The background of the entire page is a complex, abstract image. It features a dark, textured surface with a grid of dashed white lines. Overlaid on this are various financial charts, including candlestick patterns in green, red, and yellow, and line graphs with solid and dashed lines. A prominent, bright, circular white light source is visible in the lower right quadrant, creating a lens flare effect. The overall color palette is dominated by dark purples, blues, and greys, with accents of green, red, and yellow from the charts.

**Working
Paper**

386

Março de 2015

**SAO PAULO SCHOOL
OF ECONOMICS**

Developmental class coalitions: historical experiences and prospects

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Developmental class coalitions: historical experiences and prospects

Luiz Carlos Bresser-Pereira e Marcus Ianoni

Paper prepared for international symposium *Growth, Crisis and Democracy: The Political Economy of Social Coalitions and Policy Regime Change*, organized by Waseda University and the European University Institute, Firenze, November 2014; revised February 2015.

Abstract: This paper discusses the concept of class coalitions as a partial alternative to class struggle in understanding capitalist societies; defines two basic class coalitions – the developmental and the liberal ones; presents briefly three paradigmatic developmental class coalitions – the mercantilist, the Bismarckian, and the social-democratic (or of the golden years of capitalism); and uses this theoretical framework to understand contemporary capitalism in the post neoliberal years – the years that follow the 2008 global financial crisis.

Resumo: Este artigo discute o conceito de coalizões de classe como uma alternativa parcial à luta de classes na compreensão das sociedades capitalistas; define duas coalizões de classes básicas - a desenvolvimentista e a liberal; apresenta brevemente três coalizões de classe desenvolvimentistas paradigmáticas - a mercantilista, a bismarckiana, e a social-democrata (ou dos anos dourados do capitalismo); e usa esse arcabouço teórico para entender o capitalismo contemporâneo nos anos pós neoliberais - os anos que se seguem a crise financeira global de 2008.

Key words: social classes, coalitions, capitalism, developmentalism, economic liberalism

JEL classification: P10

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 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

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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.² 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 be 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 and a liberal capitalism (liberal in economic terms), 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 form of state, which is also democratic, social and environmental, plays this role. Furthermore, in the historical periods in which economic liberalism commanded the economy the frequency of financial crises, low growth rates and increasing inequality were its distinctive characteristics.

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 business entrepreneurs, the technobureaucratic class (particularly the public bureaucracy) and the working classes, which includes the employees and, more broadly, the relatively poor. The alternative liberal class coalition usually comprises the rentier capitalists, including the rentier middle class or the traditional 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. Note that we are using a broad concept of workers or working class. We have to do that because in contemporary capitalism workers, on one side, because they lost the relative political unity that they had in the past, and, on the other, because not them but the employees in the services form the bulk of the relatively poor in each society. In the complex technobureaucratic societies of today, political consciousness is not either a simple consequence of the control of capital, or of knowledge; other factors, as the rejection of immigrants, play also a role; but technobureaucratic capitalism continues to be divided between the poor and the rich, between the workers and the owners of capital as well as the holders of organization.³

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 manpower. 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.⁴ 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 countries that first developed, 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.⁵

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.⁶

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, they 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.

The mercantilist coalition

Since the early stage of capitalist development, the emergent modernizing classes (the bourgeoisie and the working class) and some incumbents of the modern state that also emerged allied themselves and transformed the traditional society, agrarian, feudalistic, into a capitalist society. These alliances or class coalitions varied in time and space and, if we observe in a broad way, they have involved contradictions, compositions, compromises, conflicts, and wars, between ancient and modern forces. Europe was in a major transition that lasted some centuries, by which the feudalistic order was transformed into a capitalistic one. The modern nation-state, firstly under the absolutist form, then in the constitutional and liberal form, was the major political creation of that great transition that was the capitalist revolution, whereas the industrial revolution, the major economic achievement. This modernization process transformed the feudal economic and political system into a market economy, and the corresponding decentralized political system into a new, powerful and centralized institution, the capitalist state, and into the respective sovereign territorial political unity, the nation-state, formed by a nation, a state and a territory. Once this double transition was completed in each nation-state, the capitalist revolution was “completed”, i.e., the main features of the capitalist societies were already present. Whereas the political form of organizing capitalism in this transition from feudalism to capitalism was the absolute state, the economic was mercantilism.⁷

The political class coalitions supporting these historical changes are often ignored. A major exception was Barrington Moore Jr. (1966), who wrote a classical book in which he sustains that there were three historical routes to modernization, and that the respective political coalitions explain the results.

The three routes were: bourgeois revolutions (England, French and USA), revolutions from above (German and Japan) and communist revolutions (Russia and China). These routes differ according to the coalition that supported each of them. In this section we are interested in the first form; in the next we will discuss the German or Bismarckian route.

The engagement of a developmental state in the coordination of an economy varies in degree and form. The first historical case of developmental coalition and developmental state is the mercantilist coalition that led the more successful absolute states to adopt developmental policies that impelled to the economic growth. We will consider here the England case. The mercantilist phase of capitalism coincided with the absolute state. Although the Glorious Revolution led England to a constitutional monarchy, the mercantilist policies went on until around 1830,⁸ and they were a key factor in strengthening the state capacity, in accelerating the primitive accumulation of capital, and in originating the Industrial Revolution in that country. The British liberal economy becomes stronger only after the first decades of the nineteenth century. “It was the maturation of the DS [developmental state] that made a policy of free trade optimal for the British ruling classes. Without the success of the former, such an outcome might have remained highly problematic” (Bagchi, 2000, p. 404).

State power depends on the support of social classes that form civil society. State power does not originate within the state apparatus taken in isolation from society. As Poulantzas (1978) said, the state is a social relation; its power depends on its political legitimacy. Addressing the Puritan Revolution, Marx (1848) says what it was characterized by the political alliance held at that historical period: “In 1648 the bourgeoisie was allied with the modern aristocracy against the monarchy, the feudal aristocracy and the established church”. The same Marx, in *Capital* (1867, p. 505), refers in this way to the results of the Glorious Revolution: “The ‘Glorious Revolution’ brought into power, along with William of Orange, the landlord and capitalist appropriators of surplus value [...] Besides, the new landed aristocracy was the natural ally of the new bankocracy, of the newly-hatched haute finance, and of the large manufacturers, then depending on protective duties”. Addressing the English mercantilism at the beginning of 1700s, Mokyr & Nye (2007, p. 6) identifies a “grand coalition between big landowners and the emerging urban-commercial class (with particular prominence of the financial interests) as represented by the dominant Whig party”.

Since the 1689 Glorious Revolution, “the new unity of purpose between monarch and Parliament led to a search for new revenue and to a jump in duties on foreign trade” (Thomas & McCloskey 1981: 93). This is important because it highlights the participation in the class coalition of the politicians located in the Executive and the Legislative powers, as well as highlights the institutional face of this socio-political alliance. This grand coalition “divided the surpluses generated by the new economy” (idem, p. 5). In the mercantilist England, civil society was important in assuring state stability, starting with the self-organization of landowners, especially since XVII’s (McNally 1990). It is known that, in England, large landowners, many of them belonging to the nobility, became involved in the capitalist land use. Actors that demanded and supported

the modernizing changes had more to gain with the new economic arrangements than maintaining the traditional *status quo*. In other words, it was an alliance between Big Land and Big Commerce, since at that time the bourgeoisie was a class essentially linked to the commercial capital. Beyond that, at the beginning of the 1700s, 68% of workers were in agriculture (Thomas & McCloskey 1981).

The manufacture system – the mercantilist economic formation prior to the modern manufacturing industry – developed in the cities as well as in the rural areas.⁹ In the manufacture production capital was still largely dependent on manual skills, which corresponded to the division of labor in several professions. “The subordination of labor to capital was only formal – i.e., the mode of production itself had as yet no specific capitalistic character. Variable capital prevailed greatly over constant” (Marx 1867: 517).¹⁰ The specifically capitalist capital accumulation will occur in the modern industrial production, when the means of production (constant capital) are in the hands of productive capitalists, and when the new technologies fully submit variable to constant capital. The mercantilist state supported the agricultural revolution – the substantial increase of the productivity of the land that occurs in the sixteenth century –, which, among other things, generated the worker without means of production – a former peasant expropriated of his land –, whereas labor laws – laws of the Crown – ensured to capitalists the payment of low wages and prevented the organization of workers.¹¹ At the same time, the wars waged by the monarchs, which were financed by taxes and by loans provided by the merchant class, combined with the end of the feudal serfdom, the expropriation of small farmers, and the manufacture production created conditions for the formation and development of a large domestic market – an essential condition for the industrial revolution and the capitalist economic system that this revolution will eventually establish. In this historical process, which configured the primitive accumulation of capital that Marx so intensely described in chapter 24 of *Capital*, there were winners and losers. The losers were feudal lords and the Church (the previous ruling coalition) and the small farmers, the small country gentlemen, the workers in the manufacturing industry, the independent artisans, the local small merchants and producers that did not have means to access the national and even less the international market. In the words of Marx (1867: 528) “The different momenta of primitive accumulation distribute themselves now, more or less in chronological order, particularly over Spain, Portugal, Holland, France, and England. In England at the end of the 17th century, they arrive at a systematical combination, embracing the colonies, the national debt, the modern mode of taxation, and the protectionist system. These methods depend in part on brute force, e.g., the colonial system. But, they all employ the power of the state, the concentrated and organized force of society, to hasten, hot-house fashion, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition”.

What policies were implemented by the mercantilist class coalition and its mercantilist state? In the first place, being the mercantile system structured on trade, the mercantilist state enforced a commercial policy of boosting foreign and domestic trade.¹² And also promoted the manufacturing industry through a definitely protectionist trade policy. In the international economic front the

objective of the monarch and of the large traders was a positive trade balance. Given the importance of international trade and the protectionist policies implemented by the major European powers, mercantilism involved competition between firms, and mainly between nation-states, which, in some cases, end up into wars. The Anglo-Dutch Wars, that occurred during more than a century, between 1652 and 1784, were important manifestations of the struggle for control of trade routes and the seas. During the Puritan Revolution, Cromwell and the Parliament soon took the initiative of boosting the foreign trade of England, which was behind the Netherlands and Spain. Regulatory policies have been adopted to ensure the monopoly of English trade (exports and imports) to the English merchant fleet.

Mercantilist policies served the interests of government and commercial class, which formed the mercantilist class coalition focused here, and eventually promoted the rise of an industrial bourgeoisie. The Navigation Acts were the main regulatory policies to ensure the protectionist trade policy. The merchant fleet was the fundamental means of commerce of the big English merchants, and England had the most efficient merchant fleet in the world (Thomas & McCloskey, 1981: 92). The regulations were of four types: "first, the nationality of the crews and the ownership of vessels in which foreign trade could be carried; second, the destinations to which certain colonial goods could be shipped; third, an elaborate system of rebates, drawbacks, import and export bounties and export taxes in aid of particular industries at home; and, fourth, the manufactures in which the colonies were allowed to engage" (idem: 94). Crews and the ownership of vessels were granted to Englishmen; the list of colonial goods that were necessarily intended for the mother country, England, and from there, re-exported to other countries or colonies in the natural form or after being manufactured; the third type of regulation emphasizes the rent-seeking behavior of a small special interest group; the fourth, a protectionist policy for British manufactures against colonial production. Once the monopoly of maritime transport was assured, the additional commercial restrictions were more easily adopted.

Mercantilism is then inseparable of colonialism. The increase of English international trade, including exports and imports, depended not only on the demand of continental Europe, but, increasingly, on the colonial system that provided raw material at low costs and were captive markets to the mother country goods. The high tariffs on European markets led England to seek new export markets in the colonial possessions. This resulted in a policy of colonial expansion through which the mercantilist state achieved control of overseas markets outside Europe. Once acquired, the colony was subjected to mercantilist trade with the mother country. "The colonial system ripened, like a hot-house, trade and navigation. The 'societies Monopolia' of Luther were powerful levers for concentration of capital. The colonies secured a market for the budding manufactures, and, through the monopoly of the market, an increased accumulation. The treasures captured outside Europe by undisguised looting, enslavement, and murder, floated back to the mother-country and were there turned into capital" (Marx 1867: 529). Referring to the 1700s, Thomas & McCloskey (1981: 91) say: "English combined exports to the North American colonies and the West Indies expanded by an astounding 2300 per cent over the

century. The Atlantic colonies at the end of the century took over half of all the goods exported from the mother country". The mother country had an unfair or unbalanced trade with its colonies; she exported to continental Europe manufactured goods produced with raw material imported from them.

Once the positive trade balance policy required colonial expansion, the mercantilist states adopted a war policy to assure it. At that time there was a Hobbesian international military order. As Laura LaHaye (2008) remarked,¹³ "during the mercantilist period, military conflict between nation-states was both more frequent and more extensive than at any other time in history. The armies and navies of the main protagonists were no longer temporary forces raised to address a specific threat or objective, but were full-time professional forces. Each government's primary economic objective was to command a sufficient quantity of hard currency to support a military that would deter attacks by other countries and aid its own territorial expansion". One of the main instruments of the English military policy to achieve mercantilist gains was the Royal Navy. In 1664, for instance, the British Navy captured New Amsterdam, then a Dutch settlement. The Royal Navy resulted from a program of warship building and a fund-raising to finance it.

The mercantilist state implemented a set of interventionist policies. Naval monopoly was not the only monopoly. Referring to the modern state history, Marx (1871) says, "its development remained clogged by all manner of medieval rubbish, seigniorial rights, local privileges, municipal and guild monopolies, and provincial constitutions".¹⁴ But with the growth of a nationally integrated economy, local monopolies disappeared, were acquired, other became greater. The monopoly conquered by the East India Company from the British mercantilist state, since the reign of Elizabeth I, resulted of demands of rich merchants and aristocrats that shared this privilege, which, later on, turned out on a joint-stock enterprise.¹⁵ There was also The Statute of Monopolies, by which the monarch granted to some industries and businessmen letters of protection to develop productive activities with commonly new and foreign techniques. All this made necessary that the mercantilist state developed a system of public credit and taxation. The state needed fiscal resources to implement its interventionist and militaristic actions, but at the same time such actions propitiated revenue. "Between 1710 and 1780, the estimated national income of Britain rose from £59.8 million to £97.7 million and military spending increased from £5.4 million to £12.2 million" (Bagchi: 406-407).

In the context of the Commercial Revolution and the Age of the Great Discoveries, new trade routes, which involved large international movement of goods, people and ideas, some technical innovations were accompanied by several changes in the structure and the policies of the Western Europe mercantilist states. It occurred originally among the pioneers, such as Portugal, Spain, and, then, in France, England and Holland, which learned from the experiences and innovations of each other.¹⁶

One of these innovations was the development by the state of a taxation system and of new administrative practices. In the case of England, an effective system of taxation was imposed; in 1760 it took around 20 per cent of the nation's

output. A financial system was also required. The precursor or, maybe, the first central bank was the Bank of Amsterdam, dating back to the year 1609. The Bank of England appears in 1694, privately owned, but in their relationship with the government, it made loans to the public sector, and had authorization to issue and transact government bonds; in other words, it played roles of a central bank. "The Bank of England, the East India Company and the South Sea Company provided the bastion of public credit which allowed the British state to raise loans at a low rate during wars as well as in peacetime" (idem: 407).¹⁷

In conclusion, mercantilist capitalism encompasses the 16th, the 17th and the 18th centuries. It was the phase of transition from feudalism to capitalism, the time of the absolute state, of primitive accumulation of capital, of the formation of the first nation-states, and, last but not least, it was the moment of the Industrial Revolution – the economic revolution which, definitively, gave rise to capitalism or modernity. It was the moment of the configuration of what Immanuel Wallerstein (1980) called "the world system", which included the mercantilist expansion of capitalism, originally led by Portugal and Spain in regions that were relatively vulnerable militarily, where they established mercantile colonies. Mercantilism was the time of the *first* developmentalism in so far as it was based on a developmental class coalition formed, on one side, by the monarch and its patrimonial court of aristocrats (who were also landowners) and bureaucrats living out of the treasury of the state, and, on the other side, by the merchants who were changing into capitalists because involved in the capitalist use of the land. According to Amiya Kumar Bagchi (2000: 399) "the first developmental state to emerge since the sixteenth century was that of the northern part of the Spanish Netherlands which, after the reconquest of the southern part by Spain, evolved into today's Netherlands". The mercantile bourgeoisie originally derived their wealth from the long-distance trade of luxury goods, but soon, with the rise of manufactures, they became interested in the formation of a secure and large domestic market, which would make possible the Industrial Revolution, in so far that it required the mass production of cheap industrial goods. With this medium-term objective in mind, while reaping short-term gains from the mercantilist monopolies awarded by the monarch, they financed with their taxes the wars led by the monarch – wars that defined the territory of the first nation-states and opened the way for the Industrial Revolution. Was the mercantilist system as bad as liberal economists insist it was since Adam Smith? The simple fact that the mercantilist period was the moment of the industrial revolution for England, Belgium and France shows that it was highly successful.

The Bismarckian coalition

Another important experience of developmental coalition was the Bismarckian coalition, which supported the Germany Industrial Revolution in 19th century (Veblen 1915). Germany's fast and impacting industrialization – which, starting from a condition of economic backwardness, achieved in 1914 the condition of the second world industrial power – is inserted in a complex change process in which we will highlight some explanatory factors of economic, political, ideological and military order. In 1834, the Zollverein – a customs union that

eliminated the trade barriers among the German states – is formed and brings the expansion of the market for industrialists. Referring to this phases of national unification and industrialization, Veblen (idem: 70) says: “the states that got their material means of life from the industry of the German people drew together into the Customs Union, presently after into the North-German Confederation, and finally into the Empire. The good effects of this move, in the way of heightened efficiency and therefore of material prosperity, are well enough known, and they have been shown with sufficient publicity and commendation by many writers competent to speak of such matters. The most striking item in the reform so wrought is the removal of tariff frontiers and similar interstitial obstacles to trade and communication”. That is, Zollverein led to prosperity, and was an important step to prepare the unification of Germany, that would take place in 1871, because, besides being an economic alliance between the hitherto politically independent German states, encouraged business entrepreneurs to provide political support for the formation of this new and powerful nation-state. In both the Zollverein and the German unification, the Kingdom of Prussia played a leading political role in transforming the confederation form of the political superstructure in a federal form, and an equally leading economic role in achieving the German industrial revolution. According to Gerschenkron (1962: 8): “Industrialization always seemed the more promising the greater the backlog of technological innovations which the backward country could take over from the more advanced country. Borrowed technology [...] was one of the primary factors assuring a high speed of development in a backward country entering the stage of industrialization”. Germany could learn from the successes and mistakes of the pioneering England.

The 1848 wave of revolutions in several European countries raising popular and liberal demands also achieved some German states, including Prussia, where was fought and won by the conservatives, among which the then relatively young Bismarck was positioned, since he was a political leader of Junker, i.e., aristocratic origin. In any case, despite the promised liberal reforms have not been fulfilled by the King of Prussia, the desire of the middle classes for the national unification, expressed in 1848, did not disappear. The conservative Bismarck orchestrated that unification with political skills and based on the political interests of Prussia. As Veblen (1915: 60) remarks, “when Germany so comes into the complex of commercial and industrial Europe in the nineteenth century it is under the lead of the Prussian state, not under that of the south-German or Austrian peoples; and the lead of Prussia is wholly of a political character and is directed to political ends. Prussia contributed nothing else than a political (warlike) force and political ambitions. German cultural elements, other than warlike and political, come from the countries farther to the south and west. But this contribution from the Prussian side has been very consequential”. Due to the strong political power of the large landowners and the existence of a labor-repressive agrarian system, Barrington Moore Jr. (1966: 433) named the conservative modernization of the German agrarian society into an urban and industrial society a “conservative modernization”, which was, at first, “unfavorable to the growth of free institutions of the nineteenth-century Western variety”.

Nationalism is the ideology of the formation of the nation state. The German nationalism dates back to the "Pan-Germanism", a power-idea that aimed to unify, in a nation-state, the set of German-speaking populations in Europe. Its emergence occurred in the context of the Napoleonic Wars, which resulted in the invasion of the German states by France and the establishment of the Confederation of the Rhine, in 1806. Initially, the Confederation added 16 German states, without the participation of Prussia and Austria. Another important moment in the history of Pan-Germanism was the Revolution of 1848, which has raised a nationalist liberal content in various states of the then German Confederation, in which the major political forces were the Kingdom of Prussia and the Austrian Empire, while not all regions of these two powers were part of the confederation. The Kulturkampf, an anti-Catholic policy implemented by Bismarck, especially in Prussia, from 1872 on, in the context of the Empire, has also been interpreted as an expression of German nationalism, in this case powered by authorities of the newly unified state.

On the other hand, following Barrington Moore Jr. and Veblen's arguments, the then existing militarism had their political basis on the feudal nobility, which maintained a labor-repressive agriculture, and on the centralized absolute monarchy under control of the Hohenzollern dynasty, which had a traditional military force. Referring to the Hohenzollern, Veblen (1915: 63) states: "With the predatory animus and the servile allegiance of the feudal tradition still intact, and imbued with the spirit of chicane and effrontery that comes of a predatory settlement, this body took rank from the outset as a highly efficient engine of dynastic aggression. And in as much as this career of dynastic aggression has never ceased, and has seldom suffered protracted interruption since it first got under way, the discipline of everyday life has conserved in admirable preservation the range of habits of thought with which these peoples first entered on the stage of modern Europe. They are the best-preserved remnant of medievalism in Europe of sufficient mass and commanding sufficient material resources to make them formidable in international politics". Frederick the Great was probably the greatest expression of Prussian militarism. According to Barrington Moore Jr. (1966: 436), in Prussia, which he calls "Sparta of the North", there was "a militarized fusion of Royal bureaucracy and landed aristocracy". This Prussian militarism was present in the Second Schleswig War (1864), in which Bismarck, then Prime Minister of the Kingdom, joined Austria in a military alliance against Denmark, disputing two counties, Schleswig and Holstein. After a brief war, Prussia controlled Schleswig, and Austria controlled Holstein. In 1866, a bold military action was directed against the Austrian Empire, which exerted political influence in the southern states of the German Confederation. The pretext for this war was created by the cunning of Bismarck, who provoked militarily Austria on the issue of the administration of the two counties acquired in the war against Denmark. Austria accepted the provocation; Bismarck won the war against its biggest rival in the German Confederation, and was able to move forwards on the way to unify the German states without the Austrians, under the hegemony of Prussia. The institutional expression of the economic development that Prussia was experiencing and of the Austro-Prussian War was the dissolution of the German Confederation and the creation of the North German Confederation. Finally, the nationalist militarism of Prussia, institutionally

supported by the National Liberal Party, the main party of the bourgeoisie and the Landtag of Prussia, managed to complete its goal of unifying the German states, not only the ones in North but also in the South, which, after the Austro-Prussian War of 1866, were in a kind of geopolitical vacuum. This was achieved through the Franco-Prussian War, occurred from 1870 to 1871, which Bismarck was able to win. Through this war, he managed to attract the German states in the South to the military alliance with the North German Confederation against the Second French Empire, thus constituting the political unity of the German states, which supported national unification.

The focus of this paper addresses the developmental class coalitions that supported industrialization. Germany's transformation into a modern and industrial country was simultaneously progressive and conservative. It was characterized by a nationalist ideology, and relied on mutant coalitions between political and institutional and bureaucratic state forces (especially on the Kingdom of Prussia, and, from 1871 on, on the German Empire) and the agrarian and industrial ruling classes. It will not be possible to recount the history of coalitions observed throughout the 19th century here. We will refer only to the main structural trend, the coalition between the business entrepreneurs in the emerging manufacturing industry and the agriculture's economic elites, and to one of its historical settings, the so called "iron and rye coalition" (Gerschenkron 1943), which formally prevailed from 1879 to 1890.

Barrington Moore Jr. (1966: 436) identified, in 18th and 19th century Prussia, a militarized coalition between the Royal bureaucracy and landed aristocracy. Throughout the 19th century, as modernization process progresses, "a new and crucial factor is likely to appear in the form of a rough working coalition between influential sectors of the landed upper classes and the emerging commercial and manufacturing interests". This coalition, it seems, was the strongest structural sociopolitical trend in German modernization. Engels (1851-52) had already observed it, and writing on the events and developments of the 1848 revolutions in the German states, says: "the alliance between the bourgeoisie and the supporters of the overturned system was concluded upon the very barricades of Berlin". Due to the fear of a repetition in the German states of what had happened, a few months before, in Paris, where, in February, the monarchy of Louis Philippe was overthrown, and in June, there had been a popular insurrection led by the workers, the bourgeoisie, that showed hesitation in choosing between committing itself with the aristocracy or joining the radical reformism, chose the conservative option. According to Barrington Moore Jr. (1966: 437), this alliance meant to the bourgeoisie, "exchanging the right to rule for the right to make money." Taking into account the analysis of Jon Elster (1985: 411) on the theory of the state present in the work of Karl Marx, this stance of the German bourgeoisie could be framed in the theory of abdication/abstention, according to which the bourgeoisie realizes that their class interests are better served if they stay out of politics. Other analysts also identify the same coalition formulated by Moore Jr, as the Jean-Marie Vincent (1967: 50): "In the same form that the English monarchy's of the 1689 Glorious Revolution, the Bismarckian empire was based on a compromise between the aristocracy and the bourgeoisie, but this compromise was defined by the

preeminent of the Junkers and the army, who had conducted the unification by the iron and the blood in defeating Austria and, after, France".¹⁸

It was Gerschenkron (1943) who deeply analyzed one of the cyclical manifestations on this structural class alliance, calling it "iron and rye coalition". Institutionally, this coalition joined the National Liberal Party and the German Conservative Party, both right wings. He argues that, from 1865 to 1879, agriculture in Germany was largely based on free trade in grain. The Junker farmers, who were still feudal lords, exported their grain, primarily to the London market, and were strenuous opponents of protectionism. In 1873, this fraction of feudal-capitalist agricultural class strongly opposed to protectionism for the iron, and was victorious in defense of the free trade of that good. However, with the advent of the Long Depression, which dreadfully affected several countries in the world between 1873 and 1879, the flag of protectionism in Germany – as in most of Europe, except England – gained strength as a defense of the industrialists, landowners and peasants' income. In 1876 is founded the "Central Union of German Industry", dominated by the iron and spinning industries, and specifically dedicated to protectionist lobby. At that time, the Junkers still advocated free trade. Yet, less than a year later, the "Union for Fiscal and Economic Reform," which was not specifically an organization of farmers, but had advocated liberal economic flags, joined the manufacturing industry in promoting protectionism.

The change in the Junkers' position was due to the intensifying competition in the grain market in Europe, especially by the presence of Russian and American products. Production costs in Germany, due to certain characteristics of its soil and intensive agriculture, have become larger than that in other regions, where there was extensive agriculture. Before long, the trade balance of grains in Germany became deficient, with imports, especially of rye, wheat, oats and barley, surpassing exports. This fact led Junkers to adhere to protectionism. Bismarck played an active role in building the developmental coalition. According to Gerschenkron (1943 [1989], 44), Bismarck "was eager to both increase the revenue of the Reich and, at the same time, to form a new Conservative majority in support of his government in order to supplant the majority which had helped to found the German Reich and of which the National Liberal party, the right-wing liberal middle-class group, had been the essential pillar". The Liberal Party defended economic liberalism during the decades of the 19th century, but had become representative of the protectionist interests of the heavy industry. In 1879, was promulgated the tariff agreement that protected a number of industrial products and grains, especially in the latter case, the rye. The rates initially were low but were increased considerably in 1885 and 1887.

This developmental class coalition between the manufacturing industry and agriculture was called "solidarity block". When reviewing the deal more deeply, Gerschenkron argues that, in fact, that coalition "was essentially a compromise between iron and rye" or, more broadly, among iron, steel and grain. After all, if protectionism had involved all agriculture, it would imply pressures from workers to raise industrial wages, and, if it had covered the entire manufacturing industry, it would impact on increased production costs for farmers. "For heavy industry like the Rhenish-Westphalian Blast Furnaces the tariffs created a

monopolistic position on the domestic market, with the additional possibility of dumping policies. This more than compensated heavy industry for the rise in wages, all the more so because at that time trade union organizations in those branches of the manufacturing industry were still extremely weak. For the owners of the grain-selling big estates in the East Elbian provinces, grain protection was vital to their existence as a social group" (p. 45). On the other hand, Gerschenkron argues, in relation to the coalition, "its successful functioning was contingent upon the ability of both groups to impose this policy on the rest of the producers in industry and agriculture".

To the extent that the effects of the Long Depression were overcome, economic pressures from international competition for consumer markets in the context of shrinkage decreased for both industrial and agricultural products. In the government of Chancellor Leo von Caprivi (1891-1894), customs tariffs were being reduced and, in turn, gave way to trade agreements, which lasted for a period of ten to twelve years. However, at this point, the Junkers had adhered to protectionism and much resisted the new trade policy. But what is important to learn from the iron and rye developmental coalition analyzed by Gerschenkron is that it was the version, for the historical period of the Long Depression, of the sociopolitical and structural coalition between manufacturing industry and agriculture, which was the basis for conservative modernization that followed the Revolution 1848 in Germany, that maintained on its march the Zollverein, established in 1834. This developmental coalition was a synthesis between liberalism and conservatism, between feudal-capitalist agricultural development and industrial development, between authoritarianism and restricted participation, between tradition and change. It provided the basis for the Germany emergence as a capitalist power in the political map of Europe. As Hélió Jaguaribe (1962: 22) underlined, "it was the reserve of the national market for the national manufacturing industry, which led, in the case of Germany, to the custom's and the following political unification, under the Prussian monarchy, in these two countries [Germany, under Bismarck, and France, under Napoleon III], to an arbitrage between the social forces in conflict, that opened room for economic development with the active participation of the state".¹⁹

Considering the class coalition between the manufacturing industry and agriculture in a broader sense, the historical context of the first decades of the German Empire existence, it included Bismarck's political leadership, head of the executive power (later followed by other chancellors), the civilian and military bureaucratic elites, the landowning elites and the large industrial business. But it is also important to note that this alliance, in addition to facing the economic challenge of developing the country, also faced strong opposition from workers through the Social Democratic Party (SDP) and unions. Bismarck implemented two major policies for the workers, the "anti-socialist laws", which almost turned the SDP into a clandestine organization, except in the parliament, and the social reforms, which implied sick leaves (1883), work accident insurance (1884) and old-age security pension (1889). At the time, this was the most advanced social legislation and expressed the government's perception that the fight against socialism required not only repressive measures, but also guaranteed concessions for workers, made under the authority of the state.

The social democratic coalition

“Scandinavian countries have enjoyed an international reputation for combining generous welfare state entitlements with rapid economic growth, low unemployment and very high levels of labor force participation, particularly among women. They seemed to have achieved the elusive combination of social equality and economic efficiency” (Stephens 1995: 1). These achievements, which include economic growth, high employment and an effective set of social welfare policies, form the social democratic and developmental class coalition that reached its fullest or archetypal form of expression in the Scandinavian countries. Its origins date back to the electoral victories of social democratic parties and the Keynesian economic response to the Great Depression.

While the mercantilist and Bismarckian developmental coalitions occurred in authoritarian contexts, the coexistence of democracy and capitalism is the main feature of the social democratic coalition. Przeworski (1985) made an empirical and theoretical analysis of this class compromise that had a huge impact in the social sciences. His basic argument is on the structural dependency of the state in relation to capital. The state is structurally induced and constrained not to affect the relations of production in which the social classes are inserted. The state and society depend structurally on the capital. Individuals and groups depend on the decisions of business enterprises, which affect levels of economic activity, employment and consumption. Thus, society as a whole depends on the investment decisions taken by the private sector (Przeworski & Wallerstein, 1986), which has a kind of veto power: if business entrepreneurs either turn insecure or the expected rate of profit is viewed as unsatisfactory, they stop investing, and the national economy will fall into crisis. Without capital accumulation there is no employment, and no public revenues to finance the state. Despite the electoral victories of the social democratic parties in several countries of Europe have reconfigured the political relation of forces in favor of labor, there has not been change in the relations of production. The private ownership of the means of production has been preserved.

The decision of the social democratic organizations, taken over time – to participate in elections presenting an electorally competitive program – led them to redesign their revolutionary program and to adhere to a reformist strategy, in order not to lose the election, not only because the manual workers were not a majority of the electorate, but also because it was not necessarily rational for workers to support a political party that was committed to a revolution whose consequences they could not predict.

The economic theory of Keynes contributed decisively to explain and legitimize the need for government intervention in the economy. Until then, the neoclassical theses prevailed, even influencing the early governing experiences of social democratic political parties. However, the countercyclical policies initially implemented intuitively by social democratic governments, as occurred in Sweden in 1932, and, in the following decades, the rational impact of Keynes' work altered the perspectives of left ruling coalitions. The Keynesian full employment commitment served as a programmatic base for social democratic governments – already in the 1930s, but mainly after 1945. The social policy

proposals were the other face of the electoral program that, when victorious, led to the formation of democratic governments in which workers' organizations (political parties and unions) have had a substantial weight. On the other hand, government decisions impacted, dialectically, the power resources of the main political actors. These electoral victories were not founded on anti-capitalist revolutionary programs, but on a model of mixed or developmental economy in which not only the market played an important role, but also the state, especially aimed at preventing and controlling cyclical crises and at promoting social welfare policies, which, as T.H. Marshall (1950) classically demonstrated, raised to the status of citizenship rights. The reasons for the abandonment of the revolutionary programs were many. First, in all countries the proletariat was already in the 1950s a numerical minority; thus, once the decision to participate in elections expecting to win was made, it would only be possible to achieve a majority with the support of other classes, as non-manual workers and peasants, which meant mitigating the classist speech; and, once the election was won, to implement the agreed policies.²⁰ Second, certain practices and bourgeois values, such as competition and individualism, also limited more radical socialist reforms. Third, it is impossible to govern capitalism without the participation of capitalists, giving the veto power that business entrepreneurs hold.

The class compromise between certain fraction of the capitalist class and the workers is the basis of a class coalition. Przeworski (1985: 90-91) criticizes a model of irreconcilable class conflict in democratic capitalist societies. A class coalition can be a shared choice between proletarian and bourgeois fractions. "Moreover, it is indeed in the interest of the workers, given again capitalist organization of social relations, that the largest possible share of surplus be retained by capitalists and allocated to accumulation, since in this way future total product is increased. Hence, there exist objective bases for a political alliance between the narrowly defined industrial proletariat and the modern, expansionist fraction of the bourgeoisie. This was true most likely for the 1924-28 alliance between the S.P.D. and the dynamic sector of German industry, not improbably for the Roosevelt's New Deal coalition, and perhaps for the current alliance between the Communist Party and the Christian Democrats in Italy. This would also have been the nature of the often rumored agreements between the Communist Party and the Christian Democrats in Chile".

In fact, according to the author's approach, the class coalition between capitalists and workers in democratic contexts is not limited to social democratic governments, thus extending the applicability of the concept of class compromise to conservative governments as the conservative governments of Germany and Italy involved in building the welfare state after World War II, and even for the United States of the New Deal, a country in which, as we all know, there has never been a mass social democratic party with roots in the working class. Nevertheless, it was in the New Deal that the social security and the statutory minimum wage were implemented, with the political support of the New Deal Coalition, the broad class coalition formed in the USA, between 1932 and 1968, which, with the exception of the election and re-election of Republican Eisenhower in 1952 and 1956, gave the Democratic Party electoral victories. On the other hand, this extension of the concept of class compromise associated

with the historical period is consistent to what the French Regulation School called the Fordist class coalition, and it has a structural dimension that helps to understand the argument that the reaction of the rich against the policies of employment and welfare of the Golden Years is among the political causes of neoliberal class coalition that turns dominant in the 1980s.

According to Przeworski (1985: 202), “class compromise implies a particular organization of the state as an institution and the policies pursued by this institution constitute an expression of a specific class compromise”. Although this author does not address the social corporatism, this is an important institutional arrangement that is more clearly developmental than the social democratic arrangement. Philippe Schmitter, in his classical 1974 paper on corporatism, showed clearly the role of the state in mediating the class compromise, which was done between the workers and the business enterprises. The objective was mostly developmental because it involved full employment: whereas the unions accepted wage restraint, the business enterprises accepted not to dismiss personnel. The corporatist collective bargaining was most developed in the Nordic countries, Denmark, Norway and Sweden, and also in Germany, where social democratic capitalism was more successful in “combining social equality and economic efficiency” – a watchword for this kind of social developmentalism. The concertation involving trade unions and employers' associations is a typical practice of social corporatism. But the recurrence to corporatist arrangements in democratic contexts of emergence of class compromise varies in importance and degree according to the different national experiences, and according to the time. There are situations in which the partisan agreements fulfill this role and there are also relatively frequent cases in which both institutions of social corporatism as partisan and parliamentary institutions engage in concertation, as occurred in the Moncloa Pact, which played a foundational role in Spanish transition of political regime in the 1970s,²¹ when the kickoff of the agreements was given by the political parties, especially in relation to the return of democracy, but then, various social and economic agreements were made in the sphere of tripartite concertation, bringing together government and the summit organizations of entrepreneurs and workers (Schmitter and Grote 1997).

In the 1980s and 1990s – in the Neoliberal Years – social developmental coalitions were almost forgotten. But in the early 2000s, with the Agenda 2010, Germany returned to a “successful” class coalition, which would become the origin of the Euro crisis that breaks up in the following decade. Aiming to achieve higher competitiveness, the prime minister, Gerhard Schröder, led an agreement between business industrialists and workers; they informally agreed in having no wage increases following productivity increases, and received, in trade-off, employment guarantee. The agreement was successful to Germany, but disastrous to the South countries and Ireland, which failed to make the same agreement, lost competitiveness, and got highly indebted. In fact, as the class compromise existing in Europe is a democratic political pact, its existence presupposes the entire institutional apparatus of representative democracy, in which political parties play a key role. Corporatism was in the past associate to authoritarian rule, but, since 1945, all West European countries are democratic;

when they achieve a corporatist social and developmental compromise, they do that according the rules of social democracy.

Another example that combines party coalition and tripartite agreement can be extracted from Austria, where the social corporatism developed under the post-World War II coalition government of the Social Democratic Party and the Austrian People's Party. When arguing about the role of developmental lever that certain relations between state and social forces can play, in which the government has both autonomy and capacity to embedded itself into various initiatives of interest to the productive activities, Evans (1995: 241-2) refers to Austria that, accord to him, "exemplifies the way in which the state and classes mutually constitute each other. The existence of a coherent state apparatus helps call forth an internally organized entrepreneurial class in Austria just as it does in the developmental states. The existence of a comparably organized working class reinforces the process. If labor cannot be marginalized or ignored, a dependable arena for centralized bargaining between capital and labor is essential. A competent, corporately coherent state apparatus provides that arena. Far from making the state irrelevant, the comprehensive organization of class interests makes it essential. As actors in civil society become more organized, a solid and sophisticated state apparatus becomes more rather than less necessary. [...]The state's independent influence depends on a balance of forces in civil society, but the balance is actively constructed rather than the result of exogenous stalemate".

The analysis guided by the prospect of political coalitions is useful also for understanding the types of welfare state. Esping-Andersen (1985 e 1990) identifies in the history of political class coalitions the most decisive cause of welfare-state variations. According to him, "the origins of the Keynesian full-employment commitment and the social democratic welfare-state edifice have been traced to the capacity of (variably) strong working-class movements to forge a political alliance with farmer organizations. [...] Two nations, such as Austria and Sweden, may score similarly on working-class mobilization variables, and yet produce highly unequal policy results. This can be explained by differences in the history of coalition formation in two countries: the breakthrough of Swedish social democratic hegemony stems from its capacity to forge the famous 'red-green' alliance with the farmers; the comparative disadvantage of the Austrian socialists rests in the 'ghetto' status assigned to them by virtue of the rural classes being captured by a conservative coalition" (Esping-Andersen 1990: 18). Over time, especially in the post-Second Word War, the consolidation of welfare states, in several developed countries "came to depend fundamentally on the political alliances of the new middle classes. For social democracy, the challenge was to synthesize working-class and white-collar demands without sacrificing the commitment to solidarity". Anyway, despite its peculiarities, the social democratic coalition, in general, promoted the marriage between growth, full employment and social welfare.

A new developmental class coalition?

In the last three sections we discussed three paradigmatic cases of developmental class coalitions: mercantilism, – the first developmentalism in the original rich countries; social democracy in the Golden Years of Capitalism or in the Fordist policy regime – the second developmentalism in these countries; and Bismarckian class coalition – a classical case of late industrialization in today rich countries. We would have completed the paradigmatic cases if we had add the case of Japan immediately after the Meiji restoration – the first case of countries that to develop had to face the modern imperialism; and national-developmentalism in Brazil between 1930 and 1980 – the industrial revolution of a today middle-income country. We are, now, able to draw some generalizations and conclude the paper.

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 have difficulty in accepting our contention that the Neoliberal Years of Capitalism are over. Yet, provided that we don't identify neoliberalism either with capitalism, or 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.

First, the confusion of neoliberalism with capitalism. This is clear in the ambitious essay by Pierre Dardot and Christian Laval (2009: 481, 21) on the neoliberal society. For them, “the belief that the financial crisis marked the end of neoliberal capitalism is the worst belief”. It is not difficult to understand why they are so sanguineous on that matter. They define neoliberalism as the new reason of the world, as the ideology and the governing system based on the generalized competition between business enterprise, nation-states, and individuals. For them, “neoliberalism is precisely the deployment of the market’s logic as a normative logic to be adopted from the state to the more intimate constitutive part of subjectivity”. Well, but very similar ideas are already in Marx, who was not discussing neoliberalism, but capitalism. We learned with him that capitalist development involves the progressive commodification of everything, the subsumption of all aspect of social life to the logic of the market, the increasing competition among all, the reduction of all values to money and profit. Thus, when Dardot e Laval identify neoliberalism with capitalism, they become automatically right. For sure, the 2008 global financial crisis didn’t mark the end of capitalism. It just ended the belief in self-regulated markets and the practice of the small state, privatization and deregulation. *The Economist* – the magazine that expresses fully the neoliberal credo – continues to write on “reforms” that will solve all economic problems that the more different countries face, but this kind of rhetoric lost credibility. For the two authors, the alternative do neoliberalism is another rationality: “The practices of knowledge ‘communization’, mutual assistance, cooperative work *may* draw the traits of *another reason of the world.*” (p. 481). But we are very far from that. We are understanding neoliberalism in a more restrict and precise way as the radical attempt to make capitalism fully capitalist, and asserting that, as a dominant class coalition or a policy regime, it is no more dominant. Neoliberalism was an attempt to make true all the traits that Marx saw when he was defining capitalism as a mode of production, as a “pure” form, and not as a mixed social formation. Thus, neoliberalism was necessarily a failed attempt. Modern capitalism does not follow only the logic of capital; it follows also the logic of the organization and of democracy, and, so, it is a necessarily mixed social formation. In modern capitalism are not only the capitalist that count; the professional or technobureaucratic class and the people also count. For sure, the neoliberal ideology remains, because it is on the interest of rentier capitalists and financiers, but ceased to be dominant as it was in the 1990s.

Second, the distinction between neoliberalism and 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 rescuing 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 being 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 given 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.²² 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 be 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.²³

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, when Malaysia, 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 competitiveness 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 1989, the top 5% households disposed of 53% of total wealth), continued to increase after the crisis.²⁴

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 not 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 transport costs reduction, 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 one. 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, but it 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 it is possible that no substitute is found for it. What means that capitalism may face in the years to come a time of crisis and high uncertainty – a time where 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 likely alternative that the capitalist system faces today is the formation of a conservative developmental class coalition; the danger ahead is that even 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 that a developmental and progressive class coalition 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 Among other references, see Johnson (1982).

³ "Organization" is here understood as the relation of production that defines the technobureaucratic or professional social class.

⁴ 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".

⁵ Remember that in the 19th century liberals were against democracy with the argument that it would imply "the tyranny of the majority".

⁶ 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 developed countries overcome this stage and are social democracies.

⁷ But one cannot ignore that in some cases, as in Spain, the absolutist state did not play the role of driving change in the feudal relations of production for reasons that may not be covered here (see Marx, New York Daily Tribune, 9.9.1854).

⁸ Only in 1834 Britain liberalized trade by reducing its very high import tariffs (Chang 2002).

⁹ "Today industrial supremacy implies commercial supremacy. In the period of manufacture, properly so called, it is, on the other hand, the commercial supremacy that gives industrial predominance" (Marx, 1867, p. 529).

¹⁰ "But the Middle Ages had handed down two distinct forms of capital, which mature in the most different economic social formations, and which before the era of the capitalist mode of production, are considered as capital quand même [all the same] – usurer's capital and merchant's capital" (Marx, 1867, p. 527).

¹¹ See Paul Bairoch (1963).

¹² Mercantile system is the term used by Adam Smith in his approach to mercantilism.

¹³ "Mercantilism", no page numbers.

¹⁴ *The Civil War in France*, Third Address, "The Commune", no page numbers.

¹⁵ "The English East India Company, as is well known, obtained, besides the political rule in India, the exclusive monopoly of the tea-trade, as well as of the Chinese trade in general, and of the transport of goods to and from Europe. But the coasting trade of India and between the islands, as well as the internal trade of India, was the monopoly of the higher employees of the company. The monopolies of salt, opium, betel and other commodities, were inexhaustible mines of wealth. The employees themselves fixed the price and plundered at will the unhappy Hindus. The Governor-General took part in this private traffic. His favourites received contracts under conditions whereby they, cleverer than the alchemists, made gold out of nothing" (Marx, 1867: 528).

¹⁶ Some authors, like Hopkins (2002) and Seavoy (2003), assess that globalization, at least in its early stages, would have started at that time. Marx says that the Age of Discovery has created a new world market.

¹⁷ "Colonial system, public debts, heavy taxes, protection, commercial wars, etc., these children of the true manufacturing period, increase gigantically during the infancy of Modern Industry" (Marx, 1867, p. 531).

¹⁸ This quote was translated from the original French by the authors.

¹⁹ Translated from the original in Portuguese.

²⁰ Hirsch (1980, p. 117) says in relation to Germany: "The percentage of wage earners employed as office workers and state employees increased considerably; from 36 per cent in 1961 to over 50 per cent in 1975".

²¹ For a brief reference to the social concertation in Spain, see Eurofound: bit.ly/1ByhHqc.

²² The unit labor cost is obtained by the division of the average wage rate by the productivity of labor.

²³ Without real reciprocity because, in the case of developing countries, they offer their domestic markets to rich countries without that the latter 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).

²⁴ Source: Speech of Janet Yellen in Boston, October 17, 2014.