

Khazanah Megatrends 2010

**Common Values
Commons Valued**

Closing Keynote Address

by

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Distinguished guests,

Ladies & Gentlemen.

1. It gives me great pleasure to deliver the concluding address for the Khazanah Megatrends Forum 2010. I must commend Khazanah for feasting us over yesterday and today, with a distinguished and international mix of speakers, who have provided diverse perspectives, provoked fresh ideas and shared inspiring experiences. The Megatrends Forum is increasingly establishing itself as a not to be missed annual event for critically minded Malaysians, and as part of the broader agenda to build up our knowledge base, which unlike a physical resource, can be used and shared without diminishing.

2. The theme for Megatrends 2010, *Reclaiming the Commons: Collaborating and Competing in the New Economic Order*, is especially timely and relevant to consider, as the world moves out of the recent global crisis to establish a new normal. Earlier, during the depth of the crisis, it was commendable how nations across the world

were able to join forces and respond decisively. Such united action undoubtedly helped avert a deep depression. However, as the worst has passed, collective commitments are waning. Even before global recovery is firmly rooted, many developed nations face increasingly opposing views on the merits of continued stimulus. Plans to dramatically reform the global financial architecture have gone quieter. We now have increased calls for protectionism. Nations, which were active collaborators not so long ago, are potentially descending into zero-sum-like competitive behaviour.

3. There has been increasing scientific evidence on global warming, coupled with greater awareness, in part, through documentaries such as Al Gore's *Inconvenient Truth*. Despite the fate of the world at risk, the Copenhagen Summit did not inspire with the level of global cooperation displayed. Are we destined to suffer a Tragedy of the Commons at a global scale through our inability to work together to safeguard the earth's environment? How do we avoid our impending self-made disaster?

4. One could not be blamed for despair or for having a bleak outlook. However, I wish to offer hope. The reason

for optimism is because the solution for the challenges we face is already with us. It is not contingent on the discovery of any new groundbreaking technology or a completely new mode of human interaction. I would contend that it is through values, not unfamiliar to us, that we can safeguard our future. My speech today is titled, *Common Values, Commons Valued*. The values I wish to focus on are:-

- first, valuing the long term,
- second, cultivating a community-based culture, and
- third, ensuring a sense of justice.

If these values are collectively embraced and commonly practised, it would facilitate greater cooperation, especially in terms of safeguarding mankind's commons and its future.

Tragedy of the Commons

Ladies & Gentlemen,

5. The definition of a common resource is that it is available to everyone, such as the fish in the sea. Aristotle had said, *for that which is common to the greatest number has the least care bestowed upon it*. Basically, something owned by everyone, is looked after by no one. It was Garrett Hardin, an ecologist, who in 1968, clearly articulated *The Tragedy of the Commons*. Hardin presented the scenario of a communal pasture shared by a group of herders. Logic suggests that since no individual herder owns the commons, none has the incentive to act sustainably, resulting in overgrazing of the pasture and, ultimately, the destruction of the commons, to the detriment of all the herders.

6. In the words of Hardin, *Therein is the tragedy. Each man is locked into a system that compels him to increase his herd without limit -- in a world that is limited. Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons*. This is in stark contrast to Adam

Smith's invisible hand, whereby those championing laissez-faire economics would claim that individual self interest results in an optimal outcome for all. Clearly in the context of the recent global financial crisis, unfettered greed pursued in global financial markets has not proven optimal for everyone. Competition must be tempered.

7. Whilst we have always had commons, the problem has become more acute today, principally due to technology and globalisation. Overgrazing of medieval commons was constrained by disease limiting the size of herds and transportation costs limiting the number of people accessing the commons. Over time, technology has progressed and multiplied our capacity to plunder our resources. Whether it is global financial markets, fish in the sea or forests, these have become global commons, now people from all over the world are able to access and overconsume these resources. With globalisation, mankind has become more interdependent on each other and our fates are increasingly intertwined. If only we could collaborate!

8. The analysis of the tragedy of the commons offers a logical but bleak conclusion on mankind. We are not able

to cooperate, even when it is in our collective interest to do so. The tragedy of the commons implies that there is either a need to assign property rights or introduce regulations to enforce desired behaviour. However, there are limitations to our ability to assign ownership rights over commons such as the air, in order to control pollution, or effect national regulations given the increasingly global nature of commons.

9. In contrast to the pessimism that commons are doomed to tragedy, some optimism is offered through the work of Elinor Ostrom, winner of the 2009 Nobel Prize in Economics. In her words, we are not *helpless individuals caught in an inexorable process of destroying our own resources*. Her field work provides various real life examples of communities, ranging from Nepal, Kenya and Guatemala that self-manage common resources through institutions that support cooperation. In Malaysia, we have our own example, being the Tagal system, a Dusun tradition of river conservation practised in Sabah and Sarawak, which involves the prohibition of fishing for one or two years, to help replenish the stock of fish.

10. Ostrom's work highlights the various factors in common among the communities able to collaborate to self-manage their communal resources. Drawing inspiration from these factors, my proposition is that we can achieve greater cooperation in addressing the major global challenges we face, through three core values, namely long termism, a community based culture and a sense of justice.

Valuing Long Term

Ladies & Gentlemen,

11. Valuing the long term is the foundation for cooperation. If individuals care little for the future, they would not invest in cooperating today. Elinor Ostrom cites the example of *when local users of a forest have a long term perspective, they are more likely to monitor each other's use of the land, developing rules for behaviour.*

12. Having a long term horizon promotes success at all levels, whether for individuals, community or nation. The value of long termism at the individual level is demonstrated in a study initiated at Stanford University during the early 1970s, known as the *Marshmallow Test.*

The study involved children aged 4 to 5 years old being offered one marshmallow and told that they could either eat it immediately or if they were willing to wait for a few minutes, they would instead get two marshmallows. The initial goal of the experiment was just to assess the process of self control by children. However, the test subjects from the initial experiment were subsequently tracked to see how they performed later in life. Overwhelmingly, the children who were able to delay gratification and hold out for a longer period, were found to have been more successful as adults, in terms of higher school grades, success at work and even personal life.

13. Traditionally, nurturing self control has taken the form, for instance, of getting children not to snack before dinner, study for examinations and save up allowances. Marshmallow Test researchers concluded that such nurturing can and should be reinforced to strengthen the ability of children to resist short term desires and focus on long term gains. The message basically is that learning to delay gratification helps promote future success and fulfilment. One can only wonder whether the preoccupation on short term performance and rewards, particularly in the financial sector, is the undoing of individuals and our financial system.

14. What is beneficial for an individual should also yield returns to the nation as a whole. In terms of thinking long term, there is a Greek saying that, *a society grows great when old men plant trees whose shade they know they shall never sit in*. I recently had the pleasure of meeting Dr. Montek Singh, Deputy Chairman of India's Planning Commission and also an important architect of India's economic reforms. More than two decades ago, the Indian economy was viewed as a laggard and associated with the Hindu Rate of Growth (3 percent or less) and license raj. Since the 1990s, India's economy has been revolutionised. The growth rates enjoyed in recent years culminated from the seeds of reform planted in the early 1990s. What is most impressive about India's reform is that it was undertaken in a context of a vibrant democracy.

15. The important lesson from India is that first, one needs to have a long term horizon in driving a reform agenda and delivering results; and second, Governments have a duty to think and plan long term, even if subject to short term electoral cycles. A responsible Government is one that leads the country forward, by taking a long term view beyond just the interests of current voters, by also taking into account future generations.

Community Linkages

Ladies & Gentlemen,

16. If valuing the long term is the foundation to achieve cooperation, developing a community based culture is the glue for cooperative behaviour. We need a sense of community that extends beyond small local communities and able to transcend national boundaries, if we are to address global commons. The example of the hawala system of money changers is instructive. Hawala money changers have effectively established an international community network, which has 3 important features,

- First, importance is placed on being part of the community or network,
- Second, transactions are undertaken based on trust, and
- Third, social sanctions are in place to discourage undesirable behaviour.

17. The Hawala System is believed to date back to the Middle Ages and supported trade between the Muslim world and Europe. Basically, the system would involve a customer approaching a hawala money changer in one city to transfer money through to another hawala broker in

another city. The transaction is effected typically through just a call between the brokers without having to be preceded by an actual cash transfer. The hawala in the recipient city paying out the money does so, on trust that the broker from the source country will settle the debt. The trust is based on being part of the community of hawalas. Failure to honour the debt is subject to potentially punitive community sanction, typically involving being removed from the network.

18. Having a sense of community has potentially large benefits, not just in terms of social cohesion but also to reduce cost of doing business. A sense of being part of a community and feeling a link of brotherhood with the people we come in contact with changes the way we interact. Why is it that back in our villages and small hometowns, there is a much greater sense of neighbourliness, close interaction and the willingness to help each other?

19. In stark contrast, large urban cities globally have witnessed instances of the bystander effect, whereby crimes are committed in front of large numbers, but no one comes forward to assist the assaulted. There is perhaps room for Governments to engage with civil society

to revisit urban design, particular high density residential spaces to enable institutional structures that support community linkages.

20. More importantly, building communities must be accompanied with building trust. At a very basic level, do we feel comfortable leaving our bicycle or shoes outside the door of our flats? Can a business transaction be sealed with just a phonecall or handshake? Trust is ultimately the basis to support greater economic specialisation and productivity, as we can then rely on each other to play our respective roles, without having to incur too much in terms of transaction costs to be more secure. A leading economist, Kenneth Arrow, once noted that, *Almost every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of economic backwardness in the world can be explained by the lack of mutual confidence.*

21. Social sanctions can only be powerful as an instrument to maintain the norm of cooperative behaviour, if community linkages are strong. Governments can, of course, establish legal institutions of courts, but social sanction can potentially be more effective in terms of

speed and also covering a broader scope in discouraging not just illegal actions but also anti-social behaviour.

22. The tragedy of the commons is akin to the Prisoners' Dilemma problem. The scenario is one where two suspects are arrested by police and interrogated separately. Ideally, they would be better off to coordinate and deny any wrongdoing. However, not knowing how the other will act, Game Theory concludes that if the scenario is played out only once, it is in each of their interest to betray and testify on the other. The solution to this problem or how to enable cooperation, is to play the scenario repeatedly. By doing so, there is a stronger incentive to offer cooperation, as an investment for future mutual cooperation. Having a sense of community is about repeated interactions. One is less likely to cheat a person that one will have to meet again often in the future. Having a strong community culture is about having institutions that support cooperation as a norm, which is why even criminals are known for having *honour amongst thieves* as a means to indoctrinate cooperation and avoid real life betrayal.

A Sense of Justice

Ladies & Gentlemen,

23. If long terms horizons provide the foundation and community linkages the glue to cooperative behaviour, a sense of justice is the anchor to ensure sustainability. Community linkages often can provide a momentum to practices, to ensure that they are practiced automatically for a given time. However, if such practices continually lead to unfair outcomes, it will rapidly lead to a breakdown of cooperation.

24. In terms of a sense of justice and fairness, economists had undertaken many experiments based on the *Ultimatum Game*. Basically, it involves two players, who do not know each other. Player 1, Jack is asked to propose a split of \$10 between him and player 2, John. If John accepts the proposed split, the \$10 is shared according to Jack's offer. However, if John rejects, they both go home empty handed.

25. To an economist applying game theory, the strategy is obvious. Since \$ 1 is better than nothing, it should make sense for John to accept, even if Jack offers John only \$ 1

and keeps for himself \$ 9. When experimented on normal people, the results were not in line with the initial game theory analysis:-

- Most people in the role of Jack offered more than \$ 3 to the player in John's role, and
- In the relatively rare occasions that offers of less than \$ 2 was offered, it would typically be rejected.

26. The results suggest that people are generally hardwired towards justice. The pattern of offers made suggests that even when in a stronger position, it is natural for persons to be magnanimous and fair. The rejections of low offers also indicate that there is an expectation of justice and a willingness to forego personal gain to protest against injustice.

27. One anomaly to highlight was that when experimented on economics students just after being taught about the logic of making stingy \$ 1 offers, those in the role of Jack offered far less to John and in turn, those in the John role accepted these low offers. At one level, this would appear a case of how a little knowledge can be a dangerous thing. At another level, it would appear that people can be swayed from doing what would otherwise be natural and just. It would be interesting to find out the

results of the game if experimented on the investment bankers who had traded in subprime derivatives.

28. Whilst having a sense of justice is natural, defining what is justice, isn't altogether that straightforward. Last year, Amartya Sen published a book titled *The Idea of Justice*. An important insight was that justice cannot necessarily be universally defined. Sen sets out an interesting fable, where there are three children and a flute. One of the three children, named Ann claims the flute on the basis that she is the only one who can play it, Bob, the second child claims it given he is poor and has no other toys, whilst, Clara, the third child claims the flute because she made the flute in the first place. Sen's point is that there isn't a unique solution to justice as one could construct a basis to justify giving the flute to any one of the three children. In practical terms, decisions must be made and often compromises needs to be achieved. One potential compromise solution would be to make Ann pay Clara for the flute and have part of that income taxed to be redistributed to the poor, Bob in this case. Justice is often defined not in terms of absolutes but involves taking into consideration the relative position and endowments of the relevant stakeholders.

Values and Knowledge Building

Ladies & Gentlemen,

29. The work of Ostrom only highlights the existence of cooperative behaviour to safeguard commons and common characteristics that these examples share. In the absence of naturally occurring cooperation, what are we to do?

30. There is clearly a role for the Government, as there are instances, coming back to the Hardin's analysis, where property rights can be assigned in a judicious manner and also where effective regulations and enforcements can help protect the commons. However, the challenges that the world faces today, whether in terms of safeguarding the environment and the integrity of the global financial system, are problems which require all stakeholders to play their respective roles and institutions to support cooperation as a norm.

31. In the context of the values which I discussed earlier, there are some which seem natural, like the sense of justice, but at risk of being unlearned depending on environment. Valuing the long term perhaps needs reinforcing and nurturing. Families, communities and

businesses contribute to advancing good values and putting it into practice.

32. There is a story of a Red Indian father telling his son that in everyone's soul there are two wolves: a good wolf and a bad wolf. When the son asked whether he would grow up good or bad, his father replied: son, it depends on which wolf, you feed more. Education and knowledge building is part of feeding the good wolf. It was intentional that I had started my speech by mentioning that Khazanah had feasted us with good speakers. Knowledge is particularly important to guide values, given that deeply entrenched values can be a double edged sword.

33. In the late 1960s, a time when perhaps animal testing was more lax, there was an experiment involving five monkeys in a cage, with a ladder leading to bananas. When one of the monkeys attempted to climb up the ladder to get the bananas, before he could get to it, he would be pushed back by a spray of icy cold water and the remaining 4 monkeys would also be sprayed on. After repeated attempts and repeated sprayings, none of the original 5 monkeys tried for the bananas. Subsequently, the monkeys were replaced, one by one, with new monkeys, who were not in the water spraying event. Each

time a new monkey is brought in, the newly introduced monkey would attempt to go for the bananas, but ends up getting held back by the remaining four monkeys, even before the spray is applied. This continued to happen, even when all five monkeys in the cage had not actually seen the water spraying, yet they were conditioned by the earlier monkeys not to let anyone attempt to get the bananas.

34. Values that are fully embraced transform into automatic responses to situations. It would not be acceptable if we embraced values without understanding the significance of the values. Therefore, it is vital that values that are developed are based on knowledge and long term considerations of what is good and just for the community. The Malaysian Prime Minister, in his recent address at the United Nations General Assembly, called for moderation, because if we are not careful, our values will become unduly influenced by those who shout the loudest, without being based on knowledge or reason. In the Malaysian context, inter-racial relations and the economic pie are akin to a commons. If we unwittingly take a zero sum approach, driven by self interest, we may end up like Hardin's herders causing irreparable damage to the commons. Growth with equity is about letting the pie

grow, so that all of us can continue to benefit from a bigger pie over time.

Conclusion

Ladies & Gentlemen,

35. The world is facing numerous challenges, particularly on the global economic and environment front. Will we, driven by self interest, unable to collaborate, act out the inevitable, predicted by the tragedy of the commons? I remain optimistic.

36. Thus far, we have perhaps been overly inculcated with the market economy ethos of competing to create value out of private ownership. This needs to be tempered and complemented by values to promote collaboration, in order to preserve the value of our commons.

37. Common values, commons valued. Valuing the long term, building strong community linkages and pursuing justice are common values for all of us. The key, however, is to make them common in terms of adoption and practise by all of us. We need to institutionalise our values to safeguard our valuable commons. We must continually

build knowledge and have clear objectives, to ensure we collectively remain on the right path.

Thank you.

**(Economic Planning Unit)
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