The Capitalist Revolution

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

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

Two revolutions marked the history of mankind: the Agricultural Revolution and the Capitalist Revolution. The first transition, around 12,000 years ago, transformed nomadic societies into sedentary societies Seven thousand years later, it allowed for the realisation of a permanent economic surplus and the formation of the first ancient empires in Mesopotamia and Egypt. The Capitalist Revolution represented a tectonic shift in the history of civilisation. It began in the 14th century with the rise of the first city-states and the emergence of the commercial and financial bourgeoisie in Venice, Florence, and Genoa. It advanced with the great sea navigations, the establishment of the mercantile colonial system, and the rise of the absolute monarchies of the *ancien régime.* From the mid-17th century to the end of the 19th century, when the last industrial revolutions happened in the countries that since early 20th century are rich countries.

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

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

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

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

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

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

The formation of the nation-states

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

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

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

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

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

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

Four models of Capitalist Revolution

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

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

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

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

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

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

The latecomer Hamiltonian or Bismarckian model. The latecomer central model characterised countries such as Germany, Italy, Sweden, and the United States. The classic study of this development model comes from Alexander Gerschenkron, who analysed European countries that developed in the latter half of the 19th century and found in them more state intervention.[xii] These countries had to face the industrial imperialism of England and France, which, as Friedrich List wrote in 1846, attempted to 'kick away the ladder' from under Germany.[xiii] In that country, the developmental state was called Bismarckian. The German Industrial Revolution, led by Otto von Bismarck (1815–1898), served as an example for other latecomer central countries. Hélio Jaguaribe, writing about the Bismarckian model, noted that under it, the domestic market was reserved for domestic industry, and that the state played the role of arbiter between conflicting forces – something that would later define the corporatist states.[xiv]

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

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

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

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

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

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

The national-dependent peripheral model

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

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

The economists and political scientists who build Classical Structuralist Developmentalism from 1949 had a key role in defining the rapid process of industrialisation that characterised Latin America in the post-war years. They drew up the industrialising and anti-imperialist, national-dependent model of economic development. Developmental, because it implied a moderate intervention of the state in the economy; structuralist, because they defended a structural change: industrialisation. Their main original contributors from the 1940s to the 1960s were Raúl Prebisch, Celso Furtado, Juan Noyola, Anibal Pinto, Hélio Jaguaribe, and Maria da Conceição Tavares, whose fundamental contributions emerged in the 1950s and 1960s.[xxvii] My own contribution to this vision came in the early 1970s, when I discussed the new model of economic development with a concentration of income from the middle class upwards.[xxviii] Later, in 2005 – when I made the critique of the associated dependency theory in the "From ECLAC and ISEB to dependency theory" – I argued that the Latin American elites were "national-dependent", an oxymoron that defined the contradictory and ambiguous character of such economic elites, which at certain times were national and developmental, and at others, dependent on the Global North.[xxix]

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

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

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

Developmentalism, which integrated macroeconomics with the study of the economic development of the countries at the periphery of capitalism.

A brief note on New Developmentalism

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

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

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

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

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

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

[i] Fraser (2018: 165–167).

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

[iii] Jaeggi (2018: 18).

[iv] Wood (2017: 2).

[v] 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.

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

[vii] Hroch (1968).

[viii] Elias (1970).

[ix] Gellner (1983: 32).

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

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

[xii] Gerschenkron (1962).

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

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

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

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

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

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

[xix] By the West is meant the group of advanced countries around the North Atlantic plus Australia, New Zealand, Japan and the three East Asian countries

that caught up in the 20th century: South Korea, Taiwan and Singapore. The West is therefore not a geographical concept. Its members make up the modern empire, under the leadership of the United States. These are countries that have in common high levels of knowledge and high wages that they attempt to protect along with the profits of their firms. They are militarily organised through NATO and their main economic instruments are the International Monetary Fund and the World Bank.

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

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

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

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

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

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

[xxvi] Evans (1979).

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

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

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

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

[xxxi] Bresser-Pereira (2019).

[xxxii] To neutralise the tendency towards cyclical and chronic overvaluation of the exchange rate, New Developmentalism proposes an export tax to neutralise the Dutch disease and a rejection of three commonly applied policies: growth combined with foreign borrowing (‘savings’), the use of an exchange-rate

anchor to control inflation, and a high real interest rate around which the central bank manages its monetary policy.

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

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

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

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

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

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