



UNIVERSAL VALUES OF DEMOCRACY AND MARKET ECONOMY

Dr. Anwar Ibrahim

Former Deputy Prime Minister of Malaysia

What is economic reform?

Let me begin by reflecting on the East Asian experience, because I think it helps stress some of the countries in the more contentious region, the Middle East and Afghanistan. Now, you remember the East Asian “economic miracle” report by the World Bank. Notwithstanding that some of these countries were certainly not democratic, some soft authoritarian, or some “illiberal democracies” to use Fareed Zakaria’s description. But they all believe, to an extent, in the role of the private sector and private enterprises. And they have been clearly proven to be right, to a large extent. These countries propelled the growth, which was certainly impressive. And that by itself opens up a new horizon in terms of outlook and thinking. They crave for more reform, more freedom, which in the discourse here is called democratic rule.

The need for more democratic rule

Some of my friends in the Middle East say, “Why do you need to use the term democracy?” I say, you can use any other term as long as you talk about freedom of conscience, freedom of expression, freedom of association, rule of law, separation of powers, etc. So we have seen that. But the flaw, which is relevant in our discourse today as we see this Asian economic miracle, is: when you talk about sound and strong macro-economic fundamentals in East Asia at that time, you cannot preclude the principle of the basic rule of freedom and human rights. Because then citizens continue to ask: why propel the economy if you don't ever consider the issue of justice, when you deny basic rights to your people? That was the discourse that finally emerged as a major conflict in the civil society and among citizens. The more the country moves forward and progresses, then they're more open to new horizons, new ideas. And the issue of freedom is certainly something that is very passionate to most people.

True market economy is about freedom

I was one of the few finance ministers in the region at that time that cautioned the World Bank. I happened to chair the Development Committee of the World Bank and the IMF at that time. I cautioned them against this euphoria about the miracle, when the term “miracle” is clearly misleading. Because what’s so miraculous when you have, even in China, four-fifths not touched by globalization, and clearly half at that time in near abject poverty? What is so outstanding even about Malaysia? Because I know as Finance Minister I was pushing ahead some of the programs like public housing, quality



education, health, and basic infrastructure to half of our population. So the term “development” is acceptable, “progress” is acceptable, but “miracle” and “strong macro-economic fundamentals” are certainly misleading. So it is a very, very important point for us to learn that when you talk about market economy, you talk about freedom.

The Malaysian experience

Again, let me reflect upon the past. I am getting old, so you reflect about the past a bit more. When I was pushing in the budget speeches on the need to lower taxes, it was not necessarily very popular, because you know that I had some differences of view with my then-boss. He wanted enough resources and funds to pursue mega-projects. He wanted to have the longest bridge in the world, tallest building in the world, biggest dam in the world, largest city in the world. And here I was trying to lower taxes, because I thought only through lowering taxes you can increase productivity. And the priority should be the best quality education in the world. It should be better if it is not among the best. Or best public services, or the best infrastructure, or IT, instead of this huge infrastructure. So I quoted not Adam Smith but Ibn Khaldun in order to encourage greater productivity of the masses.

Good governance as a universal value

Because Malaysia is a multi-racial, multi-religious society, I had to use Ibn Khaldun and Wang Anshi, the Chinese reformer of the Northern Song Dynasty, talking about the same issues: about governance and the need for order. Of course the terms *accountability*, *transparency*, *deregulation* were not the terms used. But certainly they were talking about good governance, talking about anti-corruption measures, and the need to lower taxes and not burden the society with high taxation. What I’m trying to say is that the overall prescriptions is right, but let countries, societies, and cultures navigate their own way with some minor adjustment. The danger is always that with this flexibility people without these ideas may use or abuse this to defend repressive measures or action in order to propel the economy but protect the cronies and the corrupt. So that is the first point.

The legacy of Adam Smith

I was in Florence this last week with Amartya Sen, Emma Rothschild, and Michel Camdessus. We are four crazy people trying to think and solve the problems of the world. But it’s interesting, that sort of discourse – just the four of us talking from morning to night on these issues. And of course development and freedom is the key, all four of us share that view. I felt very excited having a chance to engage with these old friends. Emma Rothschild brought up this whole new discourse, the need to reinterpret Adam Smith and *The Wealth of Nations*. I said I remember arguing with some professors of economics when they were teaching students by just taking few excerpts from Adam Smith’s *Wealth of Nations* without insisting that students actually have a clear



understanding and comprehension of the entire thesis of Adam Smith: not only of *The Wealth of Nations*, but also *The Theory of Moral Sentiments*.

The need for values in the free market

Because when you do that, then you can counter this whole view about the excesses of capitalism motivated by greed, with which now many of us in the developing world associate globalization, capitalism, and free market as laissez-faire market that would be corrected by itself. You don't need to use any other classical text to counter that argument because Adam Smith is compelling in his argument in defending free market, but also citing clear cases of excesses. He is reminding us about both the invisible hand and the need to be protected [from excesses], on condition that moral and ethical values are clearly embedded. And this is also well articulated in the views of John Ruggie when he talks about embedded liberalism in that context.

In defense of free markets

Now why I bring this issue forward is just to suggest that finally this whole polemics about the pros and those against the free market is unfortunately gaining some ground. My concern about excessive criticism of the IMF and the World Bank – like I'm thinking of Joseph Stiglitz in his *Globalization and Its Discontents* – is that it will give a basis, a pretext for those authoritarian leaders who are against free market to use this to either deflect the issues or not to focus on the entire issue of the need for free market. Because I think if you want to succeed, no way can you compromise on the need for free market as a system. If you want to succeed economically, it does not matter what the U.S. administration has to say. To me, it's clearly irrelevant. To survive – whether you are Muslim, or Hindu, or Christian, in developing world, or developed world – to survive, you must be committed to a free market economy. You must be committed to the basic principle of freedom. I think it is better to take up this discourse at this level instead of just being defensive or apologetic.

Markets and the distribution of wealth

And those of us who believe in this principle of freedom and private enterprise in order to propel economy forward must do so with a strong sense of conviction and with enough confidence based on our own track record. When I was a young student at the University of Malaya in Kuala Lumpur, we were a bit – not far – but left of center. By the time I was Finance Minister, my old colleagues, some of whom became professors, said “You used to say this and that – what about your principle of distribution, have you forgotten it?” I said, my dear professor, I still remember. But those days, we just stopped with distribution. We realized we were distributing poverty, because there was no growth. So now I am still not far from the Rawlsian distributive justice principle, although I am aware of the Rawls-Nozick debate. But at least, if you propel the economy, empower



people, and encourage free enterprise, then you distribute wealth. You can ensure that the marginalized, the poor, the downtrodden, will benefit immensely if you propel the economy.

The views expressed by the author are their own and do not necessarily represent the views of the Center for International Private Enterprise (CIPE). The Center for International Private Enterprise grants permission to reprint, translate, and/or use in the classroom the materials available through the CIPE Development Institute website provided that (1) proper attribution is given to the original author and to CIPE and (2) CIPE is notified how and where these materials are used.

*Center for International Private Enterprise
1211 Connecticut Ave NW • Suite 700 • Washington, DC 20036 • USA
ph: (202) 721-9200 • www.cipe.org • e-mail: education@cipe.org*