Two forms and four phases

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After the Capitalist Revolution, world history ceased to be a narrative about the splendour and decay of ancient empires or civilizations and became a *social construction* – a social project aimed at economic and human development. Auguste Conte, like Marx and Engels in *Communist Manifesto*, understood this well and proposed phases of capitalist development. Today, capitalism already has a long history, the understanding of which is improved if we divide it into phases that vary according to the criteria adopted. These phases should not be confused with the well-known Kondratieff long waves that Schumpeter subscribed to, or with David Gordon's (1978) "social structures of accumulation" – the long period of relatively rapid economic expansion followed a period of stagnation and instability until the beginning of a new cycle.[i] Both long waves and social structures of accumulation are cyclical phenomena that end in economic crisis, while the phases of capitalist development can be longer and not necessarily end in crisis. I am aware that the reduction of history into phases suffers from overgeneralization and from a certain arbitrariness that meets with resistance from historians, but I prefer to take a chance, hoping that our understanding of capitalist development will improve with this simplification.

In the 20th century, we had two transitions: after the Great Depression of the 1930s and the war, the transition from liberal to developmental capitalism, and after the crisis of the 1970s, around 1980, the Neoliberal Turn, the transition from developmental to neoliberal capitalism. This second transition, the Neoliberal Turn, was, as Adam Przeworski argued in 2001, a change of "political regime." That same year, I added that there was a shift of the political centre from the left to the right, while, after the first transition, conservative political parties adopted policies such as social democratic policies to install the welfare state. In the second transition, by contrast, the social democratic parties adopted economic policies not unlike neoliberal reforms.[ii] In the 1990s, Anthony Giddens proposed the Third Way, a compromise between economic liberalism and social democracy that was an indication of the crisis of social-democracy.[iii]

Two forms of economic coordination of capitalism

By economic *coordination* of capitalism, I mean more than just the allocation of resources through the price system. It involves all state laws and policies, and even non-state institutions, which also regulate capitalist economies. Faced with this concept, I asked myself what an alternative expression to economic liberalism (or the liberal form of economic coordination) is and realized that such an expression does not exist in the languages with which I am familiar. Socialism is not that alternative; socialism is an alternative form of social organization of capitalism. Such a non-existence would only make sense if capitalism were always liberal, but on the contrary, countries have developed successfully with moderate state intervention in the economy and with governments adopting a national perspective.

Since I needed an expression, I chose to use "developmentalism" – a word that began to be used in the 1960s to mean a political regime in which the state intervenes moderately in the economy and adopts a national and anti-imperialist perspective. I could have used the expression "mixed economy", but this suggests an intermediate position between capitalism and socialism, which is not the case. Thus, in everything I have been writing for some time now, developmentalism is a form of economic coordination of capitalism as an alternative to economic liberalism. It is not a silver bullet, but it makes capitalism more efficient, more stable, less unequal and greener than economic liberalism, as long as it is combined with social democracy and a firm environmental policy.

By choosing this word, I made a *semantic amplification.*[iv] The word developmentalism was already used in Brazil in the 1960s. Pedro Cezar Dutra Fonseca showed that Hélio Jaguaribe and Bresser-Pereira used this word in 1962 and 1963, respectively.[v] In 1982, Chalmers Johnson used the adjective to qualify the state and called the Japanese state the "developmental state."[vi] Although met with hostility by liberal economists and political scientists, the word has taken on an international dimension.

The word developmentalism is also used to define a school of economic thought: first, since the 1940s, Classical Structuralist Developmentalism, and since the early 2000s, New Developmentalism. Using this expanded concept of developmentalism, I discussed capitalist development and found that each nation-state goes through its own phases of capitalist development, and we can identify whether each phase is predominantly developmental or liberal.

In addition to coordinating capitalist economies, developmentalism and economic liberalism are also ideologies, with each ideological camp asserting the superiority of its form of economic coordination.

The assumption behind developmentalism is that the infrastructure industry, the basic input industries, and the big banks, which are "too big to fail" are monopolistic industries in which markets do not guarantee an equilibrium. The same applies to the fiscal account, the external current account, and the five macroeconomic prices that the market cannot keep right or correct: it does not maintain, in association with central banks, the relatively low level of the interest rate when there is no excess demand; nor does it keep the exchange rate competitive, that is, it makes companies and industrial projects that use the best technology competitive; It does not ensure that the rate of wages rises with the productivity of labour, it does not keep the rate of inflation always low, nor does it keep the rate of profit satisfactory, sufficient to motivate firms to invest.[vii]

Arrighi's systemic cycles of capital accumulation

Giovanni Arrighi, in the introduction to his remarkable 1994 book*, The Long 20th Century,* summarized his views on what he termed the "systemic cycle of capital accumulation" and explained the Capitalist Revolution, though he does not use that term but speaks of an enormous concentration of power that took place in Europe from the development of the city-states of northern Italy until the 19th century, which corresponds to the Capitalist Revolution understood in an expanded form.

Arrighi's main reference is Fernand Braudel – author of two essential books, *The Mediterranean and the Mediterranean World* (1966) and *Material Civilization and Capitalism* (1979). He begins by paying tribute to Braudel – perhaps the greatest analyst of capitalism after Marx – and his distinction of successively long periods of "specialization" and "flexibility." It is a theory of "secular price cycles" that invariably have as their last phase the process of financialization. For Braudel, "financial expansion" was a systemic trend that occurred as the secular cycle reached maturity.[viii] Arrighi compares this process to Marx's DMD' model: money, commodity, more money. He proposed that the DM corresponds to specialization and the DM' to the flexible or eclectic character of capitalism. Marx only accepts the loss of flexibility, represented by fixed investment, insofar as at some point in the future it would guarantee more flexibility. Capitalists prefer liquidity, and an extraordinarily large portion of their cash flow tends to remain in liquid form. In fact, money and commodities are forms of value.

For Arrighi, the four *systemic cycles* of capital accumulation were:

- ***the Genoese cycle:*** from the 15th century to the beginning of the 16th century.

- ***the Dutch cycle:*** from the end of the 16th century to the middle of the 18th century.
- ***the English cycle:*** from the last half of the 18th century to the beginning of the 20th century.
- ***The American cycle:*** in the 20th century.[ix]

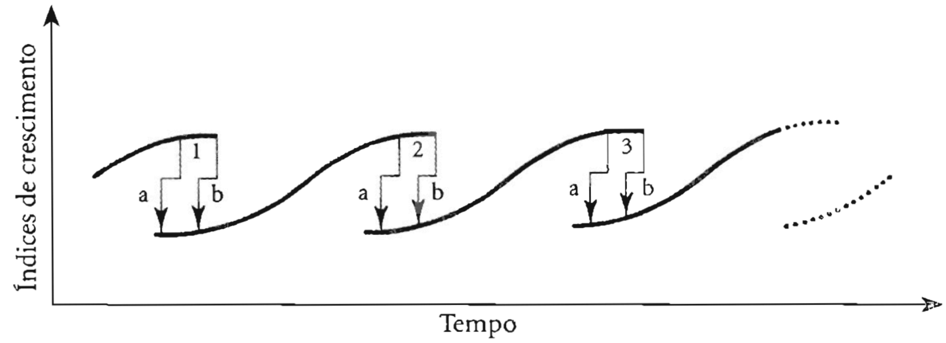
In the first cycle, Spain is the dominant country, although its business and the rise of finance happened in Genoa. Instead of Venice, Florence, which gave birth to capitalism, Genoa, with its flexible capitalist system, was the city-state that led the development of financial capitalism in two waves: one in the 15th century and the other, stronger, in the 16th century. As Arrighi notes, "Milanese, Venetian, and Florentine capitalism were all developing in the direction of state-making rigid strategies and structures of accumulation." Genoese capitalism, by contrast, "moved in the direction of ever more flexible structures of capital accumulation and market creation."[x]

The last cycle, which Arrighi observed from the inside, is no exception.

> The U.S. and U.K. governments' that tried to maintain the post-war economic boom through unusually loose monetary policy had some success in the late 1960s, but it backfired in the early 1970s. Rigidity has increased further, real growth has ceased, and inflation has spiralled out of control.[xi]

It was an expression of the search for a financial solution to a crisis that had been unleashed at the time. In previous systemic cycles, the same behaviour was detected. In fifteenth-century Italy, the Genoese capitalist oligarchy moved from goods to banking, and in the second half of the 16th century they gradually withdrew from trade. In the Netherlands in the mid-18th century, the Dutch withdrew from trade to become the "bankers of Europe." In England, at the end of the 19th century and the beginning of the 20th century, when the "fantastic adventure" of the Industrial Revolution ended, there arose an excess of money capital that had to be invested abroad.

Instead of using the connection of Braudel's "secular price cycles" with capitalist accumulation – for which Arrighi finds no consensus in the historical literature, and which "has no logical and historical foundation", Arrighi[xii] uses Gerhard Mensch's model. This model is composed of phases of continuous change that follow a single path, alternating with phases of discontinuous change to expose its four cycles of capital accumulation.[xiii]



Source: G. Arrighi (1994).

Figure 3.1: Gerhard Mensch's model of systemic cycles

Arrighi credits Fernand Braudel with the correct understanding of the relationship between capitalism and state power:

> The conventional view is that capitalism and market economy are more or less the same thing, and that state power is antithetical to both. Braudel, in contrast, sees capitalism as being absolutely dependent for its emergence and expansion on state power and as constituting the antithesis of the market economy.[xiv]

This corresponds to my understanding that the formation of the nation-state is at the heart of the Capitalist Revolution. From this thought, Arrighi arrives at his explanation of why the Capitalist Revolution took place in Europe: "it was not the transition from feudalism to capitalism but from a scattered capitalism (which long ago existed everywhere as merchants) to a concentrated power – the singular *fusion of the state with capital*."[xv] Or, in Braudel's words, "capitalism only *triumphs when* it identifies itself with the state, when it is the state."[xvi]

Max Weber, who also influenced Arrighi, somehow predicted this analysis with his concept of "political capitalism." In contrast to antiquity, "the various countries engaged in the struggle for power needed even more capital for political reasons and because of the expanding economy. This resulted in that memorable alliance between rising states and the sought-after and privileged capitalist forces"[xvii] The mercantilist coalition of classes associated the big merchants and financiers with the monarch and his patrimonialist court of nobles and bureaucrats, from which the absolute state and the nation-state originated.

Phases of capitalist development

Capitalism was born with the Capitalist Revolution between the seventeenth and 19th centuries, when – within the framework of mercantilism – peoples under absolute monarchies in Britain, France, Belgium and the Netherlands transformed themselves into nations, built the first nation-states and experienced industrial revolutions. From this great historical change derived the concepts of nation and civil society, state and nation-state, economic development and human progress, as well as the main ideologies of nationalism (when economic nationalism equates to developmentalism), liberalism, socialism and environmentalism.

In the context of capitalism, two revolutions changed capitalism: the Organizational Revolution and the Democratic Revolution. By Organizational Revolution, I mean the moment when the basic unit of production ceased to be the family or the family business and became private bureaucratic corporations. The Organizational Revolution corresponded to the so-called second Industrial Revolution. By Democratic Revolution, I mean the transition of the advanced countries en bloc to democracy by adopting universal suffrage. At the beginning of the 20th century, many believed that liberal democracy was a definitive change, but the World War I and the great economic crisis of the 1930s showed that this was an illusion, but it confirmed Karl Polanyi's 1944 claim that economic liberalism was only a moment in human history – and not a shining moment.[xviii] In Chapters 6 and 7, I will discuss these two revolutions at greater length.

We have seen that Arrighi distinguished four long systemic cycles of capital accumulation, which change when the hegemonic country changes: Spain, the Netherlands, England, and the United States. In making my own analysis of the phases of capitalism, I do not use a geopolitical perspective, but I use as a criterion the successive ruling class coalitions and the different forms of economic coordination, whether developmental or liberal. Arrighi argues that "interstate competition was a crucial component" of capitalist expansion, and that "the major material expansions only occurred when a new dominant bloc accumulated enough world power to stay in a position not just to circumvent interstate competition."[xix] This is a good argument, but it is a geopolitical argument, and this book is not a geopolitical analysis, but an essay in political economy.

Dates	Phases	Coalitions
1600-1839	Mercantilism	Monarch and merchants
1840s-1929	Liberal-Industrial	Businessmen and aristocrats
1929-1939	Crisis	
1940s-1980s	Capitalist-Managerial	Entrepreneurs and managers
1980-2008	Neoliberal-Rentier	Rentiers and financiers

2008-2020	Crisis	
2021 -	Managerial-Capitalist	Managers and capitalists

Source: The author.

Table 3.1: Phases of capitalist development (rich countries)[xx]

In discussing capitalism historically, I use Britain, France, and Belgium as a reference. These nation-states have gone through all phases of capitalist development and have had a significant influence on the rest of the world. From the third phase (the 1930s onwards), I added the US, which, after the World War I, became hegemonic, replacing Britain in that role.

Mercantilist phase.

The mercantilist phase (from the 17th century to the end of the 18th century) was not the failure portrayed by liberal economists since Adam Smith. It was a developmental phase in which our three original countries formed their nation-states and industrialized, thus completing their respective capitalist revolutions, becoming rich and powerful and capable of building colonial empires.

Therefore, capitalism was born developmental. The industrial revolutions in these first countries to industrialize took place within the framework of mercantilism. Liberal economists, under the influence of Adam Smith, condemned mercantilism, even though mercantilists were the founders of economics. Their theory deserved criticism, but the policies they sponsored made up a prosperous economic arrangement that led the first countries to make their industrial revolutions. Mercantilism was the first historical form of developmentalism. The political regime was that of absolutism. The seventeenth and 18th centuries were the time of the absolute state, the primitive accumulation of capital, the formation of the first nation-states, and finally the time of the Industrial Revolution in England. It was the moment in which Immanuel Wallerstein's "world-system" was formed.[xxi] Mercantilism was the epoch of the *first* developmental capitalism, insofar as it was based on a coalition of developmentalist classes formed by the monarch, the aristocrats around him, and the emerging big commercial bourgeoisie.[xxii]

For Amiya Kumar Bagchi, "the first developmental state to emerge since the 16th century was that of the northern part of the Spanish Netherlands, which, after the reconquest of the southern part by Spain, evolved into the Netherlands of today."[xxiii] The mercantile bourgeoisie originally derived its wealth from the long-distance trade in luxury goods, but with the rise of manufacturing, it soon became interested in the formation of a large and secure domestic market, which would enable the mass production of the cheap industrial goods that defined the

Industrial Revolution. With this medium-term goal in mind, while she reaped the short-term gains from the mercantilist monopolies granted by the monarch, she financed the wars initiated by the monarch that defined the territorial space of the first nation-states and paved the way for industrial revolutions in each country.

In mercantilism, the ruling class coalition associated the big bourgeoisie with the monarch and his patrimonial court. On the economic side, mercantilism was *the first* developmentalism, as the state actively intervened 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 big financiers founded capitalism, while, within capitalism, the mercantilist economists founded economics and political economy.

This was a period of active state intervention and the formation of the first sovereign territorial societies that would define capitalism. Long-distance trade remained the central economic system, but now, with the technical progress of navigation initiated by the Portuguese, and with colonies in the Americas and colonial enclaves in Asia and Africa, long-distance trade has morphed into a world system. Mercantilism was the framework within which the first nation-states were formed, and large domestic markets were created—domestic markets that gave rise to demand for simple manufactured goods and made industrial revolutions possible. As Fernand Braudel put it, "mercantilism is an insistent egoistic impulse." And he adds, quoting Daniel Villey: "it was the mercantilists who invented the nation-state."[xxiv] In fact, the mercantilist system involved (a) a kind of national development project led by the absolute monarchs, responsible for the wars aimed at expanding the borders of the state, (b) a coalition of classes associating the monarch and his court with the big merchants, and (c) the intervention of the state in the economy. These three characteristics defined mercantilism as the first developmentalism.

In 1776, Adam Smith published The *Wealth of Nations*: A Firm Critique of the Mercantilist System. His book was a revolution in economics. For mercantilists, it was trade that created wealth and allowed countries to accumulate gold, which they saw as the materialization of wealth. Smith's revolution lies in realizing that wealth is value created through the process of production by labor, by the process of transforming nature into a useful object; Wealth does not originate from trade, it can be stimulated by trade. Moreover, Smith was the first to understand that capitalism had transformed production—the creation of wealth—into a collective, social rather than an individual activity. Smith better understood how markets coordinate a national economy. What he seems not to have understood well is the historical role of the state in the process of economic development and in the distribution or concentration of wealth. Smith criticized the mercantilists more than he should have. Smith's theoretical revolution took a long time to materialize in practice, for it was only in 1846, 70 years after his death, that Britain opened its economy, becoming a liberal country, and remained so for the next 84 years: until 1930.

2. Liberal-Industrial Phase

From Britain's trade liberalization in 1834 to 1929 we had the industrial liberal phase. This was the capitalism that Marx knew and analysed. It was a time of modest per capita growth rates, high instability, and high inequality. The growth was, however, enough to allow the first countries to industrialize, acquire military power, and build colonial empires. The liberal political regime ensured the rule of law, but not universal suffrage, and thus remained authoritarian. Schumpeterian entrepreneurs who were able to innovate and invest led this phase. The ruling class coalition was made up of industrial businessmen and the decadent aristocracy.

This was a liberal phase both in economic terms because the state had no direct role in production, and political because the new ruling class guaranteed civil liberties and the rule of law, but not political and social rights. However, the state was not fully liberal, because it continued to be involved in the economy in many ways. As Pierre Rosanvallon observes, at the end of the 19th century, the fragility of the liberal state provoked a revival of ideas that favoured greater state intervention in the economy.[xxv] When, for example, the great financial crisis of 1893 broke out, the state was called in to help. But state intervention was limited, and it is reasonable to say that economic liberalism was dominant. This phase was characterized by enormous urban poverty and great social displacement to the cities, which led the workers and popular classes to organize trade unions and socialist political parties to call for universal suffrage and socialism. They did not achieve socialism, but they won the battle for democracy. At the turn of the 20th century, the advanced countries, in which civil liberties had already been secured, adopted universal suffrage.

After the original industrial revolutions, the original industrial countries experienced low growth rates of about 1% per capita per year. This was, however, enough to make them more powerful and allow them to build a significant colonial empire in Asia and Africa. It was the time of the gold standard; the proletarianization of the popular classes; poor working conditions; precariousness of work and increasing inequality. Marx had said that the first crisis of capitalism (*sensu stricto*) happened in 1825. Several crises followed. In 1873, liberal capitalism faced a major financial crisis, which Carlos Marichal calls "the first world financial crisis." 20 years later, capitalism entered a new crisis, which had the US as its pivot. In each crisis, the [xxvi] rate of profit fell, corporations called on the state for protection, the state intervened, and the liberals who had facilitated the crisis accused the policymakers of the moment of "neo-mercantilism."[xxvii] Meanwhile, in the laggard advanced countries, such as the U.S., and Germany and Italy, economic liberalism has been pushed into the background. They made their industrial revolution by adopting a developmentalist strategy and it was in this framework that they experienced their period of great development. Liberal capitalism did not prevail in these countries.

Liberal-industrial capitalism was also the time of colonialism and modern imperialism. Modern imperialism arose during the era of liberal capitalism – an imperialism of industrial capitalist countries led by the United Kingdom and France in the 19th century.[xxviii] The Industrial Revolution made these two countries powerful enough in economic and military terms to reduce the peoples of Asia and Africa to colonial status – something that could not be done in the mercantilist period, when the empires on these two continents were as strong as the mercantilist states and resisted colonization.

By the beginning of the 19th century, Latin American countries had already gained independence from Spain and Portugal, and the imperialism of Britain and later the United States was defined in terms of *ideological hegemony* and economic pressure. This imperialism, which today extends to the rest of the world, is characterized by *the occupation* of local markets by unequal trade, finance, and multinational corporations.[xxix] In 19th century Asia, such occupation necessitated war. In the 20th century, the West subjected the Asian, African, and Latin American political and economic elites to its liberal "truth," even though they did not adopt the recommended policies when they themselves experienced the corresponding phase of development.

3. Capitalist-Managerial Phase.

It was still in the liberal phase, at the turn of the 20th century, that managerial capitalism was born within the framework of the Organizational Revolution. Thus, beginning in 1933, when capitalism faced the Great Depression followed by war, Franklin D. Roosevelt launched the New Deal, Keynes published *The General Theory,* and the managerial class had a solid foundation on which to stand. The crash of 1929 paved the way for the capitalist-managerial phase of capitalism. This was a phase in which techno-bureaucrats associated themselves with the dominant entrepreneurial capitalists; a social-democratic phase, defined by a compromise between the new ruling class and labor, and a developmentalist phase in which the state intervened moderately in the economy.

I call this phase managerial capitalism because of the emergence of private corporations, the growing separation between control and ownership of these corporations, the replacement of managers by entrepreneurs in their management, and, later, the replacement of capital by knowledge as a strategic factor of production. These changes pushed the new middle class of private and public managers into the role of associates of the capitalist class. This phase was considered developmentalist because economic liberalism had failed and because the managerial class tends to be naturally developmentalist and prioritizes economic planning and strategy, not only at the corporate level but also at the country level, because the state is permanently being called upon to intervene in the economy, and because growth is relatively rapid and low financial instability.

This was the great moment of social democracy; it was the time of the Golden Age of Capitalism. In this phase, people who had won civil liberties during the liberal phase and democracy at the turn of the 20th century, also achieved social rights: universal public education; universalization of health care; basic welfare and social assistance programs. It was a progressive social-democratic era, because taxation became highly progressive, the welfare state became a reality, and inequality fell, albeit modestly.

This was the time of a *second developmentalism* in which a broad coalition of the developmentalist class was formed by businessmen, the new techno-bureaucratic class and the working class. It was a social pact that the French regulatory school called "Fordism." It was also a time of indicative planning; the rise of state-owned enterprises; increase in the tax burden; the adoption of progressive taxation and some reduction of inequality. This was the Golden Age of Capitalism, which Andrew Shonfield (1969), Jean Fourastié (1979), Michel Aglietta (1976) and Stephen Marglin (1990) originally studied.

We can also say that these were the years of *corporatist capitalism*, whose classic analysis was made by Philippe Schmitter in 1974 with reference to the countries of northern Europe.[xxx]This was the time when the political centre moved to the left, and the common political goal was to create a progressive and organized capitalism, regardless of the political party in power. In Germany, the conservative Christian Democratic Party has proposed a "social market economy" that is essentially developmental, corporatist and democratic.

The Golden Age entered a political crisis with the student revolution of 1968, which marked not the beginning but the *end* of an era and collapsed in the late 1970s. The crisis of that decade – the defeat of the US in the Vietnam war; the abandonment of the Bretton Woods agreement; the end of the last vestiges of the gold standard; the OPEC oil shock of 1973; the fall in the rate of profit; stagflation in the U.S. and increasing competition originating in developing countries sealed the end of the capitalist-managerial phase.

4. Neoliberal-rentier phase.

As the replacement of the rentier capitalist by corporate-owned entrepreneurs progressed, neoclassical and neoliberal intellectuals, dissatisfied with the dominant condition of Keynesian economics, seized the opportunity offered by the crisis of the 1970s to construct a new narrative: neoliberal ideology. This was persuasive to dismantle the Fordist class coalition and initiate the Neoliberal Turn.

From about 1980 onwards, a rentier-financier class coalition becomes dominant, capitalism becomes neoliberal, and neoliberal ideology – founded on the neoclassical and Austrian schools of economics – legitimizes the new truth. In this book, I discuss at length this regressive phase and its close 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 labor contracts, and indirectly by dismantling the welfare state. On the international side, the project was to transform globalisation into an imperial project – the "globalisation project" – with the aim of getting all countries to adopt neoliberal reforms.

Under the rentier-finance class coalition, the managers remained part of the ruling class coalition, but they were an internally conflicted part, because the shareholders were challenging the power and autonomy of the top executives.

Neoliberal rentier-financier capitalism represented a major regression – an economic and political regression – and it was no coincidence that it was a short-lived phase. The regression ended with the global financial crisis of 2008, which was followed by a political crisis in 2016, and expressed itself in the rise of right-wing populism. This populism, which did not reflect a crisis of democracy – which proved to be alive and strong in the face of the populist onslaught – was a reaction against exacerbated individualism and the generalized competition between everything that defined neoliberalism. It did not reflect the failure of democracy, as many feared, but it did reflect the failure of neoliberal capitalism to secure the interests of the white lower middle class. There was some growth in the advanced countries, but it was modest and unstable; Wages for the lower classes have stagnated, while inequality has risen sharply. World figures showed a significant reduction in poverty, but this was due to the growth of Asian countries, especially China.

Neoliberal rentier-financier capitalism was the moment when capitalism became global and, according to Braudel-Arrighi's claim, once again financialized. At the same time, the countries of East Asia, which did not submit to the globalisation project, developed and became richer. The failure of neoliberalism and the associated exaggerated individualism caused a split in American society, which, in the 1960s, was developmental and cohesive. China, which moved from statism to capitalist developmentalism around 1978, is now challenging US hegemony in the context of a new world change: globalisation.

I will leave for the end of this book the analysis of the capitalist-managerial phase and its respective coalition of ruling classes formed by managers and capitalists. I only note the reversal of order from the third phase, capitalist-managerial, to the fifth phase, managerial-capitalist. It reveals a significant change.

For Marx, capitalism had three basic features: private ownership of the means of production, the institution of a free labour market, and the accumulation of capital or the expansion of capital. Nancy Fraser and Rahel Jaeggi, in the notable book *Capitalism: A Conversation in Critical Theory*, discuss this concept. Nancy Fraser understands capitalism as ‘‘an institutionalized social order’’ and argues that ‘‘what we are faced with today are *boundary struggles*’’.[xxxi] Fraser says that "capitalism is orthodox Marxism", but "we can *de-orthodoxize* it".[xxxii] Jaeggi offers an example: capitalism depends on the existence of free labour markets. "Capitalist societies, as we know them, have tended to abolish unfree labour of the sort found in feudal societies. They institutionalise free labour on the assumption that the workers are free and equal", and Jaeggi goes back to Marx: "The workers are free to work but also 'free to starve' if they do not enter the labour contract".[xxxiii]

I propose to call the transition from feudalism to capitalism the "Capitalist Revolution" – a profound transformation that began around the 14th century which, for the first rich countries, ended in the 19th century. Its core, however, occurred between the 17th century, when the first nation-states were born, and the end of the19th century.

Two revolutions marked the history of mankind: the Agricultural Revolution and the Capitalist Revolution. The first transition, around 12,000 years ago, transformed nomadic societies into sedentary societies Seven thousand years later, it allowed for the realisation of a permanent economic surplus and the formation of the first ancient empires in Mesopotamia and Egypt. The Capitalist Revolution represented a tectonic shift in the history of civilisation. It began in the 14th century with the rise of the first city-states and the emergence of the commercial and financial bourgeoisie in Venice, Florence, and Genoa. It advanced with the great sea navigations, the establishment of the mercantile colonial system, and the rise of the absolute monarchies of the *ancien régime.*

From the mid-17th century to the end of the 19th century, when the last industrial revolutions happened in the countries that since early 20th century are rich countries.

The Capitalistic Revolution gave rise to the formation of the first national markets in which not only goods and services but also labour, transformed into a commodity. It formed a society in which a ruling class – the bourgeoisie – commanded capital accumulation and innovation, and in this way realised profits. It also created a monetary economy in which money, besides facilitating transactions in the market, was a fully liquid asset. Following Marx, Ellen Meiksins Wood defined capitalism:

> Capitalism is a system in which goods and services, down to the most basic necessities of life, are purchased for profitable exchange, where even human labour-power is a commodity for sale in the market, and where all economic actors are dependent on the market.[xxxiv]

At the political level, capitalism involved the transition from the absolute to the liberal state – a state that assures the rule of law and the market (the property rights and contracts), not democracy. At the administrative level, the liberal state implied the separation of the public from the private patrimony, or, in other words, the transition from the patrimonial state – where rent-seeking was part of the game – to the modern bureaucratic state, where rent-seeking turned into a disease. At the cultural level, capitalism involved the transition from tradition and revelation to reason and science.[xxxv]

Capitalism changed the form of appropriation of the economic surplus. While in pre-capitalist societies an oligarchy utilised force and direct control of the state to appropriate the economic surplus, in capitalism, a large bourgeois class appropriates the surplus in the market by the exchange of equivalent values. It turns profit into an economic motive, and capital accumulation, embodying technical progress, into the means of achieving profits and economic development. Contrary to the previous modes of production, capitalism is necessarily oriented to economic development, because capital accumulation and innovation are not a choice but a condition of survival of the companies in market economies in which technical progress is continuous.

To create the conditions for capital accumulation and innovation – which are at the core of economic development – peoples have historically organised as nations. And with these nations they have built states, controlled territories, and formed nation-states endowed of large domestic markets, which are required for achieving an Industrial Revolution. With their capitalist revolution, the new nations were able to develop three basic institutions: the modern state, a national market, and a national currency.[xxxvi] Moreover, the process of capital accumulation with the embodiment of technical progress and improvement of the standards of living created a reality and a necessary condition for the survival of business enterprises in a competitive environment.

Before capitalism, emperors and monarchs invested economic surplus in military power, in building temples and palaces, and in luxury consumption. When, in the framework of the Capitalist Revolution, with the commercial revolution and mercantilism in the 16th and 17th centuries, the idea of profit and the practice of its reinvestment became generalised; in the 18th and 19th centuries, with the industrial revolutions and the acceleration of technical progress, reinvestment ceased to be an alternative and became a necessity – a condition for business enterprises to maintain their competitiveness.

The formation of the nation-states

The formation of nation-states was the central component of the Capitalist Revolution in Europe and the pre-condition for the Industrial Revolution in each country. Nation-states were the central component, because, as Braudel remarked, there had been many forms of capitalism in the world – in the sense of many merchant economies – but real capitalism only changed in the world when it became *political* with the formation of the first nation-state in England. This was a pre-condition for the Industrial Revolution, because industrialisation required large domestic markets for the cheap manufactured goods that the manufacturing industry produced.

The wars that the absolute monarchs of England and France waged were the way in which they expanded and unified their territories. In these countries, as well as in Belgium, nationalist intellectuals and politicians played a secondary role. However, they played a key role in building nations and states in central Europe, where the formation of the nation-state required independence from the Austro-Hungarian Empire.[xxxvii] Such commanding social construction involved the creation of formal institutions – the constitutional and law systems – which involved a political compromise or a class coalition between the great merchants and financiers and the Monarch and his court. It was the outcome of a complex historical process in which the economic, the institutional, and the political instances proved deeply intertwined.

The nation-state is a sovereign society formed by a nation, a state, and a territory. It is a form of political-territorial exclusive of capitalism, in the same way as colonies formed the ancient empires. According to Ernest Gellner, the state regulated only the core of the ancient empires, and the rulers were not interested in transferring its superior culture to the colonies; they were only interested in collecting taxes. The ancient empires were political-territorial units, not societies, while nation-states are integrated societies. As Norbert Elias remarked, “they are the greatest integrated societies ever existed”.[xxxviii] Returning to Gellner, the nation-state “is, ultimately, a society based on economic growth..." a society in which there is "the hope of perpetual increase of satisfactions and whose legitimacy depends on their ability to meet this expectancy" and achieving economic development.[xxxix]

In the international domain, nation-states are competitive societies. Their nations are supposed to be autonomous and capable of using the state as their own instrument of collective action. The logic of the nation is autonomy and cohesiveness; the logic of the nation-state is the logic of capital accumulation, technical progress, increase of productivity, and international competitiveness. The first peoples who became autonomous nations, forming their nation-states, industrialising, and thus completing their Capitalist Revolutions, did that in the framework of mercantilism – the first historical form of developmentalism. Since mid-20th century, when formal colonies of the modern empires (not to be confused with the ancient empires) gained independence, nation-states covered the entire globe.

With the formation of the nation-states and the Capitalist Revolution, the first social science – political economy – appeared. The first economists were the mercantilists, before the expression political economy had been adopted by the new science. With the *Wealth of Nations*, of Adam Smith, the Political Economy School was born. Its main representants were Malthus, Ricardo, Stuart Mill, and Marx, who, finally, discovered the logic of capitalism.

I will return to the formation of the nation-state and the Capitalist Revolution in Chapter 4, in which we will discuss the great contributions of Fernand Braudel and Giovanni Arrighi. Now I limit myself to resume how Braudel viewed modern capitalist societies. In his 1976 short book, *Afterthoughts on Material Civilisation and Capitalism,* he proposed to be divided into levels. He started from his “triptych of levels” that form the modern economies: material life, the market economy, and the capitalist economy. Thus, for him capitalism and the market economy are two different things. The material level is the lowest level. Even in Europe, one still finds much self-sufficiency, many services that are not included in the national accounting system, and many artisan shops. At the middle level, let us take the garment maker as example. In production and marketing, he is subject to the strict and even ferocious law of competition in which a moment of carelessness or of weakness on his part can mean ruin. Capitalism is in the third level. It is the conjunction of political power and economic power; it is where monopolies thrive. “Capitalism is the perfect term for designating economic activities that are carried out at the summit, or that are striving for the summit…

It represents the high-profit zone".[xl] It is not the concept that I use, but it should be considered.

Four models of Capitalist Revolution

The formation of the nation-state and capitalist revolutions have always taken place within the framework of developmental capitalism, i.e., in a society in which state intervened in the economy – in the case of the capitalist revolutions, heavily. However, the model of capitalist revolution varied, depending on whether the country was central or peripheral, and on the time when the revolution happened. The two main institutions that coordinate capitalism are the state and the market. But while the market is devoid of will – albeit not of interests – the state represents the law and public policies, and therefore it represents *political will*. It is through the state that collective action takes place, nations assure their autonomy and regulate their social and economic life. While it is through market companies that people compete, prices are formed, and resources are allocated across the various competitive sectors of the economy. In the naturally non-competitive sectors – such as the infrastructure and the basic inputs industries – the state has no alternative but to exert its coordination directly.

A country's capitalist revolution could follow one of four different paths, depending on the time it occurred, and whether the country was central or peripheral. These paths gave rise to four models of capitalist revolutions and four (not fully) corresponding models of developmental capitalism. The four models of Capitalist Revolution are: (a) the *mercantilist model,* in the central countries that first industrialised, such as England and France; (b) the *Hamiltonian* or *Bismarckian model,* in latecomer central countries, which were not colonies but which were late in forming their respective nation-states and carrying out their industrial revolutions, such as Germany and the United States; (c) the *independent model,* in those countries that were colonies or quasi-colonies but which realised capitalist revolutions, achieved a high degree of national autonomy, industrialised and caught up, as was the case with Japan, South Korea, or are still catching up, like China, India, and Vietnam, and (d) *national-dependent model,* in countries like Brazil, Argentina and Mexico, which achieved a certain national autonomy and managed to undertake their industrial revolutions between the 1930s and the 1970s, thus experiencing a catching up. However, in the 1980s, with the Neoliberal Turn in the Global North, these countries faced a major financial crisis. They became weaker, they bowed to the pressure of the centre, adopted neoliberal reforms and have been quasi-stagnant ever since.

Therefore, in this classification we use as criteria whether the country was always a "central country", like was the case of the first two models, or "peripheral countries", when for some time they were colonies of the first. Second, among the peripheral countries, they always acted as independent countries, or they "national-dependent", whose elites are ambiguous or contradictory, sometimes independent, in others, dependent, specially when they feel threatened.

The first three models of Capitalist Revolution counted on a dominant national bourgeoisie that was interested in the support of the state to industrialise. Such bourgeoisies combined dialectically economic nationalism with liberalism, and we can say that they completed their national and Industrial Revolutions. The same cannot be said of the countries in the fourth model who industrialised but didn't complete their respective national revolutions. Their bourgeoisies – under pressure and under the ideological hegemony of the Global North – proved ambiguous and contradictory as I just said in the previous paragraph.

The original central model. Many scholars, from great economists such as Adam Smith and Karl Marx to major historians like Fernand Braudel, studied the original central model of the Capitalist Revolution, which unfolded within the framework of a mercantilist developmental state. Adam Smith's liberal critique of mercantilism is part of the historical construction of economics and political economy. He was right on the critique of the identification of the wealth of nations with the country's reserves in gold but ignored that the mercantilists were the real founders of the discipline, and that the policies they defended were instrumental in achieving the Industrial Revolution.

It is, or should be, common knowledge that there were remarkable economists among the mercantilists.[xli] Mercantilist policymaking involved a firm intervention of the state in the market to foster economic growth, and it counted on the support of a class coalition that included the monarch, his patrimonial nobility – whose revenues came from state coffers rather than from land rent – and the large nascent grand bourgeoisie of bankers and merchants. Its development strategy focused on the enlargement of the domestic market by making the boundaries of the nation-state as wide as possible. Monarchs waged wars aimed at the annexation of neighbours' territories. They did not hesitate to intervene in the economy and to organise monopolies through which the partnership between the absolute monarch and the large commercial and financial bourgeoisie was required, the bourgeois paying taxes to fund the monarch's wars.

The latecomer Hamiltonian or Bismarckian model. The latecomer central model characterised countries such as Germany, Italy, Sweden, and the United States. The classic study of this development model comes from Alexander Gerschenkron, who analysed European countries that developed in the latter half of the 19th century and found in them more state intervention.[xlii] These countries had to face the industrial imperialism of England and France, which, as Friedrich List wrote in 1846, attempted to 'kick away the ladder' from under Germany.[xliii]

In that country, the developmental state was called Bismarckian. The German Industrial Revolution, led by Otto von Bismarck (1815–1898), served as an example for other latecomer central countries. Hélio Jaguaribe, writing about the Bismarckian model, noted that under it, the domestic market was reserved for domestic industry, and that the state played the role of arbiter between conflicting forces – something that would later define the corporatist states.[xliv]

Although the United States domestic market was also reserved for domestic manufacturers, the state's decisive role in the rapid growth of the time is not as clear, because the liberal rhetoric obscured it. As the first Secretary of the Treasury, Alexander Hamilton was not only one of the three great federalist philosophers, but the first developmental economist – the doyen of developmental economists. In his classic *Report on Manufactures* (1791), he argued for the protection of the nascent American industry, thus launching a lasting and consistent policy of industrial promotion that would only end as late as 1939, when the United States finally lowered its customs tariffs, which, until that point, had been very high.[xlv]

According to Paul Bairoch, the average import tariff from the 19th century until the 1930s ranged from 35% to 48%, making the country, in the words of this remarkable economic historian, 'a bastion of protectionism'.[xlvi] Ha-Joon Chang provides additional data bearing this out.[xlvii] My interpretation of the high tariffs in the US until 1939 is that Americans adopted them using initially the infant industry argument and later on when this argument expired, as a pragmatic way of neutralising the Dutch disease, which respective model was not yet defined.[xlviii] The US's extraordinary natural resources, including oil, resulted in long-term overvaluation of the exchange rate, because these commodities could be profitably exported at a stronger exchange rate than manufactured goods. The tariffs, therefore, were not so much a 'protectionist' system to neutralise Dutch disease, as they were for the purposes of the domestic market.

The independent peripheral model. Japan was the pioneer of the independent peripheral growth model. The Japanese were humiliated when they were forced to open up trade with the West in 1854 under the threat of Commodore Perry's cannons.[xlix] The Meiji Restoration of 1868 was the Japanese nationalist revolution that freed the country from the Tokugawa dynasty of shoguns and from the West's tutelage. It was followed by the decision of the new rulers of adopting the strategy of copying Western technology and institutions. Rapid industrialisation occurred in the following 40 years, under the direct control of the Japanese state and the copying of technology strategy.[l] The copying of institutions came from 1908 to 1910, with the decision to privatise companies in the competitive industries. Thus, the former Samurais of the Tokugawa period – who took part in the Meiji Restoration in a military capacity – first became a middle class of bureaucrats and then, with the privatisations, they became managers and businessmen. Privatisation had no ideological origin. The Japanese simply copied the Western institutional model, which, in the case of competitive sectors of the economy, are assigned to private companies.

Classic studies on latecomer independent development include those by Alexandre Barbosa Lima's *Capital is Made at Home* (1973) and Chalmers Johnson's *MITI and the Japanese Miracle* (1982) about Japan, Alice Amsden's *Asia's Next Giant* (1989) about South Korea, and Robert Wade's *Governing the Market* (1990) about Taiwan..[li] These books show the impact of one of the forms of state intervention – industrial policy – on growth. However, with the partial exception of Robert Wade's book, they lack an accurate analysis of the active macroeconomic policies these countries embraced. Each sought, first, to limit foreign borrowing and the penetration of the domestic market by multinational companies, and second, to get macroeconomic prices right: the profit rate, the interest rate, the wage rate, the inflation rate, and *above all*, the exchange rate.

In this effort, East Asian policymakers had a major advantage over their Latin American counterparts. They did not export commodities, and so they did not have to neutralise the Dutch disease. In 1982, Corden and Neary published a founding paper on the Dutch disease, which occurred in the commodity booms. In 2008, Bresser-Pereira published the second model on the Dutch disease in the framework of New Developmentalism, in which argued that Dutch disease could also derive from a structural variable, namely Ricardian rents, and that it could be successfully neutralised by an export tax on commodities or by an import tariff on imports of manufactured goods, combined with an export subsidy on the same goods.[lii]

Concerning this third model of industrialisation, China also illustrates the metaphor of flying geese – originally proposed by Kaname Akamatsu – for the way in which Asian countries copied the Japanese model in waves: first came South Korea, Taiwan, and Singapore, then Malaysia and Indonesia, followed by China, and finally Vietnam.[liii] China, which experienced a great economic decline under the West's industrial imperialism from the mid-1800s to 1949, bounced back with its national and socialist revolution under the leadership of Mao Tse-Tung (1893–1976).[liv] Mao thought that he was carrying out the first phase of the Chinese socialist revolution, but in fact, soon after the revolution, China – in the same way that had already happened in the Soviet Union – changed to statism for lack of entrepreneurial and managerial capabilities that modern economic systems require. In this first phase (1949–1976), China asserted itself as a genuinely independent nation-state. It educated its population, and it developed its infrastructure and basic industries: activities that the state can conduct with reasonable efficiency under a technobureaucratic command. But statism is inefficient at managing the complex economic activities that developed economies require. The second phase involved privatisation, liberalisation, and productive diversification, while the state and the Communist Party maintained centralised political control, planned the non-competitive sector, and executed an active macroeconomic policy to make sure that the five prices – particularly the exchange rate – were correct. In this second phase, when the market took on a strategic role, China experienced the most extraordinary economic development of all time, outstripping even Japan's earlier performance, and achieving an average yearly growth rate of 10% for 30 years.

The national-dependent peripheral model

The fourth developmental growth model, the national-dependent peripheral model, was not as successful as the previous one. Countries in this group were developmental enough to achieve Industrial and Capitalist Revolutions, but they were unable to maintain rapid growth rates from 1980 onward. For instance, in Brazil, income per capita growth dropped from almost 4% a year during the Industrial Revolution or developmental phase (1930–1980) to 1.1% a year from 1981 to 2020. Much the same happened in Mexico. Ben Ross Schneider analysing the developmental phase of the two countries, proposed that they shared four basic characteristics: state-dependent profits and investment; a developmental discourse dominated by the need to industrialise – as well as the role of the state in fostering industrialisation; the exclusion of the majority of the population, and a highly institutionalised public sector bureaucracy.[lv] I would add two more characteristics to the list: current account deficits financed by foreign borrowing, and the pragmatic neutralisation of the Dutch disease with import tariffs and export subsidies.

Following Peter Evans's 1979 book, a triple class coalition commanded this form of developmental capitalism: the industrial bourgeoisie, state bureaucracy, and multinational corporations.[lvi] What this shows is that, at the time, the American business establishment was far from the dogmatic neoliberalism of the following decades.

The economists and political scientists who build Classical Structuralist Developmentalism from 1949 had a key role in defining the rapid process of industrialisation that characterised Latin America in the post-war years. They drew up the industrialising and anti-imperialist, national-dependent model of economic development. Developmental, because it implied a moderate intervention of the state in the economy; structuralist, because they defended a structural change: industrialisation. Their main original contributors from the 1940s to the 1960s were Raúl Prebisch, Celso Furtado, Juan Noyola, Anibal

Pinto, Hélio Jaguaribe, and Maria da Conceição Tavares, whose fundamental contributions emerged in the 1950s and 1960s.[lvii] My own contribution to this vision came in the early 1970s, when I discussed the new model of economic development with a concentration of income from the middle class upwards.[lviii] Later, in 2005 – when I made the critique of the associated dependency theory in the "From ECLAC and ISEB to dependency theory" – I argued that the Latin American elites were "national-dependent", an oxymoron that defined the contradictory and ambiguous character of such economic elites, which at certain times were national and developmental, and at others, dependent on the Global North.[lix]

Classical Structuralist Developmentalism originally viewed the world as divided into industrialised countries and underdeveloped countries. Underdevelopment was not mere backwardness, but the outcome of contact with the Global North. In the words of Celso Furtado, "underdevelopment is an autonomous historical process, not the stage which the more advanced economies have already experienced… It is the outcome of the penetration of modern capitalist enterprises into archaic structures".[lx] The countries in such situations experienced some growth, but only a few grew fast enough and long enough to catch up and become a rich country. Practically, only the East Asian countries moved from underdevelopment to development in the 20th century.

The essential contribution of Classical Structuralist Developmentalism was the claim that economic development is industrialisation or "structural change". To industrialise, countries should plan their economies and adopt the import-substitution industrialisation model. Yet the developmentalists didn't go far with planning. They had to acknowledge that in capitalist economies planning is only possible for the infrastructure and primary inputs industries, although the import-substitution strategy implemented through import tariffs on manufactured goods worked. This was the basic industrial policy they adopted. The larger countries, including those with larger domestic markets like Brazil and Mexico, were the most successful, because economies of scale were less constraining. The governments set tariffs for the different industries, beginning with consumer goods, expanding gradually to the primary inputs and capital goods industries. As New Developmentalism argued, these import tariffs, coupled with export subsidies, were also a pragmatic and intuitive form of neutralising the Dutch disease. When, around 1990, the Latin American countries opened up their economies, they faced huge deindustrialisation. Many companies that used the best technology available lost competitiveness and stopped growing, if not failed.[lxi]

From the 1980s, a second generation of developmental economists emerged, among whom I cite Alice Amsden, Robert Wade, Ha-Joon Chang, Gabriel Palma, José Antonio Ocampo, and Eric Reinert. They emphasised the role of industrial policy, while some post-Keynesian economists like Jan Kregel and Anthony Thirlwall, two distinguished post-Keynesians, also focused on developing countries. Finally, from the early 2000s, we had the emergence of New Developmentalism, which integrated macroeconomics with the study of the economic development of the countries at the periphery of capitalism.

A brief note on New Developmentalism

New Developmentalism is a new theoretical framework based on Classical Structuralist Developmentalism and on Post-Keynesian Economics. It was born when I realized that these two theories didn't offer a good explanation for the quasi-stagnation of Latin America since the 1980s. It argues that besides failing in defining the *correct* microeconomic prices (something that was well-known), the market is also incapable of setting correct macroeconomic prices ("correct here meaning consistent with stability and growth. It is incapable because it doesn't assure: (a) a low base interest rate around which the central bank conducts monetary policy; (b) a competitive exchange rate that makes manufacturing companies using state-of-the-art technology competitive; (c) wages that grow with productivity, so that (d) inflation is kept under control, and (e) a satisfying rate of profit for manufacturing firms, motivating them to invest. The very existence of central banks is, indeed, an admission of the market's inability to keep such prices correct. To achieve correct prices – besides defending balanced fiscal and external accounts – the country must adopt an active exchange-rate policy involving structural or long-term measures.[lxii] The Asian technobureaucrats did not develop a theoretical framework to rely on, but they showed an impressive ability to pragmatically complement industrial policies for correcting microeconomic prices with a competent macroeconomic policy that makes the five macroeconomic prices correct.

New Developmentalism has drawn from the experience of the East Asian countries to build its theoretical framework. It is a new school of thought based on Classical Structuralist Developmentalism and Post-Keynesian Economics. Born

New Developmentalism claims that two enduring causes explain the quasi-stagnation of many countries from the Great Debt Crisis of the 1980s. The first was the fall of the public savings and consequently of public investment as a percentage of GDP; the second, the overvaluation of the exchange rate of the commodity exporters countries and the loss of competitiveness of their manufacturing industries. The overvaluation resulted from the submission of these countries to neoliberal Washington Consensus, trade opening and, with it, the cancel of import tariffs that neutralised their Dutch disease.

In opposition to conventional economics (orthodox or heterodox), New Developmentalism is critical of the growth with indebtedness ("foreign savings") policy, which it understands to be harmful to developing countries.[lxiii] The capital inflows which result from the current-account deficits, cause the appreciation of the national currency, discourage investment, and stimulate consumption – precisely the opposite to what conventional economics believes. The resulting de-industrialisation worsens when the country has the Dutch disease, which I briefly discussed above.[lxiv]

For a long time, many countries that neutralised the Dutch disease did it without knowing what such a major competitive disadvantage it would be. They intuitively and pragmatically adopted import tariffs on manufactured goods, even when the "infant industry" argument had lost validity because most industries had ceased to be infant. This was the case in the Latin American countries. By opening up their economies around 1990 – under the pressure from the Global North – they stopped neutralising the Dutch disease, local companies faced huge competitive disadvantage, and they deindustrialised radically and prematurely. Instead, in East Asia, the rejection of a growth with indebtedness – i.e., foreign savings – policy, combined with the fact that they were not rich in natural resources, and were thus not subjected to the Dutch disease, allowed them to continue their growth and successfully catch up.[lxv]

In 2006, the World Bank introduced in the literature of economic development the concept of the "middle-income trap". The argument was that when a middle-income country attains a certain income level, it gets stuck at that level. The several studies that followed defined countries as being in the middle-income trap when income per person ranged from US$ 1,000 to US$ 12,200, making the concept of middle-income trap too broad to be meaningful. Econometric studies followed which aimed to associate the effective slowdown of the economies with this trap.[lxvi] Yet the 'findings' were mere tautologies, such as 'lack of industrial diversification' or 'too high a growth rate', or generic claims, such as 'insufficient investment in education'. In 2020, Bresser-Pereira, Araújo and Peres published a study, "An alternative to the middle-income trap", which argued and demonstrated that, in the early 1990s, the Latin American countries had fallen, not into a middle-income trap, but into a "liberalisation trap". The reforms that these countries adopted – mainly trade and financial liberalisation – eliminated or radically reduced the import tariffs on manufactured goods, which then neutralised the Dutch disease, thus stopping the growth process of these countries.[lxvii] Chile has been the exception, although it is worth mentioning that it changed its economic policy *after* the crisis created by the 1981–1982 neoliberal experience, making it less liberal. It has also consistently maintained a high rate of tax on copper, partially neutralising its Dutch disease.[lxviii]

[i] Gordon (1978; 1989).

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

[iii] Giddens (1998).

[iv] For a discussion of concepts and semantic expansion, see Fonseca (2014), who cites Giovanni Sartori (1970) on the subject.

[v] Fonseca (2014).

[vi] Johnson (1982).

[vii] Note that "right prices" have nothing to do with the same expression in Neoclassical Economics, according to which "right prices" are prices freely set by the market.

[viii] Braudel (1979b: 246).

[ix] Arrighi (1994: 6-7).

[x] Arrighi (1994: 3)

[xi] Idem.

[xii] Arrighi (1994: 8).

[xiii] Mensch (1979).

[xiv] Arrighi (1994: 10). See also Wallerstein (1991: chaps 14–15).

[xv] Arrighi (1994: 10; 11).

[xvi] Braudel (1979a: 229-230).

[xvii] Weber (1922: 353).

[xviii] Polanyi (1944).

[xix] Arrighi (1994: 13).

[xx] Rich countries here means Belgium, France, the United Kingdom, and the United States, the latter only from 1940.

[xxi] Wallerstein (1980).

[xxii] First, because there was a second one in the 20th century and now, we are having a third developmentalism.

[xxiii] Bagchi (2000: 399).

[xxiv] Braudel (1979b: 484).

[xxv] Rosanvallon (2011).

[xxvi] Marichal (2010: first chapter).

[xxvii] Maurice Dobb (1963: Chapter 7 section 3).

[xxviii] This long period (1830-1929) can be divided in two – before and after the 1870s – because it was around this decade that wages in England and France

ceased to be at subsistence level and began to rise with productivity. It was also after the 1870s that European countries and the U.S. became strong enough to impose their colonial rule. I do not emphasize the distinction between the two periods in this essay, as it is not necessary for the argument I am developing.

[xxix] It should be noted that this cultural dependence has been shown to be much stronger in Latin America than in Asia.

[xxx] Schmitter (1974).

[xxxi] Fraser (2018: 165–167).

[xxxii] Fraser (2018: 17). With this word, Fraser says that she does not want to be an orthodox Marxist, but rather a Marxian. This is also my case. Marx is not the source of truth but the source of genial ideas on capitalism and its dynamics.

[xxxiii] Jaeggi (2018: 18).

[xxxiv] Wood (2017: 2).

[xxxv] According to Marx (1864: 1024–25), the social formation turns dominantly capitalist when the relative surplus value (profit involving technological progress) turns the dominant form of surplus appropriation.

[xxxvi] Note that I use Capitalist Revolution with capital letters when I am referring to the basic or general revolution, while with small letters when I am speaking of the many capitalist revolutions that happened in many nation. I will adopt the same policy for the Industry Revolution and the industrial revolutions.

[xxxvii] Hroch (1968).

[xxxviii] Elias (1970).

[xxxix] Gellner (1983: 32).

[xl] Braudel (1976: 112-113).

[xli] At least since Schumpeter's 1954 monumental *History of Economic Analysis.*

[xlii] Gerschenkron (1962).

[xliii] The expression ‘ladder kicking’ was originally employed by Friedrich List in 1846 to describe the behaviour of England, which sought to convince the Germans not to industrialise by using the arguments of classical liberal economics. The argument describes the current behaviour of advanced countries vis-à-vis developing ones. Ha-Joon Chang (2002a) picked up the expression and applied it very capably and appositely.

[xliv] Jaguaribe (1962). On the corporatist state, see Schmitter (1974) and Love (1996).

[xlv] Hamilton (1791). According to William A. Lovett, Alfred E. Eckes Jr. and Richard L. Brinkman (1999), the United States made 621 concessions in a 1938 agreement with the United Kingdom that added up to US$457.8 million, representing 37% of the country's durable goods imports.

[xlvi] Bairoch (1993: 40; 51).

[xlvii] Chang (2002a: 24-32).

[xlviii] The Dutch disease is long-term overvaluation of the exchange rate existing in countries that export commodities, because companies can export with a profit at a substantially more appreciated exchange rate than the ones the tradable manufacturing industry requires to be profitable.

[xlix] By the West is meant the group of advanced countries around the North Atlantic plus Australia, New Zealand, Japan and the three East Asian countries that caught up in the 20th century: South Korea, Taiwan and Singapore. The West is therefore not a geographical concept. Its members make up the modern empire, under the leadership of the United States. These are countries that have in common high levels of knowledge and high wages that they attempt to protect along with the profits of their firms. They are militarily organised through NATO and their main economic instruments are the International Monetary Fund and the World Bank.

[l] Angus Maddison's data suggests that the Japanese industrial revolution happened at the time of the World War II, but the ability of these data to detect industrial revolutions is limited. Japan was strong enough to attack Russia in 1905, China in 1936, and the United States in 1942, because it had already developed a powerful manufacturing industry.

[li] Barbosa Lima (1973), Chalmers Johnson (1982), Amsden (1989), Wade (1990).

[lii] Corden and Neary (1982); Bresser-Pereira (2008). In a 1989 conference held in Tokyo by the Institute of Developing Economies, the natural-resource-rich Latin American countries were compared with the natural-resource-poor East Asian countries, but none of the economists used the Dutch disease model to explain why the East Asian countries continued to grow fast, even as Latin America fell behind from 1980. The book on the conference is Fukuchi and Kagami (1990).

[liii] Akamatsu (1962). In the case of South Korea, the Japanese model was imposed during more than 30 years of Japanese colonial rule and maintained after the country's independence. As Atul Kohli (1999, p. 94) points out, by 1940, Korea was already a country with a ‘relatively high level of industrialisation’.

[liv] The Chinese call this century, the ‘century of humiliation’.

[lv] Schneider (1999: 278). Where the public bureaucracy is concerned, this view applies more to Mexico than to Brazil. In an essential book, Schneider (1991) showed that the Brazilian public bureaucracy was relatively informal but very professional.

[lvi] Evans (1979).

[lvii] Prebisch (1949), Noyola (1956), Furtado (1961), Aníbal Pinto (1970, 1973), Jaguaribe (1962), Conceição Tavares (1963).

[lviii] Bresser-Pereira (1970; 1973).

[lix] Bresser-Pereira (2005). The English and modified version of this paper is Bresser-Pereira (2011).

[lx] Furtado (1961: 180-81).

[lxi] Bresser-Pereira (2019).

[lxii] To neutralise the tendency towards cyclical and chronic overvaluation of the exchange rate, New Developmentalism proposes an export tax to neutralise the Dutch disease and a rejection of three commonly applied policies: growth combined with foreign borrowing ('savings'), the use of an exchange-rate anchor to control inflation, and a high real interest rate around which the central bank manages its monetary policy.

[lxiii] Note that when I use the expression "conventional economics", I am referring to the ideas of all schools of economics.

[lxiv] Bresser-Pereira (2008; 2020b).

[lxv] Bresser-Pereira, Araújo and Peres (2020).

[lxvi] See Eichengreen, Park and Shin (2014); Jankowska, Nagengast and Perea (2012); Kharas and Kohli, 2011). What this literature found was the obvious: countries that grow at high rates (more than 4% a year, for example) for a relatively long period of time (such as five years) then experience a relatively large drop-in growth rate (to below 2.5% a year, for example).

[lxvii] Bresser-Pereira, Araujo, and Peres (2020). To explain the quasi-stagnation of the Latin American countries in the 1990s, we need new historical facts that the middle-income trap literature does not provide. The neoliberal reforms provided this new information.

[lxviii] According to Isaías A. Moraes (2023: 45), 'developmentalism has three dimensions: i) model of economic and political organization of the economy; ii) predicted conservative ideology; iii) heterodox economic theory'.