Class Coalitions, the developmental state, and developmental capitalism

Luiz Carlos Bresser-Pereira

Parte do Capítulo 3 do livro em redação, *The Rise and Fall...*

Class coalitions

Two types of class coalitions are relevant in the history of capitalism: the developmental and the liberal class coalitions. The paradigmatic developmental coalitions comprise business entrepreneurs, the workers, and the working class – they are a broad social compromise. The paradigmatic liberal coalitions comprise the rentier-capitalists, the financiers, and the traditional upper middle-class.[i]

Note that by salaried classes I mean the employees and low middle-class professionals; most of the traditional upper middle-class derive their revenues not only of salaries but also of rents. Salaried classes and the workers form the popular classes. In contemporary capitalism we cannot understand the workers as the only component of the popular classes; their relative number has been falling, while the employees in the services form the bulk of the popular classes in each society.

Class struggles are inherent to capitalism, but they are not "resolutive", in so far that a classless society that would be the outcome of the class struggle remains a distant utopia. It is impossible to understand modern societies ignoring the class struggle, but behind this struggle, developmental class coalitions have played a key role in the moments of significant change in the history of capitalism. They presided the formation of the nation-state and the industrial revolution in every country, and they were present in most periods of fast economic growth as, for instance, the period just after World War II.

Developmental class coalitions lead to a developmental state in which social conflicts remain alive but accords or compromises may resolve them. One important issue is whether agrarian elites take part in developmental class coalitions. As Marcus Ianoni noted, "in South Korea and Taiwan, the rural society converged with industrial progress, not seeking an independent political settlement".[ii] The same applies to the German agrarian elites that Bismarck successfully brought into his political coalition. Different is the case of Latin America where the agrarian elites exporting commodities have opposed the developmental policies, mainly import taxes on manufactured goods. They and the imperial centre viewed these import taxes as protectionist, and preached trade liberalization.

Chalmers Johnson and Peter Evans were among the main analysts that attributed to the public bureaucracy a strategic role in the developmental state. This is true, but the leading class is supposed to be the industrial entrepreneurs because it is impossible to govern capitalism without their concourse. Differently from the Asian industrialists, the Latin American are a contradictory or ambiguous class which I use an oxymoron and call “national-dependent”. Yet, in the periods of industrialization and catching up they played a decisive role to the extent that they command the process of capital accumulation and innovation – the two main sources of economic growth.

Developmental class coalitions are always changing. The post-war developmental class coalition in advanced countries, the managerial coalition, was a broad coalition embracing industrial entrepreneurs, managers, the public bureaucracy, and the working class. The dominant class coalition since 1980 Neoliberal Turn, the neoliberal coalition, is a narrow agreement between the top and middle-class rentiers, the financiers, and the top executives of business corporations. While business entrepreneurs are essentially interested in profit and growth, rentiers and financiers give priority to interests, dividends, and to low inflation. In other words, the logic of rentiers’ capitalism is short-term “shareholder value” rather than long-term profit and growth.

The narrowness of the rentier-financier coalition conflicts not only with the interests of the workers and the poor, but also with the interests of the professional middle class. Only the interests of the top executives of the great corporations coincide relatively with the interests of the shareholders or rentier capitalists. Shareholders are ready to award absurdly high salaries and stock options to top executives because competent management makes a major difference to the returns on investment and, so, to the market value of individual corporations. The narrowness of such coalition and the ensuing huge increase in inequality had as one of its consequences the recent rise of a right-wing populism based on the support of the white workers whose wages are stagnant since the 1980s.

Class coalitions are loose and fluid. When the capitalist class feels threatened by left-wing political parties, it tends to rally, and the developmental class coalition fails. In normal conditions the ruling class is divided: rentiers and financiers remain loyal to economic liberalism and, so, dependent or colonial in relation to the central countries, while the industrial entrepreneurs are nationalist or developmental. Often it is difficult to distinguish the entrepreneurial capitalists from the rentier capitalists, but such distinction is relevant in studying capitalist societies.

In this chapter, I discuss the two forms of economic organisation of capitalism – the developmental and the liberal form –, the four phases of capitalist development, and the respective class coalitions.

- the mercantilist phase in the 17th and eighteenth centuries was developmental.
- the industrial phase, from mid 1840s to 1929, was liberal.
- the social-democratic post-war phase, from 1945 to 1975, was developmental.
- and the short neoliberal rentiers and financiers' phase, from 1978 to 2020.

In the twentieth century we had two transitions: after the 1930's Great Depression and the war, the transition from liberal to developmental capitalism; and after the 1970s crisis, around 1980, the Neoliberal Turn – the transition from developmental to neoliberal capitalism. This second transition, the Neoliberal Turn, was, as Adam Przeworski has argued in 2001, a change of "policy regime". In the same year, I added that there was a move of the political centre from the left to the right. While, after the first transition, the conservative political parties adopted policies like the social-democratic policies in installing the welfare state, in the second transition, the social-democratic parties adopted economic policies not much different from the neoliberal reforms.[iii] In the 1990s, Anthony Giddens proposed the Third Way, a compromise between economic liberalism and social-democratic developmentalism, that illustrated the dilemmas of this second transition.[iv]

The developmental state

The developmental state is an answer to the fact that the market is unable to solve all the problems the capitalist economies face. Considering the two historical forms of economic coordination of capitalism, developmentalism is the default form, because all capitalist societies were born developmental; it was in the frame of developmentalism (not of economic liberalism) that they formed the nation-state and realised the industrial revolution. The developmental state is at the core of the history of capitalism because this is also the history of the nation-states. But economic liberalism is also in the core of capitalism because it is the first market economy – the first form of society in which the coordination of its competitive sectors is more efficiently coordinated by the market than by the state.

New developmentalism adopts a simple criterion to define the complementary roles of the state and the market in coordinating a national economy. A subsidiarity criterion. Whenever there is effective competition, the market is the best coordinating institution; it allocates resources automatically and more efficiently than the state, and it is open to the creativity and the innovations. Considering that in each economy there is a naturally competitive sector and a non-competitive one, the market will coordinate the competitive sector, the state, the non-competitive. The main non-competitive sector, characterised by natural monopolies or quasi-monopolies, is the infrastructure industry. This is also the case of the basic inputs industry, the oil industry, and the great commercial banks which, as we saw in the 2008 global financial crisis, are "too big to fail".

When effective competition is absent, because the industry is monopolistic or quasi-monopolistic, the state is the right coordinating institution. State action is also required in relation to the five macroeconomic prices (the profit rate, the interest rate, the wage rate, the inflation rate, and the exchange rate), that the market is unable to coordinate minimally. The prominence of the central banks is the acknowledgement of such inability in relation to the interest rate and the inflation rate that counts with the supports or liberal orthodoxy – the sum of diagnostics and policy recommendation associated to mainstream neoclassical economics.

The enormous increase in the inequality which accompanied the neoliberal phase of capitalism from 1980 to 2008, and the realization that this inequality did not achieve a bottom but may well continue aggravate in the first part of this century was well demonstrated in the extraordinary theoretical and empirical book of Thomas Piketty, *The Capital on the XXIst Century.*[v] In his book he shows that the capital-output ratio (the inverse of the productivity of capital) which have fallen to around 3 year in the Great Depression and the war, which destroyed capitals mainly in Europe, bounced back and in 2010 was round 5 years and may well continue to around 7 in the next 40 years. Thus, he confirmed the tendency to the increase in Marx's "organic composition of capital" or more simply, output-capital ratio. If, as showed in my 1986 book, *Profit, Accumulation, and Crisis*, the wage rate had continued to increase at the same rate of the increase of the productivity of labour, as was happening in the central countries since around 1870, the profit rate should fall and capitalism will face another and enduring crisis.[vi] As we discuss in the chapter on the secular stagnation of capital, this fall didn't happen four two reasons: because the wage rate stopped increasing with the productivity (almost stagnated), and because corporations increased their profit margins as they didn't cease to increase their monopoly power by an intense program of mergers and acquisitions.

Finally, the protection of the environment and the control climate change, which are today a survival condition for humanity, are a problem for which markets have no answer. On that matter, I always remember the lecture Georgescu-Roegen, who had just published his 1971 pioneering book, *The Entropy Law and the Economic Process,* made in the University of São Paulo. Two neoclassical economists discorded saying that the future interest rate would cope with the problem.[vii] What led Georgescu to comment: "you are thinking parochially; I am discussing the economy that our children and great-children will live in." In 2013, responding to a question posed by the *New Left Review* on the perspective of secular stagnation posed by Robert Gordon book, *The Rise and Fall of American Growth*, Michel Aglietta, using a Schumpeterian argument, ruled out this prediction because a new wave of investments was in the horizon – the investments to cope with climate change, and a country endowed of a strong developmental state, China, was likely to lead this new wave.[viii]

After the war, the rich countries, which had been developmental in their capitalist revolutions experienced a second developmentalism – the social democratic developmental state of the Golden Years of Capitalism. Particularly in Europe, social democracy and Keynesian macroeconomic policies reduced inequality, provided universal health care, and offered palpably better working conditions to workers than those prevailing in the United States. Yet, with the economic crisis in the 1970s, the increasing power of the unions squeezed profits, stagflation materializing in the US, and low wage developing countries exporting manufactured goods represented a new competition. These factors precipitated the crisis of post-Keynesian economics and classical developmentalism.

Developmental capitalism

Considering the four forms capitalist revolution that we discussed in the previous chapter and the two forms of economic coordination of capitalism just discussed, we may say that in modern societies, the degrees of state intervention are disposed along a continuum running from economic liberalism to statism, with developmentalism in the middle. In Karl Polanyi's classical 1944 book, *The Great Transformation*, he proposed two principles – the economic integration and the solidarity principles – that are relatively coincident with the two institutions that coordinate capitalist societies, the state and the market and the two forms of economic coordination of capitalism: the developmental and the liberal form.[ix] As we have in Table 2.1, the two extremes are the liberal form of economic coordination of capitalism and statism, but statism is another form of social organisation.

	Economic Forms of Capitalism		**Statism**
Forms of Capitalism	Liberal	Developmental	-
Coordinating Institution	Market	Market-State	State

Table 2.1: Economic Forms of Capitalism and the Distribution Principle

A society will be liberal if the state limits itself to guaranteeing property rights and contracts and keeps balanced its fiscal accounts; if its policymakers adopt the liberal policies and reforms in which rich countries are involved since the 1980s. It will be developmental if it presupposes that economic development is the outcome of political design, where markets have a major role, but the will of citizens and moderate state intervention in the economy are the crucial variables. It will be statist, as the Soviet society was, if the state controls the whole economy and the market has no role or a marginal role to play. More analytically, capitalism will be developmental when:

- The nation views economic growth as its main objective and industrialization or productive sophistication the means to achieve it.
- The market coordinates the competitive sectors of the economy.

- The state intervenes moderately in the market by planning and investing in the infrastructure and other non-competitive industries.[x]
- Adopts strategic industrial policies.
- Practices an active macroeconomic policy aiming to keep the five macroeconomic prices right, principally the exchange rate and the profit rate.
- Avoids budget deficit except when decides for a countercyclical fiscal policy.
- Rejects current account deficits which overvalue the domestic currency and hurt the competitiveness of the manufacturing industry.
- Neutralises the Dutch disease when the country is an exporter of commodities.

The definition proposed here is not prescriptive, but a generalization of the behaviour of developmental states, particularly those in East Asia from Japan to China and Vietnam when they industrialised. Assuming that the behaviour of individual East Asian developmental states has not been too different, South Korea summarise the measure that enabled it to successfully catch up: high import tariffs, in the range of 30% to 40% in the 1970s and 20% to 30% in the 1980s; plenty of non-tariff barriers; large export subsidies subject to strict conditions of export performance; small fiscal deficits; a low debt-to-GDP ratio; a strongly regulated financial market; low, often nhtegative, interest rates; strict control of the exchange rate; strict control of capital inflows and outflows; and average inflation of 17.4% in the 1960s and 19.8% in the 1970s.[xi]

After a country completes its industrial and capitalist revolution, the country tends to remain developmental, but the degree of state intervention in the economy falls. Now the country has large stock of capital, an adequate supply of entrepreneurs, managers, technicians, and workers, and well-structured markets that are fully able to coordinate the competitive sector of the economy, but the intervention of the state continues to be required for the coordination of the non-competitive sector, for the adoption of industrial policy in all sectors that at each moment turn strategic, for the control of the two macroeconomic accounts (fiscal and current), and for the management of the five macroeconomic prices. Under the pressure of changing economic elites, the degree of state intervention may fall more than it should, and the policy regime move to liberal. It was, for instance, what happened in the rich countries around 1980 when, under the pressure of rentier capitalists and financiers, we had the Neoliberal Turn. We will discuss this change in Part III of this book.

This distinction between developmental and liberal states is irrelevant when we have what Peter Evans called the "predatory state", when the state "lacks the ability to prevent individual incumbents from pursuing their own goals. Personal ties are the only source of cohesion, and individual maximization takes precedence over pursuit of collective goals".[xii] Predatory states exist in pre-industrial countries that are far from realizing their capitalist revolution. Their rulers claim to be developmental or liberal, as convenience dictates, but this means little or nothing.

[i] It important to distinguish the concept of "class coalitions", which is a sociological rather than a political science concept involving agreements between social classes, from "political coalitions", which are the coalitions among political parties to achieve majority and govern. Both concepts are related, but in this book I use mostly class coalitions, which are more informal and long-term than political coalitions.

[ii] Ianoni (2014: 99).

[iii] Bresser-Pereira (2001); Przeworski (2001).

[iv] Giddens (1998).

[v] Piketty (2013: sections "Back to Marx falling tendency of the rate of profit" and "Beyond the 'the two Cambridges'": 360-369).

[vi] Walzer (1983).

[vii] Georgescu-Roegen (1971).

[viii] Gordon (2016); Aglietta (2016).

[ix] Polanyi (1844).

[x] An industry will be non-competitive when they are naturally quasi-monopolist.

[xi] This summary is based on Ha-Joon Chang (2002b) and on a class at the sixth Latin American Advanced Programme on Rethinking Macro and Development Economics (Laporde), Sao Paulo, 11 January 2016.

[xii] Evans (1992: 12).