less severe than market failures. Whereas the politicians who take economic policy decisions are permanently under the control of society, and are permanently being criticized by their errors, the millions of consumers and of business enterprises may take wrong decision in a herd manner, as the history of

capitalism has always demonstrated, but the market is unable to control such type of behavior.

### **Neoliberalism is demoralized, not conservatism**

I understand the recent form of economic liberalism – neoliberalism – as a distorted and regressive form of capitalism, but it can be also viewed as the “real face” of capitalism; neoliberalism would be the rule, and the Golden Years, the exception. This was, for instance, the approach adopted by Wolfgang Streeck (2011: 6-7): “I suggest that it is not the *trente glorieuses* but the series of crises which followed that represents the normal conditions of democratic capitalism”. This approach would make sense if we understood capitalism, the modern state and the market as “natural” phenomena, instead of viewing them as the outcome of a social *construction* – as an institutional system and its respective economic structure. When Marx and Engels made the original analysis and critique of capitalism, perhaps they could adopt this approach, because capitalism was “just there” – something that had evolved from the development of the productive forces and the relations of production. But even at that time this was questionable, because the state and the markets were already institutions – normative systems socially defined. Today, when political debate and institutional design are everywhere, it makes little sense to see capitalism as something given. Streeck himself has defined “democratic capitalism as a political economy ruled by two conflicting principles, or regimes, of resource allocation: one, operating according to marginal productivity, or what is revealed as merit by a ‘free play of market forces’, and the other based on social need or entitlement, as certified by the collective choices of democratic politics”. Now, if this is so, capitalism is the outcome of a political compromise, not only of a social classes compromise, but also a compromise involving the role of the two main instruments of economic and political coordination: the state and the market. What means that capitalism cannot be equated to neoliberalism. Makes more sense to return to Karl Polanyi, and see the liberal capitalism prevailing in the 19<sup>th</sup> century as the exception, not as the rule.

Neoliberalism was deeply wounded and demoralized since the 2008 Global Financial Crisis, but it is not dead. Neoclassical economics – the ideology of economic liberalism – continues to be taught in the major universities *as if* what is taught (the mathematical castles in the air) constitute a science. On the business side, rentier capitalists, financiers and the top executives of the great corporations remain hostile to state regulation; and all rich people, including the productive capitalists, remain ill-disposed to pay taxes – the taxes that a social and developmental state requires. Nevertheless, neoliberalism lost persuasive power, and is in retreat, at least for some time. But, here, a caveat is required. I am not saying that neoliberalism is dead, and I am also not saying that conservatism is on the retreat. We already saw that neoliberalism was not, really, conservative; it was just reactionary. In capitalist societies, conservatism and progressive politics, the left and the right, are permanently alternating. Conservatism is the ideology and the political attitude that gives priority to social order in relation to social justice, and that views such order as having a strong inertial content, whereas progressive politics is the ideology and political

attitude that, till a certain extent, accepts risking social order in the name of social justice, and is more optimistic in relation to the possibility of changing for the better the social order. Conservatism remains strong because social order or security is a major political objective; because even the poor, the exploited or the excluded are often not disposed to risk the existing social order in the name of a promised social justice. Conservatives and progressives, right and left, will always be present in capitalist societies, and will alternate in power, but conservatives should not be confused with neoliberals and with economic liberalism. Conservatives continue to adopt a liberal discourse because political liberalism is a universal value and because they know that a social and developmental state implies higher taxes, which they, reject. Conservatism is associated with the existing social order and with the interests of the rich, who don't like to pay taxes. But conservatism has a second attraction for the rich: the more advanced societies are necessarily democratic, the rich know this, and they continue interested in limiting the power of politicians and of the high public technobureaucracy in so far as their old fear of democracy – of the “tyranny of the majority” – is always present, despite dictatorship deriving from the poor gaining elections and expropriating capitalists never happened.

### **A new developmental and social capitalism?**

We are now living the crisis inherited from the neoliberal years. It may be premature to conclude that these years have definitely ended, but I am persuaded that they have. The crisis was too profound in 2008 to be just a sudden stop. Six years later, the facts only confirm this view. Economic liberalism, trade opening, financial opening, deregulations – all these watchwords of neoliberalism – have lost their luster; have ceased to be the solution to all evils. On the contrary, it is agreed that financial liberalization was the source of the crisis, that the “to big to fail” problem is really a serious problem, and gone are the days of financial liberalization. Trade liberalization is also under scrutiny. Since the crisis, practically all countries have raised tariffs and adopted other protectionist policies. The Doha Round is definitively paralyzed, not because developing countries have reiterated their traditional resistance to it, but because rich countries – the countries more impaired by the crisis – have lost real interest in trade opening. Financial deregulation has turned into an evil itself, because it was a direct cause of the crisis. The essentially speculative and fraudulent character of financialization has become patent. The financial industry has shrunk. The major banks have recovered their profit rates, but not their dimensions or their prestige. Thousands of employees have been laid off. Many countries have established capital controls to regain some control over their exchange rate. The US and more recently Japan have been involved in aggressive devaluations of their currencies – a well-known developmental strategy. The major countries have got involved in “quantitative easing” – a euphemism for the straightforward emission of money by central banks aiming at reducing interest rates and depreciating their national currencies – another developmental policy in so far as it gives priority to growth over inflation. Thus, the times of financial opening are over.

But is not neoliberalism alive again in Europe, where countries are involved in austerity programs and experiencing a long recession, and unemployment continues to grow? No. The euro crisis was the consequence of the disastrous neoliberal decision of creating the euro. First, Europe was not yet politically ready for a single currency. Second, proceeding from two false neoclassical assumptions (that markets keep the private sector always balanced, and that governments would tend to be fiscally irresponsible), European policymakers imposed limits just on budget deficits, not on current account deficits, which also express private increase of indebtedness. Except for Greece, all Eurozone countries basically observed the fiscal caps, while current account deficits were out of control and reached two digits in the countries that today are in crisis, which implied that wages had increased faster than productivity and that the private sector had therefore become seriously unbalanced. Before the euro, the simple solution for the countries recovering monetary competitiveness was currency devaluation. With the euro, the alternative left was “austerity” or internal devaluation – a form of recovering real competitiveness involving high human costs and many years of economic stagnation. This was a terrible solution, because its results are meager, while it inflicts intense pain on the 26 million unemployed workers and their families.

Back to the argument - to the symptoms of the desertion of neoliberalism -, aren't financial markets booming again? They may be, but this does not indicate that neoliberalism is back in; it just means that herd behavior remains strong and that re-regulation of financial markets was not completed. Developmental capitalism requires a developed and well-regulated financial system - a financial system that does not become financialized, but functional to investment and growth. The financial system that is emerging from the crisis is far from being the ideal one, but it is for sure much more regulated. I feel that we are ready for a third developmentalism – for a developmental capitalism where financial markets will be regulated, and which will be social and environmental because democratic. Neoliberalism was unable to destroy the social or welfare state and achieve the “minimum state”; it only reduced labor entitlements that implied costs and reduced the competitiveness of business enterprises. The third developmental state will be also portray a welfare state where collective consumption will again increase because besides being more just, is more efficient than private consumption.

This may be seen as optimistic, because what we see around us is confusion and malaise, while conservative and social-democratic political coalitions alternate in power. But it is important to look for what is happening to the “center” of the ideological continuum from the left to the right. What happened in the late 1970s was a move of this center to the right and to economic liberalism; now is reasonable to predict that the new change will be toward the left and to developmentalism. Once the political center moves to the left, conservative and progressive political parties will move together. The rise of the second developmentalism originated from the Great Depression and from the demoralization of neoclassical economics that followed, but also from the strengthening of workers' organization, and from the menace that the Soviet Union represented at the time. Such additional conditions are not present today. As a trade off, democracy is today much stronger all over the world. I know that



many social scientists are critical of this democracy, and say that in so far that the people is not benefiting from continuous improvement in their standards of living, they would have lost confidence in democracy. But this is a mistaken argument. Democracy was always a demand of the poor or of the people, and, despite the effort of neoliberals associated to technobureaucrats to reserve economic policymaking for themselves – for “technical bodies” –, there is no signal that the poor and the real democrats will continue to accept this plight.

The central problem, today, is that the capitalist and technobureaucratic elites as well as the middle and the working classes lost confidence in economic development. While economic growth was something viewed as given, the problem was how to share the economic surplus that was almost automatically being produced. Now, that the elites and the poor in the rich countries lost confidence that this the national economies will continue to grow, now that the progressives as well as conservatives do not have a recipe either for growth or for distribution, a sense of indeterminacy and pessimism gained momentum. Besides, two new world threats have materialized – the threat of global warming derived from the green house effect and the threat of organized crime and drugs – which requires a substantially larger degree of cooperation, at national and world level, than the one presently existing. But all these problems can be solved depending on one condition: new ideas, which give rise to new institutions, which open room for new solutions for the existing conflicts. What are dramatically lacking are new ideas. A third developmental capitalism depends more on new economic, social and political ideas than on the advance of technology, which will continue strong. The second new developmentalism benefited from reformist socialism and from the Keynesian revolution. Today, after the demoralization and crisis of neoclassical economics, the critique of neoliberalism, the new developments in Keynesian and in institutional or evolutionary economics, the continuing vitality of the regulation school and the gradual emergence of new developmentalism<sup>24</sup> are all manifestations of this search for new ideas. But we are still far from a really new ideological consensus, from a new hegemony, from a new system of policies and institutional reforms on which a new developmental capitalism can be found. This new capitalism will only materialize when a new, developmental, social and environmental class coalition turns dominant at the same time that the new ideas serve as a beacon for a new period of progress or development.

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<sup>1</sup> By original developmentalism I understand developmental economics, from which Latin American structuralism was a branch. When I introduced the concept of new developmentalism I called the original developmentalism, “old developmentalism”, but as “old” has, for some, a negative connotation, original developmentalism is probably preferable. My masters in economic development – economists like Celso Furtado and Arthur Lewis – were part of original developmentalism.

<sup>2</sup> “Modes de régulation” is the expression used by the French Regulation School or École de la Régulation. I use this expression and economic and political organization of capitalism as equivalent.

<sup>3</sup> I am using the word “liberalism” to mean economic liberalism. When I want to refer to political liberalism, I will add always the adjective.

<sup>4</sup> For instance, Marie-Claire Bergère (2013) wrote a competent book on China, but its “new state capitalism” is nothing else than a successful economic developmentalism.

<sup>5</sup> Rentier capitalists are the “unproductive” capitalists to whom Marx refers in volume 3 of *The Capital*. They live out of interests, dividends and rents. Besides the high rentiers there is a large number of middle class rentiers. Rentier capitalists play today the role that the rentier aristocrats played in David Ricardo’s political economy.

<sup>6</sup> What is possible when, for instance, the business enterprises, pressed by shareholders and the financial system, is “short-termist” and distribute profits in the form of dividends when would be rational to invest them and realize higher profits.

<sup>7</sup> See, on the definition of developmentalism, Pedro Cezar Fonseca (2013), and on the theoretical discussion of concepts and of semantic widening, the author he quotes, Giovanni Sartori (1970).

<sup>8</sup> See on the models or varieties of capitalism the surveys of Colin Crouch (2005) and Kathleen Thelen (2012).

<sup>9</sup> I choose 1834 as the initial year of economic liberalism because it was when the UK eventually lowered its high import taxes. The end in 1929 does not need explanation.

<sup>10</sup> The Regulation School usually understands Fordism as a form of organization of labor, but associated to a mode of regulation.

<sup>11</sup> Spain and Portugal established didn’t establish colonies in Asia and Africa, but only commercial cities to make trade with the existing pre-capitalist societies because, differently from what happened in Latin-America, in the 16<sup>th</sup> century they didn’t have enough military power to subject to these societies to the condition of colony.

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<sup>12</sup> The average rates of annual per capita growth in France and the UK between 1830 and 1929 were, respectively, 1.6% and 1.2%; between 1949 and 1978, 4.0% and 2.2%. Source: Angus Maddison: OECD Growth and Development Centre statistics.

<sup>13</sup> This long period (1830-1929) may be divided in two (before and after the 1870s) because it was around that decade that wages in England and France ceased to be at the subsistence level and began to increase with productivity. It is also after this decade that the European countries and also the US turned sufficiently strong to impose their colonial rule. I am not distinguishing this two periods in this essay, because such distinction is not necessary to the argument that I am developing.

<sup>14</sup> Note that this cultural dependency proved to be much stronger in Latin America than in Asia.

<sup>15</sup> Given the theoretical conclusion of new developmentalism and the historical evidence, I use to say that the phrase, “capital rich countries are suppose to transfer their capitals to capital poor countries” is as true as is true that “the earth is flat”. If neutralizing the Dutch disease involves moving the market exchange rate from below the current equilibrium to the industrial equilibrium, this means that the country that is successful in making this adjustment reasonably permanent will necessarily have constantly current account surpluses.

<sup>16</sup> These labor entitlements would be the main target of neoliberalism when it turned hegemonic and proposed reforms to make competitive rich countries face the competition of low wage developing countries.

<sup>17</sup> Among the constraints that characterize policymaking in a given society Bresser-Pereira (2014) distinguishes the economic and political constraints, which, if not complied with, the economic or the political system will have problems, from the “hegemony constraint”, which responds only to the interests of the dominant class coalition, and, if not complied with, only the interests of this class coalitions will not be satisfied. Adam Przeworski (2001) defined the concept of policy regime.

<sup>18</sup> Note that I definitely don't see fiscal responsibility as a liberal or orthodox macroeconomic policy, but a sensible policy that governments should adopt. To increase fiscal expenditures and increase the public debt to GDP ratio is a Keynesian policy when such expansion is clearly counter-cyclical.

<sup>19</sup> I was trying to emphasize the importance of markets in the coordination of capitalism – something that developmental capitalism and social democracy or the welfare state already does. More specifically, in the late 1990s I was involved in legitimizing social-democracy and the large social and scientific services that the social state is supposed to offer in social-democratic regimes by making them more efficient. In this model, administrative competition for excellency was one of the management tools – a tool that I believed to be social-liberal and good, but when moderate neoliberal intellectuals captured this expression, I decided to abandon it.

<sup>20</sup> It is interesting that the critique of the capture of the regulators by the regulated was made by an outstanding economist of the University of Chicago, George Stigler, one of the founders of the Mont Pelerin Society. Stigler was concerned with the regulation of relatively competitive industries. Yet, when neoliberalism opened the opportunity for the privatization of monopolistic or quasi-monopolistic industries, neoclassical economists and neoliberal ideologues transformed the regulatory agencies into the perfect regulatory solution for non-existing markets, assuming that they would be able to define prices *as if* a market was in place.

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<sup>21</sup> For instance, according to *The Economist* (July 13, 2013), in the US, the number of pages of federal taxes rules, which was 16,500 in 1969, jumped to 72,536 pages in 2011.

<sup>22</sup> Take, for instance, these comparisons: 18 European countries have less income gaps between rich and the poor than the US; their homicide rate is 4 times higher than that of any European country; Unites States has higher rates of childhood homicides, suicides, and gun related deaths than any of the 18 European countries; Unites States have 685 prisoners per 100,000 inhabitants while their European counterparts have 87 prisoners per 100,000 inhabitants; Unites States workers get two weeks of paid vacation while their European counterparts get 6 weeks of paid vacation; 322 physicians per 100,000 people in Europe, versus 273 in the US; average life span of US citizens is 76.9 years old, which in Europe is 78.01 years old; children in 12 European nations have higher mathematical scores than the US children. Source: July 22, 2014: <http://politics.knoji.com/comparing-quality-of-life-between-united-states-and-europe>.

<sup>23</sup> I am speaking of economic populism, not political populism. Economic populism may be fiscal populism (the state expends irresponsibly more than it gets incurring in high fiscal deficits), or exchange rate populism: the nation-state (that encompasses the public and the private sector) expends irresponsibly more than it gets, incurring in high current account deficits.

<sup>24</sup> Including the “The Ten Theses on new developmentalism” (2010) subscribed by 81 developmental economists and political scientists.