POWER IN MOTION

Capital Mobility and the Indonesian State

Jeffrey A. Winters

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PREFACE

Capitalism is a system of production and social organization characterized by extreme asymmetries of power. Those who control capital and other investment resources are not just one among several interest groups competing for the attention of state leaders. Indeed, they often are not even citizens. Many investors do participate in open politics, but this is neither their most potent nor their most reliable form of influence. Far more important is the structural power they wield through their decisions about where, how much, and when to invest the resources they control. These silent signals of support or protest, and the tremendous political power they manifest, are unique and deserve at least as much attention from students of politics as they receive from leaders of state.

The central and enduring tension under capitalist forms of production stems from the separation between economic power and political power. Deep-rooted political arrangements reserve to a small group of unaccountable persons the privilege of deploying economic resources that everyone else relies on. Neither dictator nor democrat gets very far in commanding capital controllers to serve the regime, the community, or the society. And yet there would be no capitalists, no private control of investment resources, and no special political leverage for investors if states did not uphold claims to property and defend the wide discretion that accompanies property rights. The power of capital controllers is deep, structural, and daunting, but it is also contingent—incessantly contested and remade in the daily conflicts that arise when the material needs or demands of a community are divorced from direct control over the resources necessary to meet them.

This book probes this tension. The overwhelming focus is on the *structural* power of capital controllers—power that derives from the capacity to deploy scarce investment resources. Capital tends to flow toward social systems that produce profitable investment climates, rewarding laborers and political elites alike for their capital-friendly policies. Similarly, capital flows away from locations that cannot or will not produce inviting climates, punishing the community with declining investment rates. Power is manifested in the motion of capital itself, into and out of a community or region or country.

The structural leverage of investors is not new—since the earliest days of capitalism investors could withhold resources whenever they deemed it prudent or useful to do so. What is new since the middle of the twentieth century is the rapidly expanding geographic reach of capital controllers and the types of capital involved. The structural power of capital controllers has always been great, and dramatic increases in capital mobility, particularly for direct investment, have augmented that power. Now capital controllers have gained leverage from their capacity to deploy capital across competing jurisdictions that are quite dissimilar in economic, political, and social terms.

This is not to say that governing capital is impossible, though it certainly is difficult. States have varying capacities to manage capital movements, and not all systems are equally vulnerable to structural pressures. As the Indonesian case demonstrates, direct state access to substantial investment resources can undermine the structural power of private investors. The problem is, such moments or opportunities are rare (and in Indonesia, few clear benefits accrued to the broader population when the power of investors was damaged). Alternatively, as capital controllers leave a trail of economic and social devastation in advanced industrial states, key countries responsible for maintaining and defending the privileges and mobility of capital (such as the United States, Japan, Germany, France, and the United Kingdom) could stop doing so. In the unlikely event that the conflicts and political alignments in these countries shifted so as to make such policies possible (at present they are hardly even conceivable), the ripple effect on the global power of capital controllers would be profound.

This book has several objectives. First, it is a theoretical introduction to the structural dimensions of capital's power, with a strong emphasis on capital mobility. How have people thought about the leverage of investors, and to what extent has the political economy of capital movement among competing jurisdictions or communities been researched? The ability of capital controllers to relocate among multiple and often very dissimilar jurisdictions points to the increasing importance of the politics of place and space even, paradoxically, as capital mobility has tended to render contending groups and actors within competing jurisdictions less able to control their own economic fate. Second, the last chapter in particular is intended to suggest the range of topics where a focus on capital mobility would prove fruitful analytically. The material presented in the last chapter is illustrative, emphasizing lines of inquiry that would not only enrich the approach developed here but also shed considerable light on the relations and events under scrutiny.

In an effort to give the abstraction of "globalization" more meaning, the middle three chapters offer a case study of Suharto's Indonesia, from the mid-1960s to the early 1990s. The political economy of Indonesia is particularly fertile ground for an approach that emphasizes the structural power of capital controllers. Rather than simply asserting that structural power exists, I trace the way the limits investors impose get expressed in government policies. I also examine some of the factors that can augment or undermine investors' structural leverage. As rich as the Indonesian case is, it only scratches the surface of capital's power in motion. For building good theory in comparative and international political economy, Indonesia represents a useful window, a reference point for comparisons and contrasts that undergird or undermine the claims or conclusions offered here. Understanding how the structural power of capital controllers varies across place and time is an important step in subverting that power and, as part of a broader democratic struggle, enhancing the capacity of different communities and groups to set their own material and economic priorities.

The Indonesian case is well suited for probing the structural dimensions of investors' power. If one were to design a laboratory experiment to test the validity of the claim that investors exercise tremendous (and increasing) structural power over the construction and maintenance of investment climates around the globe, one would try to isolate the essential nexus of the processes involved—the provision of investment resources in exchange for a set of policies business deems acceptable—and then, holding constant as many other variables as possible, disrupt that nexus and observe what happened. To be certain the results were

causally linked to the disruption, ideally one would restore the original conditions and see whether the relations between state and capital returned to the status quo ante.

Political "scientists" notwithstanding, most people recognize that social and political relations cannot be stripped down and squeezed into laboratory models or images. The Indonesian case is probably as close an approximation as one can hope for. Thanks to the oil boom of the 1970s and early 1980s (the "disruption"), Indonesia's policies toward investors have passed through three distinct phases during the past twenty-five years. The first period, from late 1965 to late 1973, began with the collapse of President Sukarno's government and finished with the start of an oil boom. The Indonesian state was bankrupt in 1966 and in desperate need of financial and investment resources to stabilize the economy and society. Real living standards had been declining for years, production and exports were almost at a standstill, and inflation was out of control.

The policy stance adopted during this first phase can only be characterized as highly responsive to the demands and interests of the most mobile investors, both foreign and domestic. In effect, investors supplied the capital needed to stabilize the Indonesian system in exchange for a set of extremely favorable economic policies. The critical *structural* issue was how the private control of investment resources, typical under capitalism, constrained the range of options Indonesia's decision makers felt they could safely and reasonably consider. Equally important in accounting for Indonesia's particular response to these circumstances was the capacity of the Indonesian system to adopt and implement a package of economic policies favorable enough to capital controllers to boost overall investment and production rates.

The sharp increases in oil prices beginning in the last quarter of 1973 introduced a disruptive element to the exchange relationship (capital for policies) established during the preboom phase. Awash in more oil-related resources than it could spend, the Indonesian state unilaterally abrogated the bargain. Although still concerned to have investment occur at politically and economically acceptable levels, state leaders were no longer so structurally constrained to meet the interests of private investors. Reflecting this new reality, a new policy trajectory was inaugurated early in 1974—one decidedly less responsive to capital controllers, particularly the mobile actors who are most keenly interested in having

markets regulate access to opportunities for investment and profits. As the personal discretion of state officials increasingly supplanted markets in regulating this access, overall investment levels from the private sector declined sharply. This drop had no deleterious economic or political impact, however.[1] Many investors either took their resources elsewhere, never invested in Indonesia in the first place, or simply sat on their capital and waited for a more favorable business climate.

By the early and mid-1980s the oil boom had become the oil bust—restoring the previous structural positions of both state and private capital. Moving in tandem, the responsiveness of the state to those controlling private capital increased sharply, and the country's economic policies underwent a clear shift back to more market-based access and opportunity. One of the central puzzles is how to account for these pendulum swings in policy. It is obvious that the oil boom played an important role. The more subtle issues concern the precise way political and economic power shifted across these periods and what these shifts can teach us about how the pattern of capital control "ordinarily" obtaining in capitalist systems, and the degree of capital mobility, affect the power relations between state and investors. By extension, our understanding of major policy trajectories and shifts is also advanced. For Indonesia, it is clear that the periods before and after the oil boom most closely approximated ordinary structural conditions under capitalism—the boom itself was highly exceptional.

We must keep a keen eye on two related issues. The first is the possibility that other factors might account in a *causal* way for the changes in Indonesian policy. The second is the role played by additional factors, many quite specific to Indonesia, that mediated how changes in structural pressures and circumstances were (or could be) addressed by state leaders. Although certainly not a laboratory case, Indonesia is well suited for a study focused on structural-material factors because so few other elements changed in significant ways that could make them responsible for the swings in economic policy.[2] The stress must be on *pendular*

[1] A major exception (from the perspective of the individuals affected) was the decline in the power and status of Indonesia's economic ministers that occurred during this middle period. It was changes at the structural level in the pressures to be responsive to investors that determined the relative power of the economic ministers, rather than the power of the ministers regulating the relative responsiveness of the state to those controlling investment capital during each phase.

[2] As this book will show, in addition to the changes in the climate for private invest-

swings because factors that changed in a secular way cannot logically account for policy oscillations. For the entire twenty-five years in question, for instance, Indonesia has had the same president and team of economic ministers, and neither underwent any major ideological transformations. Thus we can rule out theories focusing on presidential politics, personnel changes in key cabinet positions, or the impact of ideology or culture to explain major changes in the direction of economic policy and the climate for private investment.

The role of the military and of political parties has declined across all three phases, as has the political and economic independence of the islands outside Java. Arguments based on military, party, and regional politics and power, then, are of little use in explaining the major policy transformations in Indonesia since 1965. Moreover, the country has seen a steady absence of politically powerful societal actors, and the institutional structure of the state, particularly those bodies in charge of economic policy, has remained remarkably stable. Demographic pressures on the state and economy have been constant and heavy and will remain so for decades to come. Again, models that posit these variables as causal factors are an analytical dead end. On the international front, the country has had no enemies and has fought no defensive wars. Indonesia has long been important geopolitically, and even if the end of the Cold War has diminished this, it came too late to have any major effect on the policy shifts examined here. The country's integration into international markets of all kinds has increased steadily, accelerating particularly during the 1980s. Moreover, the character of that integration has changed because of the deep shifts in the pattern of control over investment resources.

Although these many factors did not cause major policy changes in Indonesia, they were extremely important as mediating elements and are indispensable in accounting for the specific ways Indonesia has responded to structural forces that have also constrained decision makers in a wide range of national and subnational contexts. These factors are addressed more fully in the theory chapter that follows, in the substantive chapters dealing with each of the three phases, and in a brief comparative sketch in the last chapter, drawing on quite different policy outcomes in Nigeria.

ment, the three most important changes that did occur were themselves more a result of the structural variables I focus on rather than being responsible for change across the three phases.

Although this effort to offer a theoretical explanation for a state's responsiveness to mobile investors (evident in the policies that constitute the investment climate) relates to other studies in international political economy—particularly Krasner's attempt to account for the relative openness of different countries' trade regimes[3]—my approach differs in significant ways. While my theoretical claims are admittedly broad, the method of analysis I employ is highly attentive to the details of the interaction between policymakers and those controlling the investment resources the state seeks to attract and retain. And although it is convenient to use phrases like "the state seeks," it is abundantly clear from the material presented here that the state and its political dynamics are treated as anything but a "black box."

On the contrary, because issues of perception and anticipation are so critical to the actions of both investors and state leaders, I have made every effort to discover what these perceptions were for the central actors in Indonesia and to determine how and why they changed. For state elites, I gathered material from published comments and analyses, from internal government documents and studies (most of them classified), and from scores of interviews with the decision makers themselves. For capital controllers, I made extensive use of business advisory publications tracing changes in the investment climate in Indonesia, published accounts of business perceptions and reactions to Indonesia's policies and those of competing jurisdictions, and extensive interviews with foreign and domestic investors. Economic and investment data from Indonesia's Ministry of Finance and from the International Monetary Fund and World Bank, meanwhile, supply a backdrop to the interactions between state and capital.

What results is a theory that marries elements of Indonesia's political economy that are quite macro in nature—for instance, the society's "investment imperative"—with careful attention to the details and texture of policy making and investment processes. The picture that emerges is one of real actors operating within a political and economic "space" that has an identifiable structure and presents concrete constraints but does not compel or determine any single outcome.[4] How the

[3] The theory of hegemonic stability is put forth in Krasner 1976.

[4] Fainstein and Fainstein (1982:11) wrote that the project is "to sort out the determinative effects of economic conditions and the indeterminate consequences of specific political and cultural mobilizations." For a nuanced treatment of structural constraints facing policymakers in a context quite different from Indonesia's, see Howell 1992.

approach developed here can be applied to a broad range of cases and contexts is the subject of the concluding chapter.

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POWER IN MOTION

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THE STRUCTURAL POWER OF CAPITAL CONTROLLERS

A paradox surrounds the political power of investors under capitalism. Although they enjoy a very special position in society as the private controllers of resources everyone else depends on, investors are not ordinarily seen as wielding significant political power except when they engage overtly in the political process—through parties, lobbyists, as candidates, or through more personal links to policymakers in government. Apart from their simply having more time and money to sway the political process, no additional political power seems to accrue from being a member of a country's exclusive "economic government." The key to the paradox of actors that are so powerful yet do not appear so lies in the *way* the unique political leverage of those controlling investment capital is exercised. This book probes the structural dimensions of investors' political power—those that are built into the very fabric of capitalist systems of production and which are not and cannot be shared or matched by others who lack discretionary control over investment resources for societies. It also explores how that structural power is changing.

If capitalists—who are unelected, unappointed, and unaccountable politically—were all to wear bright yellow suits and meet weekly in huge halls to decide how much investment would occur, where, when, and in what sectors, their enormous social power—which is qualitatively different from other political levers—and its implications for of policy making would be shrouded in considerably less confusion and disagreement. Indeed, people in procedural democracies might even begin to demand a say in the investors' deliberations and choices. But this is not

the way it happens. Although like every other discernible "interest group" capitalists have associations and political instruments, they make *investment decisions* for themselves and by themselves. As we will see, it has been argued that because investors control a society's lifeblood as individuals, separately, and under conditions of market competition, and because different fractions of capital disagree on so many issues, they effectively cancel each other out in both political and economic terms, leaving the real power in society to the country's political apparatus and those who control it, democratically or otherwise. A full appreciation of the augmented political power conferred on those controlling investment resources is impossible as long as the view prevails that keeping a diverse group of capitalists separated physically and organizationally ensures that they operate on the same political-power terrain as all other actors.[1]

Direct participation (in whatever form) represents only a small part of investors' total power to influence political outcomes and policy. Outside and in some respects *prior to* the overt political process, those controlling investment resources "vote" in a way that nonpropertied citizens in the wider public cannot. The sum of investors' separate calculations and actions as profit-driven actors in a market environment is translated into very real forces of support for and opposition to key government policies. I will argue that investors need not consciously coordinate their actions to act in concert, that investors' decisions are of enormous consequence for societies and leaders of state, and that the atomized way capital controllers dispose of their resources does not seriously dilute the structural political power they alone enjoy under capitalism.

I offer both logic and empirical evidence to support of these claims. The logical aspects derive from the nature of capitalism (particularly the elements of market competition and private ownership of the means of production) and the geographical division of laboring and consuming populations into national and subnational jurisdictions. The empirical

[1] There is a parallel belief that market societies are essentially free of conflict. According to Lindblom (1977:46), "In liberal thought a world of exchange is conflict-free. Everyone does what he wishes. When all social coordination is through voluntary exchange, no one imposes his will on anyone else. But how, we ask, can such a happy state be possible? It is possible only because the conflicts over who gets what have already been settled through a distribution of property rights in society. Was that distribution conflict-free? Obviously not. Was it noncoercively achieved? Obviously not." And, we might add, is it noncoercively *maintained*? Obviously not.

aspects are plainest in the stated and unstated policy interests of investors and in observed policy processes and outcomes. They also are evident as policy-making elites explain their perceptions of the constraints they face regarding investors, and the anticipated consequences for economic and political stability of not attempting to operate within those constraints.

It is taken as an existential fact that in societies where there is a division of labor and production for direct subsistence is limited, an "investment imperative" must be satisfied if the society is to function smoothly, reproduce itself, and—with any luck—experience economic growth. The position and legitimacy of state leaders are inextricably linked to the satisfaction of this investment imperative, since prolonged failure to meet the investment and production needs of a population tends to complicate stable rule—sometimes severely. Although statements by investors suggest that most are aware of the crucial role they play as a group, their capital is not consciously deployed to meet any given population's investment and production objectives. Rather, the calculus that informs the actions of those controlling capital tends to be personal and unfolds in an environment ordinarily marked by some degree of market competition. Among capitalists' core objectives are pursuing the largest profits attainable, protecting their right to private property with the fullest personal discretion that right implies, and keeping risks to a reasonable minimum.

When investors choose not to invest, policymakers are powerless to force them. Except in unusual circumstances (of which the Indonesian case is a prime example), the only way to maintain or increase investment rates is to create a political and economic policy environment that investors find responsive. And it is precisely in designing and implementing policies that meet the population's investment and production needs *by first satisfying the core objectives of those controlling capital* that the structural dimension of investors' political power finds its expression. This book seeks to demonstrate how crucial these considerations are to a satisfying explanation of the economic policies characterizing each of the three phases seen in Indonesia during the past twenty-five years. Furthermore, the application of the concepts developed here is not narrowly limited to Indonesia but has explanatory value in a wide variety of national and subnational contexts and across an equally broad range of policy areas and episodes. The analytic reach of the approach advanced here should become evident as we turn to the ways capital mobility has

been changing in recent decades to allow relocation, particularly of direct investment, across ever wider jurisdictional lines.

As a final word of introduction, I should mention the lineage of the theory presented here. Although the literature dealing with the relationship between state and capital is fairly large, the subliterature focusing on the structural power of those controlling capital is narrower. And narrower still is the work dealing specifically with structural power rooted in the mobility of capital.[2] One body of research on the political economy of capital mobility for cities and regions dates back to the 1960s.[3] This work has not dealt with nation-states but has focused instead on the structural power of capital as manifested in the ability, vastly expanded since World War II, to relocate across jurisdictional lines at the subnational level.[4] Material presented here extends the insights and reach of the literature on cities and regions both theoretically and geographically to encompass the power associated with the expanding mobility of capital among nation-states. This book also is one of the first attempts to combine these insights with a detailed case study.[5]

Some Definitions

Most of the terms and concepts I use will be defined in the course of the discussion. Some, however, should be mentioned at the outset to avoid confusion. It will be clear from the context when "capital" refers

[2] Studies focusing on the structural power of investors and at least in part on the issue of mobility include Fröbel, Heinrichs, and Kreye 1978; Bryan 1987; Peet 1987; Gordon 1988; Milner 1988; Sassen 1988; Arrighi 1990; Webb 1991; Goodman and Pauly 1993; Yoffie 1993. On finance capital see Conybeare 1988; Maxfield 1990; Frieden 1991; O'Brien 1992; Mathieson and Rojas-Suarez 1993. Some of the more "footloose" manufacturing processes are examined in Scott 1987.

[3] The journal *Regional Studies* has been especially important in advancing the debate on the structural power of mobile capital controllers over the jurisdictions they move among. Three approaches have been prominent. The first is to look in a rather technical way at the mechanics of how firms make locational and relocational decisions. The second is to examine the different kinds of incentives offered by various jurisdictions and see how they really influence location decisions. These studies are directed at (and indeed often written by) city and state planners trying to design policy packages that will attract and retain investment for a jurisdiction's job and tax base. A third and least developed approach is to step back and address the phenomenon of capital mobility and relocation in terms of the social and political power it represents.

[4] Important work in this area includes Crenson 1971; Perrons 1981; Peterson 1981; Walker and Storper 1981; Ward 1982; and Eisinger 1988.

[5] Gill and Law (1989) address these subjects nicely, but their article offers only a brief theoretical sketch and does not present detailed case material.

to actual investment resources and when it refers generally to the actors who control capital and invest it. The term "capital controllers" is used interchangeably with "investors" and "business." "Capital controllers" is a somewhat awkward term, but there are at least two good reasons for using it. First, in many instances those who own capital do not control it in any meaningful way, as happens with pension funds in the United States.[6] Second, certain huge resource pools that can be used for investment are neither owned nor controlled by private individuals but instead are manipulated and "invested" by bureaucrats in large agencies like the World Bank, the Asian Development Bank (ADB), the United States Agency for International Development (USAID), and foreign assistance consortia such as the Inter-Governmental Group on Indonesia (IGGI), later renamed the Consultative Group on Indonesia (CGI). Capital controllers consist, then, of *private* and *institutional* investors.

The most important analytical subdivision in this book within the group called capital controllers is based on the relative mobility of their investment resources or production facilities across jurisdictional lines, especially national boundaries. Although I will say more about mobility later in this chapter, it should be understood from the beginning that the emphasis on *mobility* is deliberately intended to challenge and if possible displace the more traditional focus on the *nationality* of capital ("foreign" or "domestic"). An approach based on mobility not only elicits more satisfying explanations than are possible with theories stressing the nationality of capital (such as dependency) but can better accommodate the analytical challenges ahead as the mobility of capital across national boundaries continues to expand.

The "investment climate" refers to the constellation of policies within a given jurisdiction that are of primary interest to those controlling capital. Investment climates have always been important for determining the rate of investment, but they have taken on increasing salience as the general mobility of capital has expanded and, more specifically, as the capital controllers based in a given jurisdiction become more able to explore extrajurisdictional investment opportunities and conditions. Although different fractions of capital have interests in different and sometimes contradictory policies, several fundamental policies are of common concern to all capital controllers and take on greater importance as the mobility of an investor's capital or production process increases.

[6] Dahrendorf 1959.

There are countless ways societies can attempt to infringe on the private discretion of investors—thereby increasing risks, affecting the ability to compete, and ultimately threatening rates of profit. At one extreme is expropriation. Also very objectionable, particularly to mobile investors, are state policies that replace market mechanisms for access and allocation with the discretion of officials, who then attempt to manage the opportunities for investment and profit according to their own personal and political agendas. Many government policies have at least an indirect impact on rates of profit for investors. Some, however, can be singled out as elements of an investment climate whose effect on profits is direct and that receive special attention from capital controllers. A jurisdiction's tax regime—which can include basic tax rates, depreciation schedules, and special incentives like tax holidays—is a key component of the business climate. Also important are policies concerning capital controls, environmental degradation, ownership by noncitizens, rights of unions, tariff levels (especially for those sourcing inputs from abroad), and the costs of labor. In addition to policies on minimum wages and benefits, the costs of labor are here assumed to be affected by considerations of skill, productivity, and the discretion of investors to hire and fire employees. Labor organization and militancy are separate matters however.

"The state" is a complicated subject that defies quick definition. Some dimensions of the state are relational and others are more ideological and abstract. Two aspects will be emphasized in this book. One concerns its organizational and physical dimensions. States are complex organizations requiring resources to function—they have what can be called a "revenue imperative."[7] They are also territorially specific, and the reach of state policies is bounded in most instances by a clearly defined jurisdiction. Distinct jurisdictions are a critical element in the exercise of structural power because they make relocation among investment climates possible. The second dimension of the state centers on the processes and power dynamics that result in the policies we observe. States do not and cannot act; it is the people in power within them who act. To say "the state" responded in one way or another is simply shorthand for saying "policymakers within the state" did so. It must be understood

[7] See Levi 1981, 1988. On fiscal sociology generally, see Schumpeter 1954 and Goldscheid 1958.

that except for the territorial and organizational dimensions mentioned above, a state is a set of relations—an abstraction. As the Indonesian case makes abundantly clear, those responsible for making policy hardly represent a unified group. It is important to keep divisions and conflicts within the state elite very much in mind as we analyze the political processes resulting in state policy. That said, and despite a constant flux, at any one moment states have a single set of policies that are the law (a given tax rate, a policy on who can invest and where, and so on). When I mention the state's responsiveness to mobile capital below, then, the actions of policymakers and the policy results of those actions are the referent.

Private Property and Resource Imperatives

In building a theory of structural power relations between state and capital, it is necessary to delve more deeply into two matters already mentioned. The first concerns the critical issue of resource control under capitalism, the second focuses on the investment needs of complex societies. Beginning with the pattern of resource control, there are several basic points that are obvious enough but rarely serve as the proper starting point for the analysis of political outcomes in capitalist systems. One is that the defense of claims to private property is more *indirect* under capitalism than under any previous system of production. For instance feudal lords, who were also warriors, defended their lands and property quite directly (both against peasants and serfs from below and against attacks from rivals).[8] Thus, for capital controllers to rely on the state to use its coercive capacities to defend their claims to property, the *right to private property itself* must be so fundamental to the social system that it is challenged only in the most extraordinary circumstances.[9] In practice, successive rulers in capitalist societies do not start

[8] Anderson 1974a.

[9] Dahl (1985:1–2) reminds us that the deepest concern of John Adams, Thomas Jefferson, and James Madison, together with all the other members of the American Constitutional Convention, was that "political equality might conflict with political liberty." Many of the framers "had been alarmed by the prospect that democracy, political equality, majority rule, and even political liberty itself would endanger the rights of property owners to preserve their property and use it as they chose." Przeworski (1980:48) quotes one political observer who put the issue much more directly: "The universal suffrage is incom-

from scratch and create the right of private property with each change in government. Instead, they enforce a pattern of resource control inherited from the past.[10] So firmly rooted is the guarantee and defense of private property rights within the capitalist world that in political-economic analysis it must be treated as a structural factor.

Another basic point is that there are no provisos attached to the right of private property stipulating, for instance, that investment resources must be used in ways that advance the interests of society or must somehow benefit the state that serves as the guarantor of last resort. Capitalists can invest their resources where they choose, sit on them and do nothing, or destroy them if the urge takes them. In short, the discretion of capital controllers is total, and the ability of state leaders to insist that private capital be invested or used for purposes other than those that suit private investors is extremely limited, if it exists at all. The institution of private property ensures that the state's influence over the use of investment resources is at best indirect.

The second main issue is the "investment imperative" of society, also necessarily indirect in nature, that exists in complex societies when a substantial number of people depend on someone or something else to invest basic resources so that their standard of living can be maintained or improved. The investment imperative arises when the division of

patible with a society divided into a small class of owners and a large class of unpropertied. Either the rich and the propertied will take away universal suffrage, or the poor, with the help of their right to vote, will procure for themselves a part of the accumulated riches." The question of how propertied classes would respond if confronted with a *democratic* threat to their right to private property has long preoccupied socialist strategists. Referring to the debates among European socialists, Przeworski (1980:31) writes, "The main question . . . was whether the bourgeoisie would respect its own legal order in case of an electoral triumph of socialism." He concludes that the events of 1851 in France suggest it would not. The fate of the Allende government in Chile, among many other cases, supports this view.

[10] Here I disagree with Lindblom, who writes: "Some people believe that wealth or property is the underlying source of power. But property is itself a form of authority created by government. Property is a set of rights to control assets: to refuse use of them to others, to hold them intact, or to use them up. Property rights are consequently grants of authority made to persons and organizations, both public and private and acknowledged by other persons and organizations" (1977:26). Lindblom intends to emphasize that the right to private property does not float in the ether. But his use of phrases like "created by government" and "grants of authority" is problematic and signals, moreover, that he thinks in liberal-pluralist rather than structuralist terms. Only in those rare instances when grants of authority over property are actually being made (and thus governments are literally *creating* the authority manifested in private property) does Lindblom's claim have any meaning or relevance.

labor in a population becomes fairly advanced and the level of production for direct subsistence is limited or declining. As the efforts of laborers are increasingly concentrated into the production of goods and services that do not *directly* sustain them (you cannot eat a widget), their survival comes to depend on an impersonal process of investment, on the wages they earn, and on markets where exchanges can be made for the necessities of life. Urban populations in particular are extremely dependent on this complex investment and exchange process because the possibilities of retreat into production for direct subsistence are minimal. Leaving aside for now who or what controls the investment process, the fundamental issue too often glossed over in political-economic analyses is that a constant pressure exists to satisfy a population's investment imperative, and that when real investment rates decline or, worse, the process breaks down completely, complications arise in both the economic and political realms.

There is abundant empirical evidence that the investment imperative is real. It is undeniable that some kind of investment process must sustain a social system characterized by a division of labor and by complex relations of exchange. However ordinary this process may seem, it is important to realize that it is in no sense automatic, unstructured, or free of conflict and power relations. Even if policymakers are not fully cognizant of the pressures manifested in the investment imperative, they have nevertheless set up planning boards at every jurisdictional level whose task is to predict and track investment rates. The economists and other officials on these boards are also charged with calculating minimum investment levels needed to achieve the employment, growth, and revenue targets that can be expected to keep challenges to the government at manageable levels. Moreover, it is their responsibility to diagnose the reasons behind investment shortfalls and recommend ways to increase anemic investment rates.[11]

Although the notion of a society's investment imperative is extremely important for any understanding of the structural power of capital controllers under capitalism, it presents sticky problems for students of politics. For one, the concept is vague, difficult to measure precisely, and difficult to "operationalize" because the ability and willingness of different populations (and even the same population at different times)

[11] Wood 1968.

to tolerate investment shortfalls and collapses varies widely. A second matter is that the word "imperative" suggests a sort of determinism where real people and the choices they make seem inconsequential. The term conjures up images of mechanical social processes conducted by robots.

That so many examples exist of state leaders' failure to satisfy the investment needs of their jurisdictions is evidence enough that there is nothing automatic or mechanistic about the processes or relationships described here. This is not to say that the structural forces rooted in the investment imperative do not press themselves on policymakers in all capitalist systems; other factors mediating the intensity of these forces and the ability of state elites to respond to them play an important role in determining specific outcomes. These mediating factors are discussed later in this chapter as well as in the concluding chapter. For the moment it is important to begin specifying the *political* processes and power dynamics that, in a general way, link social forces originating in the need to satisfy a population's investment imperative to pressures that decision makers perceive in order to create an investment climate that responds to the interests and needs of those controlling capital.

Procedural Democracies and Electoral Politics

In discussing investment shortfalls and perceptions of deprivation within a population, it is easy to imagine that the political processes associated with the investment imperative are wrenching and cataclysmic. In fact this is true only in the most extreme cases. In most instances the structural power of capital controllers operates in far more silent and subtle ways. The single most important reason for this is that *anticipation* by policymakers plays a central role in the power dynamics surrounding a jurisdiction's investment imperative and how (and at what level) it is satisfied. In analyzing these dynamics, the work of Charles Lindblom, Bob Jessop, and Adam Przeworski provides a good starting point.[12]

Lindblom and Jessop offer a general analysis of what Lindblom terms "the privileged position of business" in market economies, and Przeworski has analyzed the narrower issue of the tremendous structural

[12] See Lindblom 1977, 1982; Przeworski 1980; Jessop 1982, 1983.

obstacles preventing peaceful transitions to socialism.[13] All three recognize the constraints imposed on state policy when investment resources are privately controlled.[14] Furthermore, they link these constraints explicitly to the investment imperative and the indirect way it is satisfied. Lindblom writes: "Because public functions in the market system rest in the hands of businessmen, it follows that jobs, prices, production, growth, the standard of living, and the economic security of everyone all rest in their hands. Consequently, government officials cannot be indifferent to how well business performs its functions."[15]

Guarantees of private property, as argued above, mean that "although governments can forbid certain kinds of activity, they cannot command business to perform. They must induce rather than command."[16] Inducements are none other than government policies responding to the interests and objectives of capital controllers. Focusing still on the perceptions and actions of *investors,* Lindblom adds: "Any change in their

[13] Przeworski (1980:48) asks pointedly: "How did it happen that the movement that aimed to revolutionize society by changing the very base of its productive organization ended the period of integration into the political institutions of capitalism without even touching its fundamentals?" Even though social democrats held power in Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Norway, and Sweden, "riches remained nearly intact, and certainly private property in the means of production was not disturbed."

[14] Lindblom (1982:324) goes the furthest in his use of a prison metaphor to convey how difficult it is even to consider policies that capital controllers deem threatening to their core interests. One probably could not design a system of political power that is more "simple and fiendishly clever," Lindblom maintains, than one in which any attempt to alter it "automatically triggers punishment." By automatic, Lindblom means that "the punishment follows from the very act intended to change the system. Punishment does not wait for anyone's deliberation on whether the change is acceptable or not."

[15] Lindblom 1977:172. Jessop (1983:92) concurs, noting that "the general exclusion of the State from private economic activities means that it is continually forced to react to economic events rather than control them and must ensure the continuing smooth operation of market forces as a precondition of its own survival. In this way capital retains significant *indirect* control over the State through the latter's dependence on the continued health of the economy." This formulation, with its vague references to the state and the state's own "survival," is not very helpful in that the political processes threatening the survival of "the state" cannot be specified precisely at such a level of abstraction. Jessop (1983:93) is clearer in his analysis of structural constraints linked to how the revenue needs of the state are met: "In so far as the State depends on tax revenues or other forms of surplus extraction for its resources, its capacities are indirectly determined through the rate and volume of private productivity and profitability. In particular this means that the 'governing groups' in charge of the political system (politicians and officials) have a vested interest in securing capital accumulation as a precondition of their own survival as people who live off (and not just for) politics."

[16] Lindblom 1977:173.

position that they do not like is like a disincentive, an anti-inducement, leading them not to perform their function or to perform it with less vigor. Any change or reform they do not like brings to all of us the punishment of unemployment or a sluggish economy."[17] This is, of course, still only one side of the power dynamic. The question remains, Why should this breakdown in investment, or even the prospect of it, affect the likelihood that policymakers will be more responsive to capital?

All three authors agree that the critical issue turns on the complications posed for state officials in procedural democracies when investment rates slow and voters feel the impact. "When a decline in prosperity and employment is brought about by decisions of corporate and other business executives," Lindblom points out, "it is not they but government officials who consequently are retired from their offices."[18] Put another way, the notion of the *privateness* of property is so entrenched in capitalist societies that it is inconceivable to hold investors personally accountable for the economic and political ramifications of their purely self-interested investment decisions. The only target that remains is policymakers, whose vulnerability to defeat at the polls compels them to be keenly sensitive to the likely reactions of capital controllers to state policies. In Przeworski's words, "As long as the process of accumulation is private, the entire society is dependent upon maintaining private profits and upon the actions of capitalists allocating these profits." He continues, "This is the structural barrier which cannot be broken: the limit of any policy is that investment must be protected in the long run." There is, in Przeworski's view, simply no other way to explain how socialist leaders in Europe bent on radically transforming their societies ended up as mere managers of capitalism.[19] Anticipation enters the picture when we add the fairly reasonable assumption that decision makers can appreciate the link between dissatisfaction based on declining investment rates and the complications this dissatisfaction can present for remaining in office.

Block concurs that the ideological commitments of decision makers are of surprisingly little consequence when it comes to the ways they

[17] Lindblom 1982:327.
[18] Lindblom 1982:329. Jessop (1983:94) and Przeworski (1980) make similar observations.
[19] Przeworski 1980:55–56.

respond to pressures to create an investment climate capital controllers find favorable. Under capitalism, he maintains, "those who manage the state apparatus—*regardless of their ideology*—are dependent on the maintenance of some reasonable level of economic activity."[20] Based on his analysis of socialist governments in Europe, Przeworski adds that "the efficacy of social democrats—*or any other party*—in regulating the economy and mitigating the social effects [of real economic decline] depends upon the profitability of the private sector and the willingness of capitalists to cooperate."[21]

At least three issues require further elaboration to strengthen and broaden these ideas about the structural power of capital controllers. The first concerns concerted action by investors. Are the pluralists right that the actions of capital controllers countervail each other to such a degree that one cannot talk of "capital's power" or "punishment from business"? Second, how crucial is the electoral nexus emphasized by Lindblom, Block, and Przeworski? Is the structural power of capital controllers diminished or absent when leaders are unelected? And third, in light of the increasing mobility of capital across national boundaries, how might the approach of these authors be improved by moving beyond their focus on power relations within single jurisdictions?

Concerted Action

The argument that policies judged unfavorable by capital controllers can precipitate an investment decline or crisis challenges a strong current in pluralist theories of business-government relations that holds that the power of capitalists is checked by market forces and by the sheer diversity of interests among investors. As Samuel Bowles and Herbert Gintis explain, pluralists have argued that perfect competition "so reduces the range of decisions open to the controllers of resources as to render these decisions socially inconsequential."[22] Meanwhile, that investors inter-

[20] Block 1977b:15; my emphasis.
[21] Przeworski 1980:55–56; my emphasis.
[22] Bowles and Gintis 1983:239. Galbraith dissented from the belief that perfect competition held business in check but went on to argue that pluralism was still not in jeopardy. Admitting that large economic units were forming in society (fewer than two hundred companies controlling the majority of production and investment in the United States), Galbraith argued that even if huge companies arise, other large units will arise to countervail them. See Galbraith 1956, 1970.

ests' vary widely and are frequently at odds with each other (exporters vs. importers, finance capital vs. industrial capital, small vs. big business) serves to further dilute capital's overall power. With all this variety among investors, the argument goes, the chances are good that certain groups will benefit from a given policy trajectory even if other groups find it utterly incompatible with their interests. Any suggestion, then, that investors as a whole exercise significant structural influence over societies becomes somewhat implausible. Even if one were to grant that there is a structural dimension to capital's power, it is effectively canceled out, leaving only nonstructural factors to account for the timing, content, and durability of policies under capitalism.

There are two major problems with this view. The first is that it fails to appreciate how many policies areas are of *common* rather than *fractional* interest to capital controllers. The second is that it underestimates the potential for concerted action by investors, even when there is no conscious effort to organize a response to a real or anticipated change in a jurisdiction's investment climate. The arguments of Jeffrey Pfeffer and Gerald Salancik are especially useful on this point. They note that when a variety of actors have similar goals and face similar cost structures, a logic of sorts obtains so that without actual planning among the actors, "implicit coordination is possible."[23] Thousands of atomized investors—all equally concerned to defend their right to control the capital they "own," equally motivated to earn and keep the highest return they can, exposed to a greater or lesser degree to competitive forces, and endowed with an average intelligence to interpret an average level of information—can act as one.[24] And we could go even further and argue that the atomized nature of the investor's response is precisely

[23] Pfeffer and Salancik 1978:50; also Pfeffer 1981.

[24] Lindblom implies that there are indeed policy issues that affect enough investors to have a substantial negative impact on society. Underscoring that no organized effort need be made, he writes: "Punishment is not dependent on conspiracy or intention to punish. If, anticipating new regulations, a businessman decides not to go through with a planned output expansion, he has in effect punished us without the intention of doing so. Simply minding one's own business is the formula for an extraordinary system for repressing change." He adds that "the system works that way not because business people conspire or plan to punish us, but simply because many kinds of institutional changes are of a character they do not like and consequently reduce the inducements we count on to motivate them to provide jobs and perform their other functions." Capital controllers "do not have to debate whether or not to impose the penalty." Without necessarily having "thought of effecting a punishment on us, they restrict investment and jobs simply in the course of being prudent managers of their enterprises." Lindblom 1982:326–328.

what makes it so potentially devastating. If individual calculations resulted, for instance, in the vast majority of mobile investors' relocating their assets abroad, the destructive consequences of such a move (almost certainly more dangerous than the factor precipitating it) could be both anticipated and prevented if investors were organized and exchanged information on their plans.

When Elections Matter

It is regrettable that all the studies dealing with the structural power of capital have focused on the procedural democracies of the advanced industrial world and the central role of elections in translating the societal pressures of an investment dysfunction to policymakers. This narrow base of analysis, and particularly the emphasis placed on the strategic calculations of political elites to avoid electoral defeat, implies that the political dangers associated with investment declines or crises in less democratic societies are either greatly diminished or entirely absent. If the electoral nexus is a crucial element in the expression of investors' structural power, then authoritarian rulers, for whom elections are more window dressing than substance, ought to be completely insulated. We should not observe, for instance, any parallel institutional bodies dedicated to estimating the investment and production needs of the society, to monitoring the rates at which private investors respond to the existing investment climate, or to analyzing and recommending to decision makers ways policies should be revised when investment rates appear to be declining.

In fact, government bodies of this kind exist in almost every country, and they are typically staffed by elite economists whose skills at monitoring and predicting are often augmented by those of armies of foreign consultants from private firms, the World Bank, the International Monetary Fund (IMF), and bilateral agencies such as USAID. This does not *prove* that parallel structural forces operate in authoritarian states, but it is at least prima facie evidence that they do. Detailed case studies of the sort presented in this book are needed to strengthen the claim still further. The central issue is not the role of elections per se, but the ways state leaders attain and retain their positions of power. It is logical to focus on elections as an essential explanatory factor where elections are the pri-

mary mode of replacing state leaders. In places where elections are less important, the focus must be on the processes and power dynamics associated with challenging those in office. It would be a mistake to assume that authoritarian leaders are not encumbered by the need to maintain adequate levels of investment and production or that they do not at least devote some of the state's analytical and monitoring capacity to assist them in anticipating and, if possible, avoiding challenges to the stability of their regimes that could arise from declining or crisis levels of investment. And though the precise way authoritarian rulers fall differs significantly from the way leaders of procedural democracies are removed from office, investment dysfunctions can be every bit as politically destabilizing. Finally, it is important to bear in mind that even the most totalitarian dictators do not choose the pattern of capital control for their societies when they assume power. Although they may attack selected investors who cause trouble, they do not attack entire propertied classes—at least not without enduring the often severe political and economic difficulties that accompany such attacks.

Multiple Jurisdictions

It is not surprising that the literature dealing with the structural dimensions of investors' power has tended to focus on single jurisdictions. Because theories have been based on advanced industrial democracies, and because the investing classes for these countries have been overwhelmingly domestic and, until relatively recently, have utilized their mobility across national boundaries mainly to extract raw materials, a consideration of multiple jurisdictions has been unnecessary.[25] At least two fundamental weaknesses result from the narrow focus on single jurisdictions. First, the responses capital controllers can

[25] A similar limitation is evident in the literature on the relative autonomy of the state, which has focused almost exclusively on advanced industrial democracies. The dependency literature, meanwhile, represents the Third World version of an essentially parallel theoretical construct—the obvious difference being that the capitalist classes confronting postcolonial states were predominantly foreign. The declining relevance of these literatures can be traced to two important changes over the past three decades. First, foreign investors are now playing a far greater role in overall investment in advanced industrial countries, and second, domestic capitalist classes in many postcolonial countries have formed and are far more important in their home (and even some foreign) economies. I argue that a theory of investor power should be predicated less on the nationality of capital than on its relative mobility.

consider when objectionable policies arise are limited to those that are strictly intrajurisdictional. Thus, for example, Lindblom and others stress declines in overall investment rates caused by "less vigorous" activity on the part of capital controllers. The notion is that capitalists hold back when they are not satisfied with the existing (or anticipated) policy climate, and this slowdown sets in motion the economic decline that political leaders seek to avoid. But what about declines that occur because investors can consider a wider market of potential investment sites—in short, because they are mobile? Especially in light of changes occurring in the global political economy, this missing element of the model is particularly limiting.

The second weakness is obvious once we adopt an expanded view of investors' possible responses. If capital controllers can indeed choose among a wider range of jurisdictions, a competitive dynamic exists *between* jurisdictions not only to retain "their own" mobile investment capital, but to attract the mobile capital "of others." A prime consideration in these transjurisdictional flows, of course, is the relative policy responsiveness of the competing sites. A model that fails to take into account multiple jurisdictions—and the relative mobility of capital controllers among them—not only seriously underestimates the structural dimension of investors' power but also cannot begin to appreciate the additional constraints on policymakers and their nonpropertied populations that derive from the mounting pressures (because mobility has been increasing) to compete more directly with other jurisdictions. Mobility as an analytical concept is extremely important to the arguments in this book and will receive considerable attention.

Mobility

Mobility has long been identified as a characteristic or capacity that affects an actor's power. In a variety of contexts, greater mobility translates into greater power. Peasant farmers in both Europe and Southeast Asia during feudal times, for instance, made great use of flight as leverage against lords who extracted too much or did not fulfill their obligations.[26] Robert Bates and Da-Hsiang Lien, in their work on the role that mobility played in the rise of representative institutions of government in

[26] A contemporary variation on this theme is Bunker's study of the relations between

England and France, argue that absolutist rulers eager to increase their revenues were compelled to give a far greater say in the direction of policy to those whose taxable assets were mobile. The more fixed one's assets were, they argue, the more likely it was that the terms of taxation would be fixed. For those whose assets were mobile, the terms of taxation were more likely to be negotiated.[27] The significance of arguments about the structural power of investors lies, as I stated above, first in the capacity of certain actors to provide or deny resources and economic activity that a population depends on to survive and flourish. Second in importance are the competitive pressures between jurisdictions and populations that this capacity creates as the options of investors to choose among them multiply. The best and earliest work on these matters centers on cities and regions in the United States and United Kingdom, literatures that comparative and international political economy have largely ignored.

Studies of business-government relations in the United States were for a long time squeezed into the dominant pluralist or interest group model of political influence.[28] Although it was recognized that the financial and organizational resources of investors gave business certain advantages as they competed for policy outcomes, the view was that their influence was if anything merely greater than that of other groups, not different.[29]

the authoritarian leaders of the Ugandan state and the small peasant producers, the Bagisu, who grow the lucrative crop of arabica coffee. Bunker found that the state's inability to prevent the disgruntled coffee farmers from exiting into subsistence production gave otherwise weak farmers considerable power: "The Bagisu's capacity to organize effective resistance to the demands of the central state derived in large part from their direct control over land and the means of production of a major export crop and their capacity to withdraw into a subsistence mode." Furthermore, the resources the farmers controlled were of substantial importance to the jurisdiction, in this case the foreign exchange needed by the Ugandan state: "The central state's dependence on small-hold export agriculture in Bugisu for a significant share of its revenues made threats of popular mobilization to reduce or withhold coffee production an effective means of reversing or diminishing actual central control and opening up new avenues to power and wealth for local groups." The withdrawal of the Bagisu and a redirection of their productive efforts into subsistence farming posed such a threat to Uganda's policymakers that their real choices were to "accede to peasant demands or face continued economic decline and political instability." Bunker 1987:253, 243, 254.

[27] Bates and Lien 1985:61.

[28] Pluralist approaches include Aron 1950; Truman 1951; Latham 1952; Lipset 1960; Dahl 1961; Presthus 1964; Rose 1967; Marshall 1970; and Neustadt 1976.

[29] Dahl and Lindblom (1953) stressed the advantages capital-controlling actors have in public political contestations by virtue of the greater resources they can bring to bear in electoral fights (e.g., the way business funds the Republican Party in the United States). Significantly, by the 1976 reprinting the authors had included in their preface references to

In addition, the arguments about investors canceling each other out economically and politically were an important part of the liberal-pluralist approach.

Because capitalists were seen to be like any other interest group, and because interest groups achieve their political objectives through overt and active participation in the affairs of government (it was still unimaginable that other forms of political power might exist), attempts to assess the political role and influence of business focused quite naturally on evidence of direct political participation. Analytical attention was limited to issues actually voiced by entrepreneurs, to their direct role as candidates for public office or their support for other candidates, and to other measurable activities demonstrating business efforts to engage in policy making.[30] As Roger Friedland and William Bielby point out, analysis of this sort was narrow in that it counted (often literally) only those policy issues that made it into public debate. Why these and not other policy issues arose, and any exercise of power in setting the public agenda and blocking issues from emerging, was overlooked entirely.[31]

It was not until the mobility and relocation of capital and firms within advanced capitalist countries became an important political issue in the early and mid-1970s (especially in the United States and Britain) that studies of capital's structural power began to appear. Scholars began seriously to entertain the notion that "the interests of a group, such as business, could be powerful, even though businessmen did not take part in actual decision making."[32] As the pace and volume of corporate relocation to the South and West within the United States increased, often to take advantage of cheaper and less militant labor, and as different subnational jurisdictions struggled to adopt policies that could attract and retain employers and corporate taxpayers, the power mobile investors were exerting without necessarily taking part in any visible political maneuvers was suddenly unmistakable.

Bates and Lien point to Matthew Crenson's pathbreaking study of industrial regulation by municipalities as one of the first major attempts

aspects of investors' leverage that were more structural in nature—arguing that a major task of states is to provide an "inducement system for businessmen, to be solicitous of business interests."

[30] Dahl (1961) advanced a very influential argument along these lines. Measuring power in terms of who actually took part in policy making, he concluded that civic groups, bureaucrats, and politicians were at least as influential as business people.

[31] Friedland and Bielby 1981.

[32] Bates and Lien 1985:62.

to incorporate these power dynamics into models of business-government relations. They write, "Crenson found very little relationship between the participation of industry in the public domain and the policy choices of municipalities; rather, it was the threat of industrial defection—relocation by industries to other, more favorable jurisdictions—that influenced policy choices."[33] Crenson's fundamental insight was that when the locational boundary or market for companies does not correspond with the political jurisdiction, the threat of defection from the jurisdiction places real, though mostly unseen and unmeasurable, limits on municipal policy making.[34] The more recent work of scholars like Davita Glasberg demonstrates how far studies in this tradition have come. She shows that early views of the structural power of capital controllers assumed too passive a role for investors. In her study of interlocking networks of bankers and financiers, she demonstrates how these actors went out of their way to "create an actual crisis even where none existed before" to support certain political elites and systems and subvert others. Among the cases Glasberg considers are the debt crisis in Mexico in the early 1980s, New York City's brush with financial default, and the deliberate attempt by bankers opposed to Mayor Dennis Kucinich in Cleveland to pull the financial plug on the city, precipitating a massive default and the political defeat of the mayor. The bankers resorted to these structural levers of power, incidentally, only *after* their effort to have the mayor recalled failed—and this despite their outspending Kucinich supporters in the campaign by a wide margin.[35]

Human Ecology and the Resource Dependence Approach

A fundamental component of investors' structural leverage is the ability to deprive a jurisdiction of crucial investment resources and productive activities. Those working in the field of human ecology attempted to

[33] Bates and Lien 1985:62; also see Crenson 1971. Even Dahl (1961:250) mentioned this structural leverage: "Probably the most effective political action an employer can take," he wrote, "is to threaten to depart from the community, thus removing his payroll and leaving behind a pocket of unemployed families. If the threat is interpreted seriously, political leaders are likely to make frantic attempts to make the local situation more attractive." Regrettably, he did not pursue the matter in his research and theoretical formulations.

[34] Peterson (1981) builds nicely on Crenson's work.

[35] Glasberg 1989:2.

build a model of power in society based on patterns of control over resources critical to human survival.[36] For human ecologists, dominance or power in social systems is defined as the ability to control the conditions of existence for other units. "In ecological formulations," Friedland and Bielby explain, "dominant economic units are those that control the exchange process with the external environment." Formulated with specific reference to jurisdictions and populations under capitalism, then, dominant economic units are "those which control the generation of employment and income growth in a local economy."[37]

Pfeffer and Salancik, two major figures in the resource dependence school, have expanded on these basic tools to construct a theory that accounts for the leverage actors exercise over a wide variety of complex organizations by virtue of their discretionary control over resources that are critical to the smooth functioning (and even survival) of these same systems.[38] Organizational activities and outcomes, in their view, "are accounted for by the context in which the organization is embedded."[39] Stating their findings forcefully, they maintain that it is the control over the supply of critical resources to an organization that "makes the external constraint and control of organizational behavior both possible and inevitable." In such circumstances, they continue, "organizations could not survive if they were not responsive to the demands of their environments."[40]

Determinants of Mobility

The ability of capital controllers to deprive a jurisdiction of the investment resources it depends on assumes two major forms. The first, which is available to all investors and has received considerable attention in the work of Lindblom, Przeworski, Jessop, and Block, can be termed "withdrawal." Sometimes called a capital "strike" or "boycott," it is the act of withholding investment resources in the face of a policy climate that

[36] Park 1936; Hawley 1950. It should be said that although certain aspects of the human ecology approach are useful (and these are the ones emphasized by those who have subsequently applied it to resource dependency in complex organizations), its social-Darwinist elements are quite wrongheaded and of no use in the theory developed in this book.

[37] Friedland and Bielby 1981:139–140.

[38] Pfeffer and Salancik 1978; Pfeffer 1981.

[39] Pfeffer and Salancik 1978:39.

[40] Pfeffer and Salancik 1978:43.

capital controllers find unfavorable for profit making or, in more extreme cases, potentially threatening to basic rights to private property.[41] At its most dramatic a plant can be closed and its workers locked out. At a much more subtle level an expansion, a new investment, or some kind of reinvestment can be postponed or canceled. Unlike relocation, which entails initial costs but also holds out the prospect of renewed and often higher profits, withdrawal necessarily involves costs and losses for individual investors that persist for the duration of the boycott. Although the capacity of different capital controllers to endure these costs varies substantially, this variation has become less important as a basis for categorizing investors as the second mode of deprivation—relocation—has grown in significance. For this reason the primary focus will be on the relative mobility of capital and the implications of variations in mobility both for intraclass differences and struggles among capital controllers and for relations with policymakers within and across jurisdictions.

What confers mobility? The answer lies partly in environmental and institutional factors, such as who or what guarantees property rights and how far the geographical reach of the guarantor extends in defending those rights. Policies regulating transactions among jurisdictions, moreover, have a tremendous impact on the mobility of capital and of other units of production.[42] The convertibility of currency is fundamental, but policies that enhance the traffic in both the inputs and outputs of one's production process also augment mobility. The answer is also partly technological, especially for direct investment. Advances in physical communication—such as highway systems, shipping, and air transport—have an enormous effect on the locational options for capital controllers. Advances in signal communication, particularly the explosion in the use of satellites and computers, continue to play a revolutionary role in augmenting the mobility of capital. And finally, the rapid dispersion of skills among laborers, so that the gaps in abilities and productivity across jurisdictions have closed substantially, has opened many new areas to investors. It is only when one thinks in terms of concentrated manufacturing zones and not whole nation-states that the dramatic closing of this gap becomes fully evident. Although the overall skills and productivity of Americans may be substantially higher than those of Indonesians, the differences between laborers in Jakarta, Surabaya, and Medan and in Los Angeles, Detroit, and New Orleans are far less pronounced.

[41] For Hirschman (1970) a boycott represents an amalgam lying somewhere between his instruments of exit and voice. Selected aspects of Hirschman's familiar model that are useful to the arguments in this book concerning the structural power of capital controllers will be mentioned in the pages that follow. Most of Hirschman's framework, however, does not apply to the structural power of investors. The main reason for this is that in designing his model, Hirschman had in mind neither capitalists nor their relation to populations and leaders of state. Readers interested in an elaboration of this critique should see Winters 1991, appendix 2.

[42] This point is developed very nicely by Helleiner (1994), who argues against those who place too much emphasis on technological determinants of capital mobility while ignoring major intergovernmental arrangements such as Bretton Woods.

In addition to these contextual factors, mobility is also determined by factors that are specific to capital itself and to those who control it. Among the variables affecting an investor's reach—how many concentric jurisdictional lines can be crossed—one of the most important is the *form* of his or her capital. Jeffry Frieden, for example, has analyzed variations in mobility in terms of how "liquid" or "fixed" capital is.[43] Finance and portfolio capital is highly liquid and can be moved across jurisdictional lines at lightning speed. Various kinds of direct investment are more fixed. Descending still further, fixed investments can range across the entire spectrum of mobility, from sunken to footloose. Yet even those controlling what are ordinarily assumed to be rather sunken (and thus immobile) investments can still manipulate their capital so as to turn policy differentials across all jurisdictions to their advantage in their dealings with each. In resource extraction, for instance, the residual bargaining power of transnationals whose operations are spread over sites in several countries can be substantial. Though relocation is difficult, a *redirection* of money for research and development and the expansion of extractive capacity to sites in competing countries yields potent leverage.

Oil and gas extraction in Indonesia illustrates the point nicely. According to Caltex Indonesia's CEO, when dissatisfied with government policies the company can "send signals to the government" through spending on research and development. "If the rate of return here becomes too low for us, or if the risks become too high, we will begin to disengage. This point must be clearly conveyed [to policymakers]. We don't give ultimatums, we just file our regular budget reports and it's

[43] Frieden 1988.

clear from the figures that we're cutting back. They call us up and ask why our figures are going down, and then we explain."[44] A senior vice president at Mobil Oil Indonesia said: "In terms of the exploration and production environment, Indonesia competes with countries like Nigeria, the U.K., and the North Sea area. We look at a number of factors: the price we can get for the energy products brought up, the costs of production, and the fiscal environment. Of course we also pay a lot of attention to the political and social context. But what is important for us is that the fiscal terms here in Indonesia be kept as good as possible. Here I'm referring to the split—85 percent to the government and 15 percent to us—exploration cost reductions, and tax benefits. We have lots of choices in where to invest around the world, and we keep a close watch on all of them."

Mobil's Jakarta headquarters tries to convince the Indonesian government that the local office is on its side and trying hard to get as big a share as possible of Mobil's global research and development budget so new wells can be tapped and more gas brought up. "These days our money is tight and we have to spend it very carefully," the executive says, explaining the opening gambit. "Speaking globally, Indonesia and Malaysia are pretty much near the bottom in terms of attractiveness based on costs. And we tell them this. A couple weeks ago a top Indonesian delegation visited our New York headquarters, and our people there put the charts up on the screen showing how Indonesia compared with other locations around the world. They understood our message, and they're trying."[45]

In addition to the relative sunkenness of an investment, mobility is also shaped by the trade regime. The option to relocate can depend on a firm's capacity to transport products from a new production site (perhaps chosen because labor costs were low) to an established home market. Alternatively, relocation can be blocked if a firm finds that trade policies or transport costs do not allow the import of inputs to a site across national lines. Providing services for which the consuming population is fixed is another factor contributing to immobility. Thus a private bus service cannot easily relocate to another city. And finally, licensing regulations and requirements can also contribute to immobility.

[44] Interview in Jakarta with Haroen Al Rasjid, 17 February 1989. The ninety-minute meeting in Haroen's office was interrupted twice by phone calls from Ginanjar Kartasasmita, the minister of mines and energy.

[45] Interview in Jakarta with John Frannea, 31 March 1989.

Lawyers and doctors must be certified, for instance, before they can practice. Getting such certification can be extremely difficult even across multiple subnational jurisdictions much less across national boundaries.

Size is also an important determinant of mobility. Generally speaking, smaller investors and entities are less mobile—especially when it comes to relocating among nation-states—for several reasons. First, whether a capital controller intends simply to transfer funds from New York to Tokyo or to move a furniture manufacturing plant from Atlanta to a *maquiladora* in northern Mexico, there are costs associated with the relocation. Gaining access to information about the target location and how to transfer one's capital or plant there can be expensive. Also, the move itself involves costs that can make the relocation fiscally untenable. In general, larger investors and firms have greater human and financial resources on hand to meet these costs. Referring exclusively for a moment to fixed investments (plants, firms, etc.), another element related to size that enhances relocational and redistributive options is having multiple rather than single entities. A company with many subsidiaries can spread its component parts across several jurisdictions and manipulate how much reinvestment each subsidiary receives based on how favorable (profitable) each jurisdiction is. And when a company consists of multiple entities, capital controllers can relocate parts of their firm without necessarily having to move personally from a location that is unfavorable only from a profit-making point of view. When one owns a small, single-entity operation, relocation entails moving with the company. The number of concentric jurisdictional lines (city, county, state, nation-state) a small investor will likely consider crossing—even assuming the costs can be met—tends to be lower.[46] That said, it is noteworthy that many postcolonial states have lowered their minimum foreign investment thresholds to lure ever-smaller firms into relocating across national borders. Indonesia's minimum dropped from $10 million to $250,000.

How Mobile Is Capital?

It is extremely difficult to track changes in capital mobility with accuracy. There are regular reports from governments, international agencies like the United Nations, private research institutes, and the press. Some

[46] Although Sassen (1988) focuses more on social and cultural factors inhibiting the mobility of labor than on capital controllers, her insights on this point are quite useful.

data are expressed in U.S. dollars, others in local currencies, and still others as percentages of gross domestic product (GDP) or aggregate world trade or output (though these are often calculated using U.S. dollars as the base currency). Each of these currencies represents a different unit of measurement. Over time, these units change in value not only relative to each other but also relative to themselves. It is tantamount to measuring the growth of a forest with a hundred instruments of different size, all of which change daily, and then reporting the findings in terms of one of the instruments (which itself is constantly changing). Depending on the kind of capital movement being tracked, it is possible to count the movements of factories, the opening of foreign subsidiaries, or the volume of financial transactions.

Even if reliable and meaningful data were readily available, it is not clear that such figures would be the most important consideration if one were interested in the *political* issues surrounding capital mobility. The beliefs and perceptions of policymakers and the broader public are an extremely important dimension of capital's use of structural power. Perhaps this explains why capital controllers and those speaking on their behalf tend to exaggerate the degree of capital mobility, alarming all the more those who might want to resist adopting the policies, offering the subsidies, or accepting the givebacks investors say will make them stay put, create jobs, and pay taxes. The simple answer is that capital is dramatically more mobile now than it was even three decades ago, that one of the most important changes in capital mobility is in the vastly wider relocation options for direct investment in plants and factories, but that capital is far less mobile (and the arrangements and institutions that allow it far more fragile) than capital controllers would like everyone to believe.

With these caveats in mind, what are some of the quantitative indications of capital mobility?[47] On an average day in 1993, the volume of foreign exchange transactions was $900 billion. Gross transactions in bonds and equities between the United States and everyone else jumped from less than 10 percent of GDP in 1980 to 93 percent of GDP by 1990. And yet American investors still keep 94 percent of their equity holdings

[47] The figures presented in the rest of this section are drawn from United Nations 1993; Prowse 1993; *Economist,* 19 September 1992, 27; *Economist,* 28 August 1993, 65; *Economist,* 8 January 1994, 16; *Financial Times,* 19 April 1993, 15; *Euromoney* Suppl., 5 September 1993, 1.

in domestic securities. Although fast-growing stock markets in postcolonial states have drawn a great deal of attention in recent years, the figures need to be examined closely to get a sense of what the numbers mean. During the past decade, for instance, total market capitalization of developing stock markets has increased more than tenfold, while that of advanced industrial states has increased only 3.5 times. Yet in 1993 these emerging stock markets, predominantly in Asia, Latin America, and Eastern Europe, still accounted for less than 10 percent of global stock market capitalization.

The story for foreign direct investment (FDI) is equally complicated. In 1992 there were 37,000 transnational corporations (TNCs) controlling one-third of the world's private sector productive assets. These companies collectively generated about $5.5 trillion in sales from their foreign affiliates alone. Although 37,000 certainly sounds like a lot of firms competing vigorously with each other, concentration of ownership and control is staggering. In 1990 the world's top twenty TNCs alone owned $1.4 trillion in assets, of which $563 billion (or 40 percent) was in foreign assets (not surprisingly, as firm size increases, the proportion of foreign assets increases in tandem). By 1992 global stocks of FDI—that is, long-term, cross-border capital invested in hard assets like new factories, equipment, and research facilities—reached $2 trillion. Flows of new investments adding annually to this total doubled between 1975 and 1980. At $203 billion in 1990, flows of new FDI were ten times what they had been fifteen years earlier. As for where FDI gets invested, the lion's share still ends up in advanced industrial countries, but the trends indicate important shifts toward postcolonial states. In 1987 just 12 percent of total global FDI was in developing countries; by 1993 the share had increased to 20 percent. Given the size of existing capital stocks of FDI in advanced industrial countries (making for a big denominator), this increase of 8 percent in as many years means that the rate of *new* FDI in postcolonial states is especially high. Indeed, although widespread recession caused overall flows of new FDI to decline fairly sharply between 1990 and 1993, flows to developing countries increased fully 50 percent during the same period.

Even with these signs of dramatic surges in capital mobility across national boundaries, it is also clear that large chunks of capital remain in place despite strong incentives to relocate. It might be that the obstacles to capital mobility are greater than they seem. It is also possible that

capital controllers who can relocate their resources choose, for reasons of high risk and low nerve, to keep a substantial share close to home. Indications from financial markets, where the highly liquid form of capital makes it supremely mobile, suggest that there are some clogs in the pipes. In 1992 short-term real interest rates in the United States were nearly zero, whereas in Germany they were 7.5 percent. If financial capital were perfectly mobile no such gap would exist, because investors would all shift their savings to Germany until the glut of capital in the banks drove interest rates down to the level available in the United States (where interest rates would rise as savings became scarcer). Interestingly, the gap in interest rates between the two countries disappeared on long-term money.

The Implications of Mobility

In assessing the relative structural power of different capital controllers, it is essential to recall that investors of all sizes and in all sectors can simply withhold their resources. It is for this reason that differences in structural power and influence are based primarily on the degree or range of mobility an investor enjoys, as measured by how many jurisdictional lines can be crossed. There are two senses in which actors with higher mobility are more powerful. First, they have at their disposal more than one mode of depriving a jurisdiction of investment resources. As Albert Hirschman rightly notes, although highly mobile actors (those able to "exit") will be less likely to lobby or participate in overt politics (give "voice"), policymakers are far more likely to listen to them and be responsive to their interests and demands. This is even more true when large size and high mobility coincide. Policymakers find it especially difficult to ignore investors who can or do employ large numbers of people. "The chances for voice to function effectively," Hirschman maintains, "are appreciably strengthened if voice is backed up by the *threat of exit*." This is the case "whether it is made openly or whether the possibility of exit is merely well understood to be an element in the situation by all concerned."[48] Frieden's early work strengthens this

[48] Hirschman 1970:86, 83; Hirschman's emphasis. He adds that when seeking policy changes, "the willingness to develop and use the voice mechanism is reduced by [the capacity to] exit," but "the effectiveness of the voice mechanism is strengthened by the

claim. In his study of the ways domestic groups responded to belt-tightening policies in five Latin American states in the wake of the debt crisis in the early and middle 1980s, he found that loud protests came from holders of fixed assets, whereas those with liquid assets simply moved their resources abroad (with devastating results) and remained relatively silent during the political battles that ensued.[49] A key point in the calculations of policymakers is that the ramifications of relocation can be as enduring for a jurisdiction as the costs and losses can be temporary for the mobile investor who has moved to a more forthcoming investment site.

The second aspect of mobile investors' greater power has to do with the range of policies their decisions influence. As one moves inward across concentric jurisdictional lines, the number of elements of the investment climate that can be adjusted shrinks. The city of Chicago, for example, can tinker with its property tax rates, but the state of Illinois imposes a given rate for payroll taxes, and the United States federal government mandates a minimum wage. Investors who can relocate across all these policy boundaries have an effect on the investment climate from its broadest outlines inward to its narrowest details.

Relative mobility also has an impact on the policies different capital controllers will support and the vigor with which they support them. Mobility plays a significant role in determining how committed actors will be to an investment climate in which access to opportunity is based on free markets.[50] Although it is not an iron rule, investors who are more mobile tend to press more strongly for *official* policies based on free markets, for two major reasons. The first is obvious. Since they are mobile, it is to their advantage to widen, not narrow, the range of sites available to them. The second is both more subtle and linked to the greater leverage mobile actors have in getting responsive policies from

possibility of exit." In their work on mobility, Bates and Lien (1985) reach a similar conclusion.

[49] Frieden 1988. Felix and Sanchez (1989) provide further insights into the ways those with mobile assets were able to respond to debt problems in Latin America.

[50] I am not suggesting that mobility is the only factor affecting commitment to free markets. Rather, it is an additional one that has not received nearly as much attention as others. A very important consideration will always be how competitive one is. Highly efficient and competitive firms are far more committed to a level playing field because such an environment ensures their advantageous position over weaker and less efficient competitors.

decision makers. A key element in an investor's ability to make a handsome profit is the presence and competitiveness of other investors and firms. The main reason capitalists support free markets is to keep their opponents from enjoying the competitive edge that interventionist policies confer. But if investors have good reason to believe they alone could negotiate a side deal with policymakers, yet still have market-oriented policies be a jurisdiction's *official* stance that applies to everyone else, the incentive to support free markets as a formal policy is tremendous. Conversely, if a group of investors are aware that selected competitors are receiving special dispensations and that there is little hope of preventing them from enjoying these benefits, and even less that they themselves will get similar treatment, they will quite naturally be strongly opposed to a general policy climate based on free markets. Such a climate leaves immobile and unconnected actors with all the disadvantages and none of the benefits that market-based policies create.[51] The evidence is clear that what is being described here is more than hypothetical. The work of Peter Eisinger and others on cities and regions in the United States and United Kingdom finds that mobile investors take full advantage of their added leverage over policymakers to cut precisely such special deals for themselves on taxation, subsidized credit, accelerated depreciation schedules, and guaranteed markets for a specified period—while all the time supporting free markets for the jurisdiction as a whole.[52]

The political economy of mobility extends well beyond the bounds of intracapitalist conflicts. Changes in the *overall* mobility of capital, particularly during the past thirty years, when the capacity to relocate production facilities has been dramatically expanded, have had a profound impact on the intrajurisdictional balance of power between labor and capital and on the interjurisdictional friction between labor and labor. Both these dynamics have contributed to a massive net gain in power for capital controllers when considered on a global scale.

Part of the explanation for these developments rests in the relative immobility of laboring populations. Quite apart from considerations of family and culture, which, as Saskia Sassen points out, complicate the

[51] In pressing for a policy regime to replace free markets, immobile or uncompetitive actors direct their efforts along lines that distinguish them most from mobile and competitive players. A nonexhaustive list of examples might include nationality, size, race, and being in "traditional" sectors, so-called infant industries, strategic sectors, etc.

[52] Eisinger 1988.

mobility of people, the barriers erected by nation-states to population shifts across national boundaries have slowed relocation significantly (even as the costs of long-distance transport have declined).[53] Furthermore, some of the elements of an investment climate that make a location desirable from the perspective of investors—for instance, low-cost and weakly organized labor, few restrictions on environmental degradation and worker safety—make it undesirable from the perspective of workers. The result is that forces that pull investors in one direction push laborers (especially poor ones) in the other. The movement of labor is a one-way street—from poorer locations to richer ones. And it is precisely the inflow of poor laborers that countries have worked most vigorously to prevent. Ironically, despite sharing equally in an environment marked by technological advances that have made the world smaller, the mobility of capital and that of labor have moved in opposite directions. It is not technology, of course, that accounts for these differences, but rather the *relative permeability* of states to labor and capital.

Another factor that helps account for changes in the balance of power between labor and capital within jurisdictions centers on the absence of structural levers for labor. Lindblom shows that the structural dimensions of investors' power are unique in capitalist societies. "Children may sulk," he writes, "when they do not like the way they are being treated. Professors may grumble. Workers may slow their work. But their responses differ in a critical way. The dissatisfactions of these other groups do not result in disincentives and reduced performance that impose a broad, severe and obvious penalty throughout the society, which is what unemployment does [when investors do not invest]."[54]

By and large, the gap separating resources flowing in and expenditures flowing out is much narrower for laborers than for investors. Laborers work without any special incentives from the state because, as Lindblom puts it, "their livelihoods depend on it."[55] He continues: "The test of the difference is an obvious one. All over the world men work at ordinary jobs because they have no choice but to do so. But in many parts of the world the conditions that call forth entrepreneurial energy and venturesomeness are still lacking, and the energy and venturesomeness are therefore not forthcoming. *The particular roles that businessmen are*

[53] Sassen 1988.

[54] Lindblom 1982:328.

[55] Lindblom 1977:176.

required to play in market-oriented systems they play well only when sufficiently indulged."[56] Capital's ability to exercise structural leverage without first having to organize as a class, moreover, contributes still further to the power imbalance.[57] For labor to endanger a system to such a degree that political elites would feel the same compulsion to act as when investors merely threaten withdrawal or relocation, they must, as Lindblom points out, "successfully stop production, not simply in one firm or industry, but broadly as in a general strike."[58] Not only is this extremely difficult to accomplish logistically, but when such strikes last more than a few days, political elites, "even in the polyarchies," deploy the coercive and hegemonic instruments of the state to break the resolve of labor.[59] By contrast, no example exists of state leaders' using the coercive instruments at their disposal to force private capital controllers to invest or to repatriate all resources and facilities relocated to foreign jurisdictions. "In short," as Lindblom concludes, "the rules of market-oriented systems, while granting a privileged position to business, so far appear to prohibit the organizational moves that would win a comparable position for labor."[60]

A final point about the effect of the changing mobility of capital relates to the competitive pressures it introduces between jurisdictions. The free movement of goods, finance capital, and currency across jurisdictional lines has long placed constraints on policymakers, and the enormous literature in international political economy dealing with this subject testifies to its importance. But these constraints and pressures have increased noticeably with the expanded opportunities that exist for the relocation of factories and other productive facilities. Nowhere is this more evident than in the postcolonial societies that are beginning to witness transnational relocation by their own formerly immobile investing classes. The literature on cities and regions was the first to examine changes in political influence rooted in mobility.

[56] Lindblom 1977:176; my emphasis.
[57] Offe and Wiesenthal 1985.
[58] Lindblom 1977:176.
[59] Lindblom 1977:176. Lindblom cites the example of the aborted British general strike of 1926. Authoritarian governments in postcolonial societies are even less tolerant of organized labor. Corporatist control of unions is combined with the torture and assassination of labor leaders to ensure that workers cannot withdraw their side of the production bargain and threaten an economy and regime with destabilization.
[60] Lindblom 1977:176.

In a piece first published in 1961, Robert C. Wood noted that "zoning" was born as municipalities tried to cope with increasing capital mobility. At first as an element in their revenue-generating strategy, cities divided their jurisdictions into net revenue producing and net revenue using zones. With time this instrument was used with ever greater sophistication and precision to cope with mobile investors. Coincidental with the development of zoning, Wood notes, was the appearance of "policies of municipal mercantilism," or what became known as "beggar-thy-neighbor" strategies. County and city governments all established special commissions whose job it was to "review existing public policies for their effect on private location decisions" of investors. "Influential citizens," meanwhile, were "designated as 'economic ambassadors.' Special tours for outside industrialists [were] arranged to emphasize both the natural and political advantages of a given jurisdiction."[61]

Initial public reaction to this added dimension of competition was decidedly negative. "Not infrequently, these activities engender[ed] hostility among a municipality's neighbors, with accusations of 'pirating' of industry or social irresponsibility."[62] As the practice became more widespread and as arguments were put forth justifying the policies on free-market grounds, the tables were turned. The moral view that one jurisdiction was irresponsible for adopting policies that tempted investors to relocate—thus undermining the tax and employment base of their neighbors—was inverted and replaced by the view that jurisdictions that could not attract and retain investors were "unfit" and "uncompetitive" on market and efficiency grounds. At no time was hostility directed against the investors doing the relocating. The ideological hegemony reflected in this fact is unmistakable and will be discussed further in the last chapter.

Before leaving the discussion of mobility and structural levers of power, I should mention the concrete processes involved in the expression of this power. Anticipation by government officials plays an important role. Lindblom and Hirschman both emphasize the role of strategic calculations by policymakers, who are aware of the varying mobility of investors, the one-shot nature of the costs of relocating, and the negative

[61] Wood 1968:79.
[62] Wood 1968:80.

consequences for the jurisdiction left behind. In the context of their taxation study, Bates and Lien write, for instance, that "knowing that the holders of taxable assets can exit, the demanders of taxes would surely take into account the potential for that behavior in calculating their best revenue strategy." They conclude that "the capacity of strategic calculations by maximizing monarchs results in the owners of *mobile* factors . . . being given greater voice over the policy choices of government."[63] By this they mean a greater say in shaping a jurisdiction's policies—even if these mobile actors never actually "speak."

Pfeffer and Salancik's work on the processes and dynamics between complex organizations and those who can deprive them of the resources they depend on to function is also helpful here. Important considerations, adapted slightly for present purposes, include:

1. Those in charge of the organization (policymakers) must be aware of the interests and demands of those who control key resources.
2. The ability of policymakers to control the resources must be minimal; that is, "external" control over the resources must extend to their allocation and use.
3. For the leverage of resource controllers to be effective, the organization's (jurisdiction's) access to alternative or replacement resources must be limited or nonexistent.
4. It is essential that the relevant actions (policies) of the organization's leaders to meet the resource controllers' demands and interests be visible to the resource controllers so that they can assess them and respond.
5. For these processes to operate in a predictable manner, it is important that those in charge of the organization be keenly interested in staying in power.[64]

Items 1 and 4 concern signaling and communication, items 2 and 3 concern the pattern of resource control and the availability of alternative supplies, and item 5 is simply a reasonable assumption about the actors in charge of the organization. This chapter has already touched on most of these points. When investors are not actively "voicing" their interests by participating in some way in policy-making, they transmit signals through their investment activity, ranging, as we have seen, from a slowdown in new investment to outright relocation. I have also mentioned

[63] Bates and Lien 1985:61; emphasis in original.
[64] Pfeffer and Salancik 1978:43.

state bodies and state personnel devoted to monitoring the "barometer" of investors' satisfaction and interpreting upward and downward movements for policymakers so that possible changes in the jurisdiction's investment climate—which constitutes a set of signals to investors—can be considered. Item 5, meanwhile, has been an unstated assumption in this book from the outset. Points 2 and 3, although discussed in passing in previous sections, are of a slightly different character in that they represent what I have already referred to as "mediating" factors—variables that shape the ways the structural leverage of capital controllers is felt and dealt with in widely varying contexts. The final element of this theoretical discussion is devoted to fuller consideration of these important contextual factors.

Factors That Mediate Structural Power

Although the structural aspects of investors' power are built into capitalist systems of production and thus present real constraints for decision makers in capitalist societies, they do not have the same effect everywhere. Several important factors mediate how strongly pressures from capital controllers are felt and how willing or capable different jurisdictions and their policymakers are to respond to these pressures. It is for this reason that so much variation in investment climates exists throughout the capitalist world—ranging from jurisdictions that are highly unresponsive to capital controllers to those that respond both rapidly and favorably. It is for this reason too that the power and policy-making dynamics discussed in this chapter are not deterministic in the narrow sense of the word.[65] Rather, they provide us with insights into the sometimes devastating difficulties political elites can encounter when, for whatever reason, they ignore the policy demands of actors whose private and independent investment decisions have wide-ranging ramifications for the rest of the population. For clarity only, I group the mediating factors to be discussed (presented here as propositions) into two broad, and in many respects overlapping, categories. The first focuses on those factors that make a jurisdiction more or less vulnerable to the structural pressures capital controllers can create. The second

[65] For a nuanced discussion of determination, see Wright 1978.

highlights those factors that make decision makers more or less likely to respond to the demands of investors.

The first proposition is particularly relevant to the Indonesian case and will require more explanation than the others. *The impact of investors' structural leverage on a jurisdiction decreases as access to and control over investment resources that can replace those controlled privately increases.* Here the issue of end-use discretion is critical. The types of capital that can be used to meet the investment needs of a jurisdiction can be ordered along a continuum that ranges from complete private discretion over end use to complete policymaker discretion. Table 1 presents a selected list of capital types to illustrate this ordering.[66] The direct discretionary control of policymakers over the allocation and use of private and portfolio capital is extremely low. Interstate loans, by contrast, are substantially less restricted in how precisely they are used. Though the demands attached to flows of state-to-state funds vary greatly and depend on the channels they pass through and the reasons they are supplied (e.g., because the recipient is important geopolitically), they are almost always weaker than those placed on capital supplied privately for direct investment. Lending states audit the books of borrowing states to ensure that the resources are used for the intended purposes, but this form of end-use control is nothing like that of direct investors overseeing their own projects. Policymaker discretion over commercial credit, the next step down on the list, is even greater—particularly during those rare periods when finance capital is in oversupply. Commercial banks tend not to have the personnel to monitor in detail how the funds they provide are used by policymakers. The final category, state capital, is by definition controlled and allocated by policymakers. State leaders need not coax or induce anyone or anything to gain access to these resources and have them invested in ways that are economically, politically, or even personally sustaining. The only limits on these resources stem from characteristics of the state itself, such as the degree of power concentrated at the governing center.

The important analytical point in setting forth this continuum of discretionary control is to suggest that as policymakers gain increasing access to resources toward the bottom of the list, the structural influence

[66] Stallings (1985) focused on the first four of these categories; Wood (1980) analyzed the interstate loan category. Also see Khoury 1990.

Table 1. A framework for analyzing capital control and end use

Sources/types	Constraints/motives	Intermediate channels	Policymaker discretion over end use
Private direct investment	Supplier has clear purpose for end use. Constraints on resources very high.	None. Supplier deploys resources directly.	*Low.* As intended by original supplier. Source monitors and directs end use fully.
Portfolio investment	Often multiple suppliers. Purpose of end use less clear. Resources moderately constrained	Through a recipient firm. Motives and intentions of firm's owners/managers intervene.	*Low.* End use may diverge from intentions of portfolio investor, but not owing to state actors. Capacity of source to monitor and direct end use is reduced.
Interstate loans	Often multiple suppliers. Suppliers can have contradictory purposes for end use. Weaker constraints on resources.	Through recipient state. Competing intentions of state (or state component) intervene.	*Medium.* End use may conflict with one or all supplier factions. Capacity of source(s) to monitor exists. Ability to direct end use varies but can be high.
Private loans	Suppliers often syndicated. Sovereign guarantee is key. Supplier concerned less with end use and more with risk. Quite weak constraints on resources.	Through recipient state. Often more discretion for executive branch than with bi/multilateral credit.	*Medium to high.* Intended end use, if specified, can be avoided. Weak capacity (and inclination) of suppliers to monitor and enforce end use.
State capital	No additional constraints that policymakers do not ordinarily confront.	None. State deploys resources directly, though internal channels through which this is done matter.	*Highest.* Discretion limited only by state coherence and internal capacity to implement policies.

of private capital controllers to constrain the policies decision makers can safely consider diminishes in tandem. And it is precisely these dynamics that made possible the reduced responsiveness of the state to private investors during the oil boom period in Indonesia. Although periods like this are exceptional in capitalist systems, they are extremely useful for what they reveal about the structural power relationships that exist in nonexceptional circumstances.

A second type of variable affects the mobility of capital for a jurisdiction and thus affects the structural leverage of investors that is rooted in relocation. *As the integration of a jurisdiction into extrajurisdictional markets increases, the exposure to pressures from mobile capital controllers increases as well.* This is not to say that investors have no structural influence at all when poor integration into markets hinders mobility. Simply withholding investments is still available. This mediating factor is less important when the basis of extrajurisdictional integration is a sector controlled and owned by the state, such as Pertamina in Indonesia of the Nigerian National Petroleum Company.

Yet another factor affects the impetus for relocation. *Jurisdictions are less constrained by mobile capital when the differential in investment climates with competing jurisdictions is small or nonexistent or when competitors' climates are clearly less favorable.* Although capital mobility has caused considerable convergence across a wide range of jurisdictions, significant variations in investment climates persist.

A fourth consideration has to do with mobile investors themselves. *A jurisdiction is relatively insulated from the structural power of mobile capital when the fraction of all capital invested they control is small, or when their investments are not heavily concentrated in sectors that employ large numbers of people, are important to access to new technology, supply significant amounts of foreign exchange, or are important to the state's revenue base.*

Quite apart from the climate within jurisdictions, the capacity of investors to relocate presupposes that relations between jurisdictions are relatively free of conflicts and crises so that relocation is reasonably feasible and safe. *As world or even regional economic and political stability decreases, the mobility of capital decreases, and the vulnerability of jurisdictions to the structural power of these investors decreases as well.* Fred Block, for instance, notes that major crises greatly enhance the bargaining power of the state with private investors

because their options for relocation in the face of major and unfavorable policy changes are drastically reduced. The possibility that class-based conflict can erupt during these periods and threaten the ordinary sanctity of private property also gives state leaders more leeway in the policies that they can consider and capital will tolerate. He writes that "there are certain periods—during wartime, major depressions, and periods of postwar reconstruction—in which the decline of business confidence as a veto on government policies doesn't work. These are the periods in which dramatic increases in the state's role have occurred." During wars "international business confidence becomes less important, since international capital flows tend to be placed under government control."[67]

A core element of the theory of investors' structural power concerns how the ramifications of disinvestment and relocation for a population—whose reproduction and survival depend on an investment process neither they nor political elites control—result in pressures on policymakers to respond to investors' policy demands. Several factors that are quite specific to different jurisdictions shape how severely both the ramifications and the related pressures will be felt. *As the mobility of labor from a jurisdiction increases, the indirect pressures on political elites from investment difficulties are moderated.* On the other hand, *jurisdictions where demographic pressures are high, unemployment rates are already at socially intolerable levels, the welfare apparatus and resources are weak, and the avenues for retreat for dislocated persons (such as into the "informal sector") are unavailable or already saturated are more vulnerable to investors' pressures.* Furthermore, the willingness of populations to endure the deprivations of an investment decline can be increased when revolutionary, nationalist, anticapitalist, or other feelings are widespread and run high. The last factor to be mentioned in this category also relates to the dangers associated with a population's reaction to investment dysfunctions. *A jurisdiction in which the opposition to the regime in power is unorganized, co-opted, fractured, destroyed, or otherwise rendered ineffectual will be less vulnerable to pressures exerted by capital controllers than those in which the societal forces of opposition are united and well equipped to react to economic stress.*

[67] Block 1977b:24. Skocpol (1980) tried—unsuccessfully, I think—to downplay the importance of Block's insight.

Fragmentation along regional, religious, racial, ethnic, or ideological lines can severely dampen a population's ability to apply destabilizing pressures on state leaders.

Assuming an average degree of exposure or vulnerability on the variables noted above, we now turn to contextual factors that focus more specifically on the jurisdiction's institutional apparatus and on the willingness and ability of policymakers to be responsive. *A ruling group that is both willing and able to make extensive and ongoing use of its jurisdiction's coercive instruments to counteract societal pressures can diminish its vulnerability to structural pressures from capital controllers.* An important element in this ability is that policymakers must have the full backing of the jurisdiction's police force and military. Sharp divisions in the military, in particular, can greatly increase the vulnerability of civilian leaders to the pressures investors can set in motion. Note that this point does not contradict the earlier claim that not even dictators are not fully insulated from investors' structural power. Indeed, such a high level of coercion represents the kind of political instability that accompanies economic difficulties related to investment rates.

The unresponsiveness of some policymakers to capital controllers can occur not because the actors in charge are not aware of the difficulties they might face or are unwilling to respond, but rather because the nature of policymaking and policy implementation effectively prevents them from acting. *A high degree of institutional and organizational incoherence—marked by high turnover of officials, little policymaking continuity, frequent coups, or a weak center for decision making—can lead to unresponsive state policies despite the clear presence of structural pressures from those controlling investment resources.*

In concluding this discussion, I must note that pressures that can threaten the position of policymakers do not arise exclusively from the breakdown of the investment process for a population. Indeed, being responsive to capital controllers can itself precipitate strong reactions from workers and other groups in society. In addition, it is entirely possible that existing circumstances make it completely reasonable *in the short run* for those interested in their political survival to ignore the demands of investors. This does not mean that further complications arising from investment shortfalls will be avoided; acting in ways that anticipate or prevent these complications is simply not an option. Again, the point is that we cannot "read" policy processes and outcomes

directly from existing structural constraints. Rather, the careful identification of structural forces supplies us with important information about the limits on policymakers that, if crossed, pose identifiable and predictable consequences for their ability to rule, and in extreme cases even to remain in power.

The Indonesian Case

The next three chapters deal with the three major policy phases in Indonesian political economy since General Suharto came to power late in 1965. The dynamics surrounding Indonesia's investment needs, changes in the sources of and control over major resources used to meet these needs, and the potency of structural levers of influence for mobile investors are all critical elements in explaining shifts in policy that have occurred during the past twenty-five years. I will specifically mention several major points at the outset to alert readers to critical issues in the story of how the structural constraints explored in this chapter were felt and dealt with in the Indonesian case.

I cannot stress enough that this book is not about oil booms or even about oil-exporting countries. Rather, it is about the structural dimensions of investors' power under capitalism, the degree to which different actors have access to this power, how and with what intensity it is manifested concretely, and the constraints on policymaking that are imposed as a result. The oil boom of the 1970s and early 1980s is important because it was exceptional. In Indonesia the boom meant that state leaders had direct access to a huge resource pool that could be used to replace a sizable share of the investment resources for the country that had been supplied from private capital controllers—thereby damaging the underpinnings of their structural power. With the pillars of investors' structural leverage severely weakened during this interlude and with the range of policy options decision makers felt they could consider widened enormously, the structurally based limitations present under capitalism in *unexceptional* periods are brought into sharper focus.

The primary tension in policy across the three periods centered on Indonesia's official policies regulating access to opportunities for investment and profit. At one extreme was a system of allocation and distribution based on impersonal market criteria, and at the other extreme was

one based on policies that put discretion firmly in the hands of officials. The degree of mobility of capital controllers helps account for which actors favored which mode of distribution, and why. Investors who were more mobile tended to favor the markets, whereas capital controllers who were less mobile tended to favor intervention by officials. This was even more true when international mobility and competitiveness coincided. Added to these interests on the part of capital controllers were the interests of political elites. Except for the special group of economic ministers in the cabinet, Indonesian officials from the president down to the village heads have preferred a system of distribution that supports rather than conflicts with the patron-client structures that pervade the Indonesian state. It is for this reason that the policy trajectory away from market-based terms of access during the relatively more "flexible" oil boom years was in no sense arbitrary.

I will pay considerable attention to the processes of communication between policy makers and capital controllers. Although mobile and immobile actors transmitted direct and indirect signals about their policy interests in a steady way across all three periods, which group policy makers paid attention to varied sharply. A parallel pattern of influence is also apparent for the economic ministers within the state. Mobile investors and the economic ministers were ascendant when the state's ability to replace the resources of private investors was minimal—before and after the boom—and weakest in the middle period when alternative resources were in abundant supply.

Two other points to watch for as the story of Indonesia's political economy unfolds have to do with change that occurred in secular rather than pendular ways. One developed within Indonesia's extremely important indigenous class of investors known as the *pribumi.* During the first two periods they comprised decidedly immobile and relatively noncompetitive actors. For the most part the *pribumi* were small and medium entrepreneurs who pressed hard for official state policies giving them special advantages the market consistently denied them. By the third period, however, an important rift had developed within the *pribumi.* The entire group could no longer be lumped together as immobile and minor players in Indonesian capitalism. A small but politically significant leading edge of the *pribumi,* whose interests as investors now more closely approximated those long pursued by other mobile actors, broke with the more immobile indigenous capital controllers and defended an

official policy of access based on market criteria. That this rift coincided with the end of the oil boom and a restoration of the structural leverage of mobile capital controllers is extremely important in accounting for both the extent and the pace of "deregulation" and liberalization after 1982.

The second point centers on the increasing intensity with which policymakers felt competitive pressures from other investment sites. From the beginning of Suharto's New Order, the pressures on Indonesia to compete with other jurisdictions for mobile investors were apparent. In debates about how far Indonesia should go to entice capital controllers to come or return to Indonesia, the benefits of investing in other places were frequently mentioned as an important consideration. Meanwhile, complaints from mobile investors during the oil boom years about how uncompetitive Indonesia's investment climate had become were consistently ignored. Some officials openly invited these investors to go elsewhere if they were not satisfied with what Indonesia was willing to offer. By the early 1980s capital was vastly more mobile than it had been during the preboom days, and the pressures to compete with places like Thailand (which had experienced no oil boom during which officials could easily ignore structural pressures from investors) were markedly greater.

Before commenting briefly on the material chosen to illustrate the character of the three periods, I should mention the policy making process in Indonesia and the role some of the factors mentioned above played as mediating variables. It is important to recognize that decision making in Indonesia is extremely concentrated and centralized. Even if ministers act independently to promote a certain policy line, no official policies of any national significance are adopted without the approval of President Suharto. One noteworthy implication of this is that the success of competing groups within the state in having their policy agenda enacted depends on Suharto's assessment of the implications for his strategy of anticipating or countering challenges to the stability of his rule. Other mediating factors are treated schematically below:

Integration into transjurisdictional markets. For all three periods, and particularly during the postboom phase, Indonesia has had rather high and steadily increasing integration into markets for capital, goods, and services of all kinds. Although it is now the fourth most populous country in the

world and is well endowed with natural resources, Indonesia did not try to insulate itself as China and India had. Since the mid-1960s, the Indonesian rupiah has consistently been fully convertible.

Differential of investment climate with competing jurisdictions. Though Indonesia was not notably less favorable to investors than neighboring sites once the economic ministers were in firm control after 1965, by 1974 the gap separating it from its competitors began to widen markedly. Major efforts were made after 1982 to restore the competitiveness of the country's investment climate.

Significance of mobile investors. A large share of capital controllers involved in modern sectors are highly mobile in Indonesia. This includes foreigners, ethnic Chinese, and in recent years a small but significant number of *pribumi* investors. In terms of foreign exchange earnings, state revenues, access to technology, and urban employment, these mobile actors are tremendously important.

Demographic and other societal pressures. Despite remarkable progress in slowing birthrates, demographic pressures have been and continue to be extremely intense in Indonesia. Unemployment and especially underemployment are high, and job creation has at times lagged significantly behind the number of new entrants into the labor force. There is no state welfare apparatus, though possibilities for retreat into family-based relief in especially hard times do exist, especially in rural areas. Stress lines in society are greatest in urban areas (in part because retreat is more difficult) and most volatile among high-school, academy, and university graduates—for whom the job creation rate and quality have barely been adequate.

Regime opposition and coercive capability of state. The Suharto regime has worked as diligently to destroy, fragment, and generally enervate forces of opposition in society as it has to unify and insulate the state's forces of coercion. The population of nearly 200 million is divided along racial, ethnic, religious, class, and regional lines. But as material presented in the last chapter will show, communal and regional divisions in Nigeria run far deeper. Suharto's government has succeeded in making it illegal to have any ideology other than that sponsored by the state. Because of an extensive system of pyramidal government structures reaching down to the village and neighborhood level, and because all outsiders are expected to report to the lowest level of officials, it is nearly impossible to disappear or hide in Indonesia—despite its being a vast archipelago. Suharto has repeatedly demonstrated his willingness to use brutal force against the urban and rural poor as well as to make more subtle strikes on middle- and upper-class figures who dare oppose him. The abortive coup of 1965 and the bloody destruction of the Communist Party that followed was traumatic for Indonesian society. There is no organized opposition or leadership of any significance—overt or underground. Since the late 1980s and early 1990s, calls for more openness, human rights, and democracy have increased. In June 1994, Suharto closed down three major weekly publications for their critical political reporting. Police descended with batons upon a peaceful protest against the bans, arresting several while others were hospitalized.

The period from 1965 to the present is much too large to discuss in full detail in a work of this size. Although not every policy in each of the three periods perfectly reflects the predominance of markets or official discretion as the mode of distribution and access, the overall trajectory in each phase is clear and tends toward one of these two poles. Each chapter presents case studies that convey the character of the responsiveness of state policy to private capital controllers. Chapter 2 offers two that reflect the tension between the pressures to adopt market-based policies to attract and retain mobile investors and Suharto's efforts to secure substantial resources that would assist him in utilizing the country's patron-client structures to consolidate his control over the military in particular and the country in general. I examine the 1967 investment conference in Geneva in considerable detail because it represented the earliest and single greatest effort by Indonesian policymakers to communicate with—and satisfy the policy demands of—some of the world's most powerful and mobile investors. At no time since has a presidential decree been issued to authorize a delegation of Indonesians to represent the president at such a summit with capital controllers. Suharto's efforts to gain access to resources whose end-use was far less constrained are examined through a study of the president's relationship with the head of Pertamina, the state oil company, and I also explore how this "second channel" to resources ended in Pertamina's devastating financial collapse. The strength of the economic ministers as well as the sources of that strength are treated briefly. The point of chapter 2 is to account for the responsiveness of the state to capital controllers during the preboom phase of the New Order.

Chapter 3 is devoted to the oil boom period. The impact of the huge increases in oil prices is examined in conjunction with the decline in the state's responsiveness to the policy demands of mobile investors. A detailed case study of a special state body, "Team 10," is presented to illustrate the command position Indonesian officials assumed at the

height of the oil boom, when the discretion of policymakers over access and opportunity for investment and profits was at its zenith. This development is linked explicitly to the weakening of structural levers of influence over policymakers as investment resources replacing private capital came on line in massive quantities. It is linked as well to the decline within the cabinet of the economic ministers, who had set the trajectory of economic policy until the onset of the boom.

Chapter 4 focuses both on the demise of Team 10 and on the controversies surrounding Indonesia's tax reform package in the postboom phase. I describe and explain the restoration of private investors' structural power, the rehabilitation of the economic ministers, and the return to a posture of higher responsiveness to capital controllers. The changing role of Indonesia's own *pribumi* investors is highlighted, together with the heightened competitive pressures facing Indonesia in the 1980s owing to greater capital mobility.

The last chapter is intended to suggest that the theoretical approach developed here can be fruitfully applied to other cases and contexts. I make no effort to present full case studies. Rather, my objective is to illustrate the range and depth of this structuralist-materialist perspective by mentioning the issues, questions, and tentative answers it would generate. The last and longest section compares Indonesia with Nigeria, emphasizing the importance of mediating factors discussed above in accounting for how rather similar structural pressures (linked to a resurgence in the power of capital controllers after the oil boom) resulted in quite divergent policy trajectories for the two countries.

C · H · A · P · T · E · R · T · W · O

THE PREBOOM YEARS, 1965–1974: INVESTOR CONFIDENCE AND POLITICAL CONTRADICTIONS

A major factor in the collapse of the Sukarno government in 1965 was the breakdown of investment and production caused by policies begun in 1957, when the nationalization of foreign firms commenced and the climate for private enterprise turned stormy.[1] Mobile investors who could escape did so. Others, turning to short-term transactions in trade and currency exchange, did their best to shield their property and holdings from the risks and dangers of the time.[2] By the early 1960s capital flight was rampant, spare parts and raw materials were unavailable, exports were declining, and both consumer and capital goods were becoming scarce. Profitable production, either by private firms or by state-owned agricultural estates, was all but impossible.[3] The Sukarno government lacked the real resources to fill the investment gap, and running

[1] Crouch 1988.

[2] Christianto Wibisono, an observer of business and economy in Jakarta and an Indonesian of Chinese descent, claims that the 1963 government takeover of the Oei Tiong Ham sugar conglomerate—the country's first real multinational (which still exists as P. T. Rajawali Indonesia)—sent a strong signal to the Chinese that their capital was in danger. "Capital flight to Hong Kong and Singapore had already begun in the early 1960s," according to Wibisono, "but picked up after this ominous sign." Interview in Jakarta with Christianto Wibisono, 7 February 1989. Although such observations are helpful, reliable data on ethnic Chinese capital flight for this period are unavailable. Even if Chinese capital did not leave the country on a massive scale, it certainly was diverted away from investment for production.

[3] Emil Salim, an important economic minister under Suharto, summed up the situation this way: "Most economic resources were diverted to activities with quick returns. Money went into commodities, creating a sellers [*sic*] market. Normal long-term investment stopped. Unemployment rose, and the whole economy deteriorated rapidly." Indonesian Embassy 1967.