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Business Sectors And Government Policies : A Comparison Of New Zealand And Indonesia

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Abstract

The relationship between business sectors and governments has been central to the discussion of policy making process in democratic state. This study set out to analyze and compare the relationship between business sectors and governments in economic policy making during the postwar era in New Zealand and Indonesia. It uses data from historical context of economic policy making during the postwar era in the two countries. This study found that cases of New Zealand and Indonesia in economic policy making during the postwar era demonstrate the very complex and dialectical relationships between government political power and business sectors dynamic in the two countries. Among the two countries, in particular conditions, the governments dominated business sectors but in other conditions, business sectors dominated the governments. Sometimes, they could cooperate, and also sometimes the governments had autonomy and capacity relative to business sectors or business sectors had an influence relative to the governments in terms of economic policy making during the postwar era.

Key words: business sectors, government policies, relationships, policy making.

INTRODUCTION

The relationship of state and social groups has been central to the understanding of policy making process. Policy analysis has identified social groups as one of the key determinants of policy outcomes (Smith, 1992, 1). Such analysis has tended to pay more attention to the role of groups rather than the state in the policy making process. In broader context, the relationship between the state and social groups can be better understood by incorporating a greater consideration of the mutual role that the state and groups have in policy formulation. Thus the key focus for understanding the relationships between state and social groups is not groups per se but how is the relationships between them and the impact of such relationships on policy outcomes.

Pluralism identifies pressures within society as key determinants of the policy making process. According to pluralism, the state provides responses to the interests of groups but recent theorists suggest that the state has distinct interests and has potential to take autonomous actions or act independently of groups in society (ibid, 1-2). Groups are important in the policy making process but their impact also depends on the interests of the state actors and the types of the relationships that exist between them (ibid, 70). In this case, the extent of access to, or influence on the state partly depends on the particular policy adopted by the state actors. On many occasions, the state can ignore the demands of groups. For example, the state ignores the demand of trade union in developing trade union's legislation or ignores the doctors in making health policy. On other occasions, groups are able to develop influence on state policy solely because the state intervenes in particular policy areas. For example, without state intervention in health policy, doctors find it difficult to influence the policy (ibid).

The relationships between state and groups can also be understood in the context of their mutual dependency. The state can intervene in particular policy areas but it also needs to develop cooperation with groups, which support its ability to implement the policy. On the other hand, if groups are to influence policy, they need to be recognized as they can assist the state in policy development. Thus, the influence of groups depends on state recognition and in turn state power depends on the support of groups.

This research aims to analyze and compare the relationships between the state and business sectors in economic policy making during the postwar era by applying them to a comparative study of the concrete historical conjunctures of New Zealand and Indonesia. In particular, it analyzes and compares the changing characteristics of the relationships between state and business sectors of New Zealand and Indonesia relative to stable economic growth and crisis during the postwar era. Thus, the analysis and comparison are not only on how business sectors influence the state policies but also on how the state influences and responds to business sectors between the two countries both in economic boom and crisis.

Final discussion hopes to establish the finding of the complexities of the relationships between the state and business sectors in policy making in such economic boom or crisis in a comparative context of New Zealand and Indonesia. Thus, the explanation and discussion of the finding must consider and re-address the following questions such as : (1) do the governments dominate business sectors or do business sectors dominate the governments in economic policy making in the two countries during the postwar era?; (2) do the governments and business sectors of the two countries work together in pursuing particular goals?; (3) do the governments have autonomy and capacity relative to business sectors or do business sectors have autonomy relative to the governments?; (4) how do the relationships between the governments and business sectors of New Zealand and Indonesia change relative to economic boom or crisis?; (5) What are the similarities and differences of the changing relationships between the governments and business sectors of New Zealand and Indonesia relative to such economic conditions as boom or crisis?; and (6) why do the differences exist?

THEORIES OF PLURALISM

Pluralism is a model, which primarily focuses analysis on understanding state/groups political behavior. It gained popularity in the United States in 1950s and 1960s and had an important role in the policy process. It eschewed institutional study, traditional elite theory, and Marxist critiques of political power but took the liberal democratic model and explained the competitive struggle between various groups for political power. It viewed the government as the primary sources of decisions about how society's affairs were to be organized, and argued that government, to a certain degree, was responsive and accountable to its citizens for those decisions (Moloney, 1997, 318).

Pluralist accepted that 'groups wield significant amount of power and therefore are important in determining policy outcomes' (Easton, 1967; Smith, 1976; Smith 1993, 15). However, they acknowledge that not all groups have equal power because an institutionalized group will prevent outside groups having access to policy process and that the impact of a group on policy depends on resources that it has. Variation in resources can lead to one group having greater influence than other group. They also highlighted internal and external constraints that prevent a group or some groups from achieving too much power. External constraint exists in the form of countervailing powers which come from an alternative counter-group while internal constraints are the important counterweights that exist inside the government (Smith, 1993, 16). Pluralists highlight that inequality and certain constraints of power, access, and resources are determinants in explaining state/groups relations.

Truman also suggested that effective access of various interests to policy process could lead to governmental policy decisions. The effectiveness of access was determined by the group's strategic position in society, the deference, the legitimacy and the extent of group's memberships – including government officials; the group's internal characteristics including preferences, organizational characteristics, cohesion, leadership, size, and resources. The nature of governmental institutions which either helped or hindered the group's admittance to the policy table was also an important factor of effective access (Moloney, 1997, 319).

Truman, Galbraith and others suggested that the state was also a neutral referee of competing interests. By taking into account the interests of groups, it was pursuing public interests, and treating the groups as important indicators of concern of different constituencies. The state does not simply decide the winner in pressure groups competition but attempt to ensure that the game is played fairly. As a neutral referee, the state does not solely stand the fray of conflicting interests. It is also attentive and receptive and will intervene to stop the conflicting players/pressure groups (Moloney, 1997, 321). In doing so, pluralists argue that power is distributed equally, the state is neutral and access to the state is relatively open (Jordan, 1990c; Smith, 1990d; Smith, 1993, 15).

According the pluralist perspective, 'power in democratic societies is widely dispersed and … various resources available to different groups [which] allows them to influence policy' (ibid, 25). The government in response to societal pressures (activities and claims), often changed its form, institutions and function, and such changes were made as decisive encounters with external societal forces. However, pluralists have been criticized for focusing analysis on resources and behavior of groups without sufficient attention to the state's structure, ideology and interests. They failed to see the state actors' ability to make policy independently of groups. Rather, the groups' influence does not derive solely from their resources but from the organization and policy framework of government (ibid, 25-27).

Despite this critique, pluralism did not collapse but evolved and adapted to a new form which is called neo-pluralism. Neo-pluralists acknowledge that the state agencies have their own interests and in some areas of government, closed policy communities occurred because of the domination of insiders groups (Moloney, 1997, 322). Consequently, this affected the equilibrium and stability achieved in liberal democracies. Social pluralism also faced the entrenchment of political inequalities and the decline of public culture. Although pluralism faced these weaknesses, neo-pluralists argued that power remains fragmented, and that state remains the primary and responsible executive of societal organization (ibid).

According to pluralists, because business has greater resources than other groups, it employs tactics such as funding campaign to influence public opinion and develop contacts with legislatures to influence laws and indirectly with executive. However, it is not completely dominant. Its influence depends on how it is organized, its resources and tactics, and the extent of its influence in particular situation. Business deploys techniques such as lobbying, contacts and letters to try to influence policy outcomes (Smith, 1992, 21-24).

These are reasons why close relationships between business sectors and governments could be established and why business sectors appear to have more advantages in developing links with the government than other groups. Lindblom (1977) pointed out that business sector has a privileged position because it has a key role in the economy within which it affects the live of many people and the economy as a whole. Governments usually need successful economies for their survival and so they are automatically receptive to the interest of business sector. Moloney (1997, 323) also emphasizes that business sector is an unequal player in normal mechanisms of democratic politics, not because it has huge financial and organizational resources but because it operates in the private economic sphere of activity, where it exercises extensive discretionary power, independent of electoral controls.

THEORIES OF STATE AUTONOMY AND CAPACITY

Authors of pluralist theory explain that society or interest groups have the power to determine the interests of the state. They accepted that 'groups wield significant amount of power and therefore are important in determining policy outcomes' (Easton, 1967; Smith, 1976; Smith, 1993, 15). However, authors of the state autonomy explain that the state or state actors have their own interests and ability to transform the society or groups' interests into policy. Moreover, Nordlinger (1981) notes that the state acts according to its own preferences which diverge from the demands of the most powerful groups in society (in Smith, 1993, 49). Sckopol (1987, 9) also points out that states as organizations which have the role to control territories and people may formulate and pursue goals that are not direct reflections of social groups, classes or society's demands or interests. Cerny (1990) presents the state as constructing society rather than society constructing the state's interests (in, Smith, 1993, 49). These arguments denote concepts of state autonomy.

According to the concept of state autonomy, the state is an important actor in establishing its goals. Policies that it makes do not reflect the demand of groups but the result of how the state actors perceive their interests and problems, and how they think to solve the problems. The leading officials may act to pursue transformative strategies, which are different to social forces because of the linkage of the state into transnational structures and international flow of communication; and to spur reforms for the basic needs to maintain control and order. Weberian – Hintzean perspective provide some feature of the state, which help to explain the autonomous state actions including the extra-national orientations of the states, the challenge the states face in maintaining domestic order and the organizational resources that collectivities of the state officials drawn on and deploy (Sckopol, 1987, 9).

The state is able to act autonomously depending on its capacities. State capacity refers to its capability in society to achieve its goals. Sckopol (1987, 16-8) notes a few basic things which underpin state capacity such as sovereign integrity and stable administrative – military control of a given territory which are preconditions for the ability of any state to implement policies. Loyal and skilled officials and plentiful financial resources are also features, which are basic to the state's effectiveness in attaining all sorts of goals. The concept of policy instrument is also relevant means that the state may have at its disposal. Many studies of state capacity have demonstrated how the state has used policy instruments to realize particular kinds of goals. In European states, certain instrument are available for dealing with urban crises such as central planning agencies, state-controlled pools of investment capital and directly administered national welfare programs.

Mann (1984) distinguishes state despotic power which refers to its authoritarian power, and infra-structural power which denotes to state capacity to penetrate in society through administrative machinery and relationships with groups (in Smith, 1993, 52). Sometimes in a particular area, state actors are dominant but in other, it might be groups. In pursuing particular interests, they confront groups with alternative interests. In this case, the state's influence has to be understood in the policy equation but the state is often not an equal partner. It has authority and control which enable it to override groups.

Rhodes also emphasizes policy networks as an important means to understand the relationship between the government and groups. Policy networks occur when groups and the government exchange information. The exchange of information can be minimal such as consultation and submitting a paper or very intense with group having institutionalized access to the government. Rhodes demonstrates that the relationship between the government and groups are not a case of pressure groups outside the system of lobbying government in order to achieve specific goals but the relationships are one of dependency (Rhodes, 1981; Marsh and Rhodes, 1992c; Smith, 1993, 58-9). They are mutually dependent for resources. In particular situation, when the government wishes to achieve specific goals, groups wish to influence policy while in developing and implementing policy, the government also needs assistance from groups.

In addition, policy does not just depend on the power of pressure groups and the way they influence the state but it also depends on the type of relationships that exist between groups and state actors. Policy is made within institutions that structure the interests of the state and pressure groups. Institutional structures such as bureaucratic agencies, legislative committees, and appellate courts are arenas for contending social forces and standard operating procedures (SOPs) that define and defend interests (March and Olsen, 1984, in Smith, 1993, 70). Hall (1986) suggests that organizations are important because they determine the impact of pressure groups on policy, affect the interests of actors within the structures and the policy they produce, and are necessary for the state in implementing policy. In a policy community, state agencies have greater control over issue policies but often policy is limited to what is acceptable to the consensus on policy options (an important part of the policy community). The policy community can exclude certain policy options by making the option unacceptable.

Almond (1988) and Cammack (1989, 1990) focused attention on state power but link the state actors to their position in society. Statist theory suggests that the state or state actors constitutes groups' behavior and role in society (Cerny, 1990) and uses the groups to pursue its own goals. According to statist theory, power often lies within the state rather than groups or individual in society (Smith, 1993, 55). In contrast, state interests are not developed in a vacuum but result from interactions with society because politicians and bureaucrat live in society and their perceptions of state interests are influenced by their social interaction. Thus, state autonomy and capacity develops through relationships with groups, not in opposition to groups. However, the notion that in the modern state, the state intervenes in all areas of society while groups have regular and institutionalized access to it might be questioned because the groups' access can work in two ways. The first is to enhance the state capacity and the second is to undermine capacity to push an autonomous agenda.

In addition to this argument, neo-liberal strategies have reversed state autonomy and capacity. Neo-liberalism revived the classical form of liberalism because it built on the combination of classical liberal philosophy and neo-classical economic theory. It criticized the statist form Keynesian and social democracy and emphasized the role of private property and the market in supporting social wellbeing and the critical role of political liberties. Neo-liberal believes that private property, freedom of exchange or the actions of autonomous individuals through voluntary interactions are the cornerstone of effective social structure or order. Meanwhile, the government's role is limited to setting out rules that enforce property rights and help voluntary interactions to flourish (Cowen, 1997, 342-3).

Neilson (1997, 7-8) points out that for neo-liberalism, the relation between state autonomy and state capacity is not simply one of mutual reinforcement. For neo-liberalism, state autonomy is strengthened by its increased independence from democratic pressures but this also narrows the scope of state capacity to intervene in social and democratic practices. The increased independence of the state from democratic pressures implies that neo-liberals sought to liberalize political elites but democracy remains a major constraint of such an idea. As Vowles (1997, 104) points out that, "… for neo-liberals, [democracy] is a constraint upon the plans of liberalizing political elites. Yet the major agents of twentieth century democracy, political parties, remain important actors in determining public policy outcomes, particularly if they are strong and have close ties with organized interests that are themselves imbedded in class formation."

RESEARCH METHOD

This research used descriptive qualitative method, particularly narrative study which was according to Czarniawska (2004, quoted by Creswell, 2013, 70), "a specific type of qualitative design in which narrative is understood as a spoken or written text giving an account of an event/action or series of events/actions, chronologically connected." Thus, this study attempted to understand and compare chronologically written text regarding series of events related to the relationships between the governments and business sectors of New Zealand and Indonesia in policy making in such economic conditions as boom or crisis during the postwar era. This study gathered data from written documents such as books, journals and magazine reports which told historical experiences or events of New Zealand and Indonesian regarding policy making in such economic conditions as boom or crisis during the postwar era. Data were analyzed and compared through procedures including organizing files for data, reading through text and making notes, identifying and describing the stories or experiences, interpreting the meaning of the stories or experiences, and finally presenting narration focusing on unique and general features of New Zealand and Indonesia in policy making life in such economic conditions as boom or crisis during the postwar era.

BUSINESS SECTORS AND GOVERNMENT POLICIES: CASES OF NEW ZEALAND

Like other wealthy countries in the world, New Zealand enjoyed the world economic long boom from 1845 to 1874. Throughout this period, New Zealand experienced sustained economic growth, high level of profitability and productive investment, full employment, low inflation, rising real wages, and the absence of prolonged balance payments problems (Roper, 1997, 3). For New Zealand, this period of prosperity was historically favorable because it enjoyed satisfactory and high economic growth.

Throughout the long boom, the role of New Zealand state in economic management was grounded on a Keynesian approach within which state interventions and management of resources were more prominent. State protectionism and regulation were seen as necessary for capitalist development because such economic management released capitalist productive forces. The popular policy economic regulation which was initiated by the government to strengthen domestic industrial capital and production, known as economic nationalism and lasted until 1984 was State-directed Import Substitution Industrialization (ISI). ISI was firstly originated in response to the Depression of the 1930s, then continued in the 1950s and 1960s on the grounds to maintain full employment and develop self-sufficiency of essential goods (eg. to resolve the balance of payments and foreign debt). In addition, it was said high economic growth in New Zealand during the 1950s and 1960-s was helped by the demand for agricultural export generated by the Second World War (Maitra, 1997, 26-27).

Throughout the long boom of the 1950s and 1960s, major business association in New Zealand had unfolded in policy making and representational activity but there were no signs of them having strong influence on the formation and the implementation of Keynesian economic policies. They were politically weak because government policy created a condition within which tension and conflict arose between business associations. Among them, Federated farmers and Manufacturers' Federation often diverged over the key issue of import controls. This was because while the introduction of import controls encouraged the development of manufacturing industries geared towards import substitution and also generated 'spectacular growth' and thus more heavily protected the Manufacturers' Federation, this damaged farming efficiency and profits (Rudman, 1974; Vowles, 1997, 109). Despite this tension and conflict, throughout the long boom of the 1950s and 1960s, most of business leaders accepted the dominant Keynesian Economic policies, extensive state involvement in welfare provision, compulsory unionism and a centralized system of wage determination (Roper, 1993, 155).

In the 1960-70s, a significant shift on New Zealand's business occurred when the union movement appeared to dominate economic power. With the increasing pressure of union over the demand to rise award payments in 1965, the government took direct intervention and encouraged the implementation of centralized system of wage bargaining that had previously served the working class and employers to be continued during the late 1960s and early 1970s. During this term, most of New Zealand business sectors had ceased to support the policies because there was trend towards economic difficulties in their business activities and the demands for free market. However, the Employers' Federation continued to maintain the policies because it considered that the policies helped to restrain union militancy, imposed sanctions on wildcat strikes and enhanced the capacity of trade union officials to deal with the militants (Roper, 1993, 1960).

The world recession in 1974 marked a significant turning point in economic history of New Zealand. For the period of 1974 to 1991, New Zealand economy experienced high inflation, declining profitability, poor productive investment, low terms of trade, the balance of payment deficits, increasing public and private debt, the cessation of real wage growth, high unemployment and intense strike activity (Roper, 1997, 3). Given the magnitude of the recession, New Zealand economy significantly shifted from a long boom to economic stagnation.

During the 1974 to 1984, the National Government addressed those economic difficulties with state intervention, maintaining Keynesian management strategies but this significantly contributed to New Zealand poor economic performance because Muldoon misallocated resources and combined poor macroeconomic and microeconomic intervention (Roper, 1993; 1997, 5-10). Meanwhile business leaders began to form a series of political responses and put more pressures on the government economic policies as the economic crisis prolonged, industrial conflict intensified, and the attempts of government to manage the crisis faltered (Wanna, 1989, 11; Roper, 1993, 155). Business sectors which previously hitherto divided began to unite in order to represent diverse business interests as well as enhance the authority of the peak organization in negotiation with the government. In 1974, the leading officials of business sectors including Federated Farmers, the Employers' Federation, the Manufacturers' Federation, the Chambers of Commerce, and the Retailers' Federation established a 'Top Tier' Group. They initially held informal meetings, then expanded to regular meeting. In 1976, the New Zealand Business Roundtable was informally established as a lobby group, made up of the chief executives of most New Zealand's largest companies (Vowles, 1997, 110-12).

Moreover, employer dissatisfaction with the government wage and price freeze also intensified. By the late 1970s, Muldoon lost employers confidence because his wage freeze controls either failed to rein in industrial action or was actively broken by the unions. His failure in the second attempt at wage freeze controls in 1982-84 led to employer desertion of the National cause and a turn to Labor and the politics of Rogernomics (Bramble and Heal, 1997, 131). Indeed, during the late 1970s and early 1980s, neoclassical policy prescriptions had widely spread and been supported. Both public and private sector elites had favored market liberalization and a more anti-inflationary policy (Vowles, 1997, 110). Among them, business communities, the Treasury and the Reverse Bank were the prominent supporters of neoclassical policy prescriptions.

In July 1984, the Muldoon government lost the snap election because its Keynesian economic management during 1974-84 had led to New Zealand poor economic performances and it also resisted to the implementation of pro-market ideology, which was a factor in voter preferences. This defeat provided opportunity of the Fourth Labor Government to take office and implement the pro-market policy. In July, the Fourth Labor Government took office and began to manage New Zealand economic crisis, using neo-liberal economic policies. It marked the first implementation of neo-liberal policies, which commenced from 1984 to 1990. During this period, it implemented a radical program of economic deregulation including market and trade liberalization, monetarist anti-inflationary policy, indirect taxation, labor market deregulation, and corporatization and privatization of state owned enterprises.

In New Zealand, the state structure (a unitary state and an unwritten constitution) gave the Labor Government considerable autonomy to facilitate change (Schwartz, 1994, 546). However, it is argued that the Labor Government's commitment to implement neo-liberal policies neither precede the perceptions of public and private sectors' elites nor was it the only actor. This is because the perceptions of the change from Keynesian to neoclassical policy perceptions had been favored before the 1980 election and the implementation of the new policy involved a few key actors. During the implementation phase, the key actors of private sectors, industry organizations and business lobby groups collaborated with technopols and technocrats to initiate the change (Kelsey, 1996, 73).

Among the technopols, fiscal bureaucrats had considerable and strong power to promote the formation and the implementation of neo-liberal policy. In the late 1970s and early 1980s, Treasury and the Reverse Bank had gradually shifted from a social democratic Keynesian policy framework which had dominated the postwar era to neo-liberal policy prescriptions. By the 1984 election, they had consolidated a strong body of thinking which favored economic deregulation, exchange rate flexibility and tight monetary policy (ibid, 53). In particular, the Treasury was advocating a broad program of market liberalization and macroeconomic disinflation which drew heavily on the New Right policy prescriptions (Goldfinch, 1997, 60), while the Reverse Bank was aggressively regard to exchange rate and fiscal policy (Schwartz, 1994, 547).

Major industry lobbies also enjoyed considerable influence of neo-liberal policy formation and implementation. Immediately after the Labor Government took office in 1984, the Top Tier Group presented a submission of economic reform to Prime Minister Lange (Kelsey, 1996, 77). This group was formed among the New Zealand major business associations since the late 1970s and had built a widespread support for laissez faire economy. The coming of the Labor Government was a good opportunity to present the issue that they had favored. As the Labor Government fervently embraced the issue and implemented a structural adjustment program, active lobbying and structured consultation were rarely required. However, this group continued to work together to pressure government and create climate for change on issues of mutual concern (ibid).

Moreover, the most influential lobby group for big business was the New Zealand Business Roundtable. In 1980, it was formally formed and more organized, modeled on its American counterpart to represent large business interests. Its influence increased in 1986 when it appointed a former Treasury technocrat, Roger Kerr, to a new position as executive director (Roper, 1993, 163; Kelsey, 1995, 75; Vowles, 1997, 112). The Roundtable was seen as a moving force behind the emergence of the New Right. Not only because it made an impressive number of major submissions in every area of public policy to the government but it also funded visits, public seminars, publications of right wing academics, and setting up the Centre of Independence Studies to promote pro business policy research (Roper, 1993, 164). Beyond this, in fact, in its submissions, it established itself as a major policy advocate for efficiency and prosperity of New Zealand economy in general, and not particular economic interests of its members (Roper, 1992; Vowles, 1997, 112).

Furthermore, during the first year in office, the Labor Government concentrated on financial and industry deregulation and overrode labor market deregulation. As workers were under attack, strong unions fought back and lockouts also occurred, the Employers' Federation and the Roundtable forced the labor market to change. In late 1985, a green paper was presented, insisting that a protected labor market fundamentally hindered New Zealand economic efficiency and international competitiveness. The Labor Party, policy council and caucus, and Cabinet countered the issue and formulated the Labor Relations Act in 1987. However, immediately after the Act was passed, the Roundtable and the Employers' Federation offended it because they found that the Act denied the freedom of workers to choose and was inconsistent with the commitment of government to deregulation. The 1987 briefing papers of Treasury widely supported this issue, applauded the move of Labor Government from compulsory unionism but argued that there was still room for improvement for the good of the workers (Kelsey, 1995, 174-77).

In 1988, with the share market crash and rising unemployment, monetarism was being disadvantaged. Maintaining the policy of a rigid high interest rate only aggravated the effect of the crash (Jesson, 1993, 48). The monetarist goal to eliminate inflation which accepted the side effects of high interest and unemployment rates as inevitable was at risk from political intervention because ministers, caucus and party members sought to slow down, stop or even reverse the restructuring process. Thus, there were strong demands for government to prime the economy and boost demand. Consequently, the 1988 budget announced reforms to the Reverse Bank Act to codify the overriding price stability goal that had been espoused since 1984 (Kelsey, 1995, 159).

During this term, technopols, technocrats, and business lobby groups remained influential on the formation of the Reserve Bank Act. There were differences of concern over the agenda of the Bill between Treasury and the Reserve Bank, and the Federated Farmers and Manufactures Federation. Treasury agreed with the primary concern of the Reserve Bank that was monetary policy and inflation but it also sought to locate changes to the structure and functions of the Reserve Bank. Federated Farmers insisted that export in an open economy depended on price stability, despite high exchange rate on export returns, while the Manufacturer Federation strongly opposed this concern. However, the Business Roundtable and the Treasury's submission converged because they similarly stressed certainty, consistency, and credibility of the price stability goal. Finally, the Labor members of the select committee endorsed the technocrats' line (ibid, 161-66). As a result, the Reserve Bank Act was reformed in 1989.

In October 1990, the Labor Government experienced the heaviest defeat in New Zealand electoral history as well as disintegration of its tradition. It lost twenty seven of its fifty six seats, the lowest share of vote since 1931. Previously, it was the party of the welfare state and the regulated economy but on becoming the government in 1984, it abandoned its traditions and became the party of the New Right, deregulated economy (Jesson, 1993, 37). Rogernomics also failed for two terms (from 1984 to 1987 and 1987 to 1990) when Labor was in power. Its policies of deregulated financial markets and monetary policies produced a high exchange rate and rapid liberalization of trade. Strong wage growth, the introduction of goods and services tax (GST) and user charge also kept the inflation high. Property and equities investment (asset values) failed to adjust as predicted to the removal of industry protection. The share market crash in 1987 also exposed weak corporate balance sheets and the contracted demand for financial services. Labor commitment to cut spending and to reform the labor market slackened after 1988. In 1990, the new National Government re-launched economic restructuring, with intent to restore macroeconomic policies, focusing on cuts to government spending and labor market reform (Kelsey, 1993, 6).

It was clear that the new National Government continued to support New Zealand economic deregulation. Both National and Labor Party now embraced the same laissez faire and monetarist policies (Jesson, 1993, 38; Rudd, 1997, 250). By the time, the new National government came to office, its attention was to corporatize non-commercial areas. Its 1991 budget announced to split the Housing Corporation, and to corporatize public hospital and state funded research, science and technology (Kelsey, 1995, 120-21). However, during the first year in office, it had not privatized state assets because it attempted to break election promises on superannuation and benefits. Business interests and in particular the Business Roundtable complained at the National's lack of progress, stating that privatization was necessary to achieve progress in capitalism today and to reduce the government's commercial risk. Then, National moved more decisively to force the privatization of local authority trading enterprises (LATEs), especially in Auckland. In 1993, it went ahead to sell most of the state own enterprises (ibid, 129-30).

With deregulatory policies embraced by both Labor and subsequently National Government, policy of takeovers of New Zealand owned companies by foreign investment was also introduced. As the number of foreign owned firms increased and reliance on foreign investment to promote economic growth intensified the economic constraints on government, takeovers legislation that was necessary in order to treat and protect shareholders equally against stock-market losses resulting from unscrupulous corporate activity was called for. By the mid-1990s, the public reputation of big business decreased and the morals and ethics of business leaders were being called into question (Vowles, 1997, 113) because of the increased business fraud.

From 1993 to 1996, there were some signs of strong recovery in the economy of New Zealand. Real GDP grew, unemployment rate fell and consumer price index (CPI) also increased (Roper, 1997, 19). As the economy move towards prosperity, there was no strong debate between public and private sector elites on business issues because economic prosperity had minimized economic difficulties. However, for the Business Roundtable, limitations on government activities and expenditures and full privatization of services including health, education, accident insurance, postal services, electricity generation and transmission, and government enterprise including Forestry Corporation, Housing New Zealand, Radio New Zealand, and Television New Zealand would be the issues. Beyond this, in the 1996 election campaign, the political party most aligned to the Roundtable thinking of the Association of Consumers and Taxpayers (ACT New Zealand) (Deeks, 1997, 431).

BUSINESS SECTORS AND GOVERNMENT POLICIES: CASES OF INDONESIA

Indonesia proclaimed its independence on 17 August 1945, immediately after the World War II ended. During the 1950s, it experienced serious political and economic problems. It was seen as what Higgins (1968) called the 'chronic dropout' because its economy was accounted as a number one failure among major underdeveloped countries. In 1959, President Soekarno inaugurated *'Guided Democracy'* and *'Guided*

Economy' as well as a return to 1945 Constitution, the adoption of socialism, and an emphasis on development of a distinct Indonesian identity (Hill, 1996, 1-2).

Moreover, in 1960, the government drew up an Eight Year Plan, designed to make Indonesia became self-sufficient food, clothing and basic needs within three years while the remaining five years was to make the country take-off into self-sustained growth. Over the 1961-64, the country experienced economic stagnation because the economy did not expand which resulted in the declining per capita incomes, hyperinflation and budget deficit. In 1964, the government abandoned the Plan and applied a new strategy, emphasizing self-sufficiency and self-reliance. In 1965, there was a modest increased because rice production just kept at a rate about equal to population growth. Indeed, by the mid-1960, Indonesia was experiencing modest economic progress (Hill, 1996, 2).

1966 marked the beginning of the New Order Government and a shift in economic policy prescriptions from socialist to capitalist or free market. Controlling inflation, reestablishing ties with the international donor community and rehabilitating physical infrastructures were the highest priorities at that time (Hill, 1996, 15). With economic policy reform announced by Soeharto, aiming to eliminate the existing system of multiple exchange rates and import-export controls, balance the budget, control inflation and seek foreign aid, the government began to apply a guided economic liberalism. With decontrolling the economy, the foreign exchange and imports-exports procedures were simplified while balancing the budget were made to cut subsidies and government employment, and rein credit expansion. Reining credit expansion was politically easier to do because business community was small and unorganized for political action (Bresnan, 1993, 64-7). Foreign aid was also made from the international donor community and ties with the US, Japan and non-communist nations of Western Europe were reestablished because those countries were the principal markets for Indonesia's exports and where debt repayment would be easier.

The new liberal economic reforms were precisely implemented over the late 1966 to 1972 with a little government intervention as well. Professor Mohamad Sadli observed that the New Order Economic Ideology has been half-hearted and ambivalent because there was still a strong strand of socialist thinking among Indonesian officials and intellectual inspires by the ideals of the independence struggle. However, among the economists, alternatives to both private and public ownerships had been emphasized and espoused (Hill, 1966, 93). Moreover, in fact, these new economic policies made a rehabilitation and recovery of the economy of Indonesia during late 1966 to 1970. Inflation was brought down quickly, both domestic and foreign investor grew, and the economy also grew at annual rate of 6.6 per cent with the recovery growth at 10.9 per cent in 1968 (ibid, 15). These were the indication that the introduction of orthodox monetary and fiscal policies, and the clear commitment of the government to economic orthodoxy and its ties with international donor community had been successful.

During the late 1960s and early 1970s, the government economic program favored foreign investor and ethnic Chinese businessmen. The Japanese, American and European investors were more likely to choose ethnic Chinese-businessmen as their business partner than indigenous (pribumi) businessmen because ethnic-Chinese businessmen had more entrepreneur skill than indigenous businessmen. It was evident that not only because indigenous businessmen were relatively small and had only little entrepreneurs experience but also they had no financial networks of their own which in turn made them unable to mobilize capital required by the government credit program.

From 1973 to 1984, Indonesian government regulated and applied greater intervention in the economy. The quadrupled oil prices in 1973 did drive the government to give strict limit on foreign investment and trade (notably automobiles and textiles) and to protect state enterprise and domestic industries, and to favor indigenous business interest. The Malari riots in 1974 as an indication of public unhappiness with the rising dominance of foreign investor and ethnic Chinese businessmen intensified the implementation of such restriction and protection (Hill, 1996, 95-113). During this period, the government also adopted import substitution (began with consumer goods, then intermediate and capital goods) and applied protection through tariff and non-tariff barriers, and excessive administrative procedures and government intervention (Sjahrir and Pangestu, 1992, 255).

Moreover, whether indigenous businessmen involved in the Malari protest, it was less clear but this event did drive the government to favor indigenous business interests. Immediately, after the Malari riots, the government issued rules requiring foreign investors to speed up the process of joint ventures with local investors and introduced subsidized lending programs to indigenous businessmen (Schwarz, 1994, 117). The government attempt to transfer equity to indigenous businessmen had not stop after the Malari riots. With the oil wealth and the increasing influence of economic nationalists, the government increasingly focused attention on balancing redistribution of resources for indigenous businessmen and their ethnic Chinese counterparts. In early 1980s, President issued several decree which gave the ‘weak economic group’ (indigenous businessmen) priority in obtaining government contract (ibid).

By the mid-1980s, Indonesia swung back to a more liberal regime as response to the decline of Indonesian economic growth, the rising external indebtedness, the fall of oil prices and the world economic crisis in the early 1980s. Over the mid-1980s to early 1990s, Indonesian government introduced economic reforms (deregulation) including trade reform, aiming to dismantle trade monopolies, banking reform, and foreign investment reform. With trade reform, administrative procedures for imports-exports were simplified, tariffs were lowered, non-tariff barriers were dismantled, and non-oil exports were introduced. Under foreign investment reform, capital markets for foreign investors were opened, and investment restrictions geared to liberalization of domestic and foreign ownership were also loosened. Moreover, with banking reform, barriers for bank credit allocation and on the interests rate of state bank were eliminated while foreign bank and private bank were allowed to open (Sjahrir and Pangestu, 1992, 259-66; Wardana, 1998, 129-35).

Although economic reform and the emergence of a liberal economy were supported, there remained problems for indigenous businessmen. Downstream manufacturers sought a more liberal economic regime and so they did welcome deregulation and the erosion of trade monopolies, which sustained high input costs throughout the 1980s (Robison, 1992; 1993, 57). For them, deregulation would give good opportunities for more substantial manufacturer gain.

The leaders of indigenous businessmen also supported the effort of technocrats to liberalize the economy but they felt that deregulation would pave the way for the rising dominance of ethnic-Chinese businessmen in the whole economy. At this point, they wished that the assistance of technocrats would be the only way to end the special treatment enjoyed by a few of the biggest Chinese operators (Schwarz, 1995, 124). However, as they heavily relied on state intervention and protection, especially technocrat help to enable their survival even before economic deregulation, there would be a serious threat if deregulation eliminated technocrats' role in the economy.

Indonesian economic reform in the late 1980s did have significant impacts on the economy of Indonesia. While the economic reform reduced the government role in the economy, it also increased private sectors, economic growth and large conglomerates. With deregulation, areas where foreign investments were not permitted to enter had been reduced from 209 to 20. New Private Banks also grew from 63 in 1988 to 174 in 1991. In 1989, the government offered for sale 17 Indonesian companies including Banks, insurance companies, steel producers, oil services, ship repair companies, and pharmaceuticals, and reduced its share on the state-owned enterprises (SOES), sold out and 'go public' through sale in the stock market (Wang, 1994, 273). Meanwhile, Indonesia had annual growth from 1987 to 1992 averaged 6.7 per cent (achieved without buoyant oil revenue) weathered effectively the 1980s' debt crisis by the early 1990, and became a significant industrial exporter (Hill, 1996, 17).

With deregulation, large conglomerates emerged significantly counted as 25, mostly dominated by non-indigenous businessmen. The top seven were owned by Sino-Indonesian individual or family while only four were owned by President Soeharto's son and the other two were in the lowest ranking (Hill, 1996, 109). Business groups also emerged accordingly. Meanwhile, strong criticism against the rapid growth of business conglomerates and the demands of sharing wealth rose as deregulation seemed to benefit only the wealthy businessmen including President Soeharto's family and Indonesia's wealthy Chinese. This criticism was fuelled by fact that these wealthy businessmen had a major stake in the government program of industrial promotion and protection, and acquired major interest in extensive business dealing because of their close connection to political power (Bresnan, 1993, 257-60). By the late 1980s, the anti conglomerates debate broadly strengthened among the leading indigenous businessmen, aiming to criticize the leading ethnic Chinese businessmen and the President's relatives who were often accused of violating fair competition. More broadly, it was another way to express resentment on the political system of Indonesia, which conferred major advantages on the business elite (Schwarz, 1995, 99).

Anti-Chinese opinion in Indonesia was not new. It had been a source of major conflict since colonial times and intensified in the late 1980s since the leading indigenous businessmen felt treated less equally than Chinese conglomerates. It was not surprising that anti-Chinese sentiment made strong indigenous resentment, a serious social problem in Indonesia. Schwarz (1995, 124-7) identified that top indigenous business leaders or even a senior government economist saw that indigenous resentment was not the real concern. The special assistance of President Soeharto to the biggest Chinese-owned firms including Liem Sioe Liong, Bob Hasan, Prajogo Pengestu and the others, and that the pride of the President to the competence and entrepreneurial skills of ethnic Chinese businessmen were the issue at hand. Top indigenous businessmen felt pained when they heard the President, saying that indigenous businessmen cannot be trusted and cannot repay loans or work hard or are able to keep secret. Many viewed that patrimonial style of Soeharto was an important contributor to Chinese-indigenous tension.

Criticism and protest of top indigenous businessmen over the way of the President Soeharto in doling great economic advantages to ethnic Chinese businessmen intensified since the President had not made significant policy changes. Mohamad Sadli, an official of the Chamber of Commerce and Industry who was a preserve of indigenous businessmen commented that the problem was a tendency of capital and ownership centralization in a small group of Chinese firms. He added that the government should provide incentives for ethnic-Chinese businessmen to go public and establish a trust fund to buy and hold the shares temporarily if the public was not ready. He also said that it was the time to think about anti-monopoly and anti-trust legislation (Bresnan, 1993, 253) in order to protect small business from unfair competition. In July 1991, a group of 17 prominent indigenous businessmen visited the President, protested the flow of offshore and state bank loan to Chinese conglomerates and demanded greater access for indigenous businessmen (Robison, 1993, 58).

Moreover, Probosoetedjo who headed the Association of Indigenous Indonesian Businessmen and Supervisory Council of Chamber of Commerce was the most vocal critic. In December 1993, he published a review of the Chamber of Commerce activities in which there was a bleak and roughshod picture of an economy dominated by Chinese businessmen assisted by corrupt government officials and gullible technocrats. The review also claimed that large business sectors had dominated industry from upstream to downstream and that each of deregulation packages had worsened economic imbalance because it allowed big business to grow through unfair competition (Schwarz, 1994, 125). What the top indigenous businessmen protested was not exclusively economic but also political. They saw that many ethnic Chinese businessmen had direct and personal connection to the political power.

With the intensifying Chinese-indigenous businessmen tension, basically on the issue of wealth inequality, coping with this problem has been a major concern of the government. In January 1990, President Soeharto called for cooperatives as mentioned in the 1945 Constitution as a way of sharing wealth. The President appealed for private companies to transfer up to 25 per cent of their equity to cooperatives. As the cooperatives could not afford to buy the shares, the President suggested the firms to lend the money to the cooperatives so they could buy them. However, most Chinese leaders agreed to transfer only one per cent for their shares to cooperatives (Bresnan, 1993, 267; Schwars, 1994, 100-1). Introducing cooperatives as the solution of anti-conglomerates issues was largely ineffective because the social gap remained deep, indicating that cooperatives did not affect wealth distribution patterns and did not eliminate economic inequality.

The government had also made another effort to narrow the ethnic gap in the economic field. One was to encourage the winner of government contracts to replace imported materials with domestically produced good whenever possible. Another way was Team 10, headed by Sudharmono, the powerful state secretary and chairman of the ruling Party Golkar, with Ginanjar Kartasasmita as vice chairman. Indigenous businessmen found that Team 10 had significantly helped them with the capital forming opportunities and had functioned to counter the President favor on Chinese conglomerates. Since its disbanding in 1988, the government set another program called the "foster parent program" which first mooted in 1980 and resurrected by Industry Minister Hartarto in 1990. Under this program, large Chinese owned firms were urged to help small indigenous firms using them as suppliers, distributors, subcontractors and retailers (Schwarz, 1994, 117-19). This program was well implemented because many larger indigenous businessmen have become increasingly involved in cooperation and joint venture with Chinese conglomerate. Anti Chinese rhetoric among indigenous businessmen also began to soften. However, this program was disliked by the leading Chinese owned firms who found it vague and confused and by the leading indigenous owned company who found it patronizing and insulting (ibid). Although this was not a serious problem, it would make difficulties and inefficiencies in their business relationship.

Throughout the New Order regime, economists, nationalists and businessmen significantly influenced government economic policies. Economists and economic nationalists were the bureaucratic agent of the state. President Soeharto entrusted the economists who were mostly the US-trained, originally Professor Widjojo Nitisastro and Ali Wardhana (who were the ministry of finance) and subsequently other technocrats with broad mandate to determine economic policies, notably during the late 1960s and the mid 1980s when the economy distressed. As they were students of neo-classical economic theory, monetary policies and market policy orientations were their prominent approaches.

The other two groups who often competed with the technocrats were economic nationalists and businessmen. The economic nationalists inclined with the idea of more active government intervention in the economy and of prioritizing indigenous businessmen to catch up with their ethnic-Chinese counterparts. Ibnu Sutoyo, B.J. Habibie, Seodharmono, and Ginanjar Kartasasmita fitted into this group. The second group was businessmen who were less motivated by ideology or policy considerations than desire for profit and wealth. They always had easy access to the government contracts and state bank credit because of their personal link with direct government. Timber king Bob Hasan, Liem Sioe Liong and the Relatives of Soeharto were examples of this groups.

Despite anti conglomerate issues, from 1987 to the early 1997, Indonesia had a strong economic performance. However, the financial crisis of Asia in the mid-1997 has made Indonesia the most serious casualty of the crisis. The rupiah suffered a severe depreciation of 80 per cent between July and January 1998, foreign capital inflows declined putting pressure on the exchange rate, the growth of non-oil exports and manufacturing sector slowed, oil export grew sluggishly, and the consumer price index also climbed (Asian Development Outlook, 1998, 86).

Although the government made short-term economic management through agreement with the IMF for an economic assistance package and attempt to stabilize the rupiah, Indonesian currency remained under pressure. The continuing financial crisis and the rising unemployment rate because of the closing down of many Indonesian companies made Indonesian political and economic situation worsened. From February to May 1998, student protested against the government, urging not only President Soeharto to resign because he was assumed incapable to manage the crisis, conducted corruption, crony and nepotism but also a comprehensive political and economic reform. Meanwhile, the public seriously blamed ethnic-Chinese, seeing them as the spagegoats of the crisis. Indonesian financial crisis coupled with student protest and mass riots in mid-May 1998, finally led to President Soeharto resignation on 21 May 1998.

The new government under President B.J. Habibie was pursuing a comprehensive reform program to address the various weaknesses of the economy but the process of Indonesian economic recovery was slow because the political condition was unstable and the new government also lacked of confidence from both domestic and international quarters. The appointment of President Habibie worried foreigners and ethnic-Chinese because he inclined to favor the indigenous businessmen interests (Business Week, 1998, 29). Ethnic Chinese businessmen who controlled about 70 per cent of the economy feared that their business would be taken over while foreign investors who left Indonesia after the mid-May 1998's riots had not returned because of economic nationalization issue which meant the demand for more active government intervention in the economy.

Meanwhile, business sector perceptions of market liberalization were evident. Among them, the Chamber of Commerce and Industry strongly favored privatization. In July 1998, the head of Chamber of Commerce and Industry Aburizal Ical Bakrie advocated the government to sell state owned enterprises (SOE's) to either Indonesian private or foreign companies as an alternative stride to activate the economy. He believed that private companies would manage the companies professionally and effectively in order to earn more profit (Business, 1998). However, the government had not responded to the demand of Chamber of Commerce and Industry because it feared that privatization would eliminate state intervention in the economy.

The other business sector was the Association of Importers Indonesia. This sector strongly advocated a reduction in government import monopoly. In August 1998, the Association urged the government to loosen the approved importer system of 191 commodities that were managed by the government. The members of this association found that monopoly import by SOE's during the current financial crisis, in fact, made high cost rate. However, the Ministry of Trade and Industry said that the government would loosen only a few of import commodities for the simple reason, to protect domestic industry (Kusumah, Raharja and Partawidjaja, 1998). At this point, the government resistance to the demand of this sector was clear.

However, in early September 1998, the government through the Ministry of Trade and Industry announced to loosen import monopoly of commodities including sugar, wheat flour and soybean, allowing the importing of these commodities with free tariff (Kompas, September 1998). Moreover, in the mid September 1998, the Ministry of Cooperatives also announced 'asset redistribution policy', aiming to provide business opportunity for small business and cooperatives through selling the conglomerate share and to make them becoming an important part of economic activities. The policy received cons from businessmen and economist who saw that small businesses and cooperatives were unable to take-over the economy (Gesuri, Dewanto and Setiadi, 1998).

DISCUSSION

Theory of state autonomy and capacity assumes that the state can dominate the influence of business sectors in public policy making because it formulates or pursues goals that are not simply reflective of the demands or interests of business sectors. Nordlinger (1981) maintains that state autonomy refers to the notion of which the state or state actors have their own interests and ability to transfer these interests into policy. In state autonomy theory, the state or state actors will act according to their own preference independence of the demands of the most powerful social groups. In historical conjuncture, when the government resists and initiates particular policy independent of the pressure of social groups, the state autonomy and capacity are robust while the power of social groups weakens. At this perspective, the theory of state autonomy and capacity has undermined pluralism theory which stresses the power of social groups in constructing state action. The resistance of Muldoon government to the influences of business sectors in the late 1970s and the resistance of Indonesian government to the demands of business sectors on more liberalize economy in the mid-1998 can be classified into the historical conjuncture of state autonomy theory.

By contrast, the pluralist state theory assumes that the social groups can dominate the state if they constraint or shape the state action. It considers that the interests of powerful groups may influence or are determinant in shaping the state policy orientation while the autonomy of the state is limited. At this point, it underestimates the notion of state autonomy. However, such underestimation happens when the pressure of groups made the government significantly change particular public policy. The adoption of 1984 Labor Government regarding neo-classical policy prescription suggested by New Zealand business sectors and economic policy change of Indonesian government which favors the interest of business sectors on wealth redistribution of resources in the late 1980s and early 1990s are the historical conjuncture of pluralist state theory.

Indeed, state autonomy and pluralist state theory emphasize very different angles of state theory. However, such differences are not the absolute limit of the relationships between the state and social groups because in particular circumstances, the state and social groups can work together in pursuing goals. Both the state and social groups may have similar policy perceptions and develop mutual assistance with which policy changes or goals can be formulated and implemented. Thus, when the government perceptions of particular policy formation run parallel with social group perceptions, the policy formation is mutually reinforced.

Moreover, although in countries where the state has strong position over social groups, it does not definitely dominates social groups or does not have strict autonomy. It is considered to have relative autonomy because it remains dependent on social groups in policy formulation and implementation. Even in the most autonomous state, the policy interests of dominant groups may become critical condition leading to greater autonomy of the state. With the assistance from and cooperation with social groups, the state will enhance its intervention and redistribution of resources. However, without the assistance from and cooperation with social groups, the state may lack of autonomy. In short, state cooperation with social groups is critical prerequisite facilitating its greater autonomy in policy formulation and implementation.

On the other hand, although in countries where dominant social groups have strong influence and drive the state to make policy changes favoring their interests, they also have to wait the state decisions. Neo-Weberian theory or the state center perspective suggests that whatever significant are the influences of dominant groups, the timing of policy changes are contingent on state action. This theory implies that the dominant groups have relative autonomy to the state, and the state makes particular policy changes not because of the influence of groups but because it intents to make the policies. The contingency of dominant groups upon the state action is apparent in the historical evidences of New Zealand and Indonesia. New Zealand business sectors had to wait until the Fourth Labor Government adopted neo-liberal policy prescriptions in 1984. In Indonesia, indigenous businessmen had to wait until President Soeharto made President decrees in the early 1980s and early 1990s.

Changing economic conditions such as boom or crisis may also affect the significance of the relationships between state and social groups. In relation to such economic cycles, the state may significantly initiate and formulate the policy changes, however, business sectors may also significantly initiate and push the government to formulate the policy change. Indeed, stable economic growth makes a wealthy and secure economic condition within which there are no essential challenges for policy changes. However, economic crisis definitely makes difficulties and disadvantages for business and economy as a whole. In this condition, business sectors and/or the governments may be politically strong, influencing, assisting, or cooperating for economic policy changes in order to make a recovery of the crisis.

In general, both New Zealand and Indonesian business sectors had significant influence on the government economic policies, notably when their interests were threatened. On the other hand, New Zealand and Indonesian government not only resisted but also responded the influences of business sectors. These similar characteristics of the relationships between the government and business sectors are found in both New Zealand and Indonesia.

The other similar characteristics of the relationships between the government and business sectors in New Zealand and Indonesia is that the government perceptions on economic policy making run parallel with business sectors perceptions. In New

Zealand, in the late 1970s and early 1980s, business sectors and the government actors especially the Treasury and the Reserve Bank similarly abandoned Keynesian and embraced neo-liberal policy prescriptions. In Indonesia, from the 1970s to the mid-1990s, the indigenous business sectors and the government actors, notably economic nationalists had similar perceptions on the policy of wealth redistribution. Such similar thinking had mutually reinforced and paved the way towards, for example, the adoption of neo-liberal policies by the Fourth Labor government in New Zealand and President Soeharto decrees of redistribution of resources in the late 1980s and early 1990s in Indonesia.

Moreover, the patterns and the consequences of both the influences of business sectors on the government and the state autonomy to act independently of business sectors in economic policy making in New Zealand in the postwar era are not definitely different from Indonesia. Lobbying and bargaining with the government and publications of business sectors idea, and the government resistances and acceptances of the influence of business sectors are common in New Zealand and Indonesia. While in New Zealand, business sectors presented submission to the government, urging the changes in economic policy prescriptions, in Indonesia indigenous businessmen protested the government on the policy of wealth redistribution. In Indonesia, ethnic-Chinese businessmen and President Soeharto family influenced the government through personal link while the indigenous businessmen had no direct link to the political power. In New Zealand, the influences of business sectors on the government policy can be indirect, set up through educational program.

The impact of changing economic conditions (boom or crisis) on the relationships of business sector and government in New Zealand is different from Indonesia. New Zealand business sectors had considerable political influence on government policies when the economy was in crisis than when there was a stable economic growth while in Indonesia, the government had significant power in the formulation of economic policy prescriptions both in stable economic growth and economic crisis. In New Zealand, throughout the long boom in 1950s and 1960s and strong economic recovery during 1993-1996 (a recovery from the early 1970s to 1980s' crisis), business sectors had not shown strong political influences on government policies. However, during the 1970s and early 1980s when New Zealand economy was in crisis, they significantly shifted from Keynesianism and pushed the government to apply neo-classical policy prescriptions.

In Indonesia, during the Old Order Government under President Soekarno, the state had significant power or dominant autonomy to act independently in initiating and formulating the economic policy changes of the country both in the stable economic growth and economic crisis while during the New Order government under President Soeharto, the government not only had significant power or dominant autonomy, but also responded to the demands of business sectors in making changes in economic policy both in stable economic growth and economic crisis.

In Indonesia, in the late 1960s, the New Order Government made a significant shift from socialist (applied by the Old Government in the late 1950s and early 1960s) to economic liberalism when the country had been experiencing economic stagnation since the early 1960s. From 1974 to 1984, the government shifted from liberal to economic policy regulation because of the quadrupled oil prices and the demand to protect national firms and companies, and the interests of indigenous businessmen. In the mid-1980s, the government shifted again from regulated to liberal economic policy when Indonesia was experiencing economic crisis and the continuing fall of oil prices. However, in the mid-1997 when Indonesia experienced a serious financial crisis, few business sectors significantly begun to advocate a more liberal economic policy, urging the government to privatize the state owned enterprise (SOEs) and to loosen import monopoly. The government seemed to resist the demands of business sectors.

The other differences of the relationships between the government and business sectors between New Zealand and Indonesia are the purpose of the influence of business sectors on government policies. New Zealand business sectors influenced the government on the policy changes from Keynesian to neo-liberal while Indonesian business sectors influenced the government on the policy of wealth redistribution. This is because New Zealand business sectors had been strongly influenced by neo-liberal ideology while in Indonesia, the influence of neo-liberal ideology had not largely penetrated in the mind of business sectors. In New Zealand, business sectors helped by mass media and the campaign of business leader had also developed a better understanding of neo-liberal ideology than Indonesian business sectors. In Indonesia, inequality of wealth redistribution among business sectors was a more influential issue than neo-liberal ideology.

The significance of the influences of New Zealand business sectors on government policy is also different from Indonesian business sectors according to the changing economic conditions. The influences of New Zealand business sectors on the government regarding neo-liberal policy intensified as the crisis continued throughout 1980s. They believed that economic regulation and protection hindered New Zealand economic efficiency and international competitiveness. In Indonesia, the influences of indigenous businessmen on the policy of wealth redistribution intensified when the economy moved towards prosperity while the government conferred greater economic advantages to ethnic-Chinese businessmen than the indigenous businessmen. During the late 1980s and early 1990s, anti-conglomerate issue intensified because deregulation packages only benefited large conglomerates including ethnic-Chinese businessmen and President Soeharto family.

An explanation of this differences lies at heart of the different nature of the state democratic systems. New Zealand is a liberal democratic state with which citizens have the right not only to vote at election times and form political parties, but also to organize pressure groups and criticize the government. Such democratic systems also allow the state to protect and advance the rights and needs of the disadvantaged and of the various groups in society. Indonesia is also a democratic state but authoritarian power during the postwar era remained applied by Indonesian political regime. Although Indonesian citizens had the right to vote for election times and formed political parties, they were not largely allowed to organize pressure groups and criticize the government. This is because the political regime under

Soekarno and Soeharto was strong and left superior to and encompassing the citizens and other institutions.

Different political culture is also fundamental to the relationships between the state and business sectors between New Zealand and Indonesia during the postwar era. Political culture indicating the values and attitudes of political actors is generally recognized as an important factors influencing political behavior. New Zealand political culture is apparent in the relationships between the state and the citizen in which citizen expects the state to deliver a satisfactory material standard of living, to guarantee social fairness and egalitarianism, and to be highly responsive to the wishes of citizen. New Zealanders who strongly embraced these values and inspired liberal democratic system may significantly push the government to make policies favoring such embedded values. However, in an open economy, the government not only has to safeguard material support for the citizen but also maintain the confidence of financial markets.

Indonesian political culture borrowed by the New Order Regime from *"abangan java"* (the upper class priayi of traditional courts) was characterized by benevolence-obedience ideal. Such ideals means that benevolent rulers are powerful *priayi* aristocratic classes who have high social and political structure while obedient populace are the *rakyat* (common people) who must extremely defer to the wishes of their social and political superiors. This ideals encourages statism attitude of bureaucrats towards society, implies a tendency towards arbitrary or discretionary government policy making and implementation, and subordinate perspective which encourages monopoly of resources such as wealth, power and status of a small minority of officials. It also implies that the *rakyat* (common people) tend to do what they are told out of respect for established leaders without rebellion and protest against arbitrary and oppressive ruler. Such political culture did be applied by the political regime under President Soeharto.

Model of economic development can also be taken into account to explain the different nature of the relationships between the state and business sectors between New Zealand and Indonesia during the postwar era. Prior to 1984, New Zealand applied Keynesian macroeconomic policies, emphasizing the demand side intervention for macroeconomic stabilization and infra-structural investment. Poor economic performance in New Zealand from 1974 to 1985 was located in the sphere of excessive state economic management especially in the regulation of capital and markets. During this term, Keynesian policy was also becoming increasingly complex and difficult to confront the real-world economic problems. Given the limit of Keynesian policy implementation, the 1984 Fourth Labor Government adopted neo-classical economic policy suggested strongly by New Zealand business sectors, the Treasury and the Reserve Bank.

In Indonesia, the New Order government had applied two different models of economic development. The first was economic liberalism from the late 1960s to the early 1970s with respect to foreign investment, state enterprises and trade policy, and from 1985 to the mid-1990s. The second was the regulated economy from 1974 to 1984 in response to the demand for protection of national firms and industries. Importantly, the implementation of economic liberalism was combined with patrimonialism type of government. Patrimonial principle was basically incompatible with the rationality of economist because it applied favoritism and arbitrariness but in Indonesia, it did not seem to have been an obstacle because both economic liberalism and patrimonial politics had been mutually supportive to the adoption of market oriented policies. However, it did contribute to anti-conglomerate issue because President Soeharto conferred greater economic advantages to ethnic-Chinese businessmen and his family than the indigenous businessmen.

The other account to explain the relationships between the state and business sectors between New Zealand and Indonesia in economic policy making during the postwar era is the state role classified with the economic development of the country. New Zealand is an advanced capitalist state in which the state role in economic development is to make policies geared towards the re-creation of a stable regime of accumulation with respect to the class struggle. However, the state adoption of neo-liberal policies provided a new challenge to the dual function of the capitalist state. While it played a major part in securing the dominance of global capital in New Zealand class relation, it progressively distanced itself from the arena of class struggle during the reform program and sought to minimize its intervention in class politics (Dixon, 1997, 357-8).

Indonesia is a developing country in which the most popular explanatory paradigm being applied to its economic policy development is ‘dependency theory’ or ‘dependency development.’ The dependency theory argued that “strong Third World state, in alliance with foreign and domestic private capital could enable economies to grow but would distort distribution, leaving small business people out of the system and impoverishing lower class worker and farmer” (Liddle, 1996, 6). This implies that the state role in the Third World economic policy development is strong, leading to the state pursuing its own interests and the result of the development policies often benefits only the state and the official classes at the expense of society. Indonesia as a developing country was a strong state under Soeharto political regime.

CONCLUSION

Analysis and comparison of the cases of New Zealand and Indonesia has depicted the very complexities of relationships between business sectors and government policies in economic conditions as boom or crisis during the postwar era. Changing economic conditions may affect the significance of relationships between business sectors and governments in economic policy making in the two countries during the postwar era. In stable economic growth, there were no essential challenges for policy changes but in economic crisis, business sectors and/or governments were politically strong, mutually influencing, assisting or cooperating for economic policy changes in order to make a recovery of the crisis.

Both New Zealand and Indonesian business sectors had significant influence on the government policies and that both New Zealand and Indonesian governments not only resisted but also responded the influences of business sectors. Lobbying and bargaining with the government and publication of the ideas of business sectors; and the government resistance and acceptance to the influence of business sectors were common in New Zealand and Indonesia.

New Zealand business sectors had considerable political influences on the government policies when the economy was in crisis than when the economy was in stable while in Indonesia, the government had significant political power in the formulation of economic policy prescription both in stable economic growth and economic crisis. The influences of New Zealand business sectors on the government regarding neo-liberal policy intensified throughout the 1980s as the economic crisis continued and that economic regulation and protection hindered New Zealand economic efficiency and international competitiveness. In Indonesia, the influence of indigenous businessmen on the policy of wealth redistribution intensified when the economy moved towards prosperity while the government conferred greater economic advantages to ethnic-Chinese businessmen and the President Soeharto family than indigenous businessmen. New Zealand business sectors influenced the government on the policy changes from Keynesian to neo-liberal policies while Indonesian business sectors influenced the government on the policy of wealth redistribution.

The differences lies at the heart of the different nature of state democratic system (liberal democratic state in New Zealand and authoritarian democratic state in Indonesia), different political culture (social fairness and egalitarianism in New Zealand and benevolence –obedience ideal in Indonesia), different model of economic development (Keynesian macroeconomic policies prior to 1984 and neo-liberal economic policies after 1984 in New Zealand and economic liberalism in late 1960s, regulated economic policies from 1970s to 1984, and economic liberalism combined with patrimonial principle/politics after 1984 in Indonesia), different classification of economic development of the country (advanced capitalist state in New Zealand and 'dependency theory' or 'dependency development' in Indonesia).

Scope for further research in this field can be conducted as well. In particular, innovation in collaboration between the government and business sectors in the policy formulation and implementation in the context of local, regional and global market and trade, and the increasing trust and integrity between the government and business sectors in the policy in comparison of New Zealand and Indonesia can be addressed and compared. Future research on these fields are expected to explain not only on how and what significant are the innovation in collaboration, trust and integrity of New Zealand and Indonesian business sectors in the policy formulation and implementation in the context of local, regional and global market and trade but also the significance of the collaboration theory and governance regarding the state and business sector. Importantly, it should also consider how the innovation in collaboration, trust and integrity in the policy affect the economy of New Zealand and Indonesia as a whole. This is vital to achieve a comprehensive picture of the collaboration, trust and integrity between business sectors and government in the policy and its outcomes.

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