Two forms and four phases of capitalist development and the developmental state

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Capitalist societies are societies in which the capitalist class owns the means of production and appropriates the economic surplus achieved in the market, while the working class receives wages according to its social cost of reproduction. Two institutions regulate capitalist societies, the state, and the market. The state is the legal system and the sovereign organisation that guarantees it. The market is the normative and organizational institution that, duly regulated by the state, coordinates the competitive sector of the economy. In this chapter I will propose that there two forms of economic coordination of capitalism – the developmental and the liberal form, which are present in the four phases of capitalist development. Two simplify, I will from now on speak of two economic forms of capitalism instead of two forms economic coordination of capitalism.

As we will see, each form of capitalism has behind the respective ideology: developmentalism and economic liberalism, each ideological camp asserting the superiority of its own form of capitalism. With the rise of capitalism, the state turns national, develops a rational bureaucratic structure, and shares the coordinating role with the national market. The market, in turn, is the national institution regulated by the state that coordinates the economic system through competition. Before capitalism, markets were local fairs and played a marginal role in economic coordination. Under capitalism large domestic markets and an international market have been built. Capitalism was the first basic form of society to be coordinated by markets, and capitalism is often called "market society", a reductionist expression. As Marx well noted, capitalism is the mode of production where money and market are the core economic institutions; it is the society defined by the process of *commodification* (the transformation of everything into commodities, beginning with the labour force) together with the process of capital accumulation.

The state and the market are the two core institutions of capitalism; the state is the fundamental institution, while the market is an institution regulated by the state that coordinates the competitive sector of the economy more efficiently than the state. Neoliberal economists claim that liberal capitalism is a superior form of capitalism because markets are an impersonal form of optimal resource allocation that assures the increase of productivity by encouraging hard work and punishing laziness. These, however, are just hypothetical claims which have no base in the economic reality. Instead, I argue that the superior form of capitalism, not only in social and political terms, but also in economic terms is the developmental form specially in its post-war social-democratic form. We can see this in the developed societies of Europe, which have built a welfare state and a progressive tax system, thus protecting the workers, achieving greater social cohesiveness, and motivating workers to share the extra costs embedded in such protection, while assuring a satisfying rate profit.

Capitalism was the first form of social organisation to be *coordinated* by the market. While the state is the main institution which coordinates all aspects of the economic and social life, the market coordinates the competitive sectors of the economy. The state – the law system and the sovereign organisation that guaranties it – regulates the whole society including the market. In the theoretical framework of new developmentalism, each nation "completes" its capitalist revolution when it forms its nation-state – a political-territorial society endowed of the large and secure domestic market the industrial revolution requires. The manufacture of luxury goods was consistent with the long-distance trade of the ancient city-states. The industrial revolution in each country required much larger domestic markets demanding the production of cheap consumption goods mass produced. The formation of the nation-states assured these domestic markets. Britain was the first nation to form its nation-state and realize the industrial revolution and was the first national society to have its economy coordinated by a national market. Thus, it is not per accident that developmentalism is the *default* form of capitalism. Developmentalism was the form capitalism was coordinated when Britain, France, and Belgium made their industrial revolutions. Countries like Germany, Italy, and the US took more time to form or unify their nation-states and their industrial revolutions were late industrial revolutions, but also happened in the framework of developmentalism.

Two forms

In the analysis of capitalism for this book, I realized that I needed a word to designate a form of economic coordination of capitalism alternative to "economic liberalism" and realized that this word does not exist in the languages I am familiar with. Socialism is not this alternative; socialism is an alternative form to capitalism. Such inexistence would only make sense if capitalism was always liberal, but, on the contrary, countries developed successfully with a moderate state intervention in the economy and governments adopting a national perspective.

Since that alternative word does not exist, I began to use the word "developmentalism". Another possibility was to use the expression "mixed economy", but this expression suggests a transition from capitalism to socialism, which is not the case. Developmentalism is the policy regime and the form of capitalism alternative to economic liberalism. A form that is not a silver bullet, but makes capitalism more efficient, more stable, and less unequal by combining state and market in the coordination of the economy.

In choosing this word I made a *semantic widening.*[i] The word "developmentalism" has already been used in Brazil before Chalmers Johnson introduced the concept of developmental state in 1982. Pedro Cezar Dutra Fonseca has shown that Hélio Jaguaribe and Bresser-Pereira used this respectively in 1962 and 1963.[ii] Chalmers Johnson used developmentalism as the adjective qualifying the state and called the Japanese state, a "developmental state". Although received with hostility by liberal economists and political scientists, the word gained an international dimension.

Developmentalism is also used to define an economic school of thought, "classical developmentalism". In the1940s, after the Keynesian revolution and the war, we had the rise of "development economics" to mean the theories searching to study the underdeveloped countries of the periphery of capitalism, but this schools that counted with economists as Rosenstein-Rodan, Raúl Prebisch, and Ragnar Nurkse, but this is a vague expression unable to distinguish a school of thought. I believe that classical developmentalism, which comprehends the "Latin American structuralist economics", is a better denomination. It was suggested to me by Ricardo Bielschowsky, a distinguished historian of "CEPAL's structuralism". Since the early 2000, an increasing number of economists are building a new economics and the political economy that came to be called "new developmentalism" – a school of thought originated from classical developmentalism and post-Keynesian economics.

Using this enlarged concept of developmentalism, I discussed capitalist development, and founded that capitalist national societies are going through its own phases of capitalist development being, in each phase, either developmental or liberal, depending on the way the state and the market coordinate them. They are developmental when state and market coordinate the economy together, the state coordinating the non-competition sectors of the economy, managing the macroeconomic prices, and adopting policies to reduce inequality. They are liberal if the state is only supposed to guarantee property rights and contracts. Both developmental and liberal societies may adopt policies to protect the environment and avoid climate change, but the developmental country is more likely to be effective than the liberal one.

Besides coordinating capitalist economies, developmentalism and economic liberalism are also ideologies, each ideological camp asserting the superiority of its form of capitalism. Neoclassical economics and the Austrian school are behind economic liberalism. Marxian political economy, post-Keynesian economics, the French regulation school, the classical and the new-developmental economics are schools of thought legitimizing developmentalism. Although it simple the distinction between economics and political economy, this book is mostly part of the political economy of new developmentalism.

The assumption behind developmentalism is that the infrastructure, the basic inputs industries, and the big banks "too big to fail" are monopolist industries that markets do not assure the equilibrium; the same applies to the fiscal account and the foreign current account and the five macroeconomic prices; the market is unable keep them "right" – to keep the level of the interest rate around which the central banks realize monetary policy relatively low, the exchange rate, competitive, i.e., making the companies and industrial projects utilizing the best technology profitable, the wage rate increasing with labour productivity, the rate of inflation low, and the profit rate satisfying motivating the companies to invest.

Two forms and class coalitions

Two types of class coalitions are relevant in the history of capitalism: the developmental and the liberal class coalitions. The paradigmatic developmental coalitions comprise business entrepreneurs, the workers, and the working class – they are a broad social compromise. The paradigmatic liberal coalitions comprise the rentier-capitalists, the financiers, and the traditional upper middle-class.[iii] Note that by salaried classes I mean the employees and low middle-class professionals; most of the traditional upper middle-class derive their revenues not only of salaries but also of rents. Salaried classes and the workers form the popular classes. In contemporary capitalism we cannot understand the workers as the only component of the popular classes; their relative number has been falling, while the employees in the services form the bulk of the popular classes in each society.

Class struggles are inherent to capitalism, but they are not "resolutive", in so far that a classless society that would be the outcome of the class struggle remains a distant utopia. It is impossible to understand modern societies ignoring the class struggle, but behind this struggle, developmental class coalitions have played a key role in the moments of significant change in the history of capitalism. They presided the formation of the nation-state and the industrial revolution in every country, and they were present in most periods of fast economic growth as, for instance, the period just after World War II.

Developmental class coalitions lead to a developmental state in which social conflicts remain alive but may be resolved. One important issue is whether agrarian elites take part in developmental class coalitions. As Marcus Ianoni noted, "in South Korea and Taiwan, the rural society converged with industrial progress, not seeking an independent political settlement".[iv] The same applies to the German agrarian elites that Bismarck successfully brought into his political coalition. Different is the case of Latin America where the agrarian elites exporting commodities have opposed the developmental policies, mainly import taxes on manufactured goods. They and the imperial centre viewed these import taxes as protectionist, and preached trade liberalization.

Chalmers Johnson and Peter Evans attributed to the public bureaucracy a strategic role in the developmental state. This is true, but the leading class is supposed to be the industrial entrepreneurs because it is impossible to govern capitalism without their concourse. Differently from the Asian industrialists, the Latin American are a contradictory or ambiguous class which I use an oxymoron and call “national-dependent”. Yet, in the periods of industrialization and catching up they played a decisive role to the extent that they command the process of capital accumulation and innovation – the two main sources of economic growth.

Developmental class coalitions are always changing. The post-war developmental class coalition in advanced countries, the managerial coalition, was a broad coalition embracing industrial entrepreneurs, managers, the public bureaucracy, and the working class. The dominant class coalition since 1980 Neoliberal Turn, the neoliberal coalition, is a narrow agreement between the top and middle-class rentiers, the financiers, and the top executives of business corporations. While business entrepreneurs are essentially interested in profit and growth, rentiers and financiers give priority to interests, dividends, and to low inflation. In other words, the logic of rentiers' capitalism is short-term "shareholder value" rather than long-term profit and growth.

The narrowness of the rentier-financier coalition conflicts not only with the interests of the workers and the poor, but also with the interests of the professional middle class. Only the interests of the top executives of the great corporations coincide relatively with the interests of the shareholders or rentier capitalists. Shareholders are ready to award absurdly high salaries and stock options to top executives because competent management makes a major difference to the returns on investment and, so, to the market value of individual corporations. The narrowness of such coalition and the ensuing huge increase in inequality had as one of its consequences the recent rise of a right-wing populism based on the support of the white workers whose wages are stagnant since the 1980s.

Class coalitions are loose and fluid. When the capitalist class feels threatened by left-wing political parties, it tends to rally, and the developmental class coalition fails. In normal conditions the ruling class is divided: rentiers and financiers remain loyal to economic liberalism and, so, dependent or colonial in relation to the central countries, while the industrial entrepreneurs are nationalist or developmental. Often it is difficult to distinguish the entrepreneurial capitalists from the rentier capitalists, but such distinction is relevant in studying capitalist societies.

Two revolutions shaping capitalism

A decisive moment in the history of modern – twenty and twenty first capitalism – was the end of the nineteenth century The more decisive moment in the economic history of each country was, in the turn to the twentieth century, two revolutions which opened room for democratic capitalism and managerial capitalism. The revolutions were the Organisational Revolution and the Democratic Revolution, the former, the moment when the private corporations replaced the family and the family business as the basic units of production, the second, the moment in which advanced countries finally adopt the universal suffrage and become democracies.

There is a significant literature comparing synchronically different models of capitalism in different countries, which, not by accident, had as founding studies books published in 1990 and 1991when Soviet Union was collapsing. In 1990, Gøsta Esping-Andersen distinguished three models of the social state or the welfare state: "liberal" (United States), "corporate" (Germany) and "social democratic" (Scandinavian countries); Michel Albert, in the following year, compared the "American" and the "Rhenish" (French and German) models.[v] Instead, in this book I search to understand capitalism historically through the analysis of the forms of economic organisation of capitalism and the phases of capitalist development. Capitalist societies differ in terms of levels of economic development and are diverse in terms of social class relations, ideologies, cultural experiences, and forms of state intervention, but they are a unitarian form of society and tend historically to converge.

In this chapter, I discuss the two forms of economic organisation of capitalism and the four phases of capitalist development, one or the other form being present alternatively in each phase:

- the mercantilist phase in the 17th and eighteenth centuries was developmental.
- the industrial phase, from mid 1840s to 1929, was liberal.
- the social-democratic post-war phase was developmental.
- and the short neoliberal rentiers' and financiers' phase, was liberal.

Besides, we have two transitions:

- first, after the 1930's Great Depression and the war, the transition from liberal to developmental capitalism;
- second, after the 1970s crisis, around 1980, the Neoliberal Turn – the transition from developmental to neoliberal capitalism.

This second transition, the Neoliberal Turn, was, as Adam Przeworski has argued in 2001, a change of "policy regime". In the same year, I added that there was a move of the political centre from the left to the right. While, after the first transition, the conservative political parties adopted policies like the social-democratic policies in installing the welfare state, in the second transition, the social-democratic parties adopted economic policies not much different from the neoliberal reforms.[vi] In the 1990s, Anthony Giddens (1998) proposed the Third Way, a compromise between economic liberalism and social-democratic developmentalism, that illustrated the dilemmas of this second transition.[vii]

The new-developmental criterion

From the previous discussion, we have two historical forms of economic coordination of capitalism: developmentalism and economic liberalism. Developmentalism is the default form, because all capitalist societies were born developmental; it was in the frame of developmentalism (not of economic liberalism) that they formed the nation-state and realized the industrial revolution. The developmental state is at the core of the history of capitalism because this is also the history of the nation-states. But economic liberalism is also in the core of capitalism because it is the first market economy – the first form of society in which the coordination of its competitive sectors is more efficiently coordinated by the market than by the state.

New developmentalism adopts a simple criterion to define the complementary roles of the state and the market in coordinating a national economy. A subsidiarity criterion. Whenever there is effective competition, the market is the best coordinating institution; it allocates resources automatically and more efficiently than the state, and it is open to the creativity and the innovations. Considering that in each economy there is a naturally competitive sector and a non-competitive one, the market will coordinate the competitive sector, the state, the non-competitive. The main non-competitive sector, characterized by natural monopolies or quasi-monopolies, is the infrastructure industry. This is also the case of the basic inputs industry, the oil industry, and the great commercial banks which, as we saw in the 2008 global financial crisis, are “too big to fail”.

When effective competition is absent, because the industry is monopolistic or quasi-monopolistic, the state is the right coordinating institution. State action is also required in relation to the five macroeconomic prices (the profit rate, the interest rate, the wage rate, the inflation rate, and the exchange rate), that the market is unable to coordinate minimally. The prominence of the central banks is the acknowledgement of such inability in relation to the interest rate and the inflation rate that counts with the supports or liberal orthodoxy – the sum of diagnostics and policy recommendation associated to mainstream neoclassical economics.

The enormous increase in the inequality which accompanied the neoliberal phase of capitalism from 1980 to 2008, and the realization that this inequality did not achieve a bottom but may well continue aggravate in the first part of this century was well demonstrated in the extraordinary theoretical and empirical book of Thomas Piketty, *The Capital on the XXIst Century.*[viii] In his book he shows that the capital-output ratio (the inverse of the productivity of capital) which have fallen to around 3 year in the Great Depression and the war, which destroyed capitals mainly in Europe, bounced back and in 2010 was round 5 years and may well continue to around 7 in the next 40 years. Thus, he confirmed the tendency to the increase in Marx “organic composition of capital” or more simply, capital-output ratio. If, as showed in my 1986 book, *Profit, Accumulation, and Crisis*, the wage rate had continued to increase at the same rate of the increase of the productivity of labour, as was happening in the central countries since around 1870, the profit rate should fall and capitalism will face another and enduring crisis.[ix] As we discuss in the chapter on the secular stagnation of capital, this fall didn’t happen four two reasons: because the wage rate stopped increasing with the productivity (almost stagnated), and because corporations incrbeased their profit margins as they didn’t cease to increase their monopoly power by an intense program of mergers and acquisitions.

Finally, the protection of the environment and the control climate change, which are today a survival condition for humanity, are a problem for which markets have no answer. On that matter, I always remember the lecture Georgescu-Roegen, who had just published his 1971 pioneering book, *The Entropy Law and the Economic Process,* made in the University of São Paulo. Two neoclassical economists discorded saying that the future interest rate would cope with the problem.[x] What led Georgescu to comment: “you are thinking parochially; I am discussing the economy that our children and great-children will live in.” In 2013, responding to a question posed by the *New Left Review* on the perspective of secular stagnation posed by Robert Gordon book, *The Rise and Fall of American Growth*, Michel Aglietta, using a Schumpeterian argument, ruled out this prediction because a new wave of investments was in the horizon – the investments to cope with climate change, and a country endowed of a strong developmental state, China, was likely to lead this new wave.[xi]

After the war, the rich countries, which had been developmental in their capitalist revolutions experienced a second developmentalism – the social democratic developmental state of the Golden Years of Capitalism. Particularly in Europe, social democracy and Keynesian macroeconomic policies reduced inequality, provided universal health care, and offered palpably better working conditions to workers than those prevailing in the United States. Yet, with the economic crisis in the 1970s, the increasing power of the unions squeezed profits, stagflation materializing in the US, and low wage developing countries exporting manufactured goods represented a new competition. These factors precipitated the crisis of post-Keynesian economics and classical developmentalism.

Developmentalism, economic liberalism, and democracy

Economic systems are production social systems whose quality depends not only on the level of economic development and productive diversification, and the way income is distributed, but depends also on the existence of cooperation or a reasonable degree of national cohesiveness. Cohesive societies lead to capable state organizations and legitimate law systems, and the market effective in allocating the factors of production. Under capitalism, collective action tends to be feeble because economic competition has precedence over cooperation, but each nation is called to be internally solidary because in capitalism not only companies, but also nation-states are involved in a global competition.

For long socialism was viewed as the alternative to economic liberalism to the extent that liberalism was confused capitalism. By considering developmentalism the default form of capitalism I am radically rejecting such identification, while I am arguing that capitalist societies may and can progress. Today, the Marxian claim that capitalism would soon end the transition to socialism was already in process proved to be wrong. Today we know that capitalist societies and their states may be democratic or authoritarian pending the role the popular classes have in the political process, and developmental or liberal depending on the way the state intervenes in the economy. It will be developmental if the state intervenes moderately in the economy and adopts a national perspective in its relations with the other nations. Originally, both liberalism and developmentalism were authoritarian, opposed democracy, but today developmentalism is more compatible with democracy than is economic liberalism because, although the public interest and the interests of the popular classes are not the same, they are not as divergent as are the public interest and the interests of the capitalist class and the managerial class.

Capitalism was born authoritarian, in the framework of the Ancient Régime and the absolute monarchies. With the capitalist revolution, which was first completed in Britain in early nineteenth century, the political regime turned liberal, assured the rule of law and the civil rights, but it didn't turn democratic. Liberals fear democracy which they defined as "the tyranny of the majority" and for a century rejected the universal suffrage. But, after a long fight of the working and salaried classes, documented by Göran Therborn (1977) and Adam Przeworski (1985), the universal suffrage was conquered, and the advanced countries turned minimally democratic, in the framework of what I define as the Democratic Revolution.[xii]

As I and will discuss in chapter 4, the bourgeoisie was the first dominant social class that didn't impose a full veto to democracy, because it was the first form of society where the appropriation of the economic surplus by the ruling class didn't depend on the direct control of the state. Profit is achieved in the market through an exchange of market values: wages for the labour force.

The direct outcome of the Democratic Revolution was liberal democracy – a political regime where the two minimal conditions to a country to be considered democratic are present: the rule of law which includes the civil rights, the universal suffrage, and the political rights of electing and being elected. This was liberal democracy – a minimal or low intensity democracy, or the Schumpeterian democracy – a form of government where the elites call the electors to vote periodically but ignore them after elected.

After the World War II, mainly in Western Europe, as the popular classes had to be listened, the main countries included work entitlements in labour contracts and built the welfare state. In this way, the quality of democracy progressed, and liberal democracy began to change towards a social republican democracy – a social democracy because social rights were assured, a republican democracy because a small but significant number of citizens and politicians were able to combine self-interest with the public interest, and a republican state, that proved able to protect the public patrimony from the legal capture of powerful individuals and corporations.

At the same time, the neoliberal ideology transformed "liberal democracy" into an ideological construct: not simply the political regime but the ideal economic and political form of capitalist society. Neoliberals, the top financiers, and the top economists who act as organic intellectuals of rentiers' capitalism, reject the expression "neoliberalism", because progressive intellectuals use it in a critical way. Instead, they speak of "liberal democracy" to refer to the economic and political system of the West where the liberties, the autonomy of the individuals, and the respect all deserved would be assured. These are the characteristics of a good democracy, not the existing liberal democracy which is far from assuring autonomy and recognition to all. Rentiers' capitalism is a form of society that rejects the welfare state and progressive taxation, ignores the privileges of rich and idle capitalist rentiers, financiers, the top executives of the corporations.

What is *not* consistent with democracy is statism – the state assuming the full coordination of the economy as it happened in Soviet Union. When Friedrich Hayek, in his book *The Road to Serfdom* (1944), opposed liberal capitalism to socialism, it was reasonable to view socialism 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 a socialist but a *statist* society, and a new left rejected the communist alternative, but the neoliberal intellectuals like Milton Friedman and James Buchanan continued to oppose capitalism to socialism which they didn't distinguish from social-democracy and developmentalism. This transformed the neoliberal ideology and mainstream neoclassical economics into an unrealistic fight against windmills. Don Quixote's fight was unrealistic, but it was generous, while neoliberals' fight is perverse – is a fight of the rich against the poor.

Phases of capitalist development

After the capitalist revolution, world history ceased to be the narrative of the splendour and decadence phases of old empires or civilizations, to become a *social construction* – a social project aiming at economic development and human development. Auguste Conte as well as Marx and Engels in the *Communist Manifesto* understood well this and proposed phases of capitalist development. Today, capitalism alone has already a long history whose understanding is improved if we divide into phases that vary according to the criterion adopted. They should not be confused with the well-known long waves of Kondratieff that Schumpeter subscribed, or with the long period of relatively rapid economic expansion, decay, and a period of stagnation and instability until the beginning of a new cycle that David Gordon (1978) called "social structures of accumulation". Both the long waves and the social structures of accumulation are cyclical phenomena that end into an economic crisis, while phases may be longer and don't necessarily end into crisis. I am aware that the reduction of history to phases suffers from excessive generalization and some arbitrariness that find the resistance of historians, but I prefer to take the risk, hoping that our understanding of capitalist development improves with this simplification.

Fernand Braudel (1987b: 62) was not afraid of periodization, and he divided the history of capitalism in Europe, with their respective picks into parentheses, in four trends or *secular* cycles: the North Italy cycle 1250 (1350) 1507-10; the Dutch cycle 1507-10 (1650) 1733-43; the British cycle 1733-43 (1817) 1896; and, with Arrighi, the American Cycle beginning in 1896. In the table of contents of Braudel's book, the first and the second cycles have cities in their core: Venice and Genoa in the first cycle, Amsterdam in the second, while the third and the fourth secular cycles, which are specifically capitalist, have as centre two nation-states, the UK, and the US.

Following a similar perspective, Giovanni Arrighi (1994: 6) saw four "*systemic* cycles of capital accumulation": the Genoese cycle, the Dutch cycle, the British cycle, and the American system cycle. He called the first cycle Genovese considering that in the sixteenth century the Genovese financed Spain, the dominant country of the time. He speaks of "systemic" cycles because finance gets them chained. Following Marx and Braudel, he remarks that periods of material expansion are followed by periods of financial expansion. I am not comfortable with the division of history in cycles, because history does not repeat itself; the idea of an eternal return does not make sense. I prefer to think in terms of stages or phases rather than in cycles, but, as Alexandre Abdal commented, Arrighi cycles do not imply repetition. Each one in its own way, recovers and re-signifies elements from previous cycles and combines them with new elements. In this sense, cycles are progressive.

Arrighi, following Braudel, identifies as a cyclical regularity the tendency towards financialization at the end of each cycle, which, incidentally, coincides with a hegemonic crisis. This is a very interesting observation, because we saw it repeated in the last phase – the neoliberal phase – that we discuss in this book. Periodization involves the adoption of the classification criterion. I studied elsewhere the phases of capitalism according to the types of technical progress and their effects in the distribution between wages and profits.[xiii] In this book, I will work with four phases having as criteria the form of economic coordination of the economy and the ruling class which commands the process of capital accumulation and innovation (Table 2.1). I could include a previous phase before mercantilism – the time of the bourgeois city-states in the North of Italy (Venice, Firenze, and Genoa) followed by other European city-states. We cannot speak of capitalism in the Marxist sense (private property of the means of production, wage labour, and capital accumulation) but, yes, in Braudelian terms – a place for the realization of extraordinary profits based on the approximation of the economic and political power. There were not yet wage rate and the profit motive, the systematic increase in productivity, nation-states, a large domestic market, and industrialization – the defining characteristics of capitalism. These city-states were involved in long-distance trade and were for some time strong enough to defend themselves from the feudal lords, and from the Pope. This time was rather a trailer than a phase of capitalist development. As Maurice Dobb (1963) noticed, we should not call it the sunrise of capitalism because capitalism requires the direct subordination of the worker to the capitalist in the process of production – requires the waged-labour institution.

In discussing capitalism historically, I use as reference Britain, France, and Belgium, which underwent all phases of capitalist development, and had a significant influence on the rest of the world. From the third phase on, I added the US, which after the First World War became the hegemon, replacing Britain in this role.

Table 2.1: Phases of capitalist development and per capita growth rates

Dates	Phases of Capitalist Development	Growth rate (yearly %)
1600-1839	Developmental mercantilism	0.21%
1840s – 1929	Industrial entrepreneur's liberal capitalism	1.32%
1930 – 1939	Crisis of liberal capitalism	0.63%
1940s – 1980	Managers' social-developmental capitalism	2.58%
1980 – 2008	Rentiers' neoliberal capitalism	1.80%

Sources: Authors elaboration based on Maddison Project Database (MPD) 2020 (https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2020).

The mercantilist phase

The ***mercantilist phase***, from the seventeenth to the end of the eighteenth century, was not the failure depicted by liberal economists since Adam Smith. It was a developmental phase in which our three original countries realized their capitalist revolutions, and turned rich and powerful, able to build colonial empires.

Capitalism was born developmental in the mercantilist phase. The industrial revolutions in the first countries to industrialize took place in the framework of mercantilism. Liberal economists, under the command of Adam Smith, scorched mercantilism. Mercantilist economists were the founders of economics and political economy and their theory deserved criticism, but the policies they sponsored was a thriving economic arrangement which led the first countries to make their industrial revolutions. Mercantilism was the first historical form of developmentalism – of an economic system where the state acted according to the subsidiarity criterium intervening when markets are unable to perform their job. As to the political regime, this was the time of the absolute state. Capitalism turned liberal only from the 1840s when the UK eventually opened its economy. Never entirely liberal, because the state was often called to intervene domestically, and had a central role in the violent construction of empires aiming to reserve their markets to their capitals and sophisticated manufactured goods as well the supply of oil and raw materials.

The seventeenth and the eighteenth centuries were the era of the absolute state, the tribal accumulation of capital, the formation of the first nation-states, and, finally, the moment of the Industrial Revolution in England – the economic revolution which definitively gave rise to capitalism or modernity. It was the moment of the configuration of what Immanuel Wallerstein (1980) called "the world system".

Mercantilism was the era of the *first* developmental capitalism in so far as it was based on a developmental class coalition formed by the monarch, the aristocrats around him, and the emerging great commercial bourgeoisie. For Amiya Kumar Bagchi (2000: 399), "the first developmental state to emerge since the sixteenth century was that of the northern part of the Spanish Netherlands, which, after the re-conquest 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, with the rise of manufacture, they soon became interested in the formation of a secure and large domestic market, which would make possible the mass production of the 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 the wars initiated by the monarch – wars that defined the territorial space of the first nation-states and opened the way for the industrial revolutions in each country.

In mercantilism, the ruling class coalition associated the grand bourgeoisie with the monarch and his patrimonial court. On the economic criterion, mercantilism was the *first* developmentalism, as the state intervened actively in the economy. Mercantilism and the absolute state were key institutions in the transition from feudalism to capitalism. The absolute monarchs and the merchants and great financiers founded capitalism, the mercantilist economists founded economics and political economy. This was a period of active state intervention, and the formation of the first nation-states – the territorial sovereign societies which would define capitalism. Long-distance trade remained the central economic system, but now, with the technical progress of navigation initiated by the Portuguese, the colonies in the Americas, and of colonial trade centres in Asia and Africa, long-distance trade turned into an "economy-world" in the words of Fernand Braudel, or "world-system" in and Immanuel Wallerstein's words. Mercantilism was the framework in which the first nation-states were formed, and large domestic markets were created – domestic markets that created demand for simple manufactured goods and allowed the industrial revolutions.

As Fernand Braudel affirmed, "mercantilism is an insistent push, egoistic, soon vehement of the modern state," and he completes, quoting Daniel Villey, "It was the mercantilists that invented the nation-state".[xiv] In fact, the mercantilist system involved (a) a kind of national development project led by the absolute monarchs, who were the responsible for the wars aimed at expanding the state's borders, (b) a class coalition associating the monarch and its court with the grand merchants, and (c) the intervention of the state in the economy. These three characteristics made mercantilism to be the first developmentalism. In 1776, Adam Smith published his *Wealth of Nations*, hardly criticizing the mercantilist system which was at that time in its prime. His book was a revolution in economics, but only in 1846 England transformed his theory and David Ricardo's complementary theories into policy – a liberal policy.

The industrial entrepreneurs' liberal phase

From the industrial revolution in the central countries and the trade liberalization of Britain in 1834 until 1929 we had the ***industrial entrepreneurs' liberal phase***. This was the capitalism that Marx has known and analysed. It was a time of modest per capita growth rates, high instability, and high inequality. Growth was, however, sufficient to make the first countries to industrialize to acquire military power and build colonial empires. The political regime assured the rule of law but not the universal suffrage, and thus remained authoritarian.

Schumpeterian entrepreneurs who were able to innovate and invest led this phase. It was a liberal phase in economic terms because the state had no direct role in production, and in political terms because the new ruling class secured civil rights and the rule of law, not the political and social rights.

But it did not become a fully liberal state, because the state continued to be involved in the economy in many ways. As Pierre Rosanvallon (2011) remarks, at the end of the nineteenth century the fragility of the liberal state caused a revival of the ideas favouring greater intervention of the state in the economy. When, for instance, the great 1893 financial crisis broke up, the state was called to help. But state intervention was sufficiently limited in the original countries that it is reasonable to say that economic liberalism was dominant. Entrepreneurs' liberal capitalism was characterized by massive urban poverty and social dislocation, which led the workers and the popular classes to organize unions and socialist political parties asking for the universal suffrage and socialism. They didn't achieve socialism but won the battle for democracy at the turn of the twentieth century, when advanced countries, in which civil rights were already secured, adopted the universal suffrage.

In the framework of liberalism, the original industrial countries experienced low rates of growth (around 1 percent per capita a year), which, however, were sufficient to turn them more powerful, able to build significant colonial empire in Asia and Africa. This was the time of the gold standard, the proletarianization of the popular classes, terrible work conditions, no labour security, and increased inequality. Marx had said that in 1825 happened the first crisis of capitalism, capitalism strictu sensu; several crises succeeded; in 1873 liberal capitalism faced a major financial crisis which Carlos Marichal calls "the first world financial crisis"; only 20 years later, capitalism enters in a new crisis, which had as pivot the US.[xv]

In each crisis the profit rate falls, the companies call the state for protection, the state intervenes, and liberals accuse policymakers of "neomercantilism".[xvi] Meanwhile, the latecomer advanced countries, like the US, Germany, and Italy, have fused the mercantilist and the entrepreneurs' phase of capitalism. They made their industrial revolution adopting a definite developmental strategy. Liberal capitalism didn't prevail in these countries.

Industrial entrepreneurs' capitalism was the time of colonialism or modern imperialism. Modern imperialism emerged during the era of liberal capitalism – an imperialism of industrial capitalist countries led by the United Kingdom and France in the nineteenth century.[xvii] The Industrial Revolution made these two countries sufficiently powerful in economic and military terms to reduce peoples of Asia and Africa to the colonial condition – something that could not be done in the mercantilist period, when the local empires were sufficiently strong to resist colonization.

As for the Latin American countries, at the beginning of the nineteenth century they had won independence from Spain and Portugal, and imperialism was defined in terms of ideological hegemony or soft power, first under the leadership of Britain, and after World War II, of the United States. Modern *soft power* imperialism is essentially characterized by the *occupation* of local markets by unequal trade, by finance, and by multinational corporations based on the cultural and political dependency of local elites.[xviii] In the nineteenth century, in Asia, such occupation required war; in the twentieth century, the West submitted the Asian, African and Latin American political and economic elites to their liberal "truth", although they did not adopt the recommended policies when they were themselves experiencing the corresponding phase of development.

From 1930 to 1945, capitalism faced the Great Depression followed by war. In 1933, Franklin Delano Roosevelt launched the New Deal; in 1936, Keynes published *The General Theory*; from the turn to the twentieth century the managerial class was rising.

The managerial-developmental phase

The 1929 crash and the Great Depression opened room for the ***managerial social-developmental phase*** of capitalism – a managerial phase in which the technobureaucrats associated themselves to the dominant entrepreneur capitalists; a social-democratic phase defined by the compromise of the new ruling class with labour; and a developmental phase. Its managerial character derived from the turn to the twentieth century Organisational Revolution; its social-democratic character, from the turn to the twentieth century Democratic Revolution and the demands of the popular classes.

Such a phase of capitalism was managerial since the Organisational Revolution, in the end of the nineteenth century, because the rise of the private corporations, the increasing separation of the control from the ownership in these corporations, the substitution of the managers for entrepreneurs in the management of such corporations, and the substitution of knowledge for capital as the strategic factor of production – all new historical facts. Moreover, it was pushing the new middle class of private and public managers to the condition of associates of the capitalist class.

This phase was developmental because economic liberalism had failed and because the managerial class tends naturally to be developmental – to privilege economic planning and strategy not only at the corporation's level, but also at the country level; because the state is being permanently being called to intervene in the economy; and because growth is fast and financial instability falls whenever the developmental politicians and economists are competent managers and policymakers.

This was also the great moment of social democracy; was the time of the Golden Years of Capitalism. In this phase, people that had achieved the civil rights in the liberal phase, and the political rights in the turn to the twentieth century with the universal suffrage, also achieved the social rights: universal public education, universal health care, basic social security, and social assistance programs. It was a progressive social-democratic time because taxation becomes highly progressive, the welfare state turns reality, and inequality has fallen although modestly.

This was, therefore, the time of a *second* developmental capitalism, in which a broad developmental class coalition formed by business entrepreneurs, the new technobureaucratic class, and the working class – a social pact that the French regulation school called Fordism. This was the time of "indicative planning", the rise of state-owned enterprises, high growth rates, financial stability, increases in the tax burden, the adoption of progressive taxation, and some reduction in inequality. These were the Golden Years of Capitalism, which Andrew Shonfield (1969), Jean Fourastié (1979), Michel Aglietta (1976) and Stephen Marglin (1990) studied.

Alternatively, we may also say that these were the years of corporatist capitalism, whose classical analysis was made by Philippe Schmitter in 1974 having the North European countries as reference.[xix] This was the time in which the political centre moved to the left, and the common political objective was to create a social or progressive capitalism, regardless of the political party in office. In Germany, for instance, the conservative Christian Democratic Party proposed a "social market economy" which was essentially developmental, corporatist, and democratic.

The Golden Years faced a political crisis with the 1968 student revolution, which marked not the beginning but the *end* of an era. In the 1970s, the defeat in the Vietnam war, the abandonment of the Bretton Woods agreements, the end of the last vestiges of the gold standard, the 1973 OPEC oil shock, the falling rate of profit, the stagflation in the United States and the increasing competition originated in developing countries. Altogether, these problems defined the 1970s' crisis of the managerial social-developmental phase of capitalism.

While the substitution of rentier capitalist for entrepreneurs in the ownership of the corporations advanced, the neoclassic and neoliberal intellectuals, unsatisfied with the mainstream condition of Keynesian economics, profit the opportunity offered by the 1970s' crisis to build a new narrative – the neoliberal ideology. Such a new ideology was persuasive to dismantle the Fordist class coalition and achieve the Neoliberal Turn.

The ***rentier-financiers' neoliberal phase*** of capitalism was beginning, and now is legitimized by the neoclassical and the Austrian schools of economics and the neoliberal ideology. In this book I will discuss at length this regressive phase and its narrow class coalition of rentier capitalists and financiers. The project of the advanced capitalist countries was now, on the domestic side, to reduce real wages, directly, by changing labour contracts, and indirectly, by dismantling the welfare state. On the international side, was to transform the globalisation into an imperial project – the US "globalisation project" aiming all countries adopted the neoliberal reforms. In the short-term the US was successful in recomposing their hegemony, but this was a short-lived period.

Under the rentier-financier class coalition, the managers remained part of the dominant class coalition, but an internally conflictive part, because the shareholders were challenging the power and autonomy of the top executives.

Rentier-financier neoliberal capitalism represented a major regression – an economic and political regression – and it was not for hazard that it was a short-lived phase. It ended with the 2008 global financial crisis followed by a 2016 political crisis expressed in the rise of right-wing populism – a populism which didn't reflect a crisis of democracy, which proved alive and strong in facing the populist attack, but it was a backlash to radical individualism and the widespread competition among all that marked neoliberalism. It didn't reflect the failure of democracy, as many feared, but the failure of neoliberal capitalism in assuring the interests of the white lower-middle class. There was some growth in advanced countries, but modest and instable; the wages of the lower classes stagnated; inequality increased sharply. The world figures showed a significant reduction of poverty, but this was due to the growth of the Asian countries, especially China.

Rentier-financier neoliberal capitalism was the time capitalism turned global and financialized. And the time East Asian countries, which didn't submit to the globalisation project, have developed, and turned rich. The failure of neoliberalism caused the division of an America which, in the 1960s was cohesive and now China is challenging the US' hegemony.

A second developmentalism

Once a country makes its capitalist revolution the market takes on a greater coordinating role, but this does not mean that the state must cease to be developmental. The Golden Years of capitalism were a second developmentalism for the central original countries. State intervention in the economy just turned more moderate because markets became more developed and property rights and contracts, better assured. But the intrinsic limitation of markets and the increased economic diversity arising from economic development require that the state continues to intervene in the economy.

As economic activities become more diversified relative to the level of diversity evinced by infrastructure and basic industry firms in the non-competitive sector, the market becomes more efficient than the state at coordinating the very numerous and diversified firms that then emerge. The market is a more appropriate institution when it comes to coordinating diversified competitive activities involving creativity and innovation.[xx]

Therefore, it can be predicted that once a country's industrial revolution is complete, market-based coordination will gain ground over the coordination by the state. And the state's economic role changes. Now, the state's essential role in the economic domain is to create the general conditions that make competent enterprises in the country able to compete and willing to invest. That means (i) getting the five macroeconomic prices right (the profit rate, the interest rate, the exchange rate, the wage rate and the inflation rate) – something the market certainly does not achieve as we can see from the recurring financial and price instability that characterizes unregulated markets, (ii) planning and investing in infrastructure and in the basic-inputs industries, (iii) regulating firmly the great banks “too big to fail”, (iv) adopting a strategic industrial policy, (v) fostering scientific and technological development. Moreover, in terms of human progress, reducing economic inequality, defending the environment, and controlling climate change are essential roles of the state.

Thus, once the industrial revolution is complete, the state over time retreats from competitive industries because the market is better equipped to coordinate competitive activities, but remains very present in the non-competitive ones, in the conduction of an active macroeconomic policy, and in improving the quality of life of all.

The main problem facing developmental and liberal states alike is the political and economic competence of their rulers. Successful developmental states have always relied on republican-minded nationalist politicians and pragmatic economists who knew that their core job was to ensure economic stability and develop policies that contributed to their country's industrialization or productive sophistication. Such competent politicians and economists are not always to be found. Politicians often give in to the temptation of raising people's incomes without the required increase in production and indulging in economic populism, be it exchange-rate populism, whereby the country runs up large current account deficits, or fiscal populism, whereby the state runs up large public deficits. In either case, the result is increased consumption and indebtedness, whether domestic, foreign or both.

One must not imagine, though, that the liberal state avoids these problems. Exchange-rate populism is a more common practice in this model of state than in developmental states. The liberal politicians and economists who govern developing countries believe in the thesis, very dear to advanced countries, that current account deficits are foreign savings which, added to domestic ones, increase the country's investment rate. They do not know or care that there is a high rate of substitution of foreign for domestic savings in developing countries, where the marginal propensity to consume is high. More broadly, and against all evidence, they believe that the market correctly sets the foreign exchange rate, so that the government should not intervene in it. In developmental states, on the other hand, even if there was until recently no theory legitimizing exchange-rate policy, pragmatic exchange-rate management policies are commonly adopted because developmental economists know that strategies based on industrialization depend on the foreign exchange rate.[xxi]

In conclusion, economic development is a historical process of productivity and wage increases arising from the use of increasingly skilled or sophisticated labour in activities with greater value added per capita. It is the result of a class coalition that brings politicians and public bureaucrats into partnership with the businessmen responsible for investment and innovation. Within this framework, the developmental state has historically been and must continue to be the central development-oriented institution because it is the state that guarantees and regulates another equally fundamental institution: the market. The scope of the state is far greater. It is the instrument par excellence for the nation to attain the five major political objectives of modern societies: security, liberty, economic well-being, social justice and protection of the environment, objectives that must constantly be the subject of compromises or the principle of reasonability in the light of perceived or real short-run conflicts with each other.

Economic development is necessarily the outcome of a national development strategy arising when a strong nation shows the ability to build an equally strong or capable developmental state. Nations only form and remain alive and strong when they are the product of a constantly renewed national agreement. If the social contract that binds them together is not sufficiently sound, if the social classes that form it do not maintain basic ties of solidarity when it comes to competing internationally, they will not stand as true nations, the country will be far more vulnerable to hegemonic Western thinking and the nation will lose strength, as Latin American countries did after the great crisis of the 1980s.

The developmental state, which lies between the liberal state and statism, is a superior form of capitalist economic and political organisation. It is a means whereby state and market coordination can be sensibly or pragmatically combined in capitalist economies. Every industrial revolution has taken place within the framework of developmental states, when a group of nationalist politicians have successfully formed a nation-state and industrialized. This phase is always dominated by the state, which manages to create or regulate more efficient markets to coordinate activities in the competitive sector of the economy, which are now more diverse and involve more creativity and innovation. But the state needs to and usually does remain developmental, because it is responsible for coordinating the non-competitive sector of infrastructure and basic industry, implementing an active macroeconomic policy (including an exchange-rate policy), reducing economic inequality, and protecting the environment – a set of roles that the market cannot accomplish.

[i] For a discussion of concepts and of semantic widening, see Fonseca (2015), who quotes Giovanni Sartori (1970) on the subject.

[ii] Fonseca (2015).

[iii] It important to distinguish the concept of "class coalitions", which is a sociological rather than a political science concept involving agreements between social classes, from "political coalitions", which are the coalitions among political parties to achieve majority and govern. Both concepts are related, but in this book I use mostly class coalitions, which are more informal and long-term than political coalitions.

[iv] Ianoni (2014: 99).

[v] Esping-Andersen (1990); Albert (1991).

[vi] Przeworski (2001); Bresser-Pereira (2001).

[vii] Giddens (1998).

[viii] Piketty (2013: sections "Back to Marx falling tendency of the rate of profit" and "Beyond the 'the two Cambridges'": 360-369).

[ix] Walzer (1983).

[x] Georgescu-Roegen (1971).

[xi] Gordon (2016); Aglietta (2016).

[xii] Therborn (1977). Przeworski (1985).

[xiii] Bresser-Pereira (1986; 2018).

[xiv] Braudel (1979a: 484).

[xv] Marichal (2020: first chapter).

[xvi] Maurice Dobb (1963: chapter 7 section 3).

[xvii] 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 the 1870s that the European countries and the US became sufficiently strong to impose their colonial rule. I do not stress the distinction between the two periods in this essay, because it is not necessary for the argument that I am developing.

[xviii] Note that this cultural dependency proved to be much stronger in Latin America than in Asia.

[xix] Schmitter (1974).

[xx] On that matter, Japan's industrialization in the late nineteenth century is an interesting case. It was almost entirely carried out by the state. Around 1910, however, a rapid and radical privatization process took place. The Japanese didn't aim to socialism~~,~~ but were just adopting market coordination for the competitive industries.

[xxi] This theory constitutes the new developmentalism and its developmental macroeconomics. See Bresser-Pereira, Oreiro and Marconi (2014).