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Cause and consequence in public policy theory: *Ethnic policy and system transformation in Malaysia*

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Abstract. Considering public policy as both a dependent and an independent variable, this article undertakes a systematic assessment of the sources and systemic consequences of policy. It begins with a statement of contrasting theories of the sources of policy. One strand of comparative theory emphasizes national cultures and elite beliefs as the main sources of policy; another stresses the cross-national imperatives of particular policy programs, of international diffusion, and of common policy processes. Drawing on longitudinal data on an array of ethnic policies in Malaysia, the study highlights the limits of cultural-determinist theories of policy. It shows that elite beliefs change over time, often creating layers of policy based on varying premises; that one set of beliefs can overcome another, inconsistent set; that critical events can alter the balance of authoritative beliefs; and that, where beliefs are in conflict, organized interests have room for maneuver. Moreover, the interaction of a mix of operative beliefs can produce outcomes very much at variance with what policymakers wish or anticipate. Finally, on the systemic effects of policy, the study shows that interests created by earlier policy can be decisive actors in the shaping of later policy. Policy itself can change the entire structure of the political system – an outcome rather clearly demonstrated in the case of Malaysia.

In comparative public policy, it has come to be accepted that policy is both a dependent and an independent variable, at once the product of a policy process and the source of change in political systems (Hancock, 1983; Salisbury, 1968). There has, however, been a certain asymmetry in the understanding of these two faces of policy. Much work, but as yet no real consensus, exists on the sources of public policy. There is uncertainty about the extent to which policy is determined by national cultures or by such environmental variables as the organization of interest groups or political institutions. On the other hand, there has so far been only vague specification of the role played by policy in transforming political systems. Despite Lowi's dictum that policy 'determines politics,'[1] analysis has not moved far beyond speculation about the impact of various types of policy on the nature of the specific processes required to put particular policy types into effect.[2] On one issue, then, there is no agreed generalization; on the other, the generalization is altogether too general.

These issues, usually treated separately, are not wholly separate. If policy is shaped by and then reshapes the political system, the reshaped system can become in its turn a progenitor of new policy or at least a constraint on what

policy is possible. If the consequences of policy become sources of new policy, there is a strong argument for considering the sources and systemic consequences of policy together, which is what I shall do here.

I. Policy as effect, policy as cause

A prominent theme in comparative studies of the sources of public policy has been the importance of national styles, cultures, and ideologies. To explain contrasting patterns of American and European public policy, says King (1973: 423), 'ideas ... constitute both a necessary condition and a sufficient one.' Different political systems, notes Anderson (1978: 26), locate similar problems 'in different realms of policy discourse' and therefore may respond differently to the same problem; to understanding policy, it is necessary to know national languages of political discourse. Ashford (1978: 82) goes further: 'There is probably more similarity across policies for one country in how policies are formed and implemented than there is for the same policy across several countries.' The varying beliefs of national elites make it reasonable to suppose that cultural differences will make themselves felt in policy (see, e.g., Aberbach et al., 1981; Heclo, 1974).

Yet there are inklings of alternative models of causality in comparative policy studies. As a counterpoint to Ashford, Rose (1984: 11) finds powerful empirical support for the proposition that 'similarities are greater within a given programme across national boundaries than between different programmes within a country.' Weiner (1983: 45) argues that independently adopted affirmative action policies in the United States and India, despite different cultural and social settings, assumed markedly similar features, resulting from similar 'political logic.' In other cases, international diffusion is a source of policy (Leichter, 1977: 588). A major reason for the adoption of Mexican welfare policy was the fact that other Latin American countries already had such policies; Mexican elites were embarrassed not to have them (Spalding, 1980). Similarly, political scientists have long been aware of the importance of implementation in the determination of operative policy (Hargrove, 1975; Pressman and Wildavsky, 1973). In Asia, Africa, and Latin America, political activity is disproportionately concentrated on policy implementation, rather than policy formation; affected interests are often able to alter program goals at the site of what is nominally mere implementation (Grindle, 1980: 15). The structure of influence at the point of impact may thus be a key source of operative policy. Finally, policies may be, in part, a function of the particular policy process from which they emerge (Horowitz, 1977).

All of this suggests that national cultures and operating codes, while important in explaining policy, can hardly do the whole job. Sometimes national differences are manifested more in one sector than another, some-

times more in implementation than in rule-making, so it is difficult to conclude that there are consistent national patterns (Heidenheimer et al., 1983: 317–20). Cultural-determinist theories of policy, asserting that ideas or beliefs are everything, seem attributable to a level of analysis problem. For explaining contrasting policy mixes in the large, national ideology may be a helpful variable. For anything less than such a macropolitical enterprise, however, beliefs (even elite beliefs) alone may be less useful. The same people hold beliefs that are variable over time and over subject matter. Events may change beliefs, convincing policymakers that their earlier views were wrong. It is difficult to account for new policies on the basis of beliefs, unless provision is made for change in beliefs.

Furthermore, one set of beliefs can defeat intentions resulting from another set of beliefs, whether both sets are held by the same policymaker or by different policymakers competing for dominance in the policy process. In Kenya, political leaders believed in housing for the poor, but they also believed in building only high-quality housing, as a symbol of post-colonial modernity. The latter belief prevented them from acting on the former (Temple and Temple, 1980). Where ideologies and beliefs clash, some other variable must be invoked to explain the outcome. Since small variations in belief may well produce large differences in policy, interrelations and variations among beliefs must be accorded appropriate weight in the policy process. Ideas, ideologies, and beliefs have so far been treated too homogeneously.[3]

Because cultural contrasts have been emphasized in comparative policy studies, basic questions for which at least some answers are available in the United States and a handful of other Western countries have hardly been asked for a large part of the world. How is the policy agenda set? How are issues framed in the policy process? How are policies changed? Do the answers given to policy issues vary with the process invoked or the actors participating? How are conflicts among goals resolved? The intersection of beliefs with interests, events, and processes needs careful attention. Questions like these require within-country studies.

A somewhat different but equally cautionary approach is called for in elaborating the observation that policy can change the political system. Here the problem is not the fit of beliefs and ideas with actors and institutions but the general search for the impact of policy on political systems. Although the concept of feedback effects has been around political science a long time (e.g., Easton, 1965: 363–429), in practice policy has been conceived overwhelmingly as output (e.g., Greenberg et al., 1977: 1541 n. 26). At this stage, there is still a need for basic propositions about just how and where policy can have an impact on systems.

According to Lowi, certain policy types generate certain common processes across national boundaries. In this formulation, politics 'takes its shape from the functions the state performs' (Lowi, 1978: 178). New policies presumably alter the stakes of politics, change the number and mix of state agen-

cies established to administer the policies, deploy new forces to capture the new stakes, stimulate new demands, render some groups stronger and others weaker, and produce a new round of policymaking. The implications of such a set of relationships for political system change are enormous, and they are diametrically opposed to cultural-determinist views of policy. Precisely because of these enormous implications, it seems inadequate to limit the range of relationships to policy types and the processes appropriate to them. Policy can, for example, have important consequences for the strength and shape of the system's organized participants.[4] A search for the causal impact of changes in public policy on the transformation of political systems needs to be wide-ranging.

II. Within-country policy comparison

The present study is based on ethnic policy changes in Malaysia.[5] Malaysia is an especially apt source of data on both the shaping and systemic impact of policy. There is a great deal of ethnic policy being made and remade in Malaysia. Over the more than two decades covered by this study, there have been important policy changes across the whole spectrum of ethnic concerns: language and education; religion; ethnicity and the economy (from agriculture to banking, transport, housing, government contracts, land development, etc.); and a variety of social and political matters, from television programming, to the apportionment of political offices, to the destruction of cemeteries. The sheer range and volume of policy outputs provide a large number of observations, facilitating comparison, albeit within a single country.[6] That the outputs are in diverse subfields of the same general area of concern – ethnic policy – limits the number of variables. Whatever may be driving Malaysian policy, it is not general subject-matter differences.

Still, there is remarkable variation within a single country. Differences are apparent across subfields, across specific issues within subfields, and across time. These differences are obscured in broad cross-national comparisons, which necessarily compress subject-matter categories and differences among programs and tend to neglect change over time in favor of difference across space. By tracking such variations, the points, sources, and effects of change are more readily identifiable. Both kinds of comparison are indispensable, but what we see depends on where we look.

Within-country comparison cannot tell us, of course, whether Ashford or Rose is more correct about the relative importance of similarity and difference across programs and countries, but neither can cross-national comparison do this by itself. The point is that, by turning the telescope around to look more closely at one country, it becomes possible to illuminate the determinants of policy difference even in the face of culture-coded similarity.

Within-country studies do not necessarily hold beliefs constant. As I shall explain, the beliefs of Malaysian political elites on ethnicity and ethnic policy

have, with some exceptions, been unusually clear and widely shared at any one time. The ability of Malaysian leaders to put their beliefs into action has been powerful, because of elite domination of the political system and because of the effectiveness and compliancy of the bureaucracy (Milne and Mauzy, 1978; Means, 1970; von Vorys, 1975; Scott, 1968; Tilman, 1964). But, shared though they may be, Malaysian elite beliefs have been neither static nor internally consistent. Confining the study to one country thus does not control for ideas, ideologies, and beliefs. These remain important features of the explanatory scheme, since it is possible to locate the causal role of changing beliefs and conflicts among beliefs, on the one hand, and the interplay of beliefs with events, interests, processes, and institutions, on the other. Finally, the Malaysian materials, longitudinal as they are, show with special clarity the systemic change wrought by policy change.

III. Critical events, interpretations, and the emergence of policies

The initial structure of Malaysia's political system was set by early patterns of electoral competition and by the first tasks the system had to confront. A permanent coalition of three political parties, called the Alliance, captured an overwhelming majority of legislative seats at the first national elections in 1955, two years before independence (Horowitz, 1985: 398–404). Each of the parties represented one of Malaysia's three major ethnic groups: for Malays, the United Malays National Organization (UMNO); for Chinese, the Malaysian Chinese Association (MCA); for Indians, the Malaysian Indian Congress (MIC). No sooner did the Alliance emerge in a dominant position than Malay and non-Malay parties arose on the flanks to oppose it. The first task of the coalition was to negotiate the terms of independence from Britain. This required that the coalition partners first compromise the conflicting claims of their ethnic constituencies and then present a united front to the British. The complexity of these compromises, which were opposed by segments of each community, and the long process of bringing the negotiations to fruition created an *esprit de corps* among the participants and a mode of proceeding that became the early norm of Malaysian ethnic policymaking.

That norm can be summarized as quiet negotiations among a few decision-makers at the top of the system. Negotiations had enabled a handful of Malay and Chinese leaders to resolve such difficult questions as citizenship for the Chinese, preferences for Malays as the indigenous people in government employment and scholarships, and the official status of Malay, English, and other languages. Once these negotiations had produced a constitution, the participants became committed to the document and to the way it had been negotiated. It was recognized that Malaysia's conflict-prone, multiethnic society would produce an unending stream of contentious issues. These could be dealt with as the constitutional issues had been, by reciprocal concessions, candid exchanges among friends.

This *modus operandi* was biased toward central decision-making by a limited number of participants, coping with demands made by others. The postulates of the process were in accord with the Malay cultural code (Horowitz, 1985: 416–20), and they also suited the personality of the first prime minister, Tunku Abdul Rahman, scion of a Malay royal house. But the process quickly became entrenched, because it emerged out of a successful experience with a watershed event, the attainment of independence. The exigencies of attaining independence involved, as the participants saw it, the need to control societal demands that, left uncontrolled, would be centrifugal and even mutually incompatible. Poorly resolved, ethnic demands could inure to the benefit of the exclusively Malay or exclusively non-Malay parties located on both flanks of the coalition.

Erosion of the center and growth of the flanks were constant fears of the Alliance leadership. Since the coalition ran a single candidate on the Alliance ticket in each single-member constituency, its total vote in any constituency was the sum of Malay, Chinese, and Indian votes that could be mustered for the coalition candidate, regardless of the candidate's ethnic origin. The continuing ability of UMNO to induce Malays to vote for Chinese candidates of the Alliance was a matter of concern to the MCA, as was the ability of the MCA to deliver Chinese votes to Malay candidates. In a good many constituencies, these vote transfers provided, and still provide, the margin of victory. Without policy compromise, the coalition could not have utilized extensive vote exchange. The prospect of loss of support to opposition on one flank or the other was an argument that could be used in support of one's position in the bargaining process. One of the trump cards of bargaining over policy during this period was the credible statement, 'I need this to survive,' meaning to survive electoral challenges from inside or outside the party.

On major, divisive issues, such as the National Language Act of 1967, the process was conducive to compromise. The process entailed a combination of palace politics and pressure politics. The leadership purported merely to be deciding what was 'fair,' but the price was largely set by non-participants in the negotiations, 'extremists' either inside the coalition parties (often in their youth wings) or outside. In a course of escalation – sometimes contrived, sometimes adventitious, sometimes spontaneous at first and then orchestrated by party leaders[7] – a small coterie of negotiators would find a resolution adequate to silence dissenters or to justify taking action against them. The system of quiet compromise encouraged the creation of crises that could then be resolved. As an MCA functionary explained (interview, Kuala Lumpur, July 23, 1975): 'If there is no pressure, then [Tan] Siew Sin [then MCA President] will have no excuse to talk to his UMNO colleagues. They will say, "What's this about?" But if there is some pressure, he can go to them to discuss it. My job was to provide him the occasion to raise an issue,' by inducing state MCA branches to pass resolutions or by organizing demonstrations. Often, as in the case of the Language Act, it was a matter of convincing other leaders that a worse reaction might come from one ethnic group than from another. Some-

times, as in a threat by MCA ministers to resign over a decision in 1966 affecting Chinese rice millers, it was a matter of creating a crisis. Policy that appeared to be a dispensation from the leadership resulted from calculation about likely sources of 'trouble,' a term to which I shall return.

The policy process thus drew its initial sustenance from a combination of a most critical event (independence), the need to respond to electoral incentives, and an interpretation of the exigencies of an ethnically divided society that emphasized the preservation of stability. This process was sorely tested by the major destabilizing event of the post-independence period, the serious Malay-Chinese riots of 1969. After the riots, new policy processes sprang up alongside – and temporarily supplanted – the process of interethnic negotiation.

The riots followed the 1969 federal and state elections. Violence was confined mainly to Selangor state, where the Alliance and the Chinese opposition parties had ended the election in a stalemate and where it appeared for a time that Malays might play no further role in state government. The electoral precipitants and location of the violence made reasonable a political interpretation of its causes. That, however, was not the interpretation that was placed on the riots. Rather, the violence was regarded as an indication of deepseated Malay dissatisfaction, particularly with the Malay economic position *vis-à-vis* the Chinese. Several sets of actors contributed to this interpretation.

The first set was a small coterie of younger UMNO politicians, most of whom rose to prominence after the independence negotiations and so did not share that formative experience or the resulting *esprit de corps* of the top leadership. These politicians were closely tied to two top party leaders (but not to the Tunku), were university-educated, were embarrassed by what they called the 'feudal' style of the Tunku and were angered by what they viewed as excessive concessions to Chinese interests and inattention to the Malay economic position.

The second set of actors consisted of Malay civil servants who generally shared the education and outlook of these rising politicians. They saw the temporary suspension of parliamentary rule that followed the riots as an exciting time in which things could be accomplished, free of the galling constraints of politics in an ethnically divided society.

The third set consisted of economists, both Malaysian and foreign, including consultants in several planning units of the Malaysian government. In the 1960s, development economists in the West had begun to focus on the distributive implications of economic growth and to pay increasing attention to backward sectors of economies (e.g., Chenery et al., 1974). In Malaysia's free market economy, it was easy to conclude that too much emphasis had been placed on growth and too little on distribution. It was also easy to target the Malay sector as a backward sector and to identify elimination of ethnic disparities in economic welfare as a goal of development policy. The impact of these new ideas about redistribution and interethnic equity was evident in the official formulation of policy goals in terms of eliminating the identification of

ethnicity with economic function.[8] In a society long characterized by an ethnic division of labor, this was a revolutionary formulation, of exogenous origin.

There was thus a fortuitous intersection of Malaysian events with international currents of economic thought that gave discontented elements in UMNO and the bureaucracy a chance to press their view that vigorous state action was required to advance the economic interests of the Malays. They advanced an interpretation of the riots that was conducive to such policies. The interpretation was that economic disparities were conducive to instability; that ethnically-based disparities were conducive to ethnic violence; that the riots reflected the discontent of the Malays at their economic position; and that, to avoid worse violence in the future, herculean efforts to redistribute wealth were required.

At the time of the constitutional compromises of 1956, it had been agreed that the Chinese would continue to play an unfettered role in the economy but that the Malays, overwhelmingly rural, would, by means unspecified, be assisted to improve their economic position (see Milne, 1967: 38–39). Special protections had been accorded by the constitution to the Malays in the civil service, scholarships, and business licenses, on the grounds that the Malays were indigenous and needed special help. Now those bases of Malay claims, still potent, were augmented by largely-imported concepts of distributive equity and an understanding that fair distribution was essential to interethnic harmony. These were powerful foundations for the new policy departures, and they could not easily be challenged.

So convinced were policymakers of the correctness of these views that they frequently described the 1969 riots as 'a blessing in disguise,'[9] because they shocked the leadership into the realization that dramatic new departures were required, for a mere GNP approach to development fostered maldistribution of income. Underpinning these views were perceptions that the Malay economic position had declined since independence – which was inaccurate (see Snodgrass, 1976: 263) – and that, politically, action was imperative, because half of all Malay voters had voted for a Malay opposition party in 1969 – which was also incorrect (see Ratnam and Milne, 1970: 220). It is well established in the literature on agenda setting that political activists seize on exceptional events to push policy departures they favor (Kingdon, 1984: 17–18; Walker, 1977: 423–25). The success of Malay elites in arguing that economic imbalances were at the root of the 1969 riots is a perfect example.

Chinese leaders were not disposed to challenge the prevailing wisdom. They, too, came to believe economic imbalances were the problem, although they occasionally added the proviso that there were Chinese living in poverty who also needed attention.[10] In any case, Chinese parties were in no position to oppose the new ideas.[11] Parliament was suspended for 21 months. Having done badly in the national elections, the MCA had announced its unwillingness to take cabinet seats immediately, and its influence declined sharply. Supreme power passed from Tunku Abdul Rahman to his deputy, Tun Abdul

Razak, who later broadened the coalition to include several parties formerly in opposition. Ultimately renamed the National Front, the broadened coalition meant that the MCA was no longer the exclusive representative of the Chinese. The new policy consensus, together with the new governing arrangements, temporarily limited interethnic bargaining to such matters as the appropriate targets for Malay share ownership and rendered non-negotiable the overall goal of using a variety of instruments to move Malays into the modern sector.

Embodied in what came to be called the New Economic Policy, implementation of this goal began within a few months of the riots. The New Economic Policy (NEP) was a grand and somewhat elastic charter, under which specific policies would be devised and put into effect. Because of the circumstances of its adoption, the powerful ideological consensus that underlay it, and the need for bureaucratic expertise in implementing it, the NEP was regarded as largely outside the framework of the policy process that originated in the experience of the 1950s. An MCA attempt to engage in negotiations over the Industrial Coordination Act of 1975, a key source of implementing authority for portions of the NEP, proved abortive.

Policymaking for the NEP was at first the preserve of a handful of senior Malay cabinet ministers and senior civil servants. Of course, since government still rested on a multiethnic coalition which needed votes from members of all ethnic groups, these decisionmakers could scarcely be deaf to the implorations of non-Malays. Chinese business had been promised that there would be no expropriation. Now this promise was reaffirmed. The Malays were to gain an extensive stake in the modern economy without confiscation; only 'new opportunities' were to be subject to the New Economic Policy. Obviously, there had to be room for interpretation and therefore room for negotiation. For the most part, however, the Malay sector of the modern economy would not be created by a process of interethnic consultation.

The riots contained one other lesson, which had large implications for policy processes. The lesson was that subsequent episodes of interethnic violence could be unpredictably disruptive and could discredit the new policy initiatives, as the 1969 riots had discredited the old policies. It became important to forestall 'trouble' by prompt action. Policy issues that could be categorized as productive of trouble would be handled on a different – and urgent – basis.

IV. Layers of policy: three arenas

By the early 1970s, with the expansion of the scope of ethnic policy, a pluralization of processes had occurred. Interethnic negotiation and compromise remained, largely because many of the conditions that gave rise to it – especially the need of coalition partners to share votes on a common ticket and ward off threats from ethnic opposition parties – persisted. Effective only for

some issues, this process was no longer the centerpiece of ethnic policy-making. It did not apply to the NEP, which quickly became the most active area of government policy, and it did not apply to cases of 'trouble.' The co-existence of policies and processes, dating from different critical events, suggests the need for a geology of policy arenas, as new strata are added to old.

A. Interethnic negotiation: a reprise

Three decades after the constitutional compromises enshrined interethnic negotiation as the prescription for governing a severely divided society, a modified version of the original process remains in force. It is especially applicable to issues of language and education. For a time after 1969, interethnic negotiation hardly existed at all, as Malay politicians vied in an uncertain environment to gain credit for being most attentive to the needs of the Malays. A notable example was the decision of a new Minister of Education, taken two months after the riots, to make Malay the sole medium of instruction in formerly English-medium schools, proceeding at the rate of one grade a year. The MCA, then at its ebb, was in no position to do anything about it, and the Tunku, accused of being insensitive to Malay interests, could scarcely overrule such a conspicuously pro-Malay decision.

Subsequent language and education issues have been handled differently. By the early 1970s, there were changes in personnel that seemed to render the old consultative model obsolete. When Tun Razak became Prime Minister in 1971, 'the style of decision changed completely,' an MCA leader recalled. Razak was less inclined to check with the MCA. 'It was a question of their [UMNO's] doing something and getting away with it. The role of the MCA was to correct a situation, rather than initiate something' (interview, Kuala Lumpur, May 30, 1984). Razak's prime ministership also brought a generational change. Lower-echelon leaders outside the earlier constitutional negotiations came to power on the Malay side. With the retirement of Tun Tan Siew Sin as president of the MCA in 1974, a similar generational change took place on the Chinese side. Negotiations among friends were not possible when the leaders barely knew each other.

Still, in language and education, the MCA had some success reversing proposed policy changes by methods approximating the former amalgam of pressure and palace politics. The extremes continued to be ruled out of bounds. That meant there would be no Chinese-medium university, despite pressure from Chinese educators, but a Chinese-run 'feeder college' – a junior college, later expanded to external degree-granting status – was established. On the other side, despite recurrent attempts by Malay civil servants and politicians, Chinese-medium primary schools were also secure against abolition. When, in the late 1970s, a draft report from Education Ministry officials for a cabinet committee on education recommended that the Malay medium be used in Chinese primary schools, MCA cabinet ministers made an issue of it, and the

recommendation was dropped. Similar outcomes were obtained in 1973, when an unusually large number of Chinese students failed the Malay-language section of the critical Malaysian Certificate of Education (M.C.E.) examination – such failures were never repeated – and in 1982, when a back-to-basics program, implemented using Malay teaching materials even for Chinese schools, was revamped to substitute Chinese materials.

Perhaps most important was the matter of university admissions, a difficult issue because it was tied to the Malay managerial manpower goals of the New Economic Policy. Before 1969, Chinese students constituted a majority of university students. For the 1967–68 academic year, Chinese comprised 56 percent and Malays only 31 percent of students at the University of Malaya, then the dominant campus (Malaysian Chinese Association, 1975: 7). After 1969, the pattern of admissions changed drastically, so that within the decade these proportions were more than reversed, although new campuses had opened. Wealthy Chinese increasingly sent their children abroad to study, but frustration with limited higher education opportunities grew. In 1977, within a year of a forthcoming general election, the demand for a Chinese university arose again, gaining the support of the principal Chinese opposition party. The MCA nonetheless refused to support it. Instead, after the election, a series of negotiations was undertaken, in several forums, culminating in an agreement in 1979 to increase non-Malay university admissions by 2 percent per annum, until rough Malay: non-Malay population proportionality (55: 45) had been reached. The agreement was largely implemented, although the proportions vary from campus to campus.

These negotiations have features that bind them together, differentiate them from other issues, and stamp them as continuous with the bargaining process that began in the 1950s.

First, they reveal a consensus to exclude extreme positions and arrive at a compromise. The fallout from these compromises is often dissatisfaction on one or both sides, leading to continuing debate. Issues are never quite closed.

Second, the negotiations are nevertheless brought on by pressure from the extremes. This was certainly true with respect to the Chinese university issue. In the case of the M.C.E. examination, the MCA itself had organized a demonstration. A proposed counter-demonstration by UMNO was squelched by Malay leaders. In the case of teaching materials for the Chinese primary schools, a Chinese opposition party, Chinese school-committee and school-teacher organizations, and the MCA youth group had all protested publicly, and the MCA president had declared the materials unacceptable. In the background to every issue, there was some threat of 'trouble.'

Third, MCA arguments in the negotiations related ultimately to electoral considerations. There is sharp intra-Malay party competition, and in some constituencies Chinese votes are pivotal. The current Prime Minister lost his seat as an UMNO candidate in 1969, when he was regarded as anti-Chinese and MCA voters voted for his opponent or not at all. In view of such events, marginal Chinese votes are valued appropriately. In the cabinet review of

education and the university admissions issue, there were not-so-veiled threats by the MCA to resign from government if its demands were not met. On several issues, Chinese opposition parties were becoming active. UMNO leaders understood it was in their interest to bolster the MCA's support (interview, Kuala Lumpur, April 1, 1980), and the MCA made it clear that it was 'quite serious, because the MCA cannot survive if this education issue is not resolved' (interview, Kuala Lumpur, July 18, 1984). In the words of a former prime minister, the coalition tries to prevent putting leaders of its component parties 'in an untenable position.'[12]

Fourth, efforts were made to utilize newly-emerging close personal relations between a few UMNO and MCA leaders to facilitate the negotiations. This was prominently the case with the university admission compromise, in which the ties between MCA President Lee San Choon and UMNO Vice President Tengku Razaleigh Hamzah were used to sound out reaction to alternative formulas. These Sino-Malay political dyads resembled the close relations between a few leaders that prevailed from 1955 to 1969. They signalled continuity with the old process.

B. 'Trouble' issues

If the possibility of 'trouble' brings rapid compromise, then clearly it pays to create a modicum of trouble or at least to describe an issue in trouble terms. There is, in fact, a category of issue in which the prospect of trouble figures prominently enough to make the prevention of trouble the highest priority. Once categorized as a trouble issue, a matter is typically lifted from the policy process to which it would otherwise be committed and treated in accordance with the danger it is thought to present. The forum, process, and outcome are all different in such cases.

Trouble cases tend to be unforeseeable spot crises or to involve perverse applications of established policy. Often, they involve a danger of violence, and they usually have strong symbolic overtones for ethnic relations. These magnify their importance far beyond the immediate issue involved. The disproportion between the immediate stakes and the ultimate stakes marks these issues as appropriate for summary disposition. One goal surpasses all others: avoid trouble.

This category is of long standing, and it is probably more frequent since 1969. Examples, beginning in the pre-1969 period, illustrate the diverse content of the category.

1. In 1964, a state Chief Education Officer sent out a circular ordering all schools not to serve pork any longer. Since the Malays, as Muslims, avoid pork, whereas the Chinese are heavy consumers of pork, and most students in the state involved were Chinese, this was a touchy issue. It required a cabinet decision to reverse the order.
2. In 1966, the Federal Agricultural Marketing Authority revoked the

licenses of nearly two dozen rice dealers in two northern states, in violation of agreed strictures against withdrawing existing opportunities from Chinese businesses but in line with the emerging view of younger Malay politicians that Chinese middlemen exploit the peasants with whom they deal. When the Minister of Agriculture supported the mass revocations, MCA ministers took the matter to the cabinet, where the action was reversed.

3. For several years in the 1970s and 1980s, signboards on Chinese shops were an issue. In license renewals, some officials decided that the National Language Act required Malay lettering to be larger than Chinese characters, in some cases twice as large; occasionally, there was a request to obliterate the Chinese characters altogether. Behind this issue lay the recurrently expressed Malay sentiment that many urban areas seemed alien, 'like Hong Kong,' and the firm attachment of Chinese businessmen to their original signboards, to bring good fortune in business. After zealous local officials had precipitated a number of dangerous flareups, the Prime Minister decided that, as long as Malay lettering was 'prominent,' it need not be larger than Chinese characters; he made a point of telling a conference of state chief ministers that they should enforce a uniform policy to this effect.

4. When some off-duty Malay soldiers killed several Chinese civilians in the state of Pahang in 1984, this was recognized as an urgent ethnic issue. A local MCA protest meeting was headed off, the Prime Minister was promptly involved, a thorough police investigation was begun, and a statement was issued to the effect that the letter of the law would be enforced. In short, the armed forces are not above the prohibition on all forms of interethnic killing.

Trouble issues are not only a heterogeneous category, but they also move into the category at different rates – the army killings immediately, the pork prohibition and the license revocations fairly rapidly, and the signboards much more slowly. In the end, however, all are disposed of definitively at the center, either by the cabinet or by the Prime Minister. Since Malay officials are a frequent source of policy innovation and 'trouble' emanates from Chinese resistance to some innovations, trouble-averting resolutions disproportionately entail 'pro-Chinese' outcomes.

There is no bright line between trouble issues and other policy issues. As I suggested earlier, the M.C.E. issue might well fall into the trouble category. Where several policy spheres and forums coexist, each conducive to a different outcome, an early and sometimes decisive phase of policymaking consists of a struggle to categorize an issue as belonging to one sphere and one forum rather than another. Political actors manipulate categorizations of events so as to have issues assigned to the forum whose likely outcome they favor.

This was the case in early 1984, when the municipal council of Kota Baru, in Kelantan, a state with a more than 90 percent Malay population and a strong Malay opposition party presence, announced that it would require the town's six Chinese-owned supermarkets to 'restructure' their businesses by selling shares to Malays to provide for 30 percent Malay ownership. Failure

to do so by the end of 1986 would result in loss of licenses. The supermarkets, mostly family-owned, protested, but the order was upheld by the state government (*The Star* [Penang], July 10, 1984: 1; July 17, 1984: 1). The matter was taken up by the local branch of the MCA, which described the order as 'outside the spirit of the New Economic Policy' (*The Star*, July 12, 1984: 7), and by the leading Chinese opposition party at the national level (*The Star*, July 18, 1984: 5). The deputy chief minister of the state became publicly committed to the restructuring order, and bureaucrats at the center were also inclined to be sympathetic.

It had been one of the tenets of the New Economic Policy that Malays were to gain an extensive stake in the modern economy without disruption of non-Malay businesses unless these firms sought permission to expand or to alter their corporate structure; only new opportunities were to be subject to the NEP. The supermarkets case could be regarded as a routine, if perhaps erroneous, application of the policy, but it could also be regarded as a dangerous illustration of excessive zeal, shaking business confidence and raising tensions. In fact, the calculated publicity surrounding the case converted it into a trouble issue and lifted it out of the realms of state politics and the federal NEP bureaucracy and into the Prime Minister's office. Categorization was everything.[13]

C. Shaping the New Economic Policy

Initially, the New Economic Policy was merely a set of objectives.[14] The ethnic division of labor would be abolished. By 1990, there would be ethnic proportionately in employment at all levels and 30 percent Malay share ownership of business.[15] The *operative* NEP, by contrast, consists of the large complex of policies that aim toward these objectives. These policies are heavily – but not exclusively – shaped by the beliefs of policymakers. Like any purposive activity, policymaking depends, in the first instance, on what policymakers believe about desirable goals and the conditions prevailing in their environment. But, as I shall show, the course actually followed by NEP policymakers was a product of the interplay of one belief with another and of beliefs with an array of forces that cannot be described in cognitive terms at all. Still, it makes sense to begin with beliefs.

Two important beliefs played little role in the evolution of the NEP. The first – that bargaining and compromise are essential to harmony in a multiethnic society – derived, as we have seen, from an earlier set of events and has largely been confined to issues of language and education. The second – that avoidance of trouble is a high priority in a dangerously divided society – could, as the supermarkets issue shows, be evoked even on an NEP issue, but for the most part the NEP has not triggered the trouble reflex.

Three other widely shared beliefs have been central to the translation of the NEP into policy. The first, largely post-1969 in origin, is that, for reasons

of redistributive equity, political stability, and Malay indigenousness, it is vitally necessary to rectify economic imbalances that disadvantage the Malays. I shall refer to this as Tenet 1. The second is that, to keep earlier promises, preserve stability, and prevent the flight of capital, efforts to aid the Malays should avoid expropriating assets belonging to non-Malays. Originating in the 1950s, this set of 'beliefs' could equally be described in terms of constraint rather than conviction: it derived as much from the desire of the ruling coalition to continue interethnic vote pooling, which would be jeopardized if confiscatory measures were taken against Chinese business. In any event, the second set of beliefs (Tenet 2) puts limits on the means available to act on the first. The third set of beliefs is deeply held, and it, too, qualifies the first in a significant way. Deriving not from a single event but from the whole history of ethnic encounters in Malaysia, these are beliefs about the predicament of the Malays.

These beliefs (Tenet 3) pertain to both needs and motivation. The Malays, it is said by Malay policymakers (and this view is by no means disputed by non-Malays), are still insufficiently socialized to modern economic behavior.[16] Often cash-poor, they are inclined to consumption expenditure, rather than savings. They frequently resell, rather than retain, newly acquired assets for capital gains. They lack experience in the management of business enterprise and therefore disproportionately fail. They are inclined to transfer licenses and other assets to Chinese in return for a small fee. As a candid but not atypical government report states (Government of Malaysia, 1984: 17):

> The history of Bumiputera[17] has also indicated that the mere ownership and control of resources without proper and necessary skills and initiative have led to the gradual erosion and eventual loss of ownership and control over the important resources such as tin bearing land. ... The practice of assigning to others for specific remuneration the use of licenses granted to them has not enabled some Bumiputera to participate actively in the economic activities for which the licenses were issued. Such inclinations reflect an unwillingness to work and take risks to maximize the wealth that can be gained from the possession and effective use of the licenses. In addition, such inclinations will not lead to an improvement in the ability of Bumiputera to manage money and business. The quick disposal of the shares of companies to realize short-term financial gains further indicates an overconcentration on short-term financial benefits rather than a willingness to realize further the long-term potentials from holding on to the financial assets. ... These practices have contributed to the impoverishment of Bumiputera and will impede the further accumulation of wealth of the community if these trends persist and are not arrested.

There is, in other words, a need to 'educate' the Malays.[18] Meanwhile, policies must be shaped so that they do not fail because of these perceived characterological difficulties.

Clearly, these three cardinal tenets of policymakers do not form a harmonious configuration. The Malays must be helped, but in ways that take cognizance of the vested interests of the non-Malays and the proclivity of the Malays themselves to undo the help accorded them. These conflicts, among others, are visible in the policies that emerged.

1. The instruments of restructuring

It was understood that to move from a 2 percent to a 30 percent Malay share of corporate ownership in 20 years would be difficult. In the pre-NEP period, Malay businessmen often derived their income from commissions for lending their names to non-Malay businesses or to license applications in sectors where preferences were accorded to Malays. Malay businessmen were not generally regarded as possessing the capital or the capacity for implementing NEP targets. Accordingly, policymakers created a variety of state agencies and state corporations and utilized existing trust organizations (such as police and army pension funds and the Muslim pilgrims' fund) to acquire and hold shares in the name of the Malay community. The emphasis was on institutional, rather than individual, shareholding.[19]

As early as November 1969, *Perbadanan Nasional* or Pernas (the National Organization) was established to acquire businesses and engage in joint ventures with existing firms. Capitalized largely by government and favored in government contracts. Pernas became a major player in the Malaysian economy during the 1970s, a conglomerate with holdings in construction, rubber, tin, shipping, and other industries. As foreign and non-Malay corporations began to be restructured in the late 1970s to provide at least a 30 percent Malay share, preference in the purchase of that share was at first given to Pernas and then also to the trust organizations, rather than to individual Malay businessmen. Reacting to instances in which individuals had resold newly-acquired shares for capital gains, the Ministry of Trade and Industry and the Foreign Investment Committee jointly agreed in 1977 that at least 75 percent of the Bumiputera share of restructured corporations would be allocated to such institutions. The driving force in the allocative preference for bureaucratic organizations was Tenet 3: anxiety that Malay businessmen would not perform their role appropriately, would frequently fail, and would resell their shares rather than accumulate capital.

Nevertheless, continuing efforts were made to facilitate the entry of private Malay firms into business. These efforts were colored by apprehensions about Malay economic behavior. Antedating the NEP, the *Majlis Amanah Rakyat* or Mara (the People's Trust Council) provided training to Malay businessmen and technicians, as well as loans to businessmen, traders, and peasants; it also owned some of its own businesses and built shophouse facilities. Its defaulted loans, however, merely confirmed policymakers' views of what would happen to assets placed in Malay hands without careful control. Mara was eventually scaled back, and its training function superseded the others. When the Urban Development Authority was set up in 1971 to ease

the entry of Malays into the retail trade, especially by providing business premises, UDA was often leery of transferring title to premises, again for fear of resale to non-Malays; but then many of its rents fell into arrears. As one fear guided policy, another was reinforced.

Within a few years, there was a network of organizations in existence, either to own and operate business in trust for Malays or to facilitate the operations of Malay-owned firms, despite doubts about them. The anticipated high rate of failure led policymakers, not merely to increase controls and punish Bumiputera violators of the rules laid down, but also to set targets high, as we shall see later.

The proliferation of public organizations served other purposes as well. Each such organization required a chairman, often drawn from the ranks of the rising generation of UMNO politicians.[20] These organizations proved to be important bases for channeling patronage and building up followings among emerging businessmen. The organizations engaged in joint ventures with Malay and non-Malay firms and offered a variety of benefits, such as UDA's loans and premises. Foremost among those who built his political base in UMNO on the support of emerging Malay businessmen was Tengku Razaleigh Hamzah, chairman of several important corporations, including Pernas, who was awarded the title of 'Father of the Malaysian Economy' by the Malay Chambers of Commerce. In lesser measure, the same was true of the three or four other leading UMNO politicians from the early 1970s onward. And, along with the proliferation of state organiztions, went a four-fold increase in the size of the public bureaucracy, from 1970 to 1983. Once the initial decision to establish state corporations was made, interests crystallized around the organizations, increasing their number and expanding them.

These interests had little to do with the initial skepticism about the behavior of Malay businessmen. Indeed, insofar as rising businessmen with political connections insisted upon benefiting from the largess of the organizations, the interests led to official action in contradiction of Tenet 3. A good many doubtful loans were made, for example. From time to time, improvident behavior, apparently confirming Tenet 3, led to adjustments in policy. But the interests of political leaders tied to the public organizations, of bureaucrats staffing them, and of businessmen benefiting from them could be and were justified by the overriding need to bring the Malays rapidly into the modern sector (Tenet 1).

The growth of public organizations nevertheless created a problem. UMNO's base is largely rural. Malay peasants and wage laborers had no way to participate in capital accumulation. Responding to this obvious political danger, in 1978 the government created a National Investment Company (*Permodalan Nasional Berhad* or PNB) to invest funds received from government and later from a National Unit Trust (*Amanah Saham Nasional* or ASN) established in 1981. Units in ASN were sold for a minimum subscription of M$10 (approximately U.S. $4.35 in 1981). By 1984, there were 1.5 million subscribers. Units could only be redeemed by resale to ASN at an

artificial par value, so widespread Malay participation did not result in resales for capital gains to non-Malays.[21]

The design of ASN illustrates the accommodation of political interest with the configuration of belief. ASN served to mobilize Malay savings, making ordinary Malays participants in the NEP and averting the potent charge that the NEP provided only a fictitious accumulation of capital to some nominally Malay public organizations and to a handful of Malay capitalists. Explaining why units could not be pegged to market value until at least 1990, a senior ASN official (interview, Kuala Lumpur, June 9, 1984) described two basic reasons: (1) Malays are too uneducated to understand the ups and downs of the market; they would certainly not understand a loss and would think they had been cheated. (2) Malays need to be educated to think in terms of long-term savings, not short-term capital gains. Because of Tenet 3, the scheme had to be designed essentially to prohibit resale.

2. The rules of share allocation

At first, corporate acquisitions by institutions like Pernas were made in the open market. The compulsory restructuring of corporations did not begin until about 1977. When it did, the standard mechanism was to require firms subject to restructuring to sell 30 percent of existing shares to Bumiputera entities or to issue enough new Bumiputera shares so that the Bumiputera fraction of all shares would be 30 percent. Corporations did not generally have a free choice of the Malay recipients of these shares. Allocation of the Bumiputera share was regarded as a benefit to be dispensed by public authorities. Once the time for allocations arrived, a long, complex struggle began among several players: individual Malay businessmen versus Malay institutional investors; one Malay institution versus another, such as a trust organization versus Pernas or Pernas versus PNB; one Malay businessman or group of investors versus another; and one leading politician supporting one category of allocative claimant versus another leading politician supporting another. This struggle was played out both in the rules governing allocations of the Bumiputera share and in particular allocations of shares in desirable companies.

The struggle for allocative priority, which produced a sequence of policy decisions, illustrates the interplay of one belief with another and the manipulation of beliefs in accordance with political interest and economic conditions. From 1977 to 1980, there was a policy in effect that the main portion of the Bumiputera share was to go to institutions, leaving scant pickings for individual Malays. The preference for institutions reflected the belief that individual Malay shareholders would be tempted to resell them (Tenet 3). Then, in 1980, an internal study revealed that many Malays who had bought shares of restructured companies had resold them to non-Malays, thereby confirming these apprehensions (interviews, Kuala Lumpur, July 9, 1984; July 19, 1984; July 20, 1984; July 23, 1984). PNB was getting into high gear, and there was a belief that PNB – with the widely-held ASN unit trust on the horizon – could

benefit from access to shares of restructuring companies. PNB would need access to blue-chip assets, because, to make ASN attractive to the small Malay investor in spite of redemption restrictions, the government had guaranteed a 10 percent annual dividend. Accordingly, the Minister of Trade and Industry decided to exclude individual businessmen altogether from such share allocations. In 1982, however, a recession hit the Malaysian economy. By then, some institutions began to be cash poor, having, as a top policy-maker said (interview, Kuala Lumpur, August 3, 1984), 'gobbled up enough' shares. Moreover, individual Malay businessmen fought long and hard to reverse the 1980 decision excluding them from what had become a cornucopia of allocations. At last, in 1983, with the support of leading politicians who acted as patrons of businessmen – and over the objection of institutions like PNB – a decision was made to remove the restriction on allocations to individuals.

The decision was explained (interviews, Kuala Lumpur, July 9, 1984; July 23, 1984) in terms of the goal of the NEP to develop 'a Bumiputera entrepreneurial community' (Tenet 1). Or, to put the point starkly, Tenets 1 and 3 point to opposite allocative policies and therefore lend themselves to invocation in support of the interests of individual Malay capitalists, on the one hand, or bureaucrats running the shareholding institutions, on the other. By 1983, Malay capitalists with strong political connections in UMNO had grown too numerous and influential to permit retention of the policy excluding them. Ambitious political leaders, who had to run for party office in UMNO, were eager to solidify their competitive position by changing the rules that prevented them from allocating shares to their followers. In fact, a contest for Deputy President of UMNO was shaping up for the party's 1984 convention. It pitted Tengku Razaleigh, with his formidable business support, against the incumbent, Datuk Musa Hitam. The winner would have a claim on the Deputy Prime Ministership and would be heir-apparent to the Prime Minister. It is perhaps unsurprising that Musa emerged as the conspicuous champion of individual allocations in 1983 and after.

There were later refinements in the rules, contests among institutions over priority in allocations, and many disputes over individual allocations, in which leading politicians were able to cement the loyalty of their clienteles by awarding a Bumiputera share to one or another claimant. But the general point remains: when two widely-shared beliefs are in conflict, emerging interests have plenty of room for expression.

3. Sectors, percentages, and tradeoffs

The scope of corporate restructuring was initially uncertain. At first, the 30 percent Malay share of corporate ownership was understood to be a global target, not necessarily applicable to each and every firm. In some firms or sectors, the Bumiputera share might be more or less than 30 percent. How would such determinations be made, and by whom? Moreover, not only was share ownership to be restructured; 'economic function' in general was to be

restructured. How was this to be translated into policy?[22] And although restructuring was an urgent priority, it was obviously not the only governmental objective. How would tradeoffs be handled? On all of these matters, there was, deliberately, little official guidance and practically nothing in writing. It was well understood that these were controversial issues, and there was also a desire to preserve flexibility as the NEP proceeded.[23]

It did not take long for global quotas to be converted to quotas that had to be met by every firm whose activity triggered a restructuring inquiry. Private limited companies that sought no expansion, no new license to operate or to import goods, and no new product line were, in principle, exempt from restructuring. (This was the defense of the Kelantan supermarkets.) But any indication of expansion or new activity could trigger restructuring. Likewise, publicly listed companies were subject to restructuring, as were subsidiaries of foreign firms. The exemption of private limited companies, deriving from the promise not to touch ongoing non-Malay businesses (Tenet 2), meant that, to reach the 30 percent target, virtually all potential candidates for restructuring (save those in financial difficulty or those trading in products forbidden to Muslims, such as pork or alcohol) had to be subject to actual restructuring. The bifurcation of firms into an exempt class and a targeted class undid the appealing principle of global quotas that were to be applied flexibly.

Thirty percent Malay ownership was not necessarily the figure imposed in the targeted class. Foreign firms were, for a time, required to provide for 51 percent Malaysian equity participation, and sometimes the entire Malaysian share was allocated to Malays. Pursuing the objective of eliminating the ethnic division of labor in general, marketing agencies and government contracts were also to be subject to Malay participation. In those fields, whole sectors ended up being heavily or entirely reserved for Bumiputera.

The applicable percentage reservations were highly variable.[24] Automobile import licenses were issued *only* to Malay firms beginning in the 1970s; in this case, firms had to be 100 percent Malay, rather than 51 percent. Professional services engaged by foreign firms with tax-concession status were to be entirely Malay. In the late 1970s, a circular from the Prime Minister's office specified that government travel should be booked exclusively through travel agencies with 100 percent Malay ownership. Beginning in the 1980s, new insurance company licenses were issued only to Malay firms. As of 1984, any new finance company applying for a license had to be at least 70 percent Malay in share ownership. As early as 1974, it was laid down that 30 percent of all public works contracts were to be awarded to Bumiputera contractors.[25] Contracts under the value of M$50,000 were reserved to Malay firms. Above that value, Malay firms might be preferred, even if their bids were slightly higher than their competitors' bids. Thirty percent of all sales agents for foreign firms licensed to sell products in Malaysia must be firms that are 100 percent Malay-owned. Gradually, over the course of a decade, the Central Bank increased the share of loans that must go to Bumiputera; by 1984, it

was 20 percent of a bank's total loans (Bank Negara Malaysia, 1984).

These examples suggest expansion of quotas into more and more spheres of economic activity, as well as ratcheting up of the applicable percentages of shares owned and business reserved. A slightly different balance of forces propelled the two phenomena: sectoral expansion and ratcheting up.

Sectoral expansion of the NEP, with more and more sectors subject to a reserved Malay share, was the result of the NEP's popularity among the Malays, the growing political influence of Malay businessmen, the division of responsibility for NEP enforcement among many ministries and governmental bodies, and the changes in Malay politics that took place in the 1970s and 1980s. There was a widespread consensus on Tenet 1, which aspiring Malay businessmen and politicians were able to use to extend the NEP to more and more areas. Faced with a demand to declare a new sector subject to restructuring, politicians within whose portfolio the matter fell met few obstacles. These were incremental decisions, the impact of which Chinese businessmen learned either to absorb or to turn to their advantage, for restructured firms gained certain privileges in dealing with government. Practically no sectoral extension provoked protest from the MCA or any non-Malay party in the way that language, education, and other ethnic-symbolic issues continued to do.[26] Once the tight rein of Tunku Abdul Rahman was surrendered to Tun Razak in 1971, cabinet ministers began to make decisions that earlier could have been appealed successfully to the Tunku. By the late 1970s and the 1980s, UMNO politics was factionalized. In the intraparty competition, leaders began to outbid each other for the favor of influential constituents. The NEP, implemented by several ministries and statutory bodies, was a perfect candidate for use in intraparty competition. The NEP touched the portfolios of many politicians.

As a result, Malay politicians became eager to claim credit for extending NEP requirements. The Deputy Finance Minister was instrumental in pushing the requirement that new finance companies be 70 percent Malay-held. Similarly, the *Datu Bandar* (Mayor) of Kuala Lumpur decreed a modification of the plot ratio required for developing lands. The plot ratio is the proportion of square footage a firm can construct to the square footage of the building plot. Restructured firms would be subject to more lax requirements than unrestructured (non-Malay) firms. In short, ideological consensus on Tenet 1, together with intra-Malay political competition and fragmentation of authority, produced a great deal of what was, for politicians, virtually cost-free innovation.[27]

Ratcheting up the percentages from 30 to 51 to 70 or 100 was subject to the same political incentives, but there were three additional elements: (1) the fixed overall targets of the NEP; (2) the commitment to leave non-expanding firms alone (Tenet 2); and (3) anxiety about Malay performance (Tenet 3).

The 30 percent overall target was unalterable. Although there was fudging on the promise not to confiscate property (in restructuring, for example, new Bumiputera shares were typically issued at a substantial discount from market

value, a discount absorbed by existing, non-Malay shareholders), many firms remained outside the restructuring arena. Hence, to get to 30 percent overall, those firms that *were* subject to restructuring were vulnerable to demands for more than 30 percent participation. But there was more. In nearly every restructuring exercise, the assumption was that a significant number of Malays would fall by the wayside – would resell their shares, would subcontract to or act as front men for non-Malays, or would fail in business. To end up with 30 percent, it was thought safer to start higher. Rising percentage requirements are thus attributable in part to the same assumptions that drove the creation of public institutions to invest on behalf of the Malays and preferred them to individual Malay investors.[28] Since the Malays, are, as policymakers see it, still very much in need of 'education,'[29] high rates of attrition are built into policy decisions.

In the case of preference for institutions versus preference for individuals to receive the Malay share, the conflict between Tenets 1 and 3 produced room for affected interests to maneuver and for policymakers to alternate in emphasizing now one belief, now the other, and in each case the policy appropriate to it. In the case of sectoral expansion, there was no conflict of beliefs, no impediment to responsiveness to business and political interests. In the case of ratcheting up, Tenets 1 and 3, together with fixed quotas and some sectors more or less immune to restructuring because of Tenet 2, argued for herculean efforts to drive percentages up in those sectors available for restructuring.

This brings us to tradeoffs. One tradeoff, between Malay participation and integrated firms, is already resolved by rising percentages, even up to 100 percent. Insofar as sectors are increasingly reserved for Malays, the objective of transferring skills from Chinese to Malays, as well as promoting interethnic cooperation within firms, goes by the board. Since the halcyon days of the early 1970s, little has been heard of the objective of integrated firms, although restructuring at the 30 percent level has fostered many such arrangements. As the 1990 deadline for achieving the 30 percent Malay ownership target nears, the temptation increases for sectors to be reserved entirely for Malays.[30]

Again, however, there is more than meets the eye. Integrated firms, confessed a Malay regulator, will not work because the Malay partner 'will sit at home and collect [M]$800 [per month], while the Chinese gets $2,000. Toward the end, it will be Ali-Baba. The Chinese will buy the shares of the Malay.'[31] The integration tradeoff thus does not rise to the level of conscious policymaking, because ratcheting up and reserved sectors are necessary to meet targets *and* because policy implementation is colored by pervasive anxiety.[32]

Restructuring also comes up against policy objectives with less ethnic content, objectives such as economic efficiency, consumer protection, or a favorable balance of trade. Restructurings of very large firms have been postponed where the transactions might produce capital outflow great enough to affect

the country's foreign exchange position (see, e.g., *New Straits Times* [Kuala Lumpur], August 4, 1984: 6). With the economic slowdown of the mid-1980s, restructuring of foreign firms ground to a halt, in order to attract foreign investment.[33] Similarly, requests to exempt Bumiputera land developers from posting a larger deposit to protect housing purchasers against a developer's fraud or insolvency have been granted by the Housing Ministry only very cautiously (interview, Kuala Lumpur, June 8, 1984). In these areas, tradeoffs have been made ad hoc.

Many individual tradeoff decisions act, in the aggregate, to shape the operative policy. Consider the great water meter decision of 1984. A restructured, 30 percent Malay firm manufactures water meters, for which the Malaysian government is the only buyer. A smaller competitor, 75 percent Malay, also sells water meters, but, unlike those of the 30 percent firm, the meters of the 75 percent firm are assembled entirely from imported parts. From which firm should the government buy meters? Here the goals of the NEP competed with the preference for the use of local materials in manufacturing.

The matter reached the desk of a deputy minister, where the case for local value-added was made by a politically influential Malay director of the firm with only 30 percent Malay ownership. The deputy minister crafted a compromise permitting both firms to sell to the government, requiring the 75 percent Malay firm to buy some Malaysian materials from the 30 percent firm, and keeping both firms in business (interviews, Kuala Lumpur, July 17, 1984; July 26, 1984). In NEP decisions requiring tradeoffs, negotiation and compromise have returned, but the players are different from those who participated in pre-1969 compromises. Now it is not party leaders negotiating at the top, but Malay and Chinese businessmen negotiating with cabinet ministers and their deputies.

D. The power of beliefs, the limits of beliefs

When we examine the systemic consequences of policy, we shall see clearly how the effects of policy become causes of new policy. For that reason, it is best to defer full consideration of the sources of policy. For the moment, it is sufficient to note that even a quite precise understanding of the ideas, beliefs, and styles of Malaysian policymakers would not produce an adequate guide to policy. Beliefs are important in the policy process, but no snapshot maps them adequately. Even when most policymakers believe the same things, beliefs are not necessarily continuous over time, consistent with each other, or uniformly applied across policy arenas.

Beliefs can change abruptly with the authoritative interpretation of critical events. The ideas supporting one or another interpretation are as likely to be exogenous as endogenous – and even they can change over time. In Malaysia, the critical events of 1969 coincided with a change in the thinking of develop-

ment economists, helping a thwarted younger generation of Malay politicians to ride to power on the new ideas. Two sets of belief changes interacted, serendipitously.

Conflicts among beliefs facilitate policy oscillations (such as the emphasis on state corporations versus the emphasis on individual allocations), driven largely by the ability of interest groups to manipulate beliefs. Even in the absence of oscillating emphasis on one or another of the beliefs in conflict, the exact mix of beliefs can produce policy that does not flow from any one element in the mix. The abandonment of merely global quotas and the ratcheting up of Malay percentages are examples of such outcomes.

Because of the role of critical events as sources of belief change and major policy innovation, and because of the inability of new policies wholly to displace the old, particular beliefs enjoy widely differing arenas of relevance. Issue categorization becomes a crucial variable. Beliefs and the policies consistent with them do not automatically *apply* to a given issue; they must be *invoked* successfully. Successful invocation is a function of the skill and strength of political actors. Political strength, however, can be altered profoundly by the feedback effect of ongoing policy changes.

V. Transformations: the systemic effects of policy

Policy alone cannot remake a political system, but important policy departures can interact with preexisting political arrangements and with other forces to produce dramatic systemic effects. In Malaysia, the post-1969 policies, in concert with other changes, had a transformative impact in the most fundamental areas of political activity: (1) Chinese politics; (2) Malay politics; (3) government and the economy; and (4) interethnic relations in business and politics. The impact was dynamic: there was continuing change within these categories and interplay among them.

A. The structure of Chinese politics

The initial decision to implement the NEP by creating state agencies had second-order effects on economic organization, proliferating private conglomerates and large holding companies as well. In the mid-1970s, reacting to the profusion of Bumiputera institutional investors, the Malaysian Chinese Association created its own large corporation to transform traditionally family-oriented Chinese business for effective competition. Called Multi-Purpose Holdings (MPH), the company's largest shareholder is a mutual fund established by the MCA for individual Chinese investors. Although it eventually fell upon hard times, by then MPH had become the largest corporation in the country, with holdings in such fields as plantations, property development, trading, and banking. UMNO had created an equivalent, also organized joint-

ly with a mutual fund. Within little more than a decade, a whole new structure of interlocking political and business organizations, directed by state capitalists and political party capitalists, came to dominate the economy.

There was a sequel. In the mid-1980s, the MPH leadership used the patronage built upon MPH to attempt a successful grassroots takeover of the MCA itself.[34] A spiral had been set in motion that eventually involved politicians in business and changed the basis of political power within the MCA.

The post-1969 policies had other weakening effects on the MCA. Still vital to the ruling coalition because Chinese votes remained necessary, the strength of the MCA diminished with the growing fragmentation of governmental authority. The capacity of the MCA to affect outcomes was a function of the centralized character of governmental power in the pre-1969 period. Once that changed, largely as a result of the policy innovations of the NEP, the structure of coalition relations was no longer apt for the situation. The Chinese were left with an obsolete system of influence, still somewhat effective at the top but helpless lower down, in the ministries, where decisions were increasingly taken. Chinese businessmen began to make their own arrangements, contributing funds to UMNO and dealing directly with Malay politicians and businessmen.

B. The structure of Malay politics

Developments in UMNO were even more profound. Businessmen did not take over UMNO, but they assumed an increasingly important role. By 1987, businessmen comprised about 25 percent of the delegates at the UMNO national party convention, surpassing school teachers, the traditional backbone of the party.[35] Despite their initial disdain for the capacities of Malay businessmen, UMNO leaders ended up creating an influential Malay business class, whose ownership share of the Malaysian economy nearly doubled from 1980 to 1985.[36]

The NEP created a complex network of Malay business rivalries. At first, bureaucrats operating the new quasi-governmental corporations, such as Pernas, were ascendant. They were challenged by other bureaucrats operating trust organizations, especially PNB, which, in 1981, mananged to gain authorization to acquire some of Pernas's most profitable holdings.[37] This 'transfer of shares exercise' was testimony to the electoral power of the unit holders in ASN. More than M$1 billion of assets were sold by Pernas to PNB in the early 1980s for a total price of only M$360 million. The Malay electorate proved more powerful than the state capitalists.

Individual Malay businessmen also challenged state corporations and trust organizations, acquiring some Pernas holdings[38] and in 1983, as we have seen, securing removal of the restriction on individual allocations in restructured firms. The creatures of policy thus quickly became major actors in the policy process, changing outcomes.

Their ability to do so was enhanced by – and it enhanced in turn –

UMNO's rapidly growing factionalism. Before 1969, there was factionalism at the state level, but at the federal level it was confined to rivalries of aspiring politicians for the favor of top leaders. Even Prime Minister Tun Hussein Onn (1976–81), whose party support was not deep, had no serious challenges to his authority. By 1981 and 1984, there were contests for the deputy presidency of UMNO. In 1987, the Prime Minister himself barely retained the party presidency, and UMNO split into two parties, one headed by Prime Minister Datuk Seri Dr. Mahathir, the other by Tengku Razaleigh.

There were many reasons for intraparty rivalry, among them the institution of a secret ballot at UMNO conventions in 1975 (see Milne 1986: 1371) and the decline of traditional Malay deference to constituted authority. An important cause was the vast increase of political goods distributed by UMNO politicians, as a result of the NEP. Without that, it would have been much harder to create a political base to mount a challenge to incumbents. Leading politicians bestowed largess on their clients. Clients then used their new wealth to finance expensive campaigns for party office, speculating in political futures, so to speak. As the NEP benefited Malays, it helped undermine the cohesion of the principal Malay party.

The new patterns, fostered by the new goods, did not, however, wholly supplant the old. UMNO politicians continued to rise to the top with the support of school teachers, religious functionaries, and village headmen, as they had before. No leader could entirely ignore either NEP issues or issues of greater concern to village Malays, but leaders could specialize more in one or in the other. Just as new policies were layered upon the old, so careers in the party reflected the same geological strata of innovation.

C. The role of government in the economy

Government regulation under the NEP brought politics and economics much closer together. As the NEP expanded into more and more sectors, a magnet was created for political influence. The considerable effectiveness of the Malaysian regulatory bureaucracy made political mobilization exigent, for political intervention was often the only way to affect outcomes or escape bureaucratic control.

There were spillover effects as well. For example, state executive councils, functioning as state-level cabinets, took on the responsibility of guaranteeing that newly-approved housing projects had a quota of Malay buyers. To insure an adequate supply of Malay buyers, a Bumiputera price discount was eventually required in the developer's application. In some states, the executive council went further and actually began to fix the price of houses sold by private developers. Once it was determined that extensive governmental action was needed to bring Malays into the modern sector, the free-market orientation of the economy was bound to change.

The scrutiny given to private transactions for their conformity to the objec-

tives of the NEP resulted in an interweaving of party politics, ethnicity, business, and government. Consider the United Malayan Banking case. Multi-Purpose Holdings had contracted with a Chinese businessman to purchase a controlling interest in his bank. However, that businessman had previously agreed to give Pernas, already a shareholder, a first option on his shares. The UMNO elections of 1981 were coming up. In these, Datuk Musa was opposed by Tengku Razaleigh for the deputy presidency. The leader of the UMNO youth organization, himself under electoral challenge and an ally of Musa, took up Pernas's case publicly, suggesting that an MPH acquisition would contravene the objectives of the NEP. This embarrassed Tengku Razaleigh. As Finance Minister, he had power to veto the Central Bank's approval of the transaction. Given the timing of the publicity, he could hardly do otherwise if it came to a decision. Instead, a compromise was devised. MPH and Perhas were each to acquire 41 percent, the balance to be held by the Chinese businessman.

In 1984, there was another round. Still unable to secure control of the bank, MPH exchanged its shares for a controlling interest in a smaller bank. This time, approval of the transaction was assured. Having lost another contest for the deputy presidency of UMNO in the 1984 party elections, Tengku Razaleigh was the victim of a cabinet reshuffle. The seller of the controlling interest in the smaller bank was Daim Zainuddin, a close associate of the Prime Minister, soon to be designated Razaleigh's successor as Minister of Finance.

There were layers under layers. There were, of course, raw ethnic sentiment and raw economic ambition. The quest of MPH to control a bank was resisted by Pernas officials, unable to enforce Pernas's first option. The transaction became ammunition in two UMNO elections; regulatory authorities became impotent in the face of them. Final resolution had to await yet another UMNO election. The matter was resolved by cooperation between MPH's managing director and Daim, a very successful Malay businessman. The two men had engaged in prior business transactions. This transaction went smoothly because Daim had no competitive rivals in UMNO. It is now unexceptional for businessmen and politicians of both ethnic groups to advance their political interests through business and their business interests through party politics.

D. Sino-Malay relations

The close relations between the managing director of MPH and Daim illustrate a new form of Sino-Malay cooperation. Many members of the new Malay business class, influential in UMNO, are in a position to advance Chinese business interests. As close relations between UMNO and MCA leaders at the very top of the political system had declined, new Sino-Malay dyads have arisen at lower levels. Restructuring at the 30 percent level requires

Malay corporate directors. Astute Chinese businessmen have sometimes been able to attract politically influential Malays, who then advocate the interests of the firm in largely-Malay government offices. The water meter case, recounted above, is one of many examples.

By the 1980s, lucrative opportunities in firms to be restructured created yet another set of relationships. There was competition for allocations in the most desirable firms. Often two or more mixed groups of politically well-connected Chinese and Malay investors competed for the same share allocations. The effect of the reserved Malay share was to create intraethnic competition for it and interethnic cooperation in pursuit of corporate control.

Business cooperation did not translate into a general reduction of ethnic tension. In 1987, a series of divisive issues in education cumulated into a major ethnic crisis, with a potential for violence. The UMNO split, with its close competition for Malay support, had made concessions on such issues impossible, thus rendering inoperative the customary processes of interethnic negotiation or 'trouble' treatment. Instead, the crisis was ended by the arrest of large numbers of ethnic activists. Later, some ethnic issues (including a bailout of financially-troubled Chinese cooperatives) were again handled by the customary processes. But the political-structural changes traceable to the New Economic Policy placed established conflict management procedures in jeopardy.

E. Systemic change: the input role of policy

Policy helped change the identity of the actors in the political system. Policy also helped change the strength and structure of the preexisting actors. At every stage, yesterday's products of policy became today's participants: the managers of state corporations, then the managers of trust funds, the managers of the MCA and UMNO investment arms, and individual Malay businessmen, often acting in concert with Chinese businessmen. The shifting balance of power forced political leaders to act contrary to their beliefs,[39] and it also produced Sino-Malay networks that could trump political obstacles to business deals.

The new policies reduced party cohesion on both sides. The MCA, always rent by rivalry, was eventually split down the middle between those who owed their allegiance to the MPH leadership and those who did not. As an organization, the MCA lacked the capacity, even if it had the will, to affect a good many policy outcomes. There was interaction between Malay and Chinese structural changes fostered by the NEP. UMNO's increased factionalism exacerbated the MCA's weakness. Since concessions to Chinese interests could be challenged in UMNO factional disputes, it became harder for the MCA to pursue its interests without UMNO unanimity, which became increasingly rare. The weakness of the MCA in the 1969–71 period turned into long-term weakness. As a cohesive organization, UMNO was also less

effective, because different factions frequently had different interests. The idiosyncratic factional alignment of particular officeholders became more important in dictating one or another outcome. Some major allocative decisions were still made by the Prime Minister himself, but many allocations were made at lower levels, as were many policy determinations relating to the NEP, such as decisions on percentages and extensions into new sectors. Party factionalism and the parceling out of governmental authority were mutually reinforcing. Both were, in part, by-products of the NEP.

One set of changes, however, moved in a centralizing direction. After the 1969 riots, there was increasing determination to prevent further destabilizing events. Episodes of violence could propel political change. The direction of such future change was uncertain and could well be undesirable for those in charge of the system. In a more self-conscious way than before, individual 'trouble' issues were handled at the top, even as policymaking and implementation decisions were often delegated to regulatory bodies and middle-level politicians. It was by no means the case that the more general the policy, the higher the level of decisionmaker.

VI. The sources and systemic effects of policy change

The Malaysian policy experience shows that structure and culture are entangled in complex ways. Beliefs and ideas are pole stars of policy reasoning, but they are invoked and altered by interests responding to events that create opportunities to set a new agenda. Although beliefs then guide policy action, the action creates new interests, which in turn manipulate the beliefs of policymakers. In drawing out these implications, I shall try to explicate their meaning for the policy process by stating the findings in general terms, with only limited reference to their Malaysian provenance.

The most powerful beliefs and ideas form a heterogeneous collection, deriving from a variety of sources. Some key beliefs are associated with formative events: decisive successes of party, regime, or ethnic group. They may take the form of 'lessons of experience' from which it seems risky to depart. Some originate in commitments that cannot be broken with impunity. Still other beliefs are embedded in group psychology, patterns of relations, or collective aspirations and apprehensions. Anxiety-driven policymaking and enforcement were particularly important in Malaysia, but Malaysia is not alone on this issue.[40] An eclectic collection of counsels of prudence, canons of obligation, and expressions of affect – strands loosely woven together – forms the substratum of policy discourse. Given the way policymakers' beliefs are formed and rearranged, there is no reason to expect consistency of content or level of generality in the overall configuration.

Events create openings for new beliefs to enter the configuration or for some beliefs to become ascendant for certain purposes, provided those beliefs seem to fit, explain, or flow from the events.[41] Newly ascendant

beliefs can defeat political interests or put them on the defensive, but beliefs do not act autonomously. Beliefs do not prevail *over* interests; they prevail because they are propelled *by* interests.

New beliefs frequently are reinforced by sources outside the political system. Interests, seeking to use critical events to their advantage, find it easier to validate their position by reference to views developed by disinterested parties for other purposes. If critical events could always be explained endogenously, they would be less critical in the sense of less problematic and less likely to produce policy departures. Yet, there must be isomorphism of the situation policymakers think they confront with the problem confronted by exogenous proponents of the new beliefs. Since the occasions for such a correspondence will be few, major shifts in policymaking paradigms are likely to be infrequent.

The coexistence of divergent beliefs and the importance of critical events in agenda setting create the basis for major discontinuities in policy, even within a single country. One way to deal with the cognitive dissonance that might afflict policymakers who hold an array of potentially conflicting beliefs is to compartmentalize the application of particular beliefs. Layering, an endemic feature of policy that derives from historical waves of events, fosters some such compartmentalization. New policies are deposited on old, without necessarily supplanting them in the short run.

There is, then, ground for skepticism about arguments postulating great policy similarity across policy areas within single countries.[42] Rather, there is ability to partition policy areas, even within the same general area of policy concern. The events which generate policy departures rarely render utterly redundant the beliefs underlying earlier policies, although they may weaken the forces which support them. The eclecticism of beliefs makes it a mistake to think that the powerful role played by national beliefs, cultures, ideas, and ideologies naturally produces policy consistency.

Because new policy is the product of a discontinuous process, the boundaries between policy areas become inordinately important. Outcomes often turn on the ability of actors to categorize an issue as belonging to one sphere or another and therefore committed to one forum or another. Categorization that delegates decisions to a large number of lower-level decisionmakers may produce one result; categorization that centralizes decisions, another. The structure of incentives and the deployment of opposing forces impinging on the decisionmaker differ in alternative forums. Because of the historical development of the coalition, the MCA has been more effective in large decisions at the center than in the piecemeal, delegated decisions that are now so important. Political parties adapt slowly and imperfectly to the exigencies created by policy departures.

If major policy innovation is the result of changes in the configuration of beliefs, the precise working out of the policy is much affected by antecedent beliefs. In Malaysia, the newly-deep sense of mission to redress ethnic imbalances was implemented in accordance with preexisting constraints on con-

fiscation and apprehensions about Malay business capacity. The instant implementation is involved, discontinuity comes up against continuity with a vengeance.

Innovations once in place provide opportunities for incremental and unforeseen policy expansion. There are many reasons for such expansion. A generally unrecognized reason relates to the entailments of earlier policy decisions made in accordance with belief. In Malaysia, *if* (1) there is a powerful sense of mission to bring Malays into the modern sector, *and* (2) there is a firm 30 percent ownership target by a firm 1990 deadline, *and* (3) many non-Malay companies are exempt, *and* (4) many Malays are felt likely to fail in business, *then* in the non-exempt sectors, there are enormous incentives to be undiscriminating in restructuring, to reserve fields entirely for Malay firms, and to set Malay percentages high. The chemical interaction of prior beliefs and policy is what mainly determines the entailed expansions.

Policy expansion, however, is not automatic. The possibilities are discerned by interests: aspiring state financial bureaucrats, aspiring businessmen, aspiring lower-level politicians. Policy involving multiple allocations offers the widest scope for intersectoral expansion and the narrowest scope for opposition to mobilize against it; it is piecemeal.

Such policy expansion is, of course, constrained by interests, especially electoral interests. It is significant that the NEP generated so little electoral constraint from non-Malays. The MCA could never credibly threaten the coalition with a loss of electoral support as a result of preferences in business, whereas in education it could and recurrently did. What resentment existed was mitigated, in the economic growth years of the 1970s and early 1980s, by the spinoff benefits for non-Malays that the NEP generated, at least for many MCA-affiliated businessmen: joint ventures and preferential access for restructured firms to government-controlled opportunities. Piecemeal expansions with side benefits are least likely to generate collective opposition.

Moreover, the political-structural changes fostered by the NEP were a constraint on government concessions to Chinese electoral backlash, had it developed. Two such changes were preeminent: (1) UMNO factionalism, which generated pro-Malay outbidding within the party, limiting the leeway for concessions to non-Malays, and (2) a growing, influential Malay business class tied into the factions and alert to Chinese efforts to limit the NEP, its lifeblood. For all these reasons, NEP expansion was, as I have said, cost free.

And so one can scarcely go down the road of policy expansion without quickly moving policy outputs to the input side of the ledger. Policy-induced structural changes play havoc with beliefs at later stages. Beliefs become more subject to manipulation over the policy time-line, less an independent variable. As interests crystallize around policies, they make a plaything of the beliefs of policymakers.

Such interests crystallize in waves. Most striking in Malaysia is the step-by-step broadening of the category of business beneficiaries of the NEP – from bureaucrats administering state corporations and trust organizations, to

wealthy individual businessmen, to the masses of unit holders in the state mutual fund. The last category was electorally in a position to induce policymakers to guarantee as high rate of return, the result of which was a massive transfer of valuable shares from state corporations to the fund's holding company for less than full value – all despite the policymakers' continuing lack of faith in the average unit holder's ability to retain the assets if they were ever transferred to him.

A summary of the role of beliefs, then, must divide it into two phases: innovation and elaboration. At the time of policy innovation, there is a window for new beliefs to enter and for those who gain control of the policy agenda to neutralize, temporarily, opposing beliefs and interests. During the period of policy elaboration, the status quo ante does not return. However, beliefs that were ascendant at the moment of innovation are hemmed in by the resurgent total configuration of beliefs, by the formerly immobilized interests, and – ever-increasingly – by new actors produced by successive iterations and amendments of the new policy itself.[43]

Beliefs, then, recede as a motive force for action; creatures of policy become sources of new policy; and electoral incentives, at every stage, broaden out the class of such creatures and sources of policy. On the Malay side, as on the Chinese side, electoral considerations continue to induce policymakers to do things they would rather not do.

In this respect, systemic change was less than total. Bargaining and compromise survived, but limited mainly to the layer of issues from which they first emerged. Sino-Malay political dyads reappeared, albeit in new forms. But, compared to the massive changes wrought by policy, the considerable systemic continuities are not so striking. Policy as a source of political change is, if anything, underrated.

Indeed, in the long run, policy-induced systemic change threatens to undo earlier policy processes in Malaysia. In 1987, as we have seen, ethnic issues were not handled by the processes to which they would earlier have been committed, and a crisis developed. One way to interpret the crisis is to see it as reflecting the dissonance between the exigencies of bargaining and the new centrifugal tendencies in Malay politics that make interethnic bargaining and compromise much more difficult. Where major policy innovations come in discontinuous waves, as they have in Malaysia, successive processes attached to each set of innovations may not displace each other for a considerable time; but they may also coexist only uneasily. Waves of policy do not wash the existing shoreline away, but they do erode it.

Systemic changes do not result mainly from the features Lowi emphasizes: policy type and process. A shift from ad hoc distribution to rules about distribution (in 1980 and 1983) does not account for the increased political conflict that Lowi's logic indicates such a shift will produce (Kjellberg, 1977: 564). Rather, the relationship is reversed. The new forces set in motion by ad hoc allocations create the political conflict that then produces the new rules.

In all of this, the participants are well aware that the players and the game

are changing. They are equally aware of their policy objectives and political interests. They are, however, unaware of the extent to which policy change is altering their system. There is much wisdom in Foucault's remark that people know what they are doing, and they know why they are doing it, but they do not know what they do does.

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Notes

1. See, e.g., Lowi (1972: 299); Lowi (1978: 178). The notion goes back to Schattschneider (1963: 288).
2. Lowi (1970); see also the correlations of policy types with regime types in Peters (1977).
3. For shorthand purposes, through most of this essay, I shall refer to ideas, ideologies, operational codes, and other cognitive and affective factors under the rubric of the term *belief*. Since I shall specify carefully the beliefs to which I refer, this imperfect term should do no violence to the inquiry or the findings. In general, I mean to include all the components of what are referred to as *orientations*, a term usually defined as indicating dispositions to act in certain ways. See Eckstein (1988).
4. A point already documented for the effect of housing policy on the party system in Denmark. Esping-Anderson (1978).
5. It is based on three extended periods of field research, going back to 1967 and yielding data on about 50 policy issues, which will be used here illustratively, rather than exhaustively. Portions of the findings have been reported in Horowitz (1985), especially chapters 10 and 16.
6. It is, of course, well understood that multiple observations on the same variable, even in a

single country, render a study genuinely comparative. Przeworski and Teune (1969: 36–37); Lijphart (1971: 689).

7. The range of combinations was considerable. In the case of the Language Act, language issue specialists on both sides (school teachers, for example) raised mutually exclusive claims and heated up the atmosphere so that the issue had to be removed from the large Alliance body to which it was committed. Some 80 branches of the Malaysian Chinese Association, the Chinese party in the coalition, had passed strong resolutions. The MCA president, using these resolutions, then was able privately to insist on a provision guaranteeing the 'liberal use' of languages other than Malay, following which he encouraged the MCA to pass a resolution demanding what had already quietly been agreed to. Here was spontaneous and then contrived escalation on the Chinese side. There was also more spontaneous escalation on the Malay side, which the Malay leaders suppressed. In another case, affecting the interests of Chinese rice millers, the MCA branches were told to 'play it up,' so as to enhance the bargaining position of their negotiators. And in others the MCA occasionally 'borrowed the strength of the DAP [a non-Malay opposition party] for bargaining purposes.' The quotation is drawn from an interview, Kuala Lumpur, July 9, 1968.
8. Government of Malaysia (1971: 1). For the chronology of the official adoption of these ideas, see von Vorys (1975: 398—412).
9. This phrase was uttered repeatedly by Malay politicians and civil servants during my stay in Malaysia in 1975.
10. It was accepted, as a non-Malay politician put it, that 'the Malays have had a bad deal.' When a 30 percent Malay share ownership target was proposed in the aftermath of the riots, the MCA leadership agreed to it, provided Chinese business was not expropriated and foreign ownership of the economy was reduced. The MCA leaders believed that enhancement of Malay economic welfare was conducive to stability. Interview, Kuala Lumpur, July 24, 1975.
11. Some of the elements of the NEP had pre-1969 antecedents and were not wholly new. There were Malay quotas in hawkers' stalls assigned by municipal licensing authorities as early as the 1950s, state-level Malay preferences for logging licenses in the 1960s, employment preferences for Malays on the docks by the late 1950s, modest Malay employment and share ownership requirements for foreign firms in the 1960s, and several governmental bodies providing loans, scholarships, and training for Malays. Nevertheless, the post-1969 innovations constituted a quantum leap in conception and resources. For the work of some of the pre-1969 state organizations, see Beaglehole (1969).
12. Interview, June 14, 1984. For a more recent MCA threat to resign over an ethnic issue, which also produced the intended policy result, see *Far Eastern Economic Review* (Hong Kong), July 9, 1987: 13.
13. For the tendency of participants in the policy process to place policies in the categories they favor, see Sternberger (1980: 188).
14. For surveys of the New Economic Policy, see Mehmet (1986); Klitgaard and Katz (1983); Milne (1986); Means (1972); Stern (1984).
15. Interestingly enough, this figure was arrived at by the preexisting process of interethnic bargaining. Some Malay leaders had wanted a higher figure, closer to the Malay share of the population, but in the course of the discussions one of the two deputy prime ministers, Tun Dr. Ismail, who had also discouraged talk of nationalizing foreign businesses, is said to have hit upon the 30 percent figure, which other participants felt was 'fair.' From time to time in later years, higher percentages, closer to the Malay share of the population, have been suggested. See, e.g., *Far Eastern Economic Review*, July 9, 1987: 13.
16. 'What is required is a change of attitude and life-style – and hard work – if you are to progress like the other sectors of the economy.' Prime Minister Datuk Seri Dr. Mahathir Mohamad, speaking to Malay farmers and fishermen, quoted in *The Star*, August 4, 1984: 2. In the words of a leading UMNO politician: 'Actually, we are trying to change the character of the Malays, from peasants to business people. Their weakness is in management. Even if they have the capital, they don't know how to manage. They always find the easy way out.

They'll get something and sell it to the Chinese. ... There is no way they can escape competition with the Chinese.' Interview, Kuala Lumpur, July 6, 1984. For a scholarly evocation, see Parkinson (1967).

17. The term *Bumiputera* means 'sons of the soil' and includes Malays and the various indigenous peoples of the two Borneo states, Sabah and Sarawak. For present purposes, *Bumiputera* and *Malay* will be used interchangeably.
18. Two Malay civil servants operating in the NEP field: 'We need to educate the Bumi contractors and show them to be more proud of their work and not just to subcontract [to non-Malays].' Interview, Kuala Lumpur, June 15, 1984. 'Bumiputera should not get free things any more. We must change their attitude.' Ibid., July 4, 1984.
19. For a survey of public enterprises, see Affandi (1978). Several of the key NEP institutions are discussed in detail by Gale (1981).
20. Mara's chairman from 1967 on was Ghafar Baba, who in 1986 became Deputy Prime Minister. UDA's chairman from 1971 to 1978 was Tan Sri Datuk Ya'akob Hitam, brother of Datuk Musa Hitam, Deputy Prime Minister from 1981 to 1986. Pernas's chairman from 1970 to 1974 was Tengku Razaleigh Hamzah, Minister of Finance from 1976 to 1984 and also chairman of Petronas, the national oil company, and Bank Bumiputera. The chairman of Food Industries of Malaysia, was Datuk Seri Dr. Mahathir Mohamad, who became Deputy Prime Minister in 1976 and Prime Minister in 1981.
21. For surveys of these organizations, see Puthucheary (1982: 13–18); Khalid (1984).
22. Although ethnic employment targets were also laid down as part of the restructuring of economic function, there is no room here to discuss that subject. I shall, however, deal very briefly with some aspects of restructuring apart from ownership: licenses, government contracts, sales agencies, and professional services.
23. Very general *Guidelines for the Regulation of Acquisition of Assets, Mergers and Take-Overs*, published by the Foreign Investment Committee in 1974, had explained some of the events that would trigger corporate restructuring and had alluded to 'Bumiputera participation, ownership and management.' Government of Malaysia (1974). A Treasury circular of the same year laid down criteria for Bumiputera preferences in the allocation of government contracts. Treasury of Malaysia (1974).
24. The paragraph that follows draws on interviews in Kuala Lumpur on June 12, 1984; June 14, 1984; June 16, 1984; July 4, 1984; July 9, 1984; July 12, 1984; July 14, 1984; July 20, 1984; July 26, 1984; August 1, 1984.
25. See Treasury of Malaysia (1974). For performance figures, see Bahagian Penyertaan Bumiputera dan Kontrak, Kementerian Kerja Raya (1984).
26. Among the language and education issues that continued to be subject to interethnic negotiation were proposals to require an Islamic civilization course at universities and a course in the Arabic-derived Jawi script in schools. The proponents of both eventually backed off. For an MCA lament on the NEP, see Lim (1987: 23—37).
27. For very close parallels, see the discussion of policy spillovers in Kingdon (1984: 200—04). On the relation of fragmentation of authority to policy innovation, see Derthick and Quirk (1985: 255).
28. For example, in enforcing NEP sales agency requirements on companies, even firms that had already achieved more than a 30 percent Malay share of agencies were pressed to raise the percentage further, because of the certainty that 'some Bumis will give way,' that is, fail. Interview, Kuala Lumpur, June 14, 1984.
29. See notes 16 and 18, above.
30. Treasury Circular No. 7/74 (Treasury of Malaysia, 1974) required that a duly qualified Bumiputera firm be 51 percent Malay in ownership, management, and employment. As indicated earlier, some government decisionmakers went further, requiring 100 percent Malay participation for various purposes. With the specter of unfulfilled targets looming in 1990, a general policy change to raise Malay participation beyond 51 percent seemed attractive to central policymakers. Interview, Kuala Lumpur, July 23, 1984.

31. Ibid., June 14, 1984. In an 'Ali-Baba' firm, a Malay front man ('Ali') collects a fee, while a Chinese businessman ('Baba') does the work and reaps the major rewards.
32. The results are anomalous. In the small business sector, including such enterprises as travel agencies and petrol stations, where transfer of business skills from non-Malays would be most needed and most beneficial, non-Malays are most likely to be excluded altogether; for this is the sector where decisionmakers believe 100 percent Malay firms are most likely to survive. In the large business sector, where non-Malay expertise could easily be purchased by all-Malay firms, the 30 or 51 percent figure is more likely.
33. For several policy changes along these lines, see *Far Eastern Economic Review*, June 12, 1986: 17; ibid., September 25, 1986: 82; ibid., October 9, 1986: 12.
34. The managing director of MPH became president of the MCA in 1986, but he was forced to resign later in the year after his criminal conviction in Singapore. A close associate succeeded him as MCA president. For the evolution of MPH, see Gale (1985).
35. *Malay Mail* (Kuala Lumpur), April 25, 1987: 2. Since many businessmen have other occupations as well, these figures are surely not exact, but the thrust of the change is undeniable.
36. Bumiputera individuals owned 5.8 percent of share capital in 1980, 10.1 percent in 1985. *Far Eastern Economic Review*, September 25, 1986: 76.
37. For the conflicts this decision aroused, see Toh (1982: 242–43).
38. Some Pernas projects were being 'hijacked by private companies,' usually well-connected Bumiputera companies, in the judgment of some of the bureaucratic financial managers. Interview, Kuala Lumpur, June 8, 1984.
39. I have in mind here particularly the 1983 reversal of the prohibition on individual share allocations in firms subject to restructuring.
40. For the powerful part played by group anxiety in multiethnic societies, see Horowitz (1985: 160–84).
41. To be compelling, new interpretations and prescriptions must be able to be rendered in 'simple, symbolic, intuitively appealing terms.' Derthick and Quirk (1985: 247).
42. Compare Ashford (1978). As I said when I advocated the benefits of within-country comparison, however, I do not think it possible, on the basis of such data, to take a position on the other side of the Ashford-Rose coin – namely, to pronounce on the similarity or difference of the same policy *across* political systems.
43. For the proposition that interest groups are often created by new policy, rather than vice versa, see Katzmann (1986: 76).

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