

Phases of capitalist development

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In this book, I discuss rentier-financier capitalism, which turned dominant from the 1980s, together with knowledge capitalism and the neoliberal ideology. With this objective, I go back to the early twentieth century when the Second Industrial Revolution and the rise of the private corporations opened room for a new social class – the technobureaucratic class – which, from then, acting as top executives or as financiers, shared power and privilege with the capitalist class. Thus, considering the countries that first industrialized, this book assumes they completed their capitalist and their organizational revolutions, and, so, are mixed societies, knowledge and capitalist societies. In this chapter, I will review the revolutions or major social and economic shifts that led to present day capitalism and I will propose a periodization capitalist development.

Two major revolution mark the history of mankind: the Agricultural Revolution and the Industrial Revolution. The first, around twelve 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 rich countries. It involved, at the economic level, the transition from the appropriation of economic surplus by an oligarchy controlling the state and using direct force (mainly slavery) 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 that end. 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 is not yet democratic. At the administrative level, it 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 basic institutions: the modern state apparatus or the public administration, the legal-constitutional system, and the national market. At the cultural level, it involved the transition from tradition and revelation to the reason and scientific research.¹

With the Capitalist Revolution, the world became increasingly interconnected and the reinvestment of the economic surplus into production became a practice and, more than that, a necessary practice 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; for how long economic growth will define capitalist development. But, for the moment, these are just legitimate concerns, which do not change the dynamics of capitalism.

Within capitalism, I will discuss in this book two major revolutions that happened in the turn to the twentieth century: in the economic and social realm, the Organizational Revolution, in the political, the Democratic Revolution. In the framework of the rise of the private corporations, the Organizational Revolution, that happened originally in the US, was 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; and the Democratic Revolution, for the rise of the protection of social rights or social democracy.

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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 social structures of accumulation that David Gordon (1978) defined by a long period of relatively rapid economic expansion, which eventually decays, and a period of stagnation and instability follows until a new cycle begins. Both the long waves and the social structures of accumulation are a 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 (1987: 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 1896 (1974?). 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 center two nation-states, Britain and the United States. 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.

Table 1: Phases of capitalist development

Dates	Phases of Capitalism (class coalition criterion)	Phases of Capitalism (economic criterion)
Sec XII to XV	Merchants' Capitalism	City-states' Capitalism
Sec XVI to XVIII	Mercantilist-Patrimonialist Capitalism	Mercantilist Capitalism (1 st developmentalism)
1840s – 1929	Entrepreneurs' Capitalism	Liberal capitalism
1930s – 1980	Managers' Capitalism	Golden Years Capitalism (2 nd developmentalism)
1980 – 2008	Rentier-Financier Capitalism	Neoliberal Capitalism

In previous works,² I studied the phases of capitalism according to the types of economic progress, their effect in the distribution between wages and profits, and the degree of price competition. These types were: Industrial Revolution, Competitive or Liberal Capitalism, Oligopolistic Capitalism, the Golden Years, and the Rentier-Financier Capitalism. In this book, I will suggest again five phases, now having as criteria the form of economic coordination, the dominant class coalition, and the type of political regime. I start from the very beginning of the Capitalist Revolution, the rise of the bourgeois city-states in the North of Italy in the twelfth century. From the second phase, I use as reference Britain and France, which underwent all phases of capitalist development, and had a significant influence in the rest of the world; and from the fourth phase, the rise of the managerial class, my main reference is the United States.

The five phases, according to the class coalition and the economic criteria, are in Table 1; and, according to the political criterion, in Table 2, where the dates of the phases are a little different.

First, the form of economic coordination. In table 1, I oppose economic liberalism to developmentalism. Capitalism is a form of society where the two coordinating institutions are the state and the market. Depending on how these two institutions are utilized, we have economic liberalism, or developmentalism. Economic liberalism if the market takes care almost exclusively of the economic coordination; developmentalism 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 and the macroeconomic prices.³ While economic liberalism is the economic system where the state just guarantees property rights and contracts and keeps balanced the fiscal budget, the market taking charge of the rest, developmentalism is the economic system where the state coordinates the non-competitive sectors of the economy and the five macroeconomic prices (the interest rate, the exchange rate, the wage rate, the inflation rate, and the profit rate). The infrastructure, the basic inputs industries, and the big banks "too big to fail", as well as the equilibrium of the two macroeconomic accounts (the fiscal and the foreign account) are sectors or realms that markets are definitively unable to coordinate satisfactorily.⁴

Notice 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, blistered 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 completed the second more critical revolution in the history of humanity – 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:

Merchant's Capitalism / City-states Capitalism. The rise of the bourgeoisie in the city-states, first in Venice, Firenze, and Genoa, from the fourteenth century, and later in all West and Central Europe. Capitalism was born in the bourgeois city-states. It was not it, this extraordinary historical phenomenon, the Capitalist Revolution proper would not have happened. 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.

Mercantilist-Patrimonialist / Mercantilist Capitalism. From the sixteenth 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 centers 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' / Liberal Capitalism. From the 1840s to 1929, the business entrepreneurs are the dominant class and economic liberalism is the main form of economic coordination. This is the capitalism that Marx has known and analyzed. It is the time of industrial colonialism, headed by Britain 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.

To industrialize, the latecomer rich countries, like Germany, Italy and the US, conjugated the mercantilist and the entrepreneurs' phase of capitalism. They made their industrial revolution adopting a developmental strategy.

Liberal Capitalism collapses with the 1929 Crash and the 1930s' Great Depression. 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.

Managers' / Golden Years of Capitalism. From the 1930s to the mid 1970s capitalism is technobureaucratic or managerial, as the managerial class shares power and privilege. It is the time of the Fordist class coalition, a broad coalition embracing the working class. Per the economic criterium, is the time of a second developmentalism, as the state is called to intervene in the economy, and growth is fast and stable. It is also the time of social democracy, the time of the welfare state and of falling inequality. They were the Golden Years. Liberal or entrepreneurs' capitalism was dominant from the 1840s to the 1920s. I use the 1840s as the first decade because it was only in 1846 that Britain 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.

Rentier-Financier / Neoliberal Capitalism. Benefiting from an economic crisis in the rich countries, the difficulty of Keynesian policies to cope with the stagflation of the time and responding to the increasing competitive originated in developing countries, around 1980 we have the Neoliberal Turn – the transition to Neoliberal Capitalism. From then up to 2008, a narrow class coalition of rentier capitalists and financiers assumed the command of society, while, on the economic side, the West rejects developmentalism and economic liberalism is back. The objective is to assure competitiveness to the rich countries facing the pressure of the working class and the new competition originated from developing countries. The strategy is to reduce wages, directly, by changing labour contracts, and indirectly, by dismantling the welfare and social state. Capitalism remains technobureaucratic, but the information and communication technology revolution make it also a knowledge capitalism. This phase is the object of this book. This 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.

The phases of capitalist development that I am identifying here are referred to the rich countries. The latecomer rich countries like Germany skipped phases. The same happened to countries that were submitted to modern imperialism but today are also rich countries, like South Korea and Taiwan. Among the countries that in the nineteenth century were submitted to modern imperialism, only a few East Asian countries, following the Japanese developmental model of growth, succeeded in fully catching up, as South Korea, Taiwan, and Singapore, while China continues to head in this direction. Some, like Brazil, South Africa, Turkey, realized their capitalist revolutions and turned middle-income countries, but grow slowly and are not catching up.

Table 2: Phases of capitalism according to form of coordination and 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 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 labor force.⁵

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; a reasonable guarantee of the rule of law 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 Europe, there was a major progress: liberal democracy changed into social democracy. A progress not only because politicians had now to hear their electors and a broad class coalition including the working and salaried classes turned dominant, but also because the third type of human right, the social rights, was transformed into reality. This progress ended with the Neoliberal Turn, the rise of neoliberal and rentier-financier capitalism, 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: the ideal economic and political form of society. Neoliberals reject the concepts of neoliberal ideology, neoliberal political regime, and neoliberal capitalism 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 hard work and merit are valued, where growth and financial stability would be assured. A liberal democracy that ignores its real alternative, social democracy, and defines as its adversary several forms of authoritarian populism.

Knowledge Capitalism

In this last phase, capitalism, remaining technobureaucratic, changed into knowledge capitalism. Following John Kenneth Galbraith (1967), knowledge replaced capital as the new strategic factor of production, but capitalists and technobureaucrats remained the two ruling social classes to be the capitalists and the managers or the experts. From the Second World War, the world experienced unprecedented technological development, which continues and gains momentum in the twenty-first century; a distinction between technobureaucratic capitalism and knowledge capitalism is helpful. For some time, in the Golden Years, this managerial capitalism was called "organized capitalism" to reflect the dominance of the corporations and the technobureaucrats in private as well as in the public organizations and the financial stability of the period.⁶ However, from the 1980s, while technology continued to revolutionize production, neoliberal deregulation and financialization disrupted the

management of the corporations and augmented the economic instability of the economic system radically.

In the time of Marx and liberal capitalism, the capital was essentially and effectively the strategic factor of production and the accumulation of material capital was the dynamic factor of development. Not anymore in knowledge capitalism. The introduction of digital technology represented a qualitative jump which was decisive to the old mechanical technology. The mastery of technology by a relatively reduced number of men and women conferred increasing importance upon their highly specialized work, while we have now to distinguish material from "immaterial" or "intangible" capital – the later one understood as human capital, research and development, and intellectual property. Following Abramovitz and David (1996), who used the concept of total factor productivity as a tool, the increase of intangible capital represented around 70 percent of the increase of productivity in the US. The concept of a "knowledge-based economy" or even of "intellectual capitalism" is, more recently, present in the works of economists and sociologists associated with the French regulation school, among whom Carlos Vercellone (2002), Yann Moulier Boutang (2007), Mouhoud and Plihon (2009) and Mouhoud (2003). These studies show why knowledge has become even more strategic than before. The pace of scientific discovery applicable to production is increasing geometrically. Whereas at the beginning of the First Industrial Revolution, machines were simple imitations of manual production processes, and production techniques were extremely simplified, so that workers with only elementary education could master them, after the Second Industrial Revolution, the new machines required engineers to control them. After the Third and the Fourth Industrial Revolutions, they turned so complex that not even engineers educated in institutes of higher education can deal with the task, which often requires highly specialized engineers and scientists formed in graduate programs which are supposed to work as a team of technical expert. After the Second Industrial Revolution, at the end of the nineteenth century, we lived from the 1960s the Third Industrial Revolution or the information and commodity technology revolution, which included the personal computer, the cell phone, and the Internet. From the 2000s, we are living the Fourth Industrial Revolution, which, following the Wikipedia, "builds on the Digital Revolution, representing new ways in which technology becomes embedded within societies and even the human body. It is marked by emerging technology breakthroughs in many fields, including robotics, artificial intelligence, nanotechnology, quantum computing, the internet of things, 3D printing, and autonomous vehicles".

To Vercellone's (2003: 9) transition from the valorization of capital to the valorization of knowledge ("savoirs") corresponds to the change in the strategic factor of production. In the framework of the French Regulation School, El Mouhoub Mouhoud (2003: 136) pointed out that knowledge capitalism followed Fordism and remarked that knowledge capitalism is associated with an increase in immaterial consumption, and especially a "cognitive productive logic" that would not have replaced, but added to the Taylorist logic, which, in turn, would have also changed, becoming more flexible. He concluded: "knowledge becomes the primordial input: its production and its control obey a cumulative logic that engenders growing inequalities between individuals and between territories."

Knowledge capitalism may be viewed as the second stage of technobureaucratic capitalism, as it supposes corporations where professional managers are in command but,

now, with a higher weight of the experts. Technobureaucratic capitalism emerged in the framework of the Second Industrial Revolution, knowledge capitalism, in the framework of the Third Industrial Revolution or the information and communication technology revolution. When I say technobureaucratic capitalism, I am emphasizing the new social class; when I say knowledge capitalism, I am adopting as the criterion the strategic factor of production in modern societies – knowledge – which, with the information and commodity technology revolution gained a spectacular pace and dimension. Knowledge capitalism is originated from John Kenneth Galbraith's (1967) identification of knowledge as the new strategic factor of production, and from Peter Drucker's (1968) proposal of calling contemporary capitalist societies, the "knowledge society". In fact, knowledge has empowered its holders from the turn of the nineteenth to the twentieth century, but the information and communication technology revolution produced an extraordinary increase in the amount of information available and allowed a new and significant advance in the process of robotization and of the development of artificial intelligence that justifies distinguishing knowledge from technobureaucratic capitalism.

In a report by the United Nations Department of Economic and Social Affairs (2005) the idea of a knowledge society characterized by the "mass production of knowledge" is present, but it is debatable that the revolution in information technology and communication has produced so much knowledge – what was massively produced was information, was big data. The technological revolution represented by information technology and the Internet was remarkable, but historically we know that since capitalism was born, it was characterized by accelerated technical progress. The fact that this progress has been for some time spectacular regarding information and communication and that the production of intangible goods or marketable "content" has become a reality is impressive but has not changed the nature of capitalism. The greater importance of technologically sophisticated services that require more knowledge has occurred, but the nature of the technobureaucratic-capitalist corporations remains the same. They are organizations which are owned by capitalists entitled to dividends but managed and controlled collectively by its managers who are remunerated by salaries and bonuses. They are corporations focused on capitalist profit and managerial expansion of bureaucratic positions. And has not changed the fact that capital accumulation incorporating technical progress is the condition of survival of firms in the markets.

After the 2008 global financial crisis, while capitalism remains a knowledge and managerial capitalism, neoliberalism and the rentier-financier capitalism are being challenged. Yet, its "resolution" is not happening via the reprise of social democracy, but via a populist nationalism. We will discuss this perverse phenomenon ahead.

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¹ 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.

² Bresser-Pereira (1986; 2018).

³ 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.

⁴ I developed extensively the historical alternation of developmentalism and economic liberalism in Bresser-Pereira (2017a).

⁵ Bresser-Pereira (2012).

⁶ Claus Offe (1985) and Lash and Urry (1987).