The Role of the State in Managing Crossborder Flows and the Politics of Crossborder Capital Management Tools

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The heightened movement of financial capital across the globe, particularly since the 2008 financial crisis, has breathed new life into three long-standing, yet until recently side-lined, debates: the value of cross-border capital controls (increasingly discussed under the banner of ‘macroprudentialism’); dependency theory (key elements of which manifest in the emerging literature on ‘subordinate financialization’); and the role of the state in a capitalist system (discussed in various critical political economy literature, including the influential critical macro-finance scholarship). Alami’s book *Money, Power, and Financial Capital in Emerging Markets: Facing the Liquidity Tsunami* is a critical intervention into all three debates and serves as fertile ground for a critique of the capitalist state in a highly financialized global system.

Alami's analysis pushes back against the consensus in the mainstream literature that the return of capital controls presents a break in the capitalist state's management of crossborder finance. Rather, capital controls, Alami contends, serve as temporary stop-gap measures that reproduce class relations and facilitate capital accumulation while mitigating the worst consequences of financial openness. He considers how this logic emerges in different geographical spaces and brings into view the subordinate integration of emerging markets into a hierarchical global financial system. Alami places the state at the centre of analysis, a concept that the mainstream literature on capital account management largely overlooks. This work underscores the contradictory relationship between state power and crossborder finance by highlighting how finance enables the state to further its interests, while also expressing disciplinary power over it. Drawing on several strands of critical political economy work, Alami poses the following question: what explains 'the uneven emergence of specific forms of state power…in relation to the operations of capitalist finance?' (pp. 5 – 6)

According to Alami, the answer lies in 'historically and geographically constituted difference' (p.6). His carefully detailed case study analysis elucidates this point well. In Brazil, the government adopted an innovative tax on FX derivatives (IOF), thanks to earlier periods of heavy regulation on the spot market that created a robust onshore derivative market, and Brazilian policymakers' historical affinity for regulating capital inflows. In contrast, in South Africa, policymakers resorted to lifting controls on outward capital flows (rather than regulating inflows) owing to existing capital market structures and historical specificities. First, unlike Brazil, much of the South African currency trade occurred in offshore markets, rendering inflow regulations ineffective in the eyes of policymakers. Second, key historical events such as the 1960 Sharpeville massacre, 1977 Soweto riots and the anti-apartheid disinvestment movement triggered major episodes of capital flight which resulted in outflow control measures becoming predominant in South Africa. This trend, combined with the failure of the 1998 regulatory apparatus to address a severe capital account reversal, incentivized policymakers to adopt a strategy of selectively loosening controls on outflows to address the effects of 'liquidity tsunamis' in the postcrisis period. Alami's analysis thus offers compelling evidence for how the tools adopted in each case reflected a continuation of strategies embraced in the past but adapted to the new realities of globalized finance.

Alami’s analysis expertly situates the forms and modalities of state power with regard to crossborder finance in historical and geographical contexts. He demonstrates the messy and contingent application of capital management tools, and their embeddedness in a broader agenda of surplus extraction. The focus on buttressing this point, however, leaves one of the main contentions of the book under-analysed: how does class conflict, particularly the power and struggles of labour contribute to crossborder financial policy formulation?

Alami makes references in Part Two of the book to how the working class indirectly influences crossborder policies. This includes the negative impact of strikes on a country’s financial reputation, and the role of labour in curtailing fiscal surpluses. But the incorporation of labour struggles into the broader theoretical framework, and the analysis of labour’s influence on policies in the postcrisis period remain unsatisfactory. Here, engagement with long-standing Marxist debates about the state, its composition and function, could have been helpful. Alami discusses the total and international character of the capitalist state, that is, the role of the national state in facilitating global capitalist exploitation. But the class character of the state remains unclear. Specifically, is the state, as Miliband had proposed, and closely in line with the spirit of the Communist Manifesto, an instrument of the capitalist class? Or is it, as Poulantzas had posited, a potentially autonomous entity with its own interests?

Alami’s analysis seems to suggests the latter, that is, an autonomous state that not only manages class relations and fosters capital accumulation (p.57) but also ‘manipulates the class content of crossborder policies’ to either ‘strengthen or weaken the money-power of capital over particular social subjects, and allocate social wealth between them’ (p. 61). According to Alami, crossborder finance policies are determined by ‘the will of state managers’ (p. 181) who endeavour to hide the class character of crossborder capital management (p.188). In his case study of Brazil, Alami contends that the PT government instituted capital controls in order to sustain financial flows that undergirded its distributive social contract while limiting the most acute risks of financial volatility, that is, with the broader goal of maintaining financial (and political?) stability. In South Africa, crossborder policies appear to have been driven less by class conflict and more by policymakers’ ambitions of making

South Africa a financial hub. This was, for example, clear in policymakers' decision to selectively lift controls on outflows to African countries. In both cases, the role of labour and class struggle remain unclear, leaving the reader to assume that labour is largely peripheral to crossborder policy management, particularly in the postcrisis period. Could this be because of the success of capital in positing its specific interest as the general interest, as Marx had noted, or because of truly unique state interests formed in the vestibule of imperial power and geographic differentiation?

Another issue that invites further exploration in Alami's analysis is the distinct politics inherent in different capital management tools. The focus in the book is on the limiting nature of capital controls. Alami clarifies the temporary nature of capital controls and their centrality to the larger project of capital domination. However, a consideration of the enabling potential of capital management tools could have enriched this discussion. Afterall, reserve management, exchange rate regime, capital controls and prudential regulations help the state manage crossborder flows, or their implications, via different mechanisms. Reserve accumulation relieves pressure on the currency without limiting the volume of inflows or restricting outflows. As Kaltenbrunner and Painceira (2018) show in the case of Brazil, the central bank's attempt to curb the negative impact of inflows via sterilized interventions necessitated pumping a high volume of repurchase agreements into the domestic system, which encouraged financial institutions to increase their short-term lending. Thus, in the case of reserve management, the state limits the negative consequences of capital inflows by accommodating finance capital, whereas capital inflow controls achieve stability by limiting such transactions. The enabling or disabling potential of capital management tools remains understated in the overall analysis; building on this research can help uncover the politics that inhere in highly technical tools and fortify the claim that crossborder tools involve class dimensions, and are indeed, political in nature.

Alami's rich and contextualized analysis illustrates the necessity of grounding crossborder capital management tools in historical and geographical contexts. It invites scholars to delve deeper into the messy, complicated and technical (yet political) nature of state management of crossborder financial flows, and more importantly, to understand the class dimensions that underpin these policy choices. The insights offered in the book are deep and rich, and the methodological tools are innovative and expansive. Future work can build on these aspects to critically evaluate the politics of a highly financialized global system.

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