

Phases of capitalist development

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Economic development only turns sustained in countries that realized their capitalist revolution – the formation of the nation-state and the industrial revolution. Britain, France and Belgium were the first nations that, in the framework of merchant’s capitalism, completed their capitalist revolutions. A second group of rich countries, among which Germany, Italy, the US, and Japan formed their nation-states and completed their industrial capitalist revolutions in the nineteenth century in the framework of entrepreneurs’ capitalism. A third group of countries, among which South Korea and Taiwan as well as the Czech Republic and Slovenia made their capitalist revolution in the framework of managerial capitalism. In all cases, the capitalist revolution happened in the framework of developmental, in which the state intervened moderately in the economy and adopted a national perspective, not in liberal capitalism. The later the capitalist revolution happened, the greater was the role not only of the state, as Gershenkron classically analysed in 1962, but also greater was the managerial class within the state apparatus and in the state-owned enterprises – a social class that tends to be developmental while the bourgeoisie, liberal. In this book, which analyses capitalism having as reference the rich countries, I will discuss the rise of managerial class in these countries in the twentieth century and the neoliberal regression since the 1980s. In this chapter, I will review the revolutions or main social and economic shifts that led to present day capitalism and I will propose a periodization of capitalist development.

The Capitalist Revolution

Two major revolutions mark the history of mankind, the Agricultural Revolution and the Capitalist Revolution. The first, around ten thousand years ago, transformed the nomadic into sedentary societies, and, seven thousand years later, allowed for the realization of a permanent economic surplus and the formation of the first ancient empires in Mesopotamia. The Capitalist Revolution, which, in many countries, particularly in Africa, are yet to be initiated, represented a tectonic shift in the history of civilization. It began with the rise of the first city-states and the emergence of the bourgeoisie in Venice, Florence, and Genoa. It advanced with the great navigations, the discovery of America, the establishment of the mercantile colonial system, and the rise of the absolute monarchies of the *ancien régime*. From mid eighteenth century to the end of the nineteenth century, the formation of the nation-state and the industrial revolution completed the Capitalist Revolution in the today’s rich countries. This revolution gave origin a contractual market society based on the private property and the guarantee of the state; on a state-market coordinated monetary economy where goods, services, and the labour-force are commodities. Capitalism changed the form of appropriation of the economic surplus from the direct use of force by an oligarchy controlling the ancient state to the realization of *profits* through the exchange of equivalent values in the

market; it turned profit into the economic motive, and capital accumulation embodying technical progress into the means to achieve profits and economic development. At the political level, it led to the transition from the absolute to the liberal state – a state that assures the rule of law but not democracy. Some, idealizing the pre-capitalist societies, speak also of the capitalist revolution as the transition from a society where the market was embedded into the social relations to an economic system which became autonomous from society and the search of the private interest prevailed over the common interest, but this makes little sense.ⁱ At the administrative level, capitalism implied the separation of the public from the private patrimony, or, in other words, the transition from the patrimonial state, where rent seeking was part of the game, to the modern bureaucratic state where rent-seeking turned a disease. With the capitalist revolution, the new nation-states were able to develop three four basic institutions: the modern state apparatus or the public administration, the legal-constitutional system, the national market, and the national money. At the cultural level, it involved the transition from tradition and revelation to the reason and scientific research.ⁱⁱ

With the Capitalist Revolution, the process of capital accumulation with embodiment of technical progress and improvement of the standards of living turned a reality and a necessary condition for the survival of business enterprises in a competitive environment. Before capitalism, the emperors and monarchs invested the economic surplus in military power, in building temples and palaces, and in luxury consumption. With the commercial revolution and mercantilism, the idea of profit and the practice of its reinvestment was generalized; with the industrial revolution and the acceleration of technical progress, reinvestment ceased to be an alternative to become a necessity – a condition for the business enterprises to keep competitive. This revolution was, therefore, so transforming that it no longer made sense to think about civilizations that for some time flourish, decay and disappear. Now, economic growth and, more broadly, progress or human development turned into a reality in all societies that succeeded in making their capitalist revolution: the improvement in standards of living, the gradual affirmation of civil rights, the change from authoritarian to democratic societies, and the formation of the welfare or social state. Today, formal colonies disappeared, and the earth is covered by nation-states which are either poor or pre-industrial countries, middle-income countries that recently industrialized, or rich countries, which are the object of this book. Today there is an increasing doubt on the future of capitalism. In the last chapters of this book I will discuss for how long capital accumulation and economic growth will define capitalist development. But, for the moment, these are just legitimate concerns, which do not change the dynamics of capitalism.

Capitalism was born with the formation of the nation-state and the Industrial Revolution, but in the turn of the nineteenth to the twentieth century two new major revolutions changed it: in the economic and social realm, the Organizational Revolution introduced a new social class – the managerial class – while in the political realm, after a long fight for the universal suffrage led by the socialist political parties, the Democratic Revolution assured a new and relevant power to common people. By Organizational Revolution, which happened originally in the US with the rise of the new private corporations, I mean the change of the basic unit of production from the family or the family enterprise to the bureaucratic organizations, mainly the private corporations. After a long political fight, the working class and the socialist intellectuals in rich countries conquered the universal suffrage. As the liberal revolutions had already assured the civil rights, democracy finally turned reality. The Organizational Revolution opened room for the rise of the managerial class, while the Democratic Revolution, for the rise of the social democratic compromise and the Golden Years of capitalism. Thus, in the first part of the twentieth century, the capitalism originated

from these two revolutions was progressive capitalism which faced two major challenges and have won both – the Nazi-fascist and the Communist challenge. And won also over a major economic crisis – the Great Depression of the 1930s. Two victories that led it the social-democratic and developmental Golden Years of Capitalism. Yet, 30 years later, confronting in the 1970s a substantially milder crisis, capitalism has undergone the Neoliberal Turn and has experienced a major social and political regression, as conservative and narrow rentiers-financiers' class coalition turned dominant and adopt neoliberalism as ideology.

Phases of capitalist development

Since the Capitalist Revolution history ceased to be the narrative of phases of splendour and decadence of old empires or civilizations, to become a *social construction* – a social project aiming at progress or human development. Conte as well as Marx understood well this and proposed their phases of capitalist development. Today, capitalism alone has already a long history whose understanding is improved if we divide into phases that will vary according to the criterion that we use. They should not be confused with the well-known long waves of Kondratieff and Schumpeter, or with the long period of relatively rapid economic expansion, decay, and a period of stagnation and instability until a new cycle begins that David Gordon (1978) called “social structures of accumulation” Both the long waves and the social structures of accumulation are cyclical phenomena that end into an economic crisis, while phases may be longer and don't necessarily end into crisis. I am aware that the reduction of history to phases suffers from excessive generalization and some arbitrariness that find the resistance of historians, but I prefer to take the risk, hoping that our understanding of capitalist development improves with this simplification.

Fernand Braudel (1987b: 62) was not afraid of periodization, and he divided the history of capitalism in Europe, with their respective picks into parentheses, in four trends or *secular* cycles: the North Italy cycle 1250 (1350) 1507-10; the Dutch cycle 1507-10 (1650) 1733-43; the British cycle 1733-43 (1817) 1896; and the American Cycle beginning in 1896. In the table of contents of Braudel's book, the first and the second cycle have cities in their core: Venice and Genoa in the first cycle, Amsterdam in the second, while the third and the fourth secular cycles, which are specifically capitalist, have as centre two nation-states, The UK and the US. Following a similar perspective, Giovanni Arrighi (1994: 6) saw four "*systemic* cycles of capital accumulation": the Genoese cycle, the Dutch cycle, the British cycle, and the American system cycle. He called the first cycle, the Genovese considering that in the sixteenth century the Genovese financed Spain, the dominant country of the time. He speaks of "systemic" cycles because finance gets them chained. Following Marx and Braudel, he remarks that periods of material expansion are followed by periods of financial expansion. I am not comfortable with the division of history in cycles, because history does not repeat itself; the idea of an eternal return does not make sense. I prefer to think regarding stages or phases.

Periodization involves the previous adoption of the criterion of classification. In previous works, I studied the phases of capitalism according to the types of technical progress, their effect in the distribution between wages and profits, and the degree of price competition. ⁱⁱⁱ In this book, I will work with four phases having as criteria the economy (type of economy and form of coordination) and the type of ruling class coalition, which are in Table 1.1. In the very beginning of the transition to capitalism we could have include the time of the bourgeois city-states in the North of Italy in the thirteenth and fourteenth centuries, but, in that time, we were yet far from capitalism. The rise of the bourgeoisie in the city-states, first in Venice,

Firenze, and Genoa, from the fourteenth century, and later in in all West and Central Europe was key in the development of the first phase of capitalist development – Mercantilism. These city-states were involved in long-distance trade and turned strong enough to defend themselves from the feudal lords, and, in Italy, also from the Pope. Actually, this was rather a trailer than a phase of capitalist development. As Maurice Dobb (1963) noticed, we should not call it the sunrise of capitalism because capitalism requires the direct subordination of the worker to the capitalist in the process of production – requires the waged-labour institution.

Table 1.1: Phases of capitalist development

Dates	Phases of capitalism (economic criterion)	Phases of capitalism (class coalition criterion)
17 th to 18 th C	Mercantilist Developmental Capitalism	Mercantilist-Patrimonialist Capitalism
1840s – 1929	Industrial Liberal Capitalism	Entrepreneurs’ Capitalism
1930s	Crisis of Liberal Capitalism	Great Depression
1940s – 1980	Golden Years Developmental Capitalism	Managers’ Capitalism
1980 – 2008	Neoliberal Capitalism	Rentiers’ capitalism

In discussing capitalist development, I use as reference the UK and France, which underwent all phases of capitalist development, and had a significant influence in the rest of the world; from the third phase my main reference is the US which is, the year this phase is beginning is also, 1929, is also the moment this country becomes the hegemonic capitalist country. The four phases, according to the type of economy and economic coordination are Mercantilist Developmental, Industrial Liberal Capitalism, Golden Years Developmental Capitalism and Neoliberal Capitalism. According the form of coordination, the first and the third phases are developmental, while the second and the fourth, liberal economically.

Capitalism is a form of society where the two main coordinating institutions are the state and the market. Depending on how these two institutions are utilized, we have either economic liberalism, or developmentalism. I discussed this historical alternative in a previous paper, “The two forms of capitalism: developmentalism and economic liberalism” (2017).^{iv} The word “developmentalism” to express one of the two phases was choice I made when I asked myself which is the word that express the alternative to economic liberalism and realized that this word does not exist. "Socialism" is not an alternative to economic liberalism but to capitalism; “Keynesianism” must also be rejected, because it denominates a theory, not an economic system referring to a given historical moment; “social democracy” is nearer what we need, but it is a political regime; “mixed system” is the nearest alternative to what I wanted a word to mean, but it is an imprecise expression. “Developmentalism” is a relatively recent word which began to be used in the 1950s to express an economic policy regime which has as priority economic development and as a means to achieve it a moderate state intervention aiming at industrialization. By using developmentalism to play this role I made a semantic expansion. Capitalism will be developmental if the market and the state

coordinate ensemble the economic system, the state coordinating what the market is unable to do well: the non-competitive sectors of the economy, the fiscal and the foreign current accounts, the macroeconomic prices (the interest rate, the exchange rate, the wage rate, the inflation rate, and the profit rate), and the distribution of income.^v It will be liberal if the state just guarantees property rights and contracts and keeps balanced the fiscal account, the market being supposed to take charge of the rest. The assumption behind developmentalism is that the infrastructure, the basic inputs industries, and the big banks "too big to fail" are monopolist industries, and that markets do not assure the equilibrium of not only the fiscal account but also the foreign account and are unable to keep *right* not only inflation but all the macroeconomic prices and particularly the more strategic one – the exchange rate. More broadly, is the acknowledgement that the history of capitalism is a history of recurring economic and financial crises which demonstrate markets are unable to coordinate satisfactorily the whole economy. It is a more efficient institution than the state in coordinating the competitive sectors of a capitalist economy, not the whole economic system.

When we look column 1 of Table 1.1 where criterion of periodization is the form of economic coordination, we see that capitalism was born developmental. The industrial revolutions in the first countries to industrialize took place in the framework of mercantilism. Liberal economists, under the enlightened command of Adam Smith, scorched mercantilism, but, as I argued in the previous section, mercantilism was a thriving economic arrangement because it was in its realm that the first countries made their industrial revolutions thus completing the Capitalist Revolution. Mercantilism was the first historical form of developmentalism – of an economic system where the state acted according to the subsidiarity criterium intervening when markets are unable to perform their job. As to the political regime, this was the time of the absolute state. Capitalism turned liberal only from the 1840s when the UK eventually opened its economy. Never entirely liberal, because the state was often called to intervene, but it is reasonable to call this period, liberal.

Below are the phases of capitalist development according to the class coalition and the economic criteria:

Mercantilist-Patrimonialist / Mercantilist Developmental Capitalism. From the seventeenth to the eighteenth centuries. The class coalition associates the grand bourgeoisie with the monarch and his patrimonial court. On the economic criterion, mercantilism was the *first* developmentalism, as the state intervened actively in the economy. This was when the first countries completed their industrial and capitalist revolution. Mercantilism and the absolute state represent the transition from feudalism to capitalism. The merchants are the founders of capitalism, and the mercantilist economists, the father of economics. This was a period of active state intervention, and the formation of the first nation-states – the territorial sovereign societies which would define capitalism. Long-distance trade remained dominant, but now, with the discoveries, the military use of the power, the creation of colonies in the Americas (where the colonizers were able to decimate most of the native population) and of colonial trade centres in Asia and Africa, long-distance trade turned more substantial. It turned a "world system" in the words of Fernand Braudel and Immanuel Wallerstein –, on which the newly powerful monarchs showed a strong interest and created the overseas trading companies. It was a "successful" phase because it was in the framework of the new nation-states and of the ensuing large and relatively secure domestic markets that the industrial revolution turned possible in England, Belgium, France, and the Netherlands. As Fernand Braudel (1979a: 484) affirmed, "mercantilism is an insistent push, egoistic, soon vehement of the modern state," and he completes, quoting Daniel Villey, "It was the

mercantilists that invented the nation-state". In fact, the mercantilist system involved (a) a kind of national development project led by the absolute monarchs, who were the responsible for the wars aimed at expanding the state's borders, (b) a class coalition associating the monarch and its court with the grand merchants, and (c) the intervention of the state in the economy. These three characteristics made mercantilism to be the first developmentalism. In 1776, Adam Smith published his *Wealth of Nations*, hardly criticizing the mercantilist system which was at this time in its prime. His book was a revolution in economics, but England only opened its ports, turning it a liberal economy, in 1846, no less than seventy years later. The formation of the nation-states achieved by mercantilism was instrumental to each industrial revolution because it created the large domestic market that industrialization required.

Entrepreneurs' / Industrial Liberal Capitalism. From the 1840s to 1929, the business entrepreneurs are the ruling class and economic liberalism is the main form of economic coordination. I use the 1840s as the first decade because it was only in 1846 that The UK opened its economy. In the framework of liberalism, these countries experienced low rates of growth (around 1 percent per capita a year) and major economic crises, but the growth was sufficient enough to turn them much more productive and powerful than the countries that did not make their Capitalist Revolutions – powerful enough to get involved in a significant colonialist adventure in Asia and Africa. This is the capitalism that Marx has known and analysed. It is the time of modern colonialism or imperialism headed by The UK and France. This is the time of economic liberalism and the gold standard; of proletarianization and increased inequality; of British and French colonialism; of huge cyclical economic crises and low growth rates. Yet, full liberalism was short-lived. With the 1873 depression, the British economy faced a period of fall of exports, instability and low growth, and pressures for protection of the manufacturing industry, which was called “neomercantilist”.^{vi} Meanwhile, the latecomer rich countries, like the US, Germany and Italy, have fused the mercantilist and the entrepreneurs' phase of capitalism. They made their industrial revolution adopting a definite developmental strategy. Industrial Liberal Capitalism and the prevailing economic liberalism collapse with the 1929 Crash and the 1930s' Great Depression.

Managers' / Golden Years Developmental Capitalism. The bold and innovative reaction of Frankly Delano Roosevelt to the crisis and the publication by Keynes of the *General Theory* (1936) opened room, after the Second World War, for social democracy and the Golden Years. From the 1930s to the late 1970s capitalism is managerial and developmental. It is managerial because since the Organizational Revolution, in the end of the nineteenth century, the rise of the private corporations, an increasing separation of the control from the ownership of these corporations, the substitution of the managers for entrepreneurs in the management of such corporations, and the substitution of knowledge for capital as the strategic factor of production were pushing a new middle class of private and public managers to the condition of associates of the capitalist class. The 1929 crash, the Great Depression and the demoralization of economic liberalism cancel this change, and from then on, the dominant class coalition will be a broad coalition where the new technobureaucratic class is the leading class and the popular classes start to be listened. It is developmental because the managerial class tends naturally to be developmental – to privilege economist planning and strategy not only at the level of the corporations but also o the whole society; because the state is called to intervene in the economy; because growth is fast and financial instability falls radically in the framework of the Bretton Woods agreements. It is also the progressive time of social democracy because taxation becomes

highly progressive, the welfare state turns reality, and inequality falls although modestly. For all these reasons, they were the Golden Years of Capitalism.

Rentiers-financiers' / Neoliberal Capitalism. On one side, benefiting from an economic crisis in the rich countries, the high priority given by the US to consumption and, in the 1960s, the transformation of current-account surpluses into high current-account deficits, the difficulty of Keynesian policies to cope with the stagflation of the time, and, on the other side, responding to the increasing competition originated in developing countries, and reflecting the increasing substitution of rentier of entrepreneur capitalists in the ownership of the corporations and the increasing role of finance as private indebtedness soared rich countries led by the US change around 1980 change the policy regime from developmental to liberal. It was the Neoliberal Turn. From then on, a narrow class coalition of rentier-capitalists and financiers assumed the command of the rich countries and bring back an overcome liberalism. The objective is to assure competitiveness to the rich countries facing the pressure of the working class and the new competition originated from the Global South. The basic strategy is to check the economic role of the state and to reduce real wages, directly, by changing labour contracts, and indirectly, by dismantling the welfare and social state. Under the rentiers-financiers' class coalition, manager remain part of the dominant class coalition, but the lead is up to rentiers and financiers. Neoliberal capitalism was a major regression – an economic and political regression – and not for hazard was short-lived. It ended with the 2008 global financial crisis followed, in 2016, by the beginning of the political crisis expressed in the right-wing populism. It was so short-lived that is doubtful that it was a real phase of capitalist development. Neoliberal capitalism was a progressive phase on the technological viewpoint, but regressive in the economic and social side. There was some economic development in rich countries, but modest and instable. The wages of the lower classes stagnated; inequality increased sharply. The world figures show human development, particularly a significant reduction of poverty, but this was due to the growth of the Asian countries, particularly China.

Table 1.2: Phases of capitalism according to the political regime

Dates	Political regime
Sec XVI to XVIII	Absolute authoritarianism
1840s – 1899	Liberal authoritarianism
1900-1929	Liberal democracy
1945 – 1970s	Social democracy
1970s – 2008	“Liberal democracy”

The phases of capitalist development that I am identifying here are referred to the rich countries. The latecomer rich countries like Germany and the US, which realized their industrial revolution in the second half of the nineteenth century, skipped some phases. The same happened to countries that faced modern imperialism but today are also rich countries, like South Korea and Taiwan. China continues to head in this direction. Some, like Brazil, South Africa and Turkey, realized their capitalist revolutions in moderate intervention of the

state twentieth century and turned middle-income countries, but since the 1980s they submitted to the neoliberal truth coming from the Global North, grow slowly, and are not catching up.

The third criterion is the political regime. Capitalism was born authoritarian. With the capitalist revolution, it turned liberal, but not democratic. Liberals fear democracy which they defined as “the tyranny of the majority”. But, after a long fight of the working and salaried classes, documented by Göran Therborn (1977) and Adam Przeworski (1985), the universal suffrage was conquered, and rich countries turned democratic. It was the Democratic Revolution. As I argued elsewhere and will discuss in chapter 5, the bourgeoisie was the first dominant social class that didn't impose a full veto to democracy, because it was the first model of society where the appropriation of the economic surplus by the ruling class didn't depend on the direct control of the state. Profit is achieved in the market through an exchange of market values: wages for the labour force.^{vii}

The direct outcome of the Democratic Revolution was liberal democracy – a political regime where the two minimal conditions to a country to be considered democratic are present: the rule of law which includes the civil rights and the universal suffrage. Which can be also called minimal democracy, or Schumpeterian democracy – a form of government where the elites call the electors to vote periodically but ignore them after elected. After the Second World War, mainly in Western Europe, as the popular classes had to be listened, the quality of democracy progressed and liberal democracy, characterized by liberal individualism changed into social democracy, where social rights were assured, and republican democracy, where citizens and politicians endowed of civic virtues were able to combine self-interest with the public interest. This progress ended with the neoliberal turn, the rejection of the social-democratic compromise and the republican commitments, the rise of neoliberal rentiers-financier capitalism, the claim that republicanism is inviable as humans only defend their own interests, and a concentrated attack of the elites on the social rights. At the same time, the neoliberal ideology transformed liberal democracy into an ideological construct: not simply the political regime but the ideal economic and political form of social organization. Neoliberals and the top financiers and economists who act as the organic intellectuals of the new truth reject the expression “neoliberalism”, because progressive intellectuals use them in a critical way. Instead, they speak of “liberal democracy” to refer to the economic and political system of the West where the liberties would be fully assured, where the individual is given autonomy and respect, where growth and financial stability would be assured, where hard work is valued, and meritocracy affirmed despite they share power and privilege with the rich and idle capitalist rentiers. A biased liberal democracy that ignores the real alternative to it is social and republican democracy, a democracy that failed together with neoliberalism and triggered several forms of authoritarian right-wing populism.

This book discusses capitalism since the end of the nineteenth century, when two revolutions – the Organizational and the Democratic Revolution that I will discuss in the next chapter – happen and open room for managerial and developmental capitalism, where the leading class in the broad social-democratic class coalition is the managerial class. Yet, before this arrangement exhausted its progress potentialities, rentiers and financiers associated to neoliberal ideologue turned dominant in a narrow rentier-financier class coalition. Which, not surprisingly, was short-lived because it represented a regression. Since 2008, contemporary society in rich countries lives a moment of crisis and transition. This book focus on the managerial-developmental phase, the Golden Years of Capitalism, in the social and political regression that was neoliberalism, and explores what we may expect for

the near future: a new phase of capitalism or the move toward a social organization which is managerial and democratic. It is a book on capitalist development from the end of the nineteenth century and its prospects.

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ⁱ See Sheri Berman (2006: 2-3). This vision is idealized because these conditions existed in the primitive societies, while the transition to capitalism was from feudalism and the lettered agricultural societies where the exploitation of the people was worse than in capitalism.

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

ⁱⁱⁱ Bresser-Pereira (1986; 2018).

^{iv} Bresser-Pereira (2017a).

^v Actually, there is not a recognized alternative to economic liberalism. "Socialism" is no good, because it is an alternative to capitalism, not to economic liberalism; Keynesianism must also be rejected, because it denominates a theory, not an economic system referring to a given historical moment; social democracy is nearer what we need, but it is a political regime, and is also associated to a particular time in the history of capitalism. Yet, this name is necessary, unless we believe that there is no alternative to economic liberalism... By using developmentalism to play this role I am doing a semantic expansion.

^{vi} Maurice Dobb (1963: chapter 7 section 3).

^{vii} Bresser-Pereira (2012).