After the demise of neoliberalism, a third developmental capitalism?

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Summary: Modes of regulation involve the formation of class coalitions, which may be developmental or liberal, democratic or authoritarian, progressive or conservative. The first developmentalism – mercantilism – was authoritarian and conservative; the second – Fordism – democratic and progressive. Since the late 1970s, the Neoliberal Years replaced the Golden Years of Capitalism, but neoliberalism proved a reactionary and unviable form of organizing capitalism, since it proved associated to low growth, financial instability and increasing inequality. Neoliberalism came to a final crisis in the 2008 global financial crisis. Now the rich world faces a time of crisis and incertitude, that may be also a time of transition to a third developmentalism. Many resist to this ideal, mainly because in Europe we see the adoption of a an-human austerity policy, which is usually viewed as neoliberal, but actually is just conservative: it defends the rich against the poor. We should not confuse conservatism with neoliberalism, because neoliberalism is always conservative, but conservatism may be either neoliberal or developmental. Actually there are already signals that a third developmentalism is underway, but if the facts confirm such uncertain prediction, it will be probably conservative, not social-democratic, given the continue and increasing competition coming form developing countries, particularly from China and India, and the increasing pressure of immigration from poor countries. Increased competition from the middle-income countries and increased immigration from the poor countries are two fundamental historical facts, which trigger a conservative than a progressive reaction from all social classes. Yet, the formation of a new class coalition supposes the existence of a nation, in a world where nation-states remain the organizing political-geographic unity. In the context of globalization, where the incomes from rentier capitalists and financiers come increasingly from investments of multinational abroad, local elites cease to be national, what implies that the cut the association with the waged and salaried middle classes that a nation presupposes, and turn global. If this tendency materializes, we may well not have a new class coalition and the respective mode or regulation, and society will live for long a time of anomie and disorder.

Since the 2008 global financial crisis, neoliberal capitalism and its respective class coalition – the rentier-financier coalition – are in deep crisis, because economic liberalism proved to be highly unstable, unable to provide high rates of growth, and also the origin of increasing inequality. Given that the historical alternative to economic liberalism or neoliberalism is developmentalism, and

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that the political capability of a given developmental state depends on the existence of a developmental class coalition supporting and legitimating it, will rich countries be able to rebuild a developmental class coalition and resume satisfactory rates of growth, or will they just muddle through and grow slowly in the first part of the 21st century? Our assumption to respond such question is that the economic and social organization of modern societies can vary in a relative continuum from statism to economic liberalism having, in between, developmentalism.[1] Capitalism is *statist* when the state attempts to coordinate the whole economy; it is *developmental* economic when the state, adopting a moderate economic nationalism, coordinates the non-competitive sector of the economy and conduces an active macroeconomic policy, whereas the market coordinates the competitive sector of the economy; and capitalism is *liberal* when the state just guarantees property rights and contracts, and keeps the public budget balanced, leaving everything else to be coordinated by the market. Given these definitions and the historical experience that we discuss in this paper, our response to the question will be positive. There is a possibility that the more developed countries move again from economic liberalism to developmentalism, but this developmentalism will not be a simple reproduction of the social democratic and developmental class coalition, which was dominant in the 30 years after World War II; it may well developmental and conservative.

Historically, in the initial stage of development – the stage when each nation-state makes its national and industrial revolution – the class coalition is always developmental. Britain, Belgium and France made their industrial revolutions based in mercantilist coalitions, which were the first historical expression of a developmental class coalition. Yet, once the industrial revolution completed the capitalist revolution in each country, economic liberalism took over, as a reaction against the privileges and economic distortions that plagued mercantilism. Economic growth is also consistent with a liberal state, but, given the fact that investment in the infrastructure will be faulty for lack of the required planning, that modern capitalist economies are extraordinarily complex, and that growth will necessarily be subjected to high financial instability, in the end economic liberalism will proportionate smaller rates of growth than the ones achieved by a capably managed developmental coalition. Besides, there is in capitalism a tendency to the increase of inequality, which only the state is able neutralize. Thus, it is reasonable to say that economic liberalism is *not* the default form of political and economic organization of capitalism; that a developmental and increasingly social and environmental form plays this role.

Developmental coalitions may be authoritarian or democratic, conservative or progressive, narrow or large, successful or unsuccessful. When the coalition comprises entrepreneurs and workers it is a broad one, and it implies a social compromise, or, more than that, a corporatist social agreement among the progressive sectors of the business, the technobureaucratic class (particularly the public bureaucracy) and the working classes. The alternative liberal class coalition usually comprises the rentier capitalists, including the rentier middle class, the financiers that manage the wealth of the former, and the top management of the large business enterprises; it is, by definition, a narrow coalition. In the development process, class coalitions are an alternative as well as a complement to class struggle.

Class struggles are inherent to capitalism, but they are not "resolutive", in so far that a classless society that would be the outcome of the class struggle remains a distant utopia. It is impossible to understand modern societies ignoring the class struggle, which is always present, but developmental class coalitions play usually a key role in the moments of great change in the history of capitalism. They presided the formation of the nation-state and the industrial revolution in every country, and they were present in most periods of fast economic growth as, for instance, the period just after World War II, when the social democratic political compromise was the outcome of a social and developmental class coalition. In these key moments, the productive or entrepreneurial capitalists associated to the public bureaucracy and the workers were in command; the participation of business entrepreneurs is necessary, because developmental coalitions are submitted to the logic of capitalist development: it is impossible to govern capitalism without the concourse of capitalists.

In the early history of capitalism, beginning with the absolute state, developmental class coalitions were narrow and authoritarian, but today, when modern societies are democratic, only increasingly broader developmental class coalitions will be able to guarantee legitimacy to the state and its government. What means that the industrialists or, more broadly, the business entrepreneurs must share the economic surplus with the technobureaucratic class, whose importance in modern societies is today impossible to deny, and, with the working class, which wages cannot anymore be simply viewed as the cost of reproduction of man-power. In other words, as the process of democratization advances in each national society, the social compromise that characterizes the developmental class coalition must be broader. In the early phases of development it is narrow and conservative, because it includes only the industrialists and the public bureaucracy; when it turns more complex and democratic, the class coalition will encompass a large spectrum of social demands and interests, because, besides the productive (not just industrial) capitalists and the public bureaucracy, it will encompass parts of the technobureaucratic or professional middle class, the employees and the workers. Yet, if instead of a developmental we have a liberal coalition as the hegemonic coalition, as it happened in the neoliberal years of capitalism (from around 1979 to 2008), the political compromise will be much narrower, associating essentially the high rentier capitalists, the financiers and heads of major business enterprises, notwithstanding the large and complex structure of modern society asks for a broad political compromise.

To developmental class coalitions correspond a developmental state and a developmental capitalism, which combines state and market coordination of the economy. The first challenge that a developmental class coalition faces in each country is to form the nation-state and industrialize the country, or, in other words, is to achieve its capitalist revolution.[2] Originally, the class coalition is necessarily developmental, since what we learn from history is that *no* industrial revolution was achieved without the active support of the state. In history we can see four paradigmatic cases of capitalist revolutions: Britain's in the second part of the 18th century, Germany's industrialization led by Bismarck, and Japan's industrial revolution after the Meiji Restoration, both in the second part of the 19th century, Brazil's national and industrial revolution under Vargas, in mid 20th century; in all these industrial revolutions the state played a strategic economic role. These initial coalitions were narrow and authoritarian. Britain's Industrial Revolution was the paradigmatic case of the mercantilist class coalitions, which were led by the absolute monarch and formed by the courtesan and patrimonial aristocracy living from the treasury of the state and the emerging merchant bourgeoisie. Bismarck's Germany was the classical case of late development in the core of capitalism. The industrialization after the Meiji restoration was the first case of country industrializing while confronting the modern imperialism of the first to develop, particularly Britain and France; and Brazil's capitalist revolution between 1930 and 1980 was the paradigmatic case of industrial revolution in the periphery of capitalism.

Considering the United Kingdom, France and Belgium, which experienced all phases of capitalism, after their developmental industrial revolution, a liberal class coalition and a liberal state were dominant for about a hundred years, between around 1830 and 1929. In this period, the ruling class and its liberal economists believed that a novel institution (the national markets that were being formed) would be able to fully coordinate the economy, whereas the gold standard would guarantee stability for the economic relations among countries. The liberal coalition was still narrow, embracing the bourgeoisie and the declining aristocracy, and was authoritarian, because it ruled out the universal suffrage, but it assured the rule of law.[3]

The first liberal democracies materialize in the end of the 19th century, when workers and socialist political parties finally conquered the universal suffrage (Przeworski 1985: ch. 1). But, as Schumpeter (1942) acutely observed, liberal democracy was a minimal form of representative democracy, where the voters were just called during the elections. Nevertheless, the guarantee of the universal suffrage was a major and subversive historical change, because it empowered the people. Thus, the times of pure liberal democracy were counted. As the guarantee of civil rights and constitutionalism marked the transition from the absolute to the liberal state, the universal suffrage pointed out the transition from the liberal to the democratic state. And it opened room for a second transition – the one from liberal democracy to social democracy and the welfare state – the type of democracy that characterizes the rich European countries since World War II. We had now, principally in Western and North Europe, a progressive or social democracy, because voters require from the state better standards of living, which soon were associated to large and free social services provided by the state.[4]

In the 1930s, after a hundred years of economic liberalism whose economic outcomes had been modest to say the least (income per capita growth of Britain and France in the period 1830-1929 average 1,2%), the liberal economic arrangement fell into deep crisis, which posed to its political and business elites and to the unions a new challenge. It was clear by now that, on one hand, the state should have a bigger say in the growth process, and, on the other hand, that wages should and could grow with productivity – should, because this was what eventually organized labor asked; could, because, giving a neutral technical progress (constant output-capital ratio), wages may grow with productivity while the profit rate is kept satisfactory to business enterprises to continue investing. Giving that, the objective that associated business industrialists and workers was to achieve growth with financial stability by combining a moderate state intervention with the market. In consequence, the new class coalition or the new class compromise that emerged from the Great Depression and the World War II was not only social democratic but also developmental. The Fordist regime encompassed the New Deal, in the US, and the Golden Years of Capitalism; it was the time of a second developmental class coalition and for a new policy regime.

The high moment of each class coalition corresponds a policy regime, a concept that was introduced by Adam Przeworski (2001) to identify historical moments where it seems to most that there is only one way to run capitalism; where the political parties adopt similar policies independent of the ideological leanings of the political party in office; where a given class coalition exercises a full ideological hegemony, what means that it is able to set common political narratives and common assessments of reality. After World War II, the Golden Years of Capitalism was the time of a developmental and social democratic policy regime, whereas, the Neoliberal Years of Capitalism, between 1989 and 2008 (particularly in the 1990s) were the years of a radical attempt to transform this social-democratic and developmental regime into economic liberalism.

Our question in this paper is to review past experiences of developmental coalitions, and to know if there is room for a new developmental class coalition, and, in the affirmative case, whether it will be progressive or conservative. Our first conclusion will be that there is some room for a new developmental class coalition, but most likely it will not be progressive, but conservative. Our second is that even this conservative developmental coalition may be not possible, because developmental class coalitions only make sense in the framework of the nation-state. Now, the elites of rich countries lost most of the basic solidarity with the people, because their revenues ceased to originate mainly from the domestic market of nation-state to which each multinational enterprise is associated. This fact creates a contradiction between the governments, which remains nationalist because the people, whose lives depend on the growth of the respective domestic markets, elect them and the rentier capitalists and the financiers, who depend each time less on their domestic markets, and, so, are each time less committed to their nations.

In this paper, we will not discuss the political regression that represented neoliberalism, but will present, in the first three sections, three historical cases of developmental class coalitions: the case of mercantilist capitalism, which gave rise to the industrial revolution of Britain, Belgium and France, the case of Bismarck's Germany, and the case of the social democratic and developmental class coalitions after World War II. Besides showing how these coalitions were successful – the first two, in starting the industrial revolution, the last one, in being a more efficient and less unequal form of political and economic organization of capitalism than economic liberalism. Our assumption is that a developmental coalition turns the state more capable to perform its coordinating role together with the market, because, in democratic societies, economic growth depends on the articulation of the social actors in terms of values and objectives, which only a meaningful historical narrative and a national development strategy provide, which only a developmental class coalition is able to provide. But the new developmental class coalition does not need to be progressive, because it is not necessarily more efficient than a conservative one. In the final section, we will tentatively discuss which is the possibility of a new developmental class coalition turning hegemonic in rich and middle-income countries in the near future, and whether such social agreement will be progressive or conservative.

Class coalitions in history

A new developmental class coalition?

Since the 1930s, firstly, with the Great Depression and Franklyn Delano Roosevelt's New Deal, and, secondly, with World War II, the epicenter of the world economy moved from Europe to the US, and the Fordist or social democratic class coalition turned dominant in the core capitalist countries up to the mid 1970s. The new coalition was a broad, democratic and progressive class coalition. Broader because it included the middle classes and the working class; democratic, because, in the turn of the 19th to the 20th century, the achievement of the universal suffrage was the radical political change that caused the transition in the more developed countries from the liberal but authoritarian regimes that characterized the previous century, to the first regimes that could be considered minimally democratic; progressive, because, after World War II, a social democratic Golden Years of Capitalism opened room for progressive taxation and a great increase in the tax burden to finance the welfare state, independently of the political party in office was social democratic or conservative.

This progressive coalition came to a crisis characterized by the fall of the profit rate in the late 1960s, and after a few years of indetermination, a new class coalition and the respective policy regime, the Neoliberal Years of Capitalism, became dominant. Again, independently of the political party in power, the policies were neoliberal – were a radical attempt to restore the 19th century's liberal capitalism. But after no more than 30 years, such neoliberal reactionary adventure came to a crisis and a close. We are not going to discuss these historical changes, but go back to the original question of this paper: is it true that neoliberalism is really into a deep crisis, and, if so, which is the possibility that the rich countries go back to developmental class coalition?

I suppose that many of the readers will view this question as absurd, essentially because, despite the severity of the 2008 Global Financial Crisis, almost all people to whom we talk don't believe that the Neoliberal Years of Capitalism are over. Yet, provided that we don't identify neoliberalism with conservatism, we suppose that there are good reasons to affirm that the days of radical economic liberalism are over, and that some new form of developmental organization of capitalism is underway.

To discuss this issue, we must, first, distinguish neoliberalism from conservatism. Conservatism is the ideology that privileges social order over social justice; it is the identification of social order to the existing establishment; it is the belief that the economic and political power system is something "natural", that cannot be easily reformed. Neoliberalism is conservative because it defends the interests of the rich and the powerful, but it was an attempt of adopting *radical* reforms aiming to restore classical economic liberalism – something in full contradiction with conservative values and practices. The political competition between conservative and progressive or social democratic political parties will be always around us, because either the right or the left are not able to govern successfully capitalism for lengthy periods of time. But conservative political parties can adopt social-democratic and developmental policies, as it happened in the post-war social-democratic and developmental policy regime, whereas social democratic political parties can adopt neoliberal reforms, as we saw in the Neoliberal Years of Capitalism.

Our view is that a new developmental class coalition is a real possibility. The idea that markets are self regulated turned demoralized once more in 2008, and this fact was widely acknowledged, with the exception of the mainstream neoclassical economists, isolated in their self-protected departments of economics of the major universities. The view that the basic cause of the crisis was the radical deregulation of financial markets turned practically consensual; and it was impossible to ignore that the states, whose only role should be to guarantee property rights and contracts, played a major role in recuing the national economies from the crisis. Central banks are the lenders of last resort; the state proved to be the rescuer of last resort. Regulation of the banking system advanced a lot at national level and also at the international level. The problem posed by the banks "too big to fail" was not resolved; re-regulation cannot yet guarantee that banking crises will not happen again, but the financial system lost and the regulatory agencies recovered power – normative power, political power. In June 19, 2013, the UK's Parliamentary Commission on Banking Standards published a report where was said that "the public have a sense that advantage has been taken of them, that bankers have received huge rewards, that some of those rewards have not been properly earned, and in some cases have been obtained through dishonesty, and that these huge rewards are excessive, bearing little or no relation to the work done." A report like this was unthinkable ten years ago. Today is clear that many modern financial flows do not play the useful role in capital allocation that orthodox economic theory assumes. Even the IMF now accepts capital controls in special circumstances. Banks and more broadly the financial system recovered their profitability, and continue to control a larger share of total profits that their economic role would predict, but they are not anymore either as profitable, or as politically powerful as they were before the crisis.

In the real sector of the economy we also see the advance of the role of the state. The trade liberalization discourse continues the same, but the practice today is much different. First, in the area of trade: the Doha round was practically abandoned, if it come to a close, the result will be negligible; countries all over the world have been increasing their import tariffs and their administrative controls over imports. Second, industrial policies of all kinds regained legitimacy, beginning with the US. Since the beginning of his administration, president Barak Obama has established as a central objective to re-industrialize his country.

On the other hand, the prospects for the rentier capitalists, which are the dominant sector of the capitalist class in neoliberal class coalitions, are adverse. The main logic of the Neoliberal Years was to comply with the demand of rentiers for positive and high interest rates and rents. In the early years the increase of the profit rate, which had fallen since the late 1960s, was also an objective shared with the business enterprises, but it was soon achieved. More difficult was to increase the interests and rents received by the rentiers, because for long the profusion of capitals existing in the world economy presses down interests rates and rents. During the Neoliberal Years this problem was already present, but was overcome by financialization. Since the crisis, it lost part of its strength – financialization here being understood as the association of top and middle class rentiers capitalists with financiers and the adoption by the later of financial innovations, high leverage, highly risky financial transactions and straight fraud that allowed them the threefold multiplication of their revenues. Also since the 2008 crisis, the basic interest rate is negative reflecting the profusion of capitals and the relative loss of power of the rentiers. More than that: there is no perspective that the interest rate will turn positive in the next ten years.

But what to say from the Euro crisis and the austerity programs that are been demanded from the South and Ireland indebted countries. Isn't this neoliberalism? It is more conservatism than neoliberalism. The South countries in the Eurozone are in a trap. Following a neoliberal reasoning, they created an absurd institution – a single currency that is, actually, a *foreign* currency for each one of the countries. If each country had ceased to be a sovereign country, if they were like, for instance, federal states like in the US or in Brazil, to share a single currency would be the normal thing to do, but they are far from having give up their nations. Thus, when immediately after the creation of the Euro, the "internal euros" of the South countries became increasingly valorised in relation to the North euros, because their relative unit labour costs increased, they faced a major economic problem.[5] With the euro, they turned unable to depreciate their national currencies and, so, restore the monetary competitiveness of their business enterprises. The rational solution for the crisis would be the Eurozone to decide to adopt an agreed monetary reform that would practically mean the discontinuation of the euro, but the conservative consensus is that this alternative is "unthinkable". Actually, it is unthinkable to the rentiers and financiers, not to the people. To them the best solution is the austerity program – the "internal depreciation" in curse, – that entails recession, unemployment, and the fall only of wages and salaries. An effective depreciation would make all people, and not only the poor and the middle class, pay for the required recovery of competitiveness. Thus, the political choice that is being made in Europe is not a neoliberal bet in the market against the state, but a conservative choice benefiting the rich.

This short discussion of the Euro crisis enables us to discuss the next issue. We assume that the state is recovering and will continue to recover its subsidiary but strategic role in the coordination of the large and complex capitalist economies, because markets alone are unable to coordinate them, or, in other words, because, given the extended experience that we have of the limitations of markets both in coordinating the macroeconomic aggregates and in coordinating the non-competitive sector of the economy, it makes much more sense to combine state and market, instead of leaving all the economic coordination to only to markets. But from this we cannot conclude that the resulting capitalism will be progressive. The second developmentalism – the one of the Fordist regime of accumulation – was progressive, was associated to social democracy, but developmentalism may be also conservative. Actually, given the present economic constraints that capitalism is facing and the difficulty that the social democratic political parties are facing to overcome them, we suggest that there is a greater probability that the developmental class coalition that will emerge from this crisis will be conservative.

The more progressive, or conservative, character of class coalitions and policy regimes is not just the outcome of the political will of the social actors and their capacity to make compromise and reach political agreements. It depends also on the economic constraints the more, on the less or more favourable economic conditions that rich countries are facing. The less satisfactory will be the expected profit rates and the consequent of capital accumulation, the more serious will the economic constraints, and the bigger the likelihood that the class coalition that will emerge from this crisis will be conservative and the cost of the adjustment will fall on the poor. When the profit rate is satisfactory, and the rates of investment and growth are high, there is room for attending the demands of the workers and of the poor, and the likelihood of a social-democratic coalition being formed will increase. But rich countries have been far from that for many years. Growth rates are very small, because profit rates are unsatisfactory and investment rates, consistently low. When this is the case, the conservative and easiest way out is to reduce wages by the adoption of austerity programs, and this is what we are mostly seeing.

But couldn't the way out be a Keynesian one? Franklin Delano Roosevelt did that in the 1930s, when the economic conditions were terrible. Why cannot this be repeated today? First, because the appearance of a statesman of Roosevelt's dimension is a very rare thing; but, second and more significantly, because the challenge that the American president faced was a domestic challenge, while the challenge that the rich nations face today is a global challenge. In the 1930s the crisis was a crisis of effective demand; today, the short-term crisis – the Global Financial Crisis – was initially a demand crisis, and most countries responded adequately to it with substantial increases in expenditures. But, once the world economy went back to "normality" in the US, Britain and in Japan (we are excluding the Eurozone, because it confronts its *own* crisis), this normality did not mean high, not even satisfactory, but low, very low growth rates. This opened room for all kinds of pessimism including the talk of secular stagnation. The arguments to sustain such thesis were not particularly persuasive, but the fact that leading mainstream economists adopted such attitude in relation to future growth shows how gloomy are the perspectives of capitalist development.

Actually, rich countries face two major economic problems: one is essentially a problem for the rentier capitalists and financiers – the profusion of capital, which the expansive monetary policies (the issuing of money by central banks called "quantitative easing") only aggravated; the other is a real challenge for the productive sector – for business entrepreneurs and the workers; it is the continuing and increasing competition from developing countries.

The profusion of capitals is an old problem. John A. Hobson, who was the first economist to define modern imperialism in the end of the 19th century, explained the imperial expansion as is driven by the abundance of capitals at home and the search for new markets and investment opportunities overseas. As the time passes this problem only tended to become more challenging, because the accumulation of capitals net of depreciation tends to supersede the rate of growth of GDP: in the long-term, investment rates in rich countries are around 16% of GDP against growth rates around 3%. The expansion of multinational enterprises occupying the domestic markets of developing countries without real reciprocity are the present form that economic imperialism manifests itself.[6]

The investments of the multinational enterprises are a way out of the excess of capitals, but they don't solve the domestic problem that rich countries face – the lack of investment opportunities for business enterprises deriving from the increasing competition coming from developing countries, which have low cost of labor as a competitive advantage. This problem was born in the 1970s, when the first Newly Industrializing Countries (NICs) appeared exporting manufactured goods, instead of just primary goods. The new contenders were South Korea, Taiwan, Singapore, Hong Kong, Brazil and Mexico. In the following decades, as globalization turned generalized, the competition coming from developing countries intensified in second wave, in the 1980s, Malaysia, when Thailand and Indonesia began to export manufactured goods, and, in a third wave, when two huge countries, China and India, also started competing with rich countries. The reaction of the multinational enterprises was to increasingly invest abroad, so as to use the local labor to be competitive internationally, at the same side that occupied the domestic markets of developing countries unilaterally. This was for the business enterprises and their owners an attractive way out from the loss of competiveness of the respective countries, but didn't resolve the problem of the poor and of the middle classes, which depend on domestic investment to improve their standards of living, and of the respective governments, which depend on the people to be reelected. The way out domestically was the depression of wages and the huge increase of inequality, which defined the Neoliberal Years. The 2008 global financial crisis ended these years, but the inequality remained. The rentier middle classes lost, but the salaried middle classes also continue to lose. The relative recovery in the US didn't imply stopping, much less reverting the increase in income and wealth inequality. As remarked the president of the Federal Reserve Bank, Janet Yellen, in 2010, the top 5% of the US households disposed of 61% and in 2013, 63% of the total wealth in the US. Thus, wealth inequality, which was increasing before the crisis (in in 1989, the top 5% households disposed of 53% of total wealth), continued to increase after the crisis.[7]

Given the relative monopolistic power of the large business enterprises, they continued to achieve good profits, but the low growth rates show that this does no mean that the investment opportunities or the expected rates of profit for business enterprises – particularly for the small and medium size ones – turned satisfactory. Thus, the pressure on wages and on the labor entitlements leading to more "flexible" labor contracts will probably continue in the years to come. Something that social-democratic political parties cannot agree without incurring in contradictions still greater than the ones that they confronted in the Neoliberal Years – a constraint that conservative political parties don't face. On the other hand, the reduction of transport costs, led to an increased immigration to rich countries, what is favorable to their economies, but are object of a great rejection on the part of the waged middle classes. This is also a major problem to social-democratic parties, while is something that center-to-the right conservative parties have much less difficulty in dealing with.

There is a recent conservative developmental class coalition that is paradigmatic of what we can wait in the near future: the previously referred Agenda 2010 – the class coalition that the social-democratic prime minister of Germany, Gerhard Schröder, successfully led in 2003. The *Agenda 2010* involved a series of reforms planned and executed with the aim of reforming the German welfare system and labour relations. The declared objective was clearly developmental – to promote economic growth and, thus, reduce unemployment. The plan included unpopular measures as a 25% reduction in the basic rate of income tax, lower limits for the costs of medical treatment, and cuts in pension and in unemployment benefits. It counted with the support of the business enterprises, the conservative and the liberal political parties, and the catholic and protestant churches, while within the Social-Democratic Party there was strong internal opposition. The unions initially rejected the plan, but eventually accepted it in so far that there was a commitment on the part of the business enterprises of stopping the laying out personnel and the dislodgment their plants to Eastern Europe. The Agenda 2010 was clearly a reaction of Germany to the low growth rates that the country was experimenting and to the competition of China of other developing countries. As Brigitte Lestrade (2004) observed, "Germany seemed to be caught in ineluctable spiral decline, given the high unemployment, low growth, and increasing public deficit". Eventually, the *Agenda 2010* represented a major success in terms of reduction of unemployment, and was the origin of the euro crisis a few years later. It was a successful conservative class coalition, which the workers and the unions initially rejected, and, after some time, accepted because it worked. The left in Germany continues to oppose it – what is understandable, because conservative class coalitions eventually interest more the rich than the poor. But the fact is that the left and its economists didn't have an alternative policy to offer. The Keynesian idea of expanding demand to achieve full employment clearly didn't apply, given the fact the problem was not insufficiency of demand – something that lost part of its power in so far as national economies turned open and more competitive –, but a competitiveness problem.

A final caveat

But the concept of political class coalitions only makes sense on the framework of the nation-state. Thus, the prediction that, since the 2008 crisis opened room for conservative developmental class coalitions in the rich countries depends on how much the nation-state is resisting to globalization, which represents a major challenge to it. The argument that nation-states lost relevance in global capitalism is false, principally because economic nationalism is the ideology that holds together the nation-state. The poor and the middle classes continue nationalist in terms, because their welfare depends on the economic development of their countries. Notwithstanding the many representation problems associated to representative democracy, in the modern democracies the great majority of the citizens remain identified with their nation, because they know how important is that the nation have its own state to act on her behalf. Thus, the democratic governments, which are elected by the people, have no alternative but to be also nationalist to continue to reasonably represent the interests of the respective nations. This is an economic nationalism, not an ethnical on. The terrible experiences of ethnic or fascist nationalism, on one hand, and the interest of rich countries to occupy the domestic markets of developing countries on the other hand made the word "nationalism" pejorative, but the people and governments of rich countries remain nationalist on economic terms.

Yet, a nation is strong when there is among its members a basic national agreement. It was the idea of nation that welded the elites with the middle classes and the poor, and made the nations real nations – a form of political organization of society that counts with a state as an instrument for the achievement of their political objectives, and, notwithstanding the internal conflicts, is solidary when the problem is the competition with other nations. This basic national solidarity was strong before globalization, is not anymore. With globalization the elites of the more developed countries became increasingly "globalized", i.e., they weakened or just cut their commitments with the people, while they searched to constitute a global elite formed by the economic elites of rich countries and the dependent elites of developing countries.

The reason for this dramatic change in the basic political alliances is objective. The revenues of not only rentier capitalists and financiers, but also the top executives of the multinational corporations derive increasingly from the investments of the multinational enterprises abroad. In most rich countries, the dividends and interests that the very rich get are not the result of profits made in the respective domestic market, but made in the summation of the other countries. The multinational corporations continue to count with the firm support of their respective governments, independently of being the political coalition conservative or social-democratic, what makes the usual affirmation that multinationals enterprises have no nation is false. But the nations in rich countries turned weaker, because the economic elites in the great nations deserted their basic national alliance with the people in so far that their revenues ceased to originate from the domestic market of each multinational corporation, and because their governments are divided between attending the national interests of their people and the global interests of their elites.

In the previous developmental class coalitions that we discussed in this paper, there was a division of the capitalist class into two segments – a liberal rentier and financier segment and a developmental productive or entrepreneurial segment, but the rentier and financier class remained national. Now, this is not anymore true, and, in addition, the top executives of the major business enterprises ceased also to be national. What means that the powerful nations that dominated the world since the 19th century, including the US, created an economic system – globalization, the opening of domestic markets and the emergence of global corporations – that is undermining them from inside.

Thus, a caveat is required in relation to our prediction that in rich countries a conservative class coalition is being formed. The loss of the idea of nation that we are observing among their elites suggests that this will not be an easy task for the conservative politicians. The neoliberal class coalition lost political legitimacy, but is possible that no substitute is find for it. What means that capitalism may face in the years to come a time of crisis and high incertitude – a time were the defining social condition will be anomie, and the defining political condition, vacuum of power; a time where the fragmented society provides little moral orientation to its members; a time where the state is weak and power is everywhere and nowhere.

In conclusion, the best alternative that the capitalist system faces today is the formation of a conservative developmental class coalition; the danger ahead is that even this this proves not viable, and what we will face low rates of growth if not stagnation combined with social unrest and political fragmentation. For us, the ideal was a that a developmental and progressive class coalitions turned dominant, but this remains the least probable outcome because rich countries will continue to face the competitive pressure coming from developing countries, mainly China and India. For sure, the imperialist strategy of occupying the markets of the weaker developing countries with their multinationals and their finance continues open, but the room for this is getting narrower, particularly in Asia, where the fast growing countries are more autonomous and strong, conserve their national identity while modernizing rapidly, are able to define national development strategies and are catching up.

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[1] On the comparison between economic liberalism and developmentalism, see Bresser-Pereira (2014).

[2] In the past, economic growth was associated to industrialization, which involved transference of labor from small to higher income per capita activities; today, we have highly sophisticated services, and growth is associated to "productive sophistication".

[3] Remember that in the 19th century liberals were against democracy with the argument that it would imply "the tyranny of the majority".

[4] Although the US is the more advanced country in economic and technological terms, and although the New Deal reforms opened room for social democracy, the US is the country where the welfare state progressed less. Probably for that reason, modern democracy is often called "liberal democracy", although many countries overcome this stage and are social democracies.

[5] The unit labor cost is obtained by the division of the average wage rate by the productivity of labor.

[6] Without real reciprocity because, in the case of developing countries, they offer their domestic markets to rich countries without that the later offer their domestic markets in return. The reciprocity would come through their investments, but what experience and developmental macroeconomics show is that there is a high rate of substitution of domestic for foreign savings, and, in consequence, the increase rather of consumption than of the total investment rate (Bresser-Pereira, Marconi e Oreiro 2014).

[7] Source: Speech of Janet Yellen in Boston, October 17, 2014.