

Book Review

Paul D. Hutchcroft. *Booty Capitalism: The Politics of Banking in the Philippines*. Ithaca and London: Cornell University Press, 1998. 278 pages.

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The major premise of the book argues that it is in the political sphere where obstacles to economic development lie. The banking industry is then used as the prism by which the nexus of state and oligarchic familial business relationships are viewed. Within this framework the weakness of the state vis-à-vis other major social, economic, political actors has been the major constraint to economic development.

The author draws heavily on the work of Max Weber, who demonstrates "that bringing political arbitrariness to heel is a critical (but often overlooked) prerequisite for advanced forms of capitalist accumulation." Capitalism in its modern stages of development depends on the *bureaucracy*. The first two chapters of the book develop this theoretical framework. The author provides the reader with a useful analytical tool that examines the interaction of the strength of the state apparatuses and business interests with variations among state apparatuses. This analytical tool is placed in a matrix. Hutchcroft then situates the Philippines in "*booty capitalism*", where a powerful business class extracts privilege from a largely incoherent bureaucracy. For the Philippines this means that an oligarchic group with an economic base outside the state plunders the state's resources for particularistic interest.

Chapter three compares polities that exhibit strong, patrimonial features, and argues that the Philippines as opposed to other states in the matrix presents a difficult case of evolving into a more rational-legal state. Chapter four is a historical narrative of the development of the banking industry. Chapters five through nine examine the regulatory/supervisory function of the central bank and its relationship with the private domestic banks. The last chapter provides a summary of the lessons learned from a study of the banking sector and the possibilities of transforming the Philippines from booty capitalism to a rational-legal state that can promote the economic development of the nation.

The author clearly shows through case studies how a predatory oligarchy extracts privilege from the state, and how development policy objectives are continually choked by the clamor of particularistic demands made by those who currently enjoy proximity to the political machinery of the state.

The strong interventionist state model of economic development highly praised by the author has been overtaken by the Asian financial crisis of 1997. All the states have shown varying degrees of crony capitalism. In the end the market imposed its discipline on the inefficient and ineffective deployment of capital and even punished the state managers for mispricing the capital costs and risks. As economist Manuel Montes once said, money is money, markets do not make a differential judgement whether it is portfolio or direct capital investment. Deployment of capital makes all the difference in the world. Billions of pesos spent on basketball courts, a hundred meters of concrete roads leading nowhere in rural barangays, metropolitan overpasses which merely elevates road

congestion 20 meters in the air merely prolongs the traffic jam, waiting sheds brought to you by (here you may fill in the names of different elected officials) are just the visible tip of the iceberg of official capital deployed ineffectively. However, the author is correct in his observation that even a minimalist state role or intervention requires the capacity of the state to provide the legal and administrative underpinnings of predictability needed for capitalist development.

Weberian capitalist development leads us to expect a certain congruence between a modern economy and its associated beliefs and culture. Advanced forms of capitalism it is claimed, is above all rational-legal. It is orderly, sensitive to cost-effectiveness, thrifty rather than addicted to display, much given to the division of labor and the use of a free market. It requires those who operate it to be sensitive to the notion of obligation and the fulfillment of contract, to be work-oriented, disciplined, and not too attached to economically irrelevant political and religious patronage networks, or to energies dissipated in festivals or display. If this is indeed what a modern economy and polity demands, then the Philippines would seem to be custom-made for disaster. Things will definitely change in the future, as globalization demands this. But on the evidence presented by Hutchcroft thus far, the Philippines demonstrates that it is possible to have a modernizing economy existing side by side with an organized predatory oligarchy which continues to loot the resources of the state.

Hutchcroft maintains that the state's importance comes from its role as the manager of the country's external economic relations, but increasingly this role for the state maybe diminishing in a seamless global economy. This is where a

sequel to the book may be necessary to further explain the reforms which are necessary for the state to adopt in a globalizing economy. ❀