Jeffrey A. Winters, “Power and the Control of Capital” *World Politics*, Vol. 46, No. 3 (April 1994), pp. 419-452

In short
Winters’ paper is a review essay that considers three books on the development of post-colonial states, *Governing Capital*, by Sylvia Maxfield, *Race to the Swift*, by Meredith Woo-Cummings, and *Debt, Development and Democracy*, by Jeffry Frieden. His basic point is that there are numerous sources from which political actors derive influence and control over the allocation of financial resources, and he critiques the authors to the extent that they carefully specify the means of such influence and control.

Central Question
What is the role of the state in the flow of finance capital, and what consequences does state policy on finance capital have?

Central Hypotheses
The study of economic policy should recognize that there are different types of capital which carry with them different implications for the leverage that suppliers and consumers can exert.

How he makes his argument
Winters takes up the tension between the concentration of banking and financial discretion in the hands of the unelected few when the policy pronouncements of these few is so consequential for the masses. The increasingly immediate effects of policy change in an era of increasingly mobile capital makes financial capital different from other types of assets. So, too, does the dubious association of financial capital with particular states, from the production standpoint (states are, of course, very consequential in the mobilization of financial capital). The importance of politics in understanding finance capital was first seen through the lens of late industrializing countries, and what banks and state involvement could do to influence their economic growth. As growth slowed among advanced industrialized countries in the late 1960s and early 1970s, developmentalist scholars thought more in terms of active banks and states. Against these often policy-oriented types arose dependency theorists, who argued that flows of finance capital had been tied to market-oriented reform and to the enactment of systems of private property rights. More recently, an institutionalist literature as arisen that emphasizes different structures that mediate relations among financial actors via opportunities and constraints. The institutionalist literature has emphasized the study of “central banks, the organization of the banking system, relationships between bank and industry, and the bureaucratic capacity of policymakers to intervene in each of the last three,” (424).

Winters begins his review with Sylvia Maxfield’s *Governing Capital*, where Maxfield apparently argues both that increased financial integration has constrained the options available to state policymakers and that capital should be more governed in an increasingly internationalized world. Maxfield posits two contending coalitions in her case study of Mexico—the “bankers’ alliance,” of “the largest, most mobile, and most transnationally linked players: private bankers, large-scale traders and industrialists, and public sector monetary authorities,” and the “Cardenas coalition,” of state-organized labor and peasant groups, in concert with governments officials of the Labor and Agriculture Ministries, (425-426). The bankers’ alliance favored tight monetary policy, the full convertibility of the peso, light taxation of profits and luxury spending, and minimal state interference in the operation of financial markets. The Cardenas coalition supported greater control over capital by the Mexican state, and many policies directly opposed to those advocated by the bankers’ alliance. The policy success of each of these two coalitions has turned, according to Maxfield, on external financial linkages that have impacted the political strength of the bankers’ alliance, and on a history of political and institutional developments.

Maxfield gives greater weight to the first factor, arguing that the stronger the necessity of maintaining good relations with international creditors, the greater political power the creditors and the bankers with ties to them had in the policy process. The bankers served as a bridge between those requiring debt relief and international creditors. Winters argues that Maxfield does not adequately account for periods of intense need for international credit when the bankers’ alliance was politically weak (the 1970s, for example). He asserts that she would have been better served to focus on who controlled the needed resources, the conditions attached to the transfer of these resources, and the probability of new constraints being attached over time, rather than simply looking at the level of international financial dependence. Moreover, Winters argues that Maxfield does not take into adequate account the differing constituencies that each of the coalitions had, and the types of political power that was therefore available to them. The weakness of the bankers’ alliance in the 1970s is thus explained by the availability of multiple suppliers of financial capital that undermined the bankers’ ability to serve as the sole bridge for resources.

Winters turns next to Meredith Woo-Cummings’ *Race to the Swift*, where Woo-Cummings argues that East Asian economic growth benefited from its external security environment. Her argument is that Korea successfully manipulated its strategic importance to the United States and Japan during the Cold War to maximize its autonomy over the ample international capital upon which its development was so dependent. Rather than relying on foreign capital provided by MNCs, which undermined the autonomy of the state, Korea relied instead upon financial capital, which was less tied to any state except in its deployment by the host country. The state owned and controlled the central banking system, and created a constituency of entrepreneurs, and the flow of capital was administered by appointees closely tied to the president, rather than bureaucrats interested in monetary restraint and inflation control. By the mid-1960s, as bilateral flows from the US and Japan looked like they were going to dry up, Korea embarked on a program of commercial borrowing, also without political strings attached by the creditors, building up *chaebol* so large that their failure would pose a social threat. By the early 1980s, Korea attempted to borrow primarily from the US and Japan, so as to tie the fates of the nations together, and wrest financial autonomy by giving each creditor a stake in Korea's future.

Next, Winters takes up Jeffry Frieden's *Debt, Development and Democracy*, examining the domestic distribution of financial resources, in which Frieden argues that governments allow market forces to distribute external credit where there is high class conflict (as in Argentina and Chile), whereas governments more actively manage the allocation of credit along sectoral lines in areas of low class conflict (as in Brazil, Mexico and Venezuela). Winters is critical of Frieden's assessment of class conflict, and he also notes Frieden's lack of clarity about the fate of states with medium levels of class conflict. Moreover, Winters argues that Frieden's assertion that interventionist governments allocate capital to those sectors which most desire it and which mobilize for that end most effectively is unsatisfying because of the underspecification of what successful lobbying entails. Frieden's argument, according to Winters, is that effective lobbying can be predicted by intra-sectoral concentration (the number of firms in the sector) and cohesion (relations between labor and capital). Winters argues that Frieden's model misses the relevance of other types of leverage, including external forces, "agenda setting, patron-client networks, terror, and the like," which seem especially relevant in the case of Latin America (445).

Winters concludes his essay by asserting again that in studying political struggles over financial allocations, it is important to examine the source of the resources and the leverage that the source can exert, as well as the leverage that the recipients can use. Despite increasing capital mobility, policymakers can expand the range of options by manipulating the sources of capital. The types of resources being allocated carry with them differing patterns of control, both with respect to the lender, and with respect to different levels of administration within the borrowing state, a point that is summarized well in a table of p. 449. Essentially, private direct investment offers the least autonomy to the recipient, as the supplier has a clear purpose in mind, whereas portfolio investment offers more discretion to the recipient firm, who has some freedom as there are multiple suppliers. Interstate loans, which are administered through the recipient state offer greater autonomy to the recipient state, especially where there are multiple suppliers. Private loans hinge on sovereign guarantees, and offer even greater freedom to the executive branch of the recipient state, as the supplier is generally more concerned with risk than with the end to which the loan is put to use. Finally, state capital offers the highest degree of freedom to the state. As the threat to recipient autonomy is generally capital flight, Winters ends with two additional factors that impact the mobility of capital—the presence of an alternative recipient, and the degree to which the institution of private property prevails in each state.