Forms and phases of capitalist development

Luiz Carlos Bresser-Pereira

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The expression "developmental state" began to be used in the Global North in the 1980s to identify the East Asian countries. The term "developmentalism", has been used at least since the 1960s, but for ND there were "developmental policies" and the "developmental state" for some time before that. When nations realised their capitalist revolutions, the state was intervening actively in the economy and was developmental. They were developmental when they formed their nation-states and industrialised in the framework of mercantilism; they were developmental for the second time in the post-war social-democratic years; and now, after the recent collapse of neoliberal capitalism, the state is again back in. Capitalism now is not likely to be as progressive as it was in the Golden Age of Capitalism, it will be more conservative.[i]

Economics is the science of markets – the science that explains how markets coordinate economies – but markets only become national and relevant when they have the support of the state. It is more reasonable to say that economics is the science of how markets and the state coordinate the economy. Neoclassical economics is the "scientific" justification of economic liberalism. With the collapse of neoliberalism, neoclassical economics and liberal orthodoxy are in crisis, but in a different way from the crisis of the 1930s, and now, in the 2020s, we do not see a new economics emerging. ND is a new theory, but it focuses on middle-income countries.

Two forms of economic coordination of capitalism

The state coordinates the whole of society; the market coordinates just the economic system. Considering these two institutions, we have two forms of economic coordination of capitalism: one is the developmental form, the other is the liberal form. Economic liberalism is the form in which the market fully coordinates the economy, while the state just ensures the good functioning of the market. Developmentalism is the form in which both institutions are relevant for coordinating capitalism. The market coordinates the competitive sectors of the economy, and the state coordinates the non-competitive sectors, and more broadly, it coordinates the whole of society. The neoliberal condition is never achieved, but when this is the objective, and the government seeks to achieve it – to minimise state intervention – the government and the state are neoliberal. When state intervention is moderate, and the country has a national perspective, it will be developmental. When intervention is maximal, we cease to have capitalism, and we have statism.

When, with the failure of statist Soviet Union and the transition of statist China to capitalism, most took statism for socialism and ceased to see it as an alternative to capitalism. We would all be or should be capitalist and liberal. This was a mistaken conclusion. The possibility of having socialism in the short-term was not realist, but we still could decide for economic liberalism or for developmentalism. Economic liberalism and neoliberalism expect from the market more than it can offer. Developmentalism is more reasonable and more challenging: it assures economic development but requires an efficient market and capable government decisions. I view a social-democratic, republican, and green developmentalism as a political regime more just and more consistent with the survival of humanity than liberal democracy.

In the US, there aren't the social-democratic political parties that exist in Europe and the country is less green than the advanced countries in Europe. In the US, The Democratic Party is more progressive than the Republican Party, but it cannot be considered as being social-democratic. Probably for that reason, the country's progressives are called "liberals". In this book, I use the word liberal with its classical meaning. Liberals were only progressive in Europe from about the eighteenth to mid-nineteenth century. When the capitalist class became dominant, liberals became conservative. Neoliberals are the radical liberals that emerged after the Second World War, becoming dominant in the 1980s. Currently, liberalism and neoliberalism are experiencing crisis.

Using the word developmentalism with this broader meaning – as a form of economic coordination of capitalism – we can say, for instance, that before the 1980 Neoliberal Turn, in the post-war years, the advanced capitalist societies were not liberal economies but social-democratic and developmental economies. We can say that the default form of capitalism is developmental, because the industrial revolutions in Britain, France, and Belgium happened in the context of mercantilism – the first historical form of developmentalism.

In economic terms, each phase of capitalist development will either be developmental or liberal, depending on the degree of state intervention the country adopts. Capitalism was born in each nation-state during a developmental phase – the mercantilist phase – in countries like Britain and France, which were the first to build national markets, and which went through all phases of capitalist development. Capitalism was also developmental in latecomer countries like Germany and the US that made their industrial revolutions in the second half of the nineteenth century.

The case of the US is interesting and is perhaps surprising to many. Despite the great role entrepreneurs played in its development, and the importance of the American domestic market, the US economy was developmental from the Civil War until 1980. It has been developmental since the American industrial and capitalist revolution, in the second half of the nineteenth century. Only in 1939 did the US open up its economy, lowering the import tariffs on manufactured goods, which were high. American economic historians don't have an explanation for these tariffs; they label all tariffs as "protectionist". In the first 40 years of the twentieth century, the argument of the infant industry, which legitimised import tariffs on manufactured goods, was not applicable anymore, but the American policymakers rejected the liberal recipe because they rightly believed, firstly, that the economic growth of their nation required that it industrialise, and, secondly, that industrialisation depended on import tariffs. Thus, they adopted import tariffs pragmatically. They were right, because the US had the Dutch disease – market failure in countries that are exporters of commodities.

The Dutch disease means that commodities can be exported at a profit and at an exchange rate which is substantially more appreciated than the exchange rate that manufacturing industries, in a country that utilises the best technology available in the world, require to be competitive. The simpler way of neutralising this market failure is to impose import tariffs on manufactured goods. This was done in the US until 1939, despite the fact that import tariffs are the industrial policy that liberal economists most fervently reject. In adopting import tariffs, American capitalism was developmental, not liberal. Although opening up its economy by lowering import tariffs, the US remained developmental in the New Deal, like the European social-democratic countries in the Golden Age of Capitalism. Only in 1980, with the Neoliberal Turn, did the US adopt economic liberalism.

The market is an *efficient* institution which satisfyingly coordinates the competitive sectors of the economy, while in the monopolistic sectors, in which there is no real competition, the state must be the coordinating institution. A moderate intervention of the state in the economy means that a country respects the subsidiarity principle: the larger and higher-ranking body, the state, should not execute functions which can be more efficiently carried out by a smaller and lower ranking body: the market.

A moderate intervention of the state in the economy is the defining character of the developmental form of capitalism. The state intervenes moderately when it:

- adopts industrial policies in the competitive industries,
- regulates the non-competitive or naturally monopolistic industries,
- manages the two macroeconomic accounts: the fiscal account and the current account,
- keeps correct the five macroeconomic prices: the interest rate, exchange rate, wage rate, inflation rate, and the profit rate.

Today, we must add that it is the developmental state that fights poverty, seeks to reduce economic inequality, and protects the environment. In the framework of democracy – which became the appropriate political regime of advanced capitalist societies – it is impossible to assure long-term growth without listening to the demands of the people. And to fight climate change is a condition for the survival of humanity.

The second element that defines a developmental policy regime – its national perspective – means that peripheral countries need to acknowledge that it is not only companies but also nation-states that compete at the world level. Peripheral countries also need to recognise that the main nation-states are imperialist nations which pressure developing countries to adopt liberal policies that aim to block their industrialisation.

Phases of capitalist development

In discussing the history of capitalist development, we can distinguish four phases: two of them being predominantly developmental, and the other two liberal. Since 2008, neoliberalism has faced a major crisis, and in the early 2020s, after the Covid-19 pandemic and with the collapse of neoliberalism, the developed capitalist economies are in transition to a new phase – a managerial and developmental phase.

With the capitalist revolution, world history ceased to be the narrative of the splendour and decadence of old empires and civilisations and became a *social construction* – a social project aimed at economic and human development, to be achieved in the context of nation-states. Auguste Conte, as well as Marx and Engels, understood this well and proposed phases of capitalist development. Today, capitalism alone already has a long history, which we can understand better if we divide it into phases that vary according to the criteria we adopt. These phases should not be confused either with the well-known “long waves” of Kondratieff that Schumpeter subscribed to, or with the long period of relatively rapid economic expansion, decay, and period of stagnation and instability before the beginning of a new cycle that David Gordon (1978) called the “social structures of accumulation”. Both the long waves and the social structures of accumulation are cyclical phenomena that end with an economic crisis, while phases may be longer and don’t necessarily end in a crisis. I am aware that reducing history to phases suffers from excessive generalisation and some arbitrariness that is resisted by historians, but I prefer to take the risk, hoping that our understanding of capitalist development can be improved with this simplification.

Fernand Braudel (1987b: 62) was not afraid of periodisation, and he divided the history of capitalism in Europe – with his respective selections in 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 at 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 two nation-states at their core, the UK and the US.

Following a similar perspective, Giovanni Arrighi, in *The Long 20th Century*, (1994: 6), used the hegemonic country as the criterion and saw four "*systemic* cycles of capital accumulation”:

- the “Genovese” cycle, from the fifteenth to the beginning of the sixteenth century.
- the Dutch cycle, from the end of the sixteenth century to the middle of the eighteenth century.
- the English cycle, from the last half of the eighteenth century to the beginning of the twentieth century.
- the American cycle, during the twentieth century.

He called the first cycle “Genovese” because in the sixteenth century the Genovese were financing Spain, the dominant country at the time. He speaks of "systemic" cycles because they always end with a period in which finance is dominant. Following Marx and Braudel, Arrighi remarks that periods of material expansion are followed by periods of financial expansion. I am not comfortable with the division of history into cycles, because history does not repeat itself, and I have difficulty in understanding the idea of an eternal return. I prefer to think in terms of stages or phases rather than in terms of cycles. It is true that Arrighi's cycles do not imply repetition. Each one, in its own way, recovers and re-signifies elements from previous cycles and then combines them with new elements. In this sense, cycles are progressive.[ii] Arrighi, following Braudel, identifies as a cyclical regularity the tendency towards financialisation at the end of each cycle. This is an interesting observation, because we saw this regularity repeated at the end of the last phase – the neoliberal phase.

Periodisation involves the adoption of a classification criterion. Elsewhere I have studied the phases of capitalism according to the types of technical progress (capital-using, neutral, and capital-saving) and their effects on the distribution of wages and profits.[iii] 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. These are shown in Table 4.1, in which, besides the name of the dominant faction (merchants, entrepreneurs, managers, and rentier–financiers), we have for each phase its developmental or liberal character, and the average growth in income per capita.

Dates	**Phase**	**Form of coordination**	**Growth rate** (yearly %)
1600 – 1839	Mercantilist	Developmental	0.21%
1840 – 1929	Industrial (entrepreneur's)	Liberal	1.32%
1930 – 1939	(Crisis)	-	0.63%
1940 – 1970	Managerial-developmental	Developmental	2.68%
1971 – 1979	(Crisis)	-	2.00%
1980 – 2020	Neoliberal (rentier-financiers')	Liberal	1.80%

Source: Maddison Historical Statistics.

Table 4.1: Phases and forms of capitalist development and growth rates

I could have included a phase before mercantilism – the time of the bourgeois city-states in the North of Italy: Venice, Florence, and Genoa – but at that time, we didn't have capitalism stricto sensu: private ownership of the means of production, wage labour, and capital accumulation. Yet in Braudelian terms, it was a place for the realisation of extraordinary profits based on the appropriation of economic and political power. There was no wage labour yet, no systematic increase in productivity, no nation-states with large domestic markets, and no industrialisation: 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, as well as from the Pope. This time was a precursor to a phase rather 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 for the process of production. It 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 which 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.

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. On the contrary, it was a developmental phase in which our three original countries – Britain, France, and Belgium – realised their capitalist revolutions, and became rich, powerful, and capable of building colonial empires. The mercantilists founded economics, and there were among them some outstanding economists. I consider Alexander Hamilton to be a patron of developmentalism, because in 1792, as Secretary of the Treasury to George Washington, he developed the concept of the infant industry, thus legitimising import tariffs. In latecomer Germany, which also made its industrial revolution within the framework of developmentalism, this developmentalism was not mercantilist but Bismarckian, receiving its name from the statesman who united Germany and promoted its industrialisation. In Germany, Friedrich List, who learned with Hamilton, is a second patron of classical and new developmentalism.

Capitalism was born developmental in the mercantilist phase. The industrial revolutions in the first countries to industrialise took place within the framework of mercantilism. Liberal economists, under the influence 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 were a thriving economic arrangement which led the first countries to start their industrial revolutions. Mercantilism was the first historical form of developmentalism – an economic system in which the state acted according to the subsidiarity criterion of intervening when markets were unable to perform their job. As to the political regime, this was the time of the absolute state. Capitalism turned liberal only after the 1840s when the UK eventually opened up its economy. The state was never entirely liberal, because it was often called to intervene domestically, and it had a central role in the violent creation of empires. The state aimed to reserve these markets for their capital, sophisticated manufactured goods as well as for the supply of oil and raw materials.

The seventeenth and the eighteenth centuries were the era of the absolute state, the primitive 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 and 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 manufacturing, they soon 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 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 great bourgeoisie with the monarch and his patrimonial court. Regarding the economic criteria, 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, the merchants and the 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, those territorial sovereign societies that would define capitalism. Long-distance trade remained the central economic system, but now, with the technological progress of navigation initiated by the Portuguese, the colonies in the Americas, and the colonial trade centres in Asia and Africa, long-distance trade turned into an "economy-world” in the words of Fernand Braudel, or the “world system” in Immanuel Wallerstein’s words. Mercantilism was the framework within which the first nation-states were formed, and in which large domestic markets were created; domestic markets that created the demand for simple manufactured goods and powered the industrial revolutions.

As Fernand Braudel affirmed, "mercantilism is an insistent push, egoistic, soon vehement of the modern state", and he continues, quoting Daniel Villey, "It was the mercantilists that invented the nation-state".[iv] 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 the first developmentalism. In 1776, Adam Smith published his *Wealth of Nations*, criticising the mercantilist system which was in its prime at that time. His book was a revolution in economics, but only in 1846 did England transform his theory, with David Ricardo’s complementary theories, into policy – a liberal policy.

The industrial (entrepreneurs’) phase

The liberal phase of the industrial entrepreneurs lasted from the industrial revolutions of the central countries to the trade liberalisation of Britain in 1834 until 1929. This was the capitalism that Marx had known and had analysed. It was a time of modest per capita growth rates, high instability, and high inequality. Growth was, however, sufficient to allow the first industrialising countries to acquire military power and to build colonial empires. The political regime assured the rule of law but not universal suffrage, and it thus remained authoritarian.

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

But the state did not become a fully liberal state, because it continued to intervene 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 that favoured greater intervention of the state in the economy. When, for instance, the great 1893 financial crisis happened in the US, 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 characterised by massive urban poverty and social dislocation, and this led the workers and the popular classes to organise unions and to establish socialist political parties asking for the universal suffrage and for socialism. They didn't achieve socialism, but they won the battle for democracy at the turn of the twentieth century, when advanced countries, in which civil rights were already secured, adopted universal suffrage.

Within the framework of liberalism, the original industrial countries experienced modest rates of growth (between 1 and 1.5 percent per capita per year), which, however, were sufficient to make them more powerful, which in turn, enabled them to build significant colonial empires in Asia and Africa. This was the time of the gold standard, the popular classes changing into proletarians, terrible work conditions, a lack of labour security, and increased inequality. Marx had said that the first crisis of capitalism happened in 1825; capitalism stricto sensu. Several crises followed: in 1873 liberal capitalism faced a major financial crisis which Carlos Marichal calls "the first world financial crisis", and only 20 years later, capitalism entered a new crisis, which centered on the US.[v]

In each crisis profit rates fell, companies asked for the protection of the state, the state intervened, and liberals accused policymakers of "neomercantilism".[vi] Meanwhile, the latecomer advanced countries, like the US, Germany, and Italy, made their industrial revolutions, adopting a definite developmental strategy – in the case of Germany, the Bismarckian state.

The capitalism of the industrial entrepreneurs 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 UK and France in the nineteenth century.[vii] The Industrial Revolution made these two countries sufficiently powerful in economic and military terms to reduce the population of Asia and Africa to the colonial condition – something that could not have been done in the mercantilist period, when the local empires were sufficiently strong to resist colonisation.

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 the Second World War, under the leadership of the US. Modern *soft power* imperialism is essentially characterised 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.[viii] In the nineteenth century, in Asia, such occupation was achieved through war. In the twentieth century, the Global North submitted ideologically the Asian, African and Latin American political and economic elites to their liberal "truth", although the Global North had not adopted the recommended policies when they themselves had experienced the corresponding phase of development. In 1902, John Hobson made an analysis and critique of imperialism arguing that the imperial expansion was driven by the end of investment opportunities in Europe and the search for new markets and investment opportunities overseas.[ix]

From 1930 to 1945, capitalism faced the Great Depression followed by the Second World War. In 1933, Franklin Delano Roosevelt launched the New Deal, and in 1936, Keynes published *The General Theory*. From the turn of the twentieth century, the managerial class started to rise.

The managerial-developmental phase

The Wall Street Crash of 1929 and the subsequent Great Depression made room for the managerial social-developmental phase of capitalism. This was a managerial phase in which the technobureaucrats associated themselves with the dominant entrepreneur capitalists. After the war, it was also a social-democratic phase defined by compromise between the new ruling class and labour, as well as by being a developmental phase. Its managerial character derived from the Organisational Revolution at the turn to the twentieth century, and its social-democratic character derived from the Democratic Revolution and the demands of the popular classes, also at the turn to the twentieth century.

This phase of capitalism, from the Organisational Revolution at the end of the nineteenth century, was defined as managerial because of the rise of private corporations; the increasing separation of control from ownership in these corporations; the substitution of entrepreneurs for managers in the management of such corporations, and the substitution of knowledge for capital as the strategic factor of production. These were all new historical facts. Moreover, this managerial phase of capitalism pushed the new middle class of private and public managers into becoming associates of the capitalist class.

The managerial phase was developmental because economic liberalism had failed; because the managerial class tends naturally to be developmental – prioritising economic planning and strategy, not only at the corporation's level, but also at the country level; because the state is continuously 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 a great moment for social democracy – it was the time of the Golden Age of Capitalism. In this phase, people who had achieved civil rights in the liberal phase, and political rights at the turn to the twentieth century – with universal suffrage – also achieved social rights: universal public education, universal health care, basic social security, and social assistance programs. It was a progressive social-democratic time because taxation became highly progressive, the welfare state became reality, and inequality fell, albeit modestly.

This was, therefore, the time of a *second* developmental capitalism, in which a broad developmental-class coalition was formed by business entrepreneurs, the new managerial 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, increasing tax burdens, the adoption of progressive taxation, and some reduction in inequality. This was the Golden Age 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, using the North European countries as reference.[x] This was the time when 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 Age faced a political crisis with the 1968 student revolution, which marked not the beginning but the *end* of an era. In the 1970s, there was a succession of critical events: the US 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 rates of profit; stagflation in the US, and the increasing competition from developing countries. Altogether, these problems defined the 1970s' crisis of the managerial social-developmental phase of capitalism.

While rentier capitalists were replacing the entrepreneurs in the ownership of the corporations, the neoclassical and neoliberal intellectuals, dissatisfied with the mainstream condition of Keynesian economics, profited from the opportunity offered by the 1970s' crises to build a new narrative: the neoliberal ideology. Such a new ideology was persuasive for dismantling the Fordist-class coalition and for achieving the Neoliberal Turn, while neoclassical economics returned to the mainstream.

The rentier–financier neoliberal phase

The rentier–financier neoliberal phase of capitalism was beginning and was legitimised by the neoclassical and the Austrian schools of economics and by the neoliberal ideology. In this book, I discuss at length this regressive phase and its narrow class coalition of rentier capitalists and financiers. On the domestic side, the project of the advanced capitalist countries was now to reduce real wages directly by changing labour contracts, and to reduce them indirectly by dismantling the welfare state. On the international side, the project was to transform globalisation into an imperial project – the US "globalisation project" – whose aim was for all countries to adopt the neoliberal reforms. In the short-term, the US was successful in reimposing its 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 – both an economic and a political regression – and it wasn't just due to chance 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. This populism didn't reflect a crisis of democracy – which proved alive and strong in the face of the populist attack – but it was a backlash against radical individualism and the widespread competition for everything that characterised neoliberalism. It didn't reflect the failure of democracy, as many feared, but it did reflect the failure of neoliberal capitalism in assuring the interests of the white lower-middle class. There was some growth in the advanced countries, but it was modest and unstable; the wages of the lower classes stagnated, and inequality increased sharply. The world figures showed a significant reduction in poverty, but this was due to the growth of the Asian countries, especially China.

Rentier–financier-neoliberal capitalism was the time when capitalism turned global and it financialised. It was also the time when East Asian countries, although they had opened up their trade because they didn't have the Dutch disease problem,[xi] didn't submit to the neoliberal project and continued to develop. The failure of neoliberalism caused the political polarisation of American society, which, in the 1960s, was cohesive, and as a result, China is now challenging the hegemony of the US.

The increasing role of the market

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 Age of Capitalism was a second developmentalism for the original central countries. State intervention in the economy just became more moderate because markets became more developed and property rights and contracts were more 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 by the 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 that involve creativity and innovation.[xii]

Therefore, it can be predicted that once a country's industrial revolution is complete, market-based coordination will gain ground over state-based coordination, and the state's economic role will also change. Now, the state's essential role in the economic domain is to create the general conditions for competent enterprises in the country to be able to compete and to be willing to invest. That means (a) 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 characterises unregulated markets; (b) planning and investing in infrastructure and in the basic-inputs industries; (c) firmly regulating the big banks that are "too big to fail"; (d) adopting a strategic industrial policy, and (e) fostering scientific and technological development. Moreover, in terms of human progress, reducing economic inequality, defending the environment, and controlling climate change are also essential roles of the state.

Thus, over time, when the industrial revolution is complete, the state retreats from competitive industries because the market is better equipped to coordinate competitive activities, but it remains present in the non-competitive ones, in conducting an active macroeconomic policy, and in improving the quality of everyone's life.

The main problem facing developmental and liberal states alike is the political and economic competence of their leaders. Successful developmental states have always relied on republican-minded nationalist politicians and pragmatic economists who know that their core job is to ensure economic stability and to develop policies that contribute to their country's industrialisation 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 large current-account deficits, or fiscal populism, whereby the state runs large public deficits. In either case, the result is increased consumption and increased 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 the developmental model. 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, when added to domestic savings, increase the country's investment rate. They do not know or care that in developing countries – where the marginal propensity to consume is high – there is a high rate of substitution of foreign savings for domestic savings. More broadly, and against all the evidence, they believe that the market correctly sets the foreign exchange rate, and the government should not intervene in it. In developmental states, on the other hand, even if there was until recently no theory legitimising exchange-rate policy, pragmatic exchange-rate management policies are commonly adopted because developmental economists know that strategies based on industrialisation depend on the foreign exchange rate.[xiii]

In conclusion, economic development is a historical process of productivity and wage increases that arises from using increasingly skilled or sophisticated labour in activities that generate greater added value per capita. Economic development results from a class coalition that brings politicians and public bureaucrats into partnership with the businesspeople responsible for investment, innovation, and the workers. 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 the other, equally fundamental institution: the market. The scope of the state is far greater than that of the market. The state 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 the protection of the environment – objectives that must constantly be the subject of compromises or the principle of reasonability in the light of perceived or actual short-run conflicts with each other.

Economic development is necessarily the outcome of a national development strategy which arises 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 this social contract that binds them together is not sufficiently sound, and if the social classes that form that social contract do not maintain basic ties of solidarity when competing internationally, then those nations will not stand as true nations. The country will be far more vulnerable to hegemonic Western thinking, and economic nationalism will lose strength, as happened in the Latin American countries 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 occurred within the framework of developmental states, after a group of nationalist politicians has successfully formed a nation-state and industrialised it. This phase is always dominated by the state. The state manages to create or regulate the more efficient markets to coordinate activities in the competitive sector of the economy, which are now more diverse, and which involve more creativity and innovation. But the state needs to remain developmental – and usually does – because it is responsible for coordinating the non-competitive sector of infrastructure and basic industry; for implementing an active macroeconomic policy (including an exchange-rate policy); for reducing economic inequality, and for protecting the environment. This is a set of roles that the market cannot accomplish.

[i] Conservatism should not be identified with neoliberalism.

[ii] I owe this observation to Alexandre Abdal.

[iii] Bresser-Pereira (1986; 2018). *Lucro, Acumulação e Crise* and "Growth and distribution: a revised classical model". In this book I show distinguish the types of technical progress: when it is capital-using, the productivity of capital or the output-capital ratio falls; when it is capital-saving, the productivity of capital increases; when it is neutral, the causes making the productivity of capital increase or fall compensate one another, and the capital-output ratio is constant. Most models of economic development assume a neutral technical progress.

[iv] Braudel (1979: 484) *Les Jeux de l'Exchange*.

[v] Marichal (2010: Chapter 1) *Nueva Historia de las Grandes Crisis Financieras: Una Perspectiva Global, 1873-2008*.

[vi] Maurice Dobb (1963: Chapter 7 section 3) *Studies in the Development of Capitalism*.

[vii] 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 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.

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

[ix] Hobson (1902) *Imperialism: A Study*.

[x] Schmitter (1974) "Still a century of corporatism?".

[xi] Thus, they didn't need import tariffs to neutralise the Dutch disease.

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

[xiii] This theory constitutes the new developmentalism and its developmental macroeconomics. See Bresser-Pereira, Oreiro and Marconi (2016) *Developmental Macroeconomics*.