

Introduction

This book was an intellectual adventure that lasted five years. It is an interpretation of capitalism from the late 19th century to today. I started writing it in 2018, after the financial crisis of 2008 and the political crisis of 2016 and with the rise of right-wing national populism in the US and the UK. These economic and political crises were a symptom of the decline of neoliberalism and the inefficiency and instability inherent in economic liberalism. The poor economic performance of the advanced countries demonstrated what we learned with the 1929 Crash and the Great Depression: that the economic coordination of capitalism by economic liberalism is inferior when compared to a reasonably well-governed developmentalism. The current political discontent and the rise of right-wing national populism are a result of growing economic inequality and the stagnant standard of living of the lower-middle class and the white working class. It is a crisis of neoliberal capitalism, not a crisis of democracy. And it is a signal that finally capitalism is ending.

This book discusses the political economy (not the economics) of a theory that a group of economists and I have been developing since 2000. It is the political economy of the 20th and the first quarter of the 21st century. It is not a book of one theory but of many theories that I have been formulating since the 1970s. I am a person fascinated by theories, which I deduce from the observation of historical events—never from axioms. Which theories? I will list some of them.

In Chapters 1 and 25, the theory of republican rights (the right that citizens have that bad laws or the silence of the law should not allow powerful individuals and groups to capture the public patrimony) and the theory of the republican state (the state capacity to defend itself from such seizure) are discussed.

In Chapter 2, I look at the concept of the Capitalist Revolution—the sum of the formation of the nation-state and the industrial revolution¹—in general and in various countries.

Chapter 3 looks at the claim that there are two polar forms of how institutions coordinate capitalist economies: either according to a developmental

form or a liberal form – developmental when the state intervenes moderately in the economy and when it adopts a national perspective in its policies, liberal when it assumes that the market will coordinate optimally the whole economy. mercantilism was the first phase of capitalism and was a developmental, not a liberal phase. The countries that first made their own capitalist revolutions (Britain, France, Belgium, and the Netherlands) did so in the framework of mercantilism. Thus, the default form of capitalism is developmental.

In Chapter 5, I argue that in the periphery of capitalism, economic nationalism must be anti-imperialist, and the formation of the nation-state must be a national revolution, because to industrialize, developing countries must overcome the opposition of rich countries to their industrialization.

In Chapter 6, I present my theory of the transition and consolidation of democracy. I argue that only after a country has completed its capitalist revolution will it be ready for democracy, because only after that, appropriation of the economic surplus will happen in the market rather through the direct control of the state.

In Chapters 7 and 10, I deal with my older theory, developed in the 1970s, on the rise of technobureaucracy or the managerial class. I argue that this social class became dominant in the Soviet Union and in China, configuring a new mode of production, statism, and the respective relation of production and organization, while in the West this new class is associated with the capitalist class.

In Chapter 12, I distinguish globalization as an economic and social reality from globalization as an imperial project of the US to make the earth flat—to spread liberal-democracy everywhere.

In Chapter 13, I define rentier capitalists as those living on interest, dividends, and real-estate rents, mostly the heirs of the original entrepreneurs; and financiers as technobureaucrats with their MBAs and PhDs who manage the wealth of the rentiers and act as their organic intellectuals.

In Chapter 15, besides making the usual critique of mainstream Neo-classical Economics, I make a methodological critique that I believe to be reasonably original.

In Chapters 17 and 23, I show that the collapse of neoliberalism happened in steps: first, the 2008 financial crisis; second, the 2016 political crisis with the election of Donald Trump and Brexit; third, the 2020 Covid-19 pandemic; and fourth, the 2021 inauguration of Joe Biden.

Chapter 22 highlights the surprising strength of democracy, which is not ending but is quite alive, as civil society has stood up to face the attack of

neoliberalism and conservative national populism. Democracy is not dying; it is neoliberalism that has collapsed.

In Chapter 24, I propose that the phase of capitalist development that is now beginning, Democratic Managerial Capitalism, in which the major partners are the managers, not the capitalists, will be the last phase of capitalism. After that we will see managerialism tout court. The capitalists that were left are the rentiers, who now command innovation and the realization of profits.

Finally, in Chapter 25, I reject the possibility of world wars—because of nuclear deterrence and mostly because, since the experience of the 20th century, wars are bad for business; the main potencies can neither anymore expand their frontiers nor appropriate the economic surplus of other nations through wars. Nevertheless, I don't finish the book with an optimistic prospect.

Behind the present discontent, within the framework of neoliberalism, is a growing inequality, which Thomas Piketty competently assessed and frankly denounced—inequality with economic, racial, and gender dimensions. On the other hand, there is a problem of social recognition that lies behind the construction of a better society, which in the long run leads to socialism. People today tend to demand more recognition and respect than economic equality, which is not surprising, perhaps because advances in economic equality are much harder to achieve. This advance was already difficult to secure at the beginning of the 19th century, when civil liberties or the rule of law began to be assured.

Economic development and human progress are not 'natural' phenomena but are the result of a social construct. Humans are not passive puppets in a historical process in which their will is irrelevant. The naturalization of history ignores that capitalism is a social organization regulated by two great institutions—the state and the market—which, like all institutions, have been socially constructed. It's true that this construction wasn't entirely deliberate—humans never had full control of their destiny—but it's clear that they interfere with history. The result may contribute to the construction of a better society or to its setback, but this effort to achieve some autonomy in relation to economic constraints cannot be ignored when we seek to understand what is happening in the complex and contradictory world in which we live. We must see democracy not as the result of a capitalist or liberal proposal, but, on the contrary, as the result of a popular and middle-class conquest. The relative autonomy of democracy from capitalism, neoliberalism, and managerialism is based on its popular origin.

History is a never-ending, contradictory social construction in which human beings set goals and the rules by which to achieve them. It is a political process in which women and men fight for power. Human beings have political goals and political institutions, in particular the state, to enforce them. Since the three founding revolutions of the modern state—the Glorious Revolution, the American Revolution, and the French Revolution—the state has been the primary form of collective action through which nations define and pursue their five ultimate political goals of security, individual liberty, improvement in living standards, social justice, and protection of the environment, as well as the three instrumental goals of social cohesion, national autonomy, and democracy, which modern societies have set for themselves.

Capitalism is, by definition, an unjust form of economic organization. It is a culture of exaggerated individualism and glorification of individual competition, insofar as its organic intellectuals ignore the need for a level playing field and ignore the different abilities of humans to compete. Today, capitalism, demoralized by neoliberalism, is once again facing a crisis of legitimacy. I will discuss in this book a possible alternative, but very briefly. Rather, I endeavour to understand the collapse of neoliberalism and the new phase that is currently taking shape in central capitalism—a democratic, managerial, and developmental phase, but, by all indications, conservative.

Since the French Revolution, modern societies have been striving for liberty, equality, and fraternity, but freedom is only consistent with social justice and solidarity if it is a social freedom. Some nations built reasonably satisfactory nation-states because they were developed and because individualism was moderated, whether by republicanism or socialism. Think of the US. At its founding, liberalism and republicanism came together, and this was fundamental to the development of a great nation. Alexander Hamilton symbolized republicanism, and Thomas Jefferson liberalism.² Since the 1970s, republicanism has lost influence, and American democracy has severely deteriorated. On the other hand, social democracy was only possible in Europe because the continent had a long and beautiful history of socialist thought, and of socialist social movements and political parties.

Neoliberalism—which became dominant in the late 1970s—was a radical break with these sound political practices. It was an arrogant assertion of the existence of a *single truth* that the economists of neoliberalism used to justify reforms and policymaking. It was a basic disrespect for ordinary people. It is hard to imagine how the crisis of legitimacy that emerged with the failure of neoliberalism can be resolved without modern societies returning to the ideas of republicanism and socialism and thereby rebuilding the social and developmental democracy that defined the post-war Golden Age.

In 2022, when most of this book had already been written, American historian and Cambridge professor Gary Gerstle published a book with a similar title: *The Rise and Fall of the Neoliberal Order*.³ It is, however, a different book in both content and orientation. The distinguished Cambridge academic is an admirer of the neoliberal order. Instead, I see neoliberal capitalism as an economic and political regression. Gerstle says that after Franklin Delano Roosevelt separated 'classical liberalism' from 'modern liberalism', liberal intellectuals had to 'repossess' liberalism, thus creating the term 'neoliberalism'. Instead, this book registers the failure of neoliberalism.

The forms that societies have taken historically can be better understood if we consider the five political principles that guide modern societies: the republican principle of the priority of the public interest, the liberal principle of individual freedom, the socialist principle of solidarity, the developmentalist principle of moderate state intervention in the economy, and the environmental principle of nature protection. To understand capitalism in history we must consider these principles and the *two forms* of economic coordination of capitalism: the developmental form and the liberal form. The developmental form involves a moderate intervention of the state in the economy and a national perspective or project, while the liberal form assumes against all evidence that the market is self-regulating and limits the role of the state to guaranteeing property rights and contracts.

Eric Hobsbawm, who wrote an inspired history of the 20th century—*The Age of Extremes* (Hobsbawm 1994)—divided this 'short century', which began in 1914 with World War I and ended in 1989–1991 with the collapse of the Soviet Union, into three phases: the Age of Catastrophe (1914–1945), the Golden Age (1945–1973), and the Decades of Crisis (from 1973). This book discusses capitalism from the end of the 19th century until the present, and I have divided it into five parts. In Part I, I discuss some of political economy concepts that I have been developing since 2000 in the framework of New Developmentalism. In Part II, I discuss the two revolutions that happened at the turn of the 20th century: the Organizational Revolution, from which originates the managerial class, and the Democratic Revolution, the sum of adoptions of universal suffrage by the more advanced countries. In Part III, I discuss the neoliberal ideology and the narrow class coalition of rentiers and financiers. In Part IV, I discuss the crisis of such a regressive system. And in Part V, I ask myself and try to offer answers to the question: What lies ahead for capitalism? Searching to understand capitalism in the 20th and 21st centuries, I focus on '*the turns*'—the shifts in class coalitions. I identify four historical turns: (i) the Democratic and Organizational Turn, at the end of the 19th century, which marked the entire century;

(ii) the First Developmental Turn, with the Wall Street Crash of 1929 and the Great Depression, which created space for the post-war Golden Age; (iii) the Neoliberal Turn, around 1980; and (iv) the Second Developmental Turn, around 2021, which occurred after the financial crisis of 2008 and the Covid-19 pandemic of 2020.

The Capitalist Revolution is a basic assumption in this book. It was a tectonic transformation of the world that gave rise to nation-states—a concentrated territorial society that, as Giovanni Arrighi argued, made capitalism dominant because, for the first time, capital and economic power were associated with the state and political power. For Fernand Braudel, who inspired Arrighi: ‘Capitalism triumphs when it identifies itself with the state, when it is the state.’⁴

Following Karl Marx, from the capitalist revolution emanated wage labour, profits in the form of economic surplus obtained on the market, and systematic accumulation of capital, coupled with innovation and economic development as the main objectives of the new nation-states. After the capitalist revolution was ‘carried out’ in Britain under the command of a bourgeois-aristocratic class coalition, capitalist revolutions followed in other societies that developed and are now rich—all within the framework of the developmental state and developmental capitalism. The four countries that originally carried out their industrial and capitalist revolutions—Britain, France, Belgium, and the Netherlands—would only adopt the liberal form of capitalism around the middle of the 19th century, and then only temporarily, because by the 1930s they had returned to developmentalism.

In the historical process of economic development, it is up to the state to ensure the general conditions of accumulation, which includes education; investment in infrastructure; industrial policy; balanced external accounts; controlling the fiscal account; and ensuring that the five macroeconomic prices—interest rates, exchange rates, inflation rates, wage rates, and profit rates—are consistent with growth and stability. It is up to the state to coordinate the non-competitive sector of the economy, while the market is an excellent institution to coordinate the competitive sector.

The industrial and capitalist revolutions strengthened the first countries to industrialize and made them militarily strong and capable of reducing the peoples of Asia and Africa to the status of colonies and reducing the formerly independent Latin American countries to the informal status of semi-colonies. The modern imperialism that emerged was interested in exporting manufactured goods, capital, and liberal ideology to the periphery, while opposing the industrialization of underdeveloped countries, thus avoiding their competition.

In the last part of the book, I discuss the possible end of capitalism; the strength of democracy; and the character of Democratic Managerial Capitalism which is again on the rise. Democracy was the only good thing in this sad story. Under the threat of neoliberalism—which is an authoritarian ideology—and, more recently, under the threat of right-wing national populism—even more antidemocratic—democracy has proven to be strong and alive: a universal value. I will discuss this issue, as well as the 2021 Developmental Turn, in the last two chapters (Chapters 24 and 25).

In 2021, in the first year of the Biden administration in the US and in the midst of the Covid-19 pandemic, neoliberalism finally collapsed, and the state was called back. In order to better compete with China and its developmental form of economic organization, the US and the other advanced Western capitalist countries are turning to developmentalism. At the same time, private and public managers regain their legitimacy and influence. We are now experiencing a second Developmental Turn in all the advanced countries—the first was the New Deal in the US and the developmental character of the social democracies in the post-war Golden Era of Capitalism. Today, we are entering a new and possibly final phase of capitalism: a long transitional phase that I call ‘Democratic Managerial Capitalism’. In this phase, the capitalists no longer have command of the two activities that have so far relatively legitimized their power and privilege—the command of capital accumulation and the command of innovation—although they continue to appropriate the economic surplus in the form of rents.

In this transitional phase, China has become the second hegemonic country along with the US, which, feeling threatened by China’s rise, has mounted a ‘War of Hate’ between the two countries. However, a real war between these two main countries is unthinkable, not only because of the possibility of nuclear escalation, but also mainly because the time for major wars between great powers is over. The great wars of 1914–1945 were a negative-sum game, and no one wants to repeat that sad experience. Instead of waging a War of Hate, the US needs to recover its economy—which it is now beginning to do—and rebuild its society, which, instead of being cohesive, is divided. It is unacceptable for China to occupy the hegemonic position alone: for the world, two hegemons are better than one because neither of them will have all the power. China is already a developmental and managerial society, but it is not democratic. Thus, it is unlikely that the ‘China solution’ will become the only model for the rest of the world. It will be a model for the economy, but it will not be a political model.

My readers will see that I value economic development at a time when economic inequality is a problem that capitalism is unable to change. This

inequality is the inequality between people in the same country or between people from all over the world, and it is a bigger problem at a time when climate change is the most important challenge facing humanity. It is common knowledge today that our survival depends on how we manage the problem of climate change. Previous industrialization with the use of fossil fuels was the main cause of carbon accumulation in the atmosphere. However, I am a staunch supporter of economic development. In the case of climate change, I understand that limiting global warming to less than 2°C and, preferably, to less than 1.5°C will require huge investments in renewable energy sources. Changes in individual behaviour—such as reducing, if not eliminating, the amount of meat we eat, or changing energy sources for our homes and offices—will be important. However, investments in infrastructure to shift countries' energy sources from carbon and fuel to renewable sources, investments in carbon capture and storage, and investments to protect forests will be much more important. Prior to the 2015 Paris Agreement, the main discussion in the media was about how poorer countries would finance the investments that will be needed. It is no coincidence that the countries that best protect the environment—the countries of Western and Northern Europe—are developed and cultured countries.

I am an economist who also uses the concepts of sociology and political science, probably because I studied Marx and John Maynard Keynes and am an admirer of both. I see economics and political economy as a single science and I adopt the historical-deductive method, in which I try to be dialectical, to understand capitalism and the reforms and policies that make it more dynamic and less unjust, and that protect the environment more effectively. With a group of economists, I am developing a new theoretical framework, initially to understand middle-income countries, although it can also contribute to solving the economic problems of more advanced countries. It involves basic microeconomics, a relatively well-crafted macroeconomics of development, and a political economy that discusses the historical process of capitalist development, the formation of the nation-state, and the industrial revolution—we have termed this *New Developmentalism*. This book can be seen as being part of this political economy. It is critical of capitalism, but because the socialist alternative is not yet available, even in the most advanced capitalist societies, it is a book committed to changes in the value system and institutions that can make society better.

As an academic, I have always sought to discuss not only developing countries but also developed countries. Although I am Brazilian and live in Brazil, which is a middle-income country, this book is about the capitalism that

exists in more developed countries. And since I don't live in one of those countries, that can be an advantage, because it makes me an outside observer.

My method is the historical-deductive method that Marx, Keynes, and Joseph Schumpeter used. It is not the method that neoclassical economists use in constructing their model of general equilibrium. In drafting this book, I tried to be as objective as possible, but my subject matter is heavy on ideologies. I discuss capitalism and, in the end, perhaps its last phase, democratic developmental capitalism, and I always have in mind the values or ideologies that contribute to human progress, which contribute to the construction of a good society.

In the global system we live in, we are all involved in the formation of our nation. But we don't live alone. We depend on other nation-states within a framework of mutual dependence and peace, not on a framework of domination and wars or threats of wars. These are the historical claims I make in this book. The result is neither a dystopia nor a utopia. It is only a slow transition to a form of social organization that, it is hoped, will tend to be more efficient and stable because it is developmental; more effective because it will be better able to protect the environment and halt climate change; and less unfair because economic equality and democracy will continue to progress.

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