

## Rules of the high-income economy game

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**We must regulate the way political, economic and social power is acquired and used if we want to join the big league**

MALAYSIA'S aspiration to be a high income economy comes with many assumptions. It assumes, of course, that the country will have high quality individuals (in all senses) to power the private and public sectors.

It assumes that it will have the physical infrastructure and governance institutions to support and energise the dynamic and innovative economic activities.

The above are the result of massive individual and collective efforts at hard work, discipline and personal sacrifices.

In Malaysia, we like to compare ourselves with the Japanese, Koreans, Taiwanese, etcetera, but rarely recognise the tremendous social and individual pressures involved. We merely assume that we have the social and psychological wherewithal.

The road to success requires finance and that means savings. We live in topsy-turvy times, where the great virtue of savings is virtually regarded as a curse.

Instead, money creation, consumption and debt are touted as the answer to the world's woes.

This is something that we will live to regret -- but more about this on another occasion.

Some Malaysian policymaking circles think they have the answer: it is total factor productivity or TFP.

TFP is usually seen as "free" growth, that is, growth that is not associated with more labour and capital. It is the result of working smart. But TFP is really not free and depends on all the factors mentioned above and more.

Perhaps the most critical assumption of all is that we have the rules of the game required for success. Known as new institutional economics, these encompass both formal legal rules, as well as informal societal ones.

You can think of them simply as the system of rewards and penalties. Corruption, for example, rewards bad behaviour and penalises good. That is why it must be eradicated in this country. So must under-performance, biased decision-making and all forms of political, economic and social sectarianism.

Everyone has vested interests but if allowed to pursue them without regard to the rules and society at large, success cannot follow.

The rules of the game must regulate the way that political, economic and social power is acquired, distributed and used in a productive and legitimate way. A failed state, after all, is nothing but one where the strong take what they can and the weak give up what they must. Think about it: if becoming a high-income country were merely a matter of enacting better laws, formulating better policies or creating more institutions, our task is relatively easy. We have the scintillating brains, leadership and administrators to take us there.

We have highly paid consultants to study, plan and advise us. We can buy and develop talent and know-how. We can replicate all the policies, structures and institutions that the West has and then some. Being high income should be a no-brainer.

And yet, we know that this is not the case. Success is not so superficially imitable. So what gives? Does economics or any other discipline for that matter have the answers? The rules of the game are important, as anyone from an international development agency with a global portfolio of experience will tell you.

Often, we hear complaints that it is not the law but its enforcement, and that it is not the policy but its implementation. I think this is worth closer reflection.

So why then are laws not properly enforced or policies well executed?

Three possibilities spring to mind. The first is the lack of institutional capacity and capabilities. This is perhaps the easiest to address, namely through proper training, careful recruitment and management and monitoring. The fastest-growing countries and companies are ones that give the highest priority to getting and managing the best of the best personnel.

A second is that there are conflicts of interest. Also known as policy capture, this is where the ones enforcing the rules have the same interests as those against whom the rules are being enforced.

Not surprisingly, this results in poor and compromised performance if any at all and must be separated legally, administratively and politically.

The third reason is that society does not take a dim enough view of the enforcer or the enforced. Just as a drug pusher or child molester is not highly regarded in society, social norms must ostracise those who act to society's detriment, as well as those that turn a blind eye. Mere wealth cannot, and must not, be taken as a reason for prestige and power.