

SPECIAL EDITION

ISIS FOCUS



• PP 5054/11/2012 (031098)

• Issue No. 7 • July 2013

In Memory of **DATO' DR MAHANI ZAINAL ABIDIN** (1954-2013)

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This special issue of ISIS Focus is dedicated to the late Dato' Dr Mahani Zainal Abidin, Chief Executive of ISIS Malaysia, who passed away on 22nd June 2013



INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA
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ABOUT ISIS MALAYSIA

The Institute of Strategic and International Studies (ISIS) Malaysia was established on 8 April 1983, in realization of a decision made by the Malaysian Government to set up an autonomous, not-for-profit research organization that would act as the nation's think-tank. ISIS Malaysia was envisioned to contribute towards sound public policy formulation and discourse.

The research mandate of ISIS therefore spans a wide area. It includes economics, foreign policy and security studies, social policy, and technology, innovation, environment and sustainability.

ISIS Malaysia today fosters dialogue and promotes the exchange of views and opinions at both national and international levels. It undertakes research in collaboration with national and international organizations, in important areas such as national development and international affairs.

ISIS Malaysia also engages actively in Track Two diplomacy, fostering high-level dialogues at national, bilateral and regional levels, through discussions with influential policymakers and thought leaders.

RESEARCH

Economics

Research in this area is generally aimed at promoting rapid and sustained economic growth and equitable development in the nation. We study specific (rather than generic) issues that concern the nation's competitiveness, productivity, growth and income. Areas of research include macroeconomic policy, trade and investment, banking and finance, industrial and infrastructure development and human capital and labour market development. The objective of all our research is to develop actionable policies and to spur institutional change.

Foreign Policy and Security Studies

The primary aim of this programme is to provide relevant policy analyses on matters pertaining to Malaysia's strategic interests as well as regional and international issues, with a focus on the Asia-Pacific Region. These include security studies, foreign policy, Southeast Asian politics and military affairs.

Social policy

Demographic and socio-cultural trends are changing Malaysian society and the social policy programme was established to respond to these developments. Research in this area is concerned with effective nation building, and fostering greater national unity. In particular, we look at issues involving the youth, women and underprivileged communities. In conducting its research, ISIS Malaysia networks with non-governmental organizations and civil society groups.

Technology, Innovation, Environment & Sustainability (TIES)

The TIES programme provides strategic foresight, collaborative research and policy advice to the public sector, businesses and policy audiences, on technology, innovation, environment and sustainable development. Its focus includes green growth as well as energy, water and food security. Towards this end, TIES has been active in organizing dialogues, forums, policy briefs and consultancies.

HIGHLIGHTS

ISIS Malaysia has, among others, researched and provided concrete policy recommendations for:

- Greater empowerment and revitalization of a national investment promotion agency;
- A strategic plan of action to capitalize on the rapid growth and development of a vibrant Southeast Asian emerging economy;
- A Master Plan to move the Malaysian economy towards knowledge-based sources of output growth;
- The conceptualization of a national vision statement;
- Effective management and right-sizing of the public sector; and
- Strengthening of ASEAN institutions and co-operation processes.

ISIS Malaysia has organized the highly regarded Asia-Pacific Roundtable, an annual conference of high-level security policymakers, implementers and thinkers, since 1986.

INTERNATIONAL NETWORKING

As a member of the Track Two community, ISIS Malaysia participates in the following networks:

- ASEAN-ISIS network of policy research institutes;
- Council for Security and Cooperation in Asia and the Pacific (CSCAP);
- Network of East Asian Think Tanks (NEAT); and
- Pacific Economic Cooperation Council (PECC).

It is also a partner institute of the World Economic Forum (WEF).

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Dato' Dr Mahani Zainal Abidin (1954 - 2013) Biography

The late Dato' Dr Mahani Zainal Abidin was the Chief Executive of the Institute of Strategic and International Studies (ISIS) Malaysia from January 2010 until her demise on 22nd June 2013. Previously, from May 2007 to December 2009, she was the Director General of ISIS.

Dato' Dr Mahani obtained a PhD in Development Economics from the University of London in 1992. She was Professor in the Department of Applied Economics at the Faculty of Economics and Administration, University of Malaya until 2007. Her research interests were industrialization and economic transformation, international trade and regional integration.

In 1998, Dato' Dr Mahani was appointed a member of the Working Group for the National Economic Action Council, a body established by the Malaysian Government to formulate measures to initiate recovery from the economic and financial crisis of 1997/98. In 2001, she was appointed as the Head, Special Consultancy Team on Globalization of the National Economic Action Council, and from 2005 to 2007 she worked as the Deputy Director-General, Department of Higher Education, Ministry of Higher Education Malaysia.

Dato' Dr Mahani was a Board Member of the Employees Provident Fund from 1998 to 2000, Deputy Chairman of the National Accreditation Board from 2003 to 2007 and a Council Member of the National Economic Advisory Council (NEAC) from 2009 to 2011.



Mahani Zainal Abidin

She was also a Trustee of Yayasan 1Malaysia, Commissioner of Land Public Transport Commission, Deputy President of the Malaysian Economic Association and Member of International Steering Committee for the Pacific Trade & Development (PAFTAD).

She is the author of *The Malaysian Crisis Management Model: Rewriting the Rules*, which was published in 2002.

Remembering the Prof*

ISIS Focus reproduces an article written by **Nor Zahidi Alias**, Chief Economist at the Malaysian Rating Corporation Bhd (MARC), in memory of Dato' Dr Mahani Zainal Abidin. The article was published in *The Edge Malaysia* on July 1, 2013.

Last Saturday (June 22) was a sad day for the Malaysian economics fraternity for it marked the passing of Datuk Mahani Zainal Abidin, CEO of the Institute of Strategic and International Studies Malaysia. A prominent intellectual, Mahani was a columnist with *The Edge* (her last article appeared in Issue 958). She was also known for the crucial role she played as a working group member of the original National Economic Action Council (NEAC) that was established in 1998 and headed by Tun Daim Zainuddin to formulate policies to deal with the 1997/98 Asian financial crisis.

Mahani was a dear friend who helped me understand the workings of a real economy (as opposed to the theoretical one), how policies were crafted and the politics involved in their formulation.

Working closely with Datuk Mustapa Mohamed, the then executive director of the NEAC after Tun Daim, Mahani led the team that monitored global economic developments that affected the Malaysian economy. She also studied regional policies and their potential influence on Malaysia's own policy direction.

Mahani ... helped me understand the workings of a real economy (as opposed to the theoretical one)

**Reprinted with permission from The Edge Malaysia*



Mahani Zainal Abidin

I owe a debt of gratitude to Prof — as I fondly called her — for her unwavering belief in me and for persuading my former CEO (when I was working at an investment bank) to let me assist her on the 'Globalization Team' in Putrajaya on secondment in the early 2000s. Of course, I also remain thankful to my then CEO who agreed to let me gain such invaluable experience with her team.

Working with Mahani was, without a doubt, an enjoyable experience. I am sure anyone who had this privilege would say the same. She expressed her opinions on economic policies candidly and with fiery passion. Yet she took the time to consider what others had to say, no matter how illogical their arguments were.

I recall to this day how fascinated I was with how she viewed various economic policies during my early discussions with her in Putrajaya.

I had initially thought (to my dismay) that there was nothing I could contribute to her team as she was so well versed in economics — evidently her greatest interest. However, even with her vast experience and hectic schedule, she made time to converse on the mechanisms of the financial market to have a better understanding of how it works and how it affects the real economy.

Mahani was intrigued by what she saw as a new "force" that had a significant impact on macroeconomic fundamentals — the interplay between market confidence and the financial market. She scrutinized the issue of capital flows more closely than anyone else I knew and tried to comprehend how confidence in the financial market was intertwined with other forces to influence macroeconomic fundamentals.

She frequently discussed the role of market confidence and the herd mentality that she believed were the root causes of the Asian financial crisis (AFC), although this was not a popular view at the time. But with the benefit of hindsight, we all know that she was actually way ahead of others in thinking about this issue.

Most economists now tend to agree that they have yet to understand the way financial market players behave and how they influence the real economy with their actions. I also shared her view on the contentious issue of market liberalization, on how critical the sequencing is and how detrimental it will be to rush into it without a proper regulatory framework and other considerations in place.

***She expressed her opinions
on economic policies candidly
and with fiery passion***



Mahani Zainal Abidin

Her deep thoughts on economic policies and how to deal with economic crises such as the AFC were captured in her book *Rewriting the Rules*, that was published in 2002. This is one publication that still manages to sustain my interest despite my having read it several times to understand what happened behind the scenes in 1998 when Malaysia was taking steps to combat the crisis. Her vivid description of the mood during the crisis clearly showed her humility in discussing human tragedies during a deep economic downturn.

Mahani's creative and imaginative ways of looking at economic issues deeply captivated me, such that I often quoted her in my articles and in my book *Musings of a Financial Economist* that was published in 2011. I remember personally handing her a copy of the book and thanking her

for allowing me to quote her as well as for inspiring me to publish a book in my name.

Mahani was always gracious in accepting my invitations to speak at conferences that I helped to organise in the past. The last one I recall is the CEO Breakfast Forum that my company, Malaysian Rating Corp Bhd (MARC), organised a few years ago at which Mahani was a special guest. She was undoubtedly a crowd puller at the forum.

Mahani was also kind enough to invite me on several occasions to present views on the financial market whenever ISIS organized special forums. We would always end up lamenting how unfair it was that the financial market seemed to be 'calling the shots' with regard to what policymakers should do to appease investors.

Mahani was a role model that economists should strive to emulate — she was an exceptionally good listener and did not just write or tell people what they should do when faced with economic difficulties.

I never had problems expressing my thoughts, no matter how unconventional, when

... market confidence and the herd mentality that she believed were the root causes of the Asian financial crisis (AFC)

discussing economic issues with her. She was an individual who was open to constructive criticism — a good counterbalance to her candid nature when assessing other people's ideas. It will not be easy for me or my peers to find someone like Mahani with whom we would feel at ease with engaging in open discussions on the pros and cons of our country's economic policies.

I feel tremendously blessed to have known Mahani all those years and I know anyone who has shared even a small part of his working life with her will feel the same. We have lost a great thinker, an individual who was fiercely passionate about her work and, most of all, a good friend. We will miss her dearly. May Allah bless her soul. *Al-Fatihah*.

A Life Well Lived

By Steven Wong

Senior Director, ISIS Malaysia

They say that a life well-lived is a life well-loved, that the business of life is not just about being busy with personal achievements but also about building up those around us. So often, purposes and processes are divorced from the very people supposed to perform them. Worse, people are, at times, considered material to be used, exploited and discarded.

Like many public personalities, Dato' Dr Mahani Zainal Abidin lived her profession. She was an economist and passionate about what she did. And she was comfortable with whom she was. Whirlwinds of activity were not unusual whenever she was around. In stark contrast to those who were complacent, compromising and disorganized, she was decisive, persistent and meticulous.

While she often tolerated fools, she did not accept shirkers — those who took much and gave little in return. Her standards did not allow it. Personal popularity was not particularly high in her list of priorities. More than once, we listened as she shared her distress at shameless self-serving behaviour. More than once, she acted hard on those who had used and abused the system.

But there was another side to her that soon became obvious to those who knew her — a kind, gregarious and generous side. One that took you in, made you feel at home, and proud that she had taken you into her confidence. This was not restricted to subordinates but included her many professional friends and acquaintances as was evident from the many spontaneous and genuine outpourings received after her passing.



(From left) Steven Wong and Mahani Zainal Abidin

Her worldview was greatly shaped by her discipline, more specifically trade and development economics, and by her deep and quiet confidence in her Islamic faith.

When asked what the source of her greatest satisfaction in her career was, she pointed to her being made a member of the Working Group of the National Economic Action Council. Clearly, this was a defining moment, for it thrust an academic into the public policy arena, with all the responsibilities that came with the position. This experience enabled her to get an up-close and personal encounter with economic policy as practiced rather than merely taught. One cannot say for sure what would have been her trajectory had this not occurred, but I would venture that it would have left us all the poorer.

*The future is not known to us,
so the door that closed may not
have been all that we expected
of it, and the new path is in
any case our rezeki*

Although much less read today than it deserves, her book, *Rewriting the Rules: The Malaysian Crisis Management Model*, stands as an intellectual contribution to the whole issue of economic crisis management. Her other published articles on trade and investment, regional integration, labour markets and infrastructure do the same. In the later part of her career, with the weight of organizational responsibilities on her, time for research was constrained but she still

managed to produce a steady stream of articles and papers that were well-received.

I am fortunate to have been able to call Mahani a friend for over ten years and a colleague and superior over the past five.

Besides economics, she also taught life lessons, including this one in her own words:

'In life there are many challenges. I would not call them failures. I believe when a door closes, another one opens, because Allah SWT is most compassionate. It is then up to us to make the best of this new path. The future is not known to us, so the door that closed may not have been all that we expected of it, and the new path is in any case our *rezeki* (the path meant for us).'

Goodbye to a Mentor and a Friend

By Nor Izzatina Abdul Aziz

(former ISIS Researcher)

Saturday, June 22, 2013

'The world is often unkind to new talent, new creations. The new needs friends.'

Anton Ego (Ratatouille)

In the first year of my undergraduate study, I told people that I wanted to work in a think tank. For some reason, my words came true (and my exam results were strong enough for me to realize that dream). I managed to become employed in a think tank. In my four years and six months at ISIS Malaysia, I realized that securing a dream job meant nothing if you were not welcomed as part of the 'tribe.' And Dr Mahani Zainal Abidin was the head of this tribe.



My favourite picture of me with Dr Mahani

My first introduction to Dr Mahani was as a student of the Malaysian economy. Her book, *Rewriting the Rules: The Malaysian Crisis Management Model* made me realize how important it is for the economic lessons learned in the classroom to be translated into clear actions. Despite the clear-cut solutions presented in this textbook, her book is an example of why economic policymaking is an art, a process, the outcome of which can be uncertain.

The book was based on her experience as a member of the Working Group of the National Economic Action Council (NEAC) formed during the 1998 Asian Financial and Economic Crisis (AFC). As you may recall, the proudest moment of the NEAC's existence was when it convinced the nation that Malaysia could ride the AFC without the help of international bodies like the International Monetary Fund.

One of the questions that Dr Mahani asked me during my job interview was, 'Why do you want to work in ISIS?' My answer was, 'because I've always wanted to work in a think tank.' I got my bubble burst a few weeks later when my boss, Steven Wong, Director of Economics in ISIS, made this remark, 'Sometimes, you like the food in a restaurant. Then you work in the restaurant's kitchen and find out that it is a messy process.'

In this respect, I've learned the importance of being coy. Coyness in this case need not be a bad thing, but rather, can be an advantage, especially if you are dealing with a multitude of audiences, ranging from politicians to the ordinary Pak Mat on the street. You will need to break down your point of view and disseminate it in a variety of forms, so that in the end, the

Dr Mahani tried her best to bring the world of academia and policymaking together

person on the other side changes his or her perspective while believing he or she arrived at this new perspective on their own. I admit I never really mastered the process but I'm glad that I got to see it being done by a master. I still don't know whether to call it coyness or a Jedi mind-trick.

Formerly an academician who worked on international trade and economics, Dr Mahani tried her best to bring the world of academia and policymaking together. We worked together on issues that required instant solutions and those that would be important in the future. However in an institution that employed only around 20 thinkers there was only so much that we could do.

There were times when I felt that, as an institution, we could do more, but she often brought me and my youthful notions down to earth. It took me awhile to realize that there is a clear distinction between throwing my efforts in different directions and on focusing on a specific area. As an economist-in-the-making, one is always hammered with the term 'trade-off' but once it is in front of you, you 'freak out.' In a way, we traded a small multitude of issues for a singular vision and dream. I wish I had learned this lesson earlier.

I admit I made a lot of mistakes in ISIS and I am glad Dr Mahani was there to correct some of

them (she even corrected my grammatical errors). She was kind to the new. She took a lot of young researchers in and provided them with many avenues to interact, and to shape each others' views. She started the tradition of yearly presentations for the research staff. I did not do very well in most of my presentations. I must say she took a risk on a 'newbie' like me, without a graduate degree and with mediocre writing skills; she 'shaped' me. She opened up many doors for me, such as when she wrote countless reference letters for my scholarship applications. I'm now in Nottingham University due to the last recommendation letter she wrote.

We also had some adventures together. I still cannot forget the time when she fearlessly took me gate-crashing at an event we didn't RSVP to (the trick is to walk in with confidence). Then there was the time she saved me when she bailed me out in Bangkok after I got my pocket picked.

I'm going to miss dropping by at her office around 6pm everyday and talking about small and big matters. I'm going to miss her laugh. Most of all I'm going to miss her admonitory tone of 'Izzatina!' whenever she was exasperated with me.

I never managed to say my last goodbye to her, physically. Being currently more than ten thousand kilometres away in Nottingham, UK, this essay is my way of voicing my feelings on a friend and a mentor.

Goodbye, Mahani, I wish you all the best in the afterlife.

The Eternal Optimist*

*Datuk Dr Mahani Zainal Abidin, ISIS Chief Executive tells **Sharmila Valli Narayanan** the relevance and importance of think tanks like ISIS for Malaysia, what Malaysia did right, where it went wrong in our push for industrialization and explains why Scarlett O'Hara is her role model. This interview was published in Malaysian Business on April 1, 2012.*

Oprah once said that 50 is the new 30. Datuk Dr Mahani Zainal Abidin, the Chief Executive Officer (CEO) of the Institute of Strategic and International Studies (ISIS) Malaysia, certainly embodies that. At 58 but looking a lot younger, she has the drive, passion and energy of a 30-something. She has a pleasant face and warm demeanour that must have made her a much-liked professor at the Faculty of Economics and Administration at University of Malaya where she served for many years and made her mark via her research and writings.

Mahani had a happy, well-grounded childhood in Johor Bahru. She was the second child and the eldest daughter in a family of two brothers and three sisters. Her father was a civil servant who believed that girls should be given equal opportunities as boys to further their studies. He also insisted, which was unusual for fathers of that time, that his daughters had to be financially independent, should be able to take care of themselves and not be dependent on their husbands. 'My parents were not wealthy. They recognised the value of education. They knew that education was the only way for us children to improve our standing in life,' reveals Mahani.

Mahani entered University of Malaya where she did a degree in Economics. She later got her PhD in Development Economics from the University of London. Mahani would have spent her life as an academician but fate had other things in store for her. Her sterling reputation in her field of research attracted the attention of the



Mahani Zainal Abidin

Government, and during the Asian financial crisis in the late 1990s, she was appointed a member of the working group for the National Economic Action Council in 1998. This was a body established by the Government to 'formulate measures to initiate recovery from the economic and financial crisis'.

The Government must have been impressed with her performance because Mahani never went back to the life of an academician at the university. She was given other posts such as Head, Special Consultancy Team on Globalisation of the National Economic Council in 2001; Deputy-Director General of the Department of Higher Education, Ministry of Higher Education from 2005 to 2007 and Director-General of ISIS from May 2007 to December 2009. She has been the CEO of ISIS Malaysia since January 2010.

**Reprinted with permission from Malaysian Business.*



One of the attractions of ISIS for Mahani was that it brought her back to what she loved: research and policy advocacy. 'A good friend of mine from Japan told me that nothing is more important than ideas at the right time,' says Mahani. 'He said that ideas can really change things, especially if they are adopted. He further said that working with a think tank like ISIS would give me the opportunity to influence directions with ideas, something that I would find to be very satisfying.'

Coming to ISIS is in a way like coming full circle for Mahani. 'It is part of my career that I would like to do now,' she explains. 'To think of ideas and hopefully, to be able to participate in the formation of ideas is something very close to my heart. Back in the university, the kind of research I did was more of academic research. ISIS has given me the opportunity to do research work in terms of formulating policy. I also wanted to get back to my research network. When I was in the university, I was working with people outside the country and with international agencies. With ISIS, I am able to engage actively with my networks again.'

Although ISIS has been a very satisfying career move for her, she does admit that being in a think tank is quite challenging and different. She explains the dilemma faced by think tanks. 'You must voice out your ideas, you must try to influence the powers-that-be but you are without authority and you have limited financial resources.'

ISIS was established in 1983 as the premier think tank of the nation. It was very influential in its early days. It had played a major part in the formulation of Tun Dr Mahathir Mohamad's Vision 2020. There is a perception among some quarters that over the years, ISIS's influence and importance as a think tank has somewhat waned.

Mahani thinks otherwise. It is not that ISIS's importance has lessened, she says, it's the scenario that has changed, with the emergence of other think tanks such as the Centre for Public Policy Studies (CPPS), the Asian Strategy & Leadership Institute (ASLI) and the Institute for Democracy and Economic Affairs (IDEAS), to name a few.

The emergence of the Internet has also created a different set of players like the bloggers who are all giving their ideas on how things should be done. 'The new media

It is the development of human capital that will make a country competitive on the global stage

is able to come up with faster response to issues. It's easier for the netizens to say what they want because they are rarely backed up by hard facts,' continues Mahani. 'When we say something, we must be able to defend it.'

'ISIS still has a role to play in society,' insists Mahani. 'The Government, private sector, foreigners, etc, still ask us for opinions and value our input. Society is much more open now and wants an objective third-party view, so a think tank like ISIS has a role to play. We at ISIS don't shout our ideas at the top of our voices for everyone to hear. We believe there are other methods that are equally effective in how we communicate our ideas. I hope society appreciates our role.'

When she was in academia, Mahani made her name in her area of specialty, which was industrialization and economic transformation, international trade and regional integration. Looking back at Malaysia's industrialization policy from the 1970s, what did the country do right and where did it go wrong?

'Malaysia was right to encourage investment in the manufacturing sector and to focus on an export-oriented industrialisation strategy,' explains Mahani. 'This outward-looking strategy made us competitive.'

Where it erred was in not linking up its export industry with the domestic industry. 'What we have now is a domestic industry that serves the domestic market. We did not use the export

industry to upgrade our own domestic industry so that the domestic industry would be a big player in the export market as well,' says Mahani.

She is pleased that under the Economic Transformation Programme (ETP), a lot of emphasis has been put on the development of human capital. 'It is the development of human capital that will make a country competitive on the global stage,' she says.

Besides doing research, Mahani is happiest when she is pottering around her garden. 'Gardening is my hobby. It helps me create something. If I had another life, I would probably be a landscape artist,' she says with relish. Her family life is another thing that she is proud of. She has one son who is an engineer. 'I am happy to say that I am one of those women who are able to have their cake and eat it too,' she says with a smile. 'I'm very lucky in that I have a very interesting career and a good and happy family. My husband and son have been very supportive and understanding of my career.'

What has life taught her? 'Tomorrow is another day,' is the surprising answer from Mahani. It is a famous line from the novel *Gone With The Wind* uttered by its heroine Scarlett O'Hara. 'Scarlett O'Hara is my favourite heroine,' reveals Mahani, her eyes twinkling. 'Her optimism in the face of adversity is remarkable. Her belief is that however bad things are today, tomorrow it can change for the better. She was one plucky lady,' says Mahani in admiration.

On a more serious note, she continues, 'Like Scarlett, I am always optimistic. It is something that I have learned along the way. If you are not optimistic, you cannot overcome obstacles. One way of overcoming these obstacles is to believe in oneself.'

I am always looking at the positive side of life. That way, a problem does not become bigger or worse,' she says with a smile.





What Money Can't Buy*

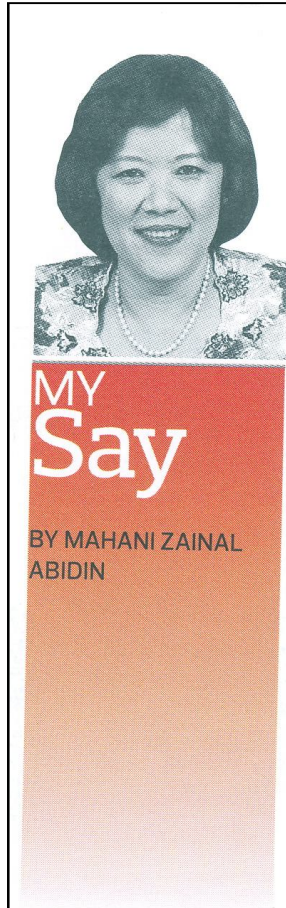
Should we sell citizenship to immigrants who have the ability to pay? Should we pay children to read books or to get good grades? Should we allow corporations to pay for the right to pollute the atmosphere?

These questions go beyond the usual debates about incentives, allocation of resources or the right price. They are about the morality of the market. Economists tend to think price is the ultimate arbiter of economic choice and efficiency. However, we can see the role of price growing and spreading to other non-economic domains.

There is a moral dilemma if everything has a price. Do we want to live in an era where money can buy everything? Michael J Sandel raises these questions in his recent book *What Money Can't Buy: The Moral Limits of Markets*.

Sandel surveyed the social and economic trends of the last three decades and concluded that market values have crowded out non-market norms in many aspects of our lives. In other words, there are many things we can now buy, which, until recently, were not for sale.

For example, in some US cities, non-violent offenders can pay for a prison cell upgrade, women are paid to become surrogate mothers and in South Africa, rights to kill a limited number



of rhinoceros are sold to act as an incentive to ranchers to protect the endangered species. In each of these cases, long-held social notions about inherent worth and morality have been replaced by a simple market value — price.

The transformation of non-market norms into market values must be seen in the context of ever increasing market thinking in economics. Since the collapse of other economic systems, the tendency of the market economy or capitalism has been to put a monetary value on a constantly expanding list of goods, activities and standards.

Turning to markets is appealing. Markets do not pass judgement on the preferences they satisfy and they are efficient in finding solutions. They do not have a view on whether the value of goods is higher or worthier than that of others. If someone is willing to pay, then the question is how much.

However, not all things can be decided or resolved by putting a monetary value on them. Moral, ethical and civic issues should also influence how societies behave and function. If we allow the market to decide most things, then without realising it, we may drift from market economy to market society.

Moving from non-market norms to market norms can worsen inequality. Take standing in line to purchase a house in a new property development. Should the line be limited to genuine potential buyers or be for anybody, for

*Reprinted with permission from *The Edge Malaysia*, 12 November 2012.

example, a student hired to queue on behalf of busy, well-heeled buyers?

Market proponents will say getting students to queue on behalf of homebuyers is most efficient. Both the student and homebuyer maximise their time. But what if the students are queuing for speculators who quickly resell for a fast buck? This is unfair to people who really need houses while the speculators rake it in. The willingness to pay for a product or service does not equate someone who values it highly.

Markets can also sway the social norms of goods or activities. A case in point is how fines or fees affect people's behaviour. A thin line separates fines from fees. Fines register moral disapproval whereas fees are simply prices that imply no moral judgement.

Sandel's book gives a good example of this. Childcare centres in Israel face a persistent problem of parents coming late to collect children. To solve this problem, the centres imposed a fine on latecomers. But the result was the opposite of what was desired or expected.

Late pick-ups doubled instead of dropping. This was because parents now considered late pick-up a service for which they were willing to pay. They no longer felt guilty about imposing an inconvenience on the teachers. The parents treated the fine like a fee.

The centres responded by scrapping the fine and again expected the parents to feel morally bound to collect their children on time. Unfortunately, the number of late pick-ups remained high because the spell of ethical responsibility had been broken. Once the old "norm" of collecting on time was 'marketised,' it proved impossible to revert back.

At home, a good illustration of market and nonmarket values would be the highly controversial Automated Enforcement System

(AES). We have a perennial problem with traffic offences, particularly speeding. Many programmes and operations have been introduced, but road accident numbers do not seem to be falling fast enough. AES is the latest effort to deal with this problem. But I am not sure if it is the ultimate solution.

Like the Israeli parents, many Malaysian drivers treat speeding fines as fees. By paying for committing the offence, they feel they have bought the right to cast aside the moral aspects and danger of their misdeeds, which might lead to an increase in road accidents that cause serious injury or death. Some affluent drivers consider speeding tickets as part of the cost of owning high-powered vehicles and for testing a car's limits.

We, as part of Malaysian society, must consider this matter seriously. Perhaps, fees and fines will never be the solution. We should combine monetary disincentives with other non-market norms. The fear of social disapproval is a stronger force than mere cash.

One cash-based approach that Sandel cites is likely to catch the attention of wealthy drivers of high performance cars. In 2003, Jussi Salonoja, the heir to a Finnish sausage business was fined €170,000 for driving at 80kph in a 40kph zone. This fine was calculated on the income of the offender. Of course, the widely used method to deal with persistent traffic offenders is to ban them from driving. The fact that money cannot buy the right to drive is a very effective incentive to make people toe the line.

Therefore, the design of incentives or disincentives is very important in influencing behaviour in a market economy. As acknowledged by Steven Levitt and Stephen Dubner in their book *Freakonomics* (2005), 'incentives are the cornerstone of modern life' and 'economics is, at root, the study of incentives.'

Why should the market mechanism that decides the efficient allocation of resources bother us? Such practices maximize usage and are the ultimate expansion of individual freedom. However, there are failures in allocating goods — markets also express and promote certain attitudes towards the goods and activities being transacted. Some good things in life can be corrupted or degraded if turned into commodities.

So, in deciding where the market belongs and where it should be kept at a distance, we have to decide how to value the goods and norms

that are dear to us. We should discuss and agree on the basis of the non-market norms that we want to defend. If not, we will face an uphill battle in diminishing the power of price.

Sandel concludes by saying: 'Ultimately, the question of morality of the market is about how we want to live together. Do we want a society where everything is up for sale? Or are there certain moral and civic goods that markets do not honour and money cannot buy?'

This is something that is worthwhile for Malaysians to think about.

Published Works of Dr Mahani Zainal Abidin

A Select Compilation

By

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Dato' Dr. Mahani Zainal Abidin was a well-known economist and a respected academic. During her 30 years in public service as professor, senior policy-maker, government advisor, and finally, as chief executive of Malaysia's leading think tank, she has written a long list of high quality and well-read publications and other written work. She was also often invited to speak at conferences and to address scholars, the business fraternity and students. She was sought after by the media, and frequently appeared on television and the radio.

This bibliographic listing is representative of her life-long love and devotion to advancing the field of developmental economics.

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