Jeffrey A. Winters. *Power in Motion: Capital Mobility and the Indonesian State*. Ithaca: Cornell University Press, 1996. xvi, 241 pp.

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Do Bad Times Really Make Good Policies?

As President Soeharto prepared for his re-election in March 1998, a steady flow of foreign visitors came to his residence on Jalan Cendana in Jakarta. Nearly all of them brought the same message: failure to implement the economic reforms required by the agreement he had signed with the International Monetary Fund at the end of October 1997 would endanger $43 billion worth of international aid. He ignored their warnings, and just a few days before he was elected to his seventh term, the IMF postponed paying the second tranche of that aid.

No one who observed Indonesia's financial crisis evolve into a political one between July 1997 and early 1998 would deny the importance of internationally mobile capital to the country's economic and political well-being. Rising inflation and unemployment were followed in a matter of weeks by violent attacks on merchants and unprecedented calls for political change. On its own, the government could do nothing to restore economic growth. And it could not deal with social unrest until it had met the demands of those who controlled the flow of capital to Indonesia.

The limits that capital imposes on the range of policy options available to government officials represent the structural power of "capital controllers," the moniker Jeffrey Winters assigns to a broad category of investors, whether private or institutional, domestic or foreign. And it is this source of power, more than Indonesian politics and policymaking, that chiefly occupies this book. Working in an historical materialist tradition, the author uses Indonesia between 1965 and 1990 as a case to examine capital's structural political power. Although his analysis of Indonesian economic policymaking ends well before the current crisis, the "theory of structural relations between state and capital" (p. 7) that he develops can easily be employed to explain the major challenges Indonesian policymakers face during the current crisis.

His argument can be summarized in a brief set of propositions.

> Societies require investment in order to sustain and improve their standard of living. He labels this an "investment imperative." (p. 3)
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> Governments, whether democratic or not, have an interest in satisfying this need, because their "position and legitimacy"are "inextricably linked" to it. (p. 3)
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> Because capitalist society is founded on the right to private property, governments cannot force investors to invest; instead, they must lure them with attractive policies. (pp. 7-10)

Investors' power is said to be "structural" because they do not need to participate as individuals in the formal political process in order to secure their major interests. The state's need for their resources induces it to adopt policies broadly in line with investors' interests. As Winters writes, "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 dimensions of investors' political power finds its expression" (p. 3; italics in original).

It is not just any investors whose interests are of importance to the state. Those who control the most mobile forms of capital are those to whom the state is most responsive. Mobility is the source of investors' political power, because it enables them to relocate to more profitable jurisdictions.

The Indonesian case is, as he claims, an excellent one in which to test "the validity of the claim that investors exercise tremendous (and increasing) structural power over the construction and maintenance of investment climates." (p. xi) Between 1965 and 1990, major political and social conditions either remained constant or changed in a consistent direction. They cannot, therefore, be used to explain contradictory changes in economic policy. The major source of change during that quarter century was the oil boom that occurred from late 1973 to 1982.

In separate chapters on the periods preceding, during, and following the oil boom, Winters demonstrates that capital controllers were successful in obtaining the policies they desired during the first and third periods, but almost completely failed to do so during the oil boom itself. During all three periods, state officials understood clearly the policies that capital controllers desired, but during the oil boom, he argues, the structural power of capital was reduced. The massive flow of oil revenue directly to the state enabled officials to meet society's investment imperative without "first satisfying the core objectives" of investors. Policies during this period thus reflected state interests more than investors' interests, in contrast to earlier and later periods.

Widespread corporate bankruptcies, rising inflation, and growing unemployment since the middle of 1997 have combined to produce political instability and social unrest. Those who control the flow of capital, whether foreigners or Indonesians, have withheld and even withdrawn their investments from Indonesia out of concern over the worsening investment climate. Just as in the eras Winters describes, Indonesian officials have been made well aware of the types of changes that mobile capital requires in order to return to Indonesia.

That President Soeharto has not conceded the demands of highly mobile investors may surprise many observers. After all, in previous crises he cut loose cronies whose enjoyment of various forms of protection had become unacceptable to mobile capital and thus obstacles to the fulfillment of the country's investment imperative. In the 1970s, he reined in the state oil company, Pertamina, and in the 1980s, he launched a broad program of economic liberalization and deregulation. But in neither of these cases, as Winters emphasizes, were the outcomes assured. Repeatedly, Winters reminds readers that structural power does not work in "automatic" or "mechanistic" ways. (pp. 10, 90) Various "mediating factors," he says, determine "how strongly pressures from capital controllers are felt and how willing or capable different jurisdictions and their policymakers are to respond to these pressures." (p. 35)

Although the identification of structural forces does not enable us to predict policy choices, it does supply 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." (p. 41) Recognizing and adjusting in a timely fashion to those limits, we may conclude, is what has kept the New Order going. Failing to do so in 1998 plainly threatens its ability to remain in business much longer.

The single-minded purpose with which Winters pursues his argument will no doubt perplex, perhaps even infuriate, as many readers as it delights. If all the

variation in policy outcomes is due to "mediating factors," not the structural forces on which he concentrates, should not they be the principal subject of inquiry? A combination of the two is not impossible, as Richard Robison showed in the last major structuralist study of Indonesian political economy.[1] Theoretical matters aside, none of the policy changes he describes are unknown, and nearly all have been studied and reported elsewhere. Ignoring the vast literature on Indonesian economic policymaking, Winters makes no effort to explain how his description of policymaking is new or different from what is already known. While most other scholars divide the post-oil boom era into a period of adjustment (1982-86) and one of liberalization and growth (1987-1997), he lumps them together without explanation. Indeed, he makes no attempt to situate his work in relation to the volumes of scholarship on the topic. Readers will find few references, for example, to the work of the Australian economists who have done so much to illuminate and analyze Indonesian economic policy and performance. And many will wish that he had attempted to present data more recent than 1990.

His book delights, however, for precisely the same reasons it puzzles and exasperates. He has not advanced a model of Indonesian economic policymaking, but a theory of capital's structural political power. Detailed descriptions of Indonesian policies, already numerous, arguably are less important than explanations of how and why policies were made. While many other researchers have described the pendular swings in Indonesian economic policy, Winters has provided a logically consistent explanation for those shifts. The old cliché that "bad times make good policies" may have been true, but it lacked a rigorous analytical statement. It now has one.

Since his goal is more theoretical than empirical, it would be unfair to judge the book on its contribution to our substantive knowledge of Indonesian policymaking. On balance, however, the cases that he has chosen to "convey the character of the responsiveness of state policy to private capital controllers"(p. 45) do advance our understanding of how economic policies have been made during the Soeharto era. His accounts of Pertamina in the 1970s and tax reform in the 1980s enhance his argument, but have been discussed previously by others. His detailed examination of the meetings of Indonesian government officials and foreign investors in 1967, however, offers tremendous insight into the actual bargaining that took place between the two parties and laid the foundation for the relationship between Indonesia and foreign investors throughout the last three decades. And his study of the rise and fall of "Team 10," the agency that controlled the spending of Indonesia's vast oil wealth during most of the 1980s, is not merely the sole published account available, but a rich and insightful one that reveals the major dimensions of conflict between groups of officials within the Indonesian state and between them and an assortment of capital controllers.

Winters's account of the World Bank's treatment of Indonesia should be required reading for all who seek to understand the challenges that international financial institutions face during the contemporary economic crisis (see especially pp. 147-152). In contrast to its handling of other countries, the Bank has tended not to condition its assistance to Indonesia on specific changes in policy. Bank officials in Jakarta admitted to Winters that they rely on a strategy of "implicit conditionality," in which Indonesian compliance with Bank-prescribed objectives is allowed to lag behind the disbursement of loans. With officials of the World Bank and the Indonesian

[1] See Richard Robison, *Indonesia: The Rise of Capital* (North Sydney: Allen & Unwin, 1986).

government accustomed to such an approach, Indonesian reluctance to comply with the strict conditions international aid agencies have attempted to impose since late 1997 seems much less surprising.

Despite the inclusion of such vignettes and the insight they offer into Indonesian policymaking processes, it is clear that Winters has chosen analytical elegance over descriptive richness. Readers must decide for themselves whether the payoff is worth the expense.

My own doubts center on how narrowly he has drawn the relationship between state and capital. His unwavering focus on policies that affect the profitability of investment as indicators of the relationship between state and capital diverts attention from other dimensions of that relationship. One of those is the system of taxation. Winters recognizes the importance of taxes in the relationship between state and capital, but he views them as indicators of either the relative distribution of resources between the state and business (pp. 96-100) or of official sensitivity to capital's needs (pp. 180-184). Both of these enable him to treat the 1965-73 and 1982-90 periods as more similar than different.

The chief similarity between the pre- and post-oil boom eras, and the source of the state's structural weakness vis-à-vis capital, is the relatively small role of income from corporate oil and natural gas taxes. The declining flow of these resources to the state in the 1980s, Winters claims, "restored the potency of mobile actors' structural leverage." (p. 143) It is unclear whether he thinks that revenues from non-oil and -gas taxes, even of similar amounts, would suffice to restore the state's power against mobile investors. In his typology of capital types and sources (p. 36), however, he does not differentiate among various sources of state-controlled resources.

If we examine the size and composition of official revenues during the New Order era, differences between the pre- and post-oil boom eras become apparent. Winters has done this, but his analysis reaches only to the 1987/88 fiscal year. (p. 98) If we extend this time series through 1996/97, trends that were nascent a decade ago appear much clearer. First, although revenues from oil and gas taxes have stagnated, those from other sources have climbed rapidly. As a result, by the mid-1990s, corporate oil and gas taxes provided only about one-fifth of the government's income and other taxes about two-thirds. The rest came from foreign aid, but its contribution to the budget was smaller than at any point during the New Order period except the second oil boom (1980-81). Second, the bulk of income from non-oil and non-gas revenues now comes from income and value-added taxes. During the mid-1990s, the contribution of these taxes to the government budget approached 50 percent. Prior to the oil boom (as Winters shows, p. 98), taxes on trade provided the government's main source of income.

The implications of these differences are two-fold, and affect our interpretation of the current relationship between the Indonesian state and mobile capital. First, the period immediately following the oil boom, roughly from 1982 to 1986, appears in retrospect as unique as the oil boom itself. As the state's fiscal base shifted, its control of resources became less secure and the structural power of capital controllers relative to the state undoubtedly increased. However, the state regained control over large amounts of capital once tax and other economic reforms began to work through the economy. This suggests that during the 1990s, the state has wielded more power vis-à-vis capital than might have been the case when Winters concluded his research in the late 1980s.

Second, state dependence on income and value-added taxes in the 1990s, rather than trade and excise taxes as in the pre-oil boom era, means that its own health is far more deeply entwined with that of the private sector than ever before. When it obtained the bulk of its income from taxes on trade or oil, its sectoral base was narrow and relatively isolated from the overall state of the national economy. But income and value-added taxes are extracted from a much broader range of sectors and firms.

If one accepts that for most of the 1990s the Indonesian state was fiscally stronger but also more deeply and broadly engaged in the national economy than it was prior to the oil boom, the reasons for some of its recent policy choices become clearer. Fiscal strength allowed it to resist pressures from some segments of mobile capital while accommodating others. The success of its limited economic liberalization during the late 1980s paid for the persistent and even expanding patrimonialism of the 1990s.

The combination of expanded ties to the broader economy and dependence on it for revenue, however, means that the state is simultaneously threatened by the economic crisis and constrained in its capacity to make dramatic policy changes. In the pre-oil boom era, by contrast, the state's more limited formal ties to the economy gave it greater leeway to adopt and implement radical measures without inflicting harm on itself. Today, any initiative to accommodate clamorous mobile investors risks upsetting not only patrimonial relationships between patrons in the state and their clients in the private sector, but structural ties between the state and the economy at large. Bad economic times in the 1960s and 1980s may have resulted in good economic policies, but only because political barriers to radical policy shifts were low. As those impediments have multiplied during the past decade, the possibility that state officials would adopt capital-friendly policies in response to economic crisis has declined.

This, it should be clear, is not an indictment of Winters's argument, but an attempt to extend its empirical reach and apply it to Indonesia in a way that illuminates recent developments and thereby demonstrates the utility of his theory. It does suggest quite strongly, however, that what Winters calls "mediating factors" often play such large roles that even extensive knowledge about mobile investors' structural political power leaves us very far from an explanation of important government policy choices. I doubt that he would disagree. But it should serve to encourage political scientists to devote more attention to the network of ties that has developed between the Indonesian state and capital over the past thirty years.