

At The 21st Century Conference To Commemorate The Establishment Of The Tun Ismail Ali Chair In Monetary And Financial Economics

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Today, we honour the memory of a man of clear vision, a man of high intellect, a man of strong character, and a man who places service to the nation at the top of his personal agenda, even though this meant at times sacrificing the interests of his family, not to mention his own. He is also a dear friend, although we often disagree on many things, including issues on public policy. Of course, he also happens to be my brother-in-law. This latter relationship accords me no special privilege in his eyes -- he merely viewed me as a medical doctor who happened to have married his sister. His respect, I have to earn, like everyone else. Deep down, both of us have come to an uneasy truce, in the knowledge that we were each sufficiently capable of conducting a good discussion on any issue of public interest with calm and honesty, and respect for well reasoned differences of views. I can tell you that we did have differences of views -- but they were never serious enough to affect our cordial personal relations. He liked to have the last word on issues where both of us felt strongly, and so did I. I usually approach the Mexican standoff by putting down in writing how I really felt. That was my way of getting the last word. After all, he was the elder between us.

2. Looking back, Tun Ismail left behind a legacy that relates mainly to his 18 years as the first Malaysian Governor of Bank Negara Malaysia, our own Central Bank. This is not to say that his contributions at the helm of Permodalan Nasional Berhad or PNB, which he helped create, was less significant. With due apologies to Shakespeare, for Tun, it was not that he loved PNB less, but that he loved Bank Negara more. Today, I wish to address you on Tun's long standing and far reaching legacy at Bank Negara and the nation, as I recall his work and its impact on our lives as an interested citizen and Head of this Administration. As I reflect on it, I must say that his legacy is sizeable and significant, and remains most relevant for us today.

3. For those who know Tun Ismail, all will agree that he is very focussed in whatever he does. He usually knows precisely what he wants, and organises himself in the best way he knows how to get them. It is interesting to note that as far back as January 1969, on the 10th anniversary of Bank Negara, Tun Ismail provided one of those very rare insights into his own philosophy on two fundamental relationships regarding public policy which remains relevant today, namely: the relationship of the Central Bank with the banks, and with the Government. Bearing in mind that these were articulated some 30 years ago, I think they were rather revolutionary; certainly then, and even now. As we emerge from the 1997 currency crisis, these two issues have resurfaced and I would like to delve on these relationships as they continue to underpin many of the matters that concern us today.

4. First, the relationship with the banks. Tun Ismail believed that it is fundamental for the banking community to always recognise and readily accept its true role, namely: to efficiently mobilise savings; to effectively channel these savings for

productive use to develop the national economy; to instil sustained public confidence in the soundness of banks and their management; and to continually inject expertise and professionalism to develop a competitive intermediation mechanism to lubricate the development process. Once the banks are able to successfully meet these challenges, Tun Ismail envisaged that both the Government and the Central Bank need resort to serious regulatory and legislative measures only in the event of market failure. Otherwise self regulation with simple prudential rules will be the order of the day. Thirty years ago, Tun Ismail expressed the hope of looking forward to the day when such a situation would come to pass. Today, as we complete 240 days into the new millennium, I, too, would like to see Tun Ismail's vision being realised.

5. Alas, although the banking system has progressed, I am afraid Tun Ismail's dream has yet to be fulfilled. Indeed, as I watch bankers at work during the recent crisis period, I am still to be convinced that the banking community really appreciates and honestly accepts its true role as envisaged by Tun Ismail; and if they do, they are certainly not showing it by their actions and deeds. After five quarters of consecutive positive GDP growth, the last three being rather rapid, net lending by the banking system remains indeterminate, or sluggish at best; the flow of money supply and bank liquidity are still generated from the external sectors. Bank lending is a drag on the economy, instead of leading it as we had expected. I worry that our banks still have this culture of taking the umbrella away when it rains. They are still far too risk adverse to be able to effectively play their real role in nurturing recovery and pushing forward the development process. To the extent they have been extending new credits, I know a significant part was being directed at the 'blues' and other large corporations which do not really need them; in this regard, those in need are often denied. Even working capital finance is hard to come by despite the rapidly expanding economy. Of course, small businesses continue to complain regularly that banks are always 'seen' but seldom 'heard from', and when heard, it is often a 'no'; or 'place-deposits-with-us-and-we-will- extend-the-loan-to-you-of-an-equivalent-amount'.

6. Collateral lending is still far too prevalent, even for the most viable of ventures. Big projects, I am afraid, have little hope of being financed, and bankers remain extremely guarded with even good projects involved in the 'new' economy. I am told that many bankers are ill prepared to venture into venture- capital type proposals or for that matter, 'incubators'. As I see it, bankers worry far too much about their bottom line at the expense of the real intent of their very existence. Some even pat themselves on the back, regarding themselves as 'good' bankers simply because they consider themselves prudent in lending out only 50 to 60 per cent of the deposits mobilised. Truly, they miss the wood for the trees, and not know it. Like Tun Ismail, I look forward to the day and hopefully, it will not take another 30 years, when bankers truly acknowledge and readily accept their real role in the economy and become more pro-active in discharging their responsibilities as professional intermediaries between savers and borrowers to help develop the Nation. We need entrepreneurial bankers and not mere money lenders. We need bankers who are experts at managing risks and who are not

afraid to take calculated risks. We desperately need bankers whose umbrellas are ever present, come rain or shine, so that they can be relied upon as true partners in national development. Bankers must lend and lend prudently. That's their business. They should be good at it. But lending based on collaterals of equal or higher value speaks not of prudence but of primitive banking skills among bankers.

7. Tun's second concern involves the relationship of the Central Bank and the Government, or what classical economists call the independence of the Central Bank. As I understand it, Tun's approach was as simple as it was pragmatic: fiscal and monetary policies are most effective when they are well coordinated as it takes two hands to clap to make the 'right sound' in terms of meeting public policy objectives of the national agenda, set by the Government of the day. So long as there is professional integrity and honesty in serving the national interest, first and last, the issue of independence of the Central Bank did not pose a real problem for Tun Ismail. He talked in terms of the Central Bank being independent within Government, but not of Government. As a result, during his time, fiscal and monetary policies were always designed and implemented in-sic.

8. There was no question of the right hand not knowing what the left hand was doing. I think Tun's perception of the issue at hand was realistic, based on his unquestioned integrity, sound expertise, and high standing within Government. I recall an occasion when he echoed a piece which he had read during his days at Cambridge University when asked how he managed when he disagreed with Tun Tan Siew Sin, the Finance Minister, as follows: "realistically, the central bank works in an uncertain world, with policy tools that are often not easily understood, and seeking to meet objectives of policy that are always broadly defined. With these uncertainties in an imperfect world, the central banker needs to have the serenity to accept what cannot be changed, the courage to change what cannot be accepted, and the wisdom to distinguish one from the other". I think there is much wisdom in these remarks which all of us should seriously think about.

9. While these two relationships were important, Tun Ismail approached his role at the helm of Bank Negara at a more basic working level, i.e. in ensuring that the Bank had the means, the medium and the mechanism to effectively discharge in practice its wide ranging responsibilities. To ensure efficiency and effectiveness, Tun needed dependable expertise. It was in this area that Tun's real legacy lies: i.e. his success in building what he called a body of lasting traditions at the Bank: a tradition of absolute integrity; a tradition of competency at the highest level; a tradition of efficiency to the point of ruthlessness; a tradition of dependable expertise in matters monetary; a tradition of selfless service to the Nation; and a tradition of setting-up benchmarks of excellence.

10. In his 18 years as Governor, Tun worked hard and long at setting the highest standards with his building blocks to develop, nurture and promote these traditions. This task was accorded the highest priority at the Bank and when he moved to PNB, he set the same process in motion. Tun Ismail should be justifiably proud of what he has done. I am told that these traditions are now

deeply rooted in the psyche of Bank Negara staff, young and old, as well as in PNB staff, including many who are no longer in service in these organisations. For many of them, these Bank Negara-PNB alumni have become proud standard-bearers of this tradition in their own right. At this time, as we attempt to ensure sustainability in the development process, it is timely for us all to begin building traditions of excellence ourselves, as Tun did for the last 50 years of his life. I know the march of time can work to blur our senses to continually uphold tradition. It is often said that it is far easier to fight for sensible traditions than to live up to them. As we all look to the future, more than ever, we need to build traditions of excellence in a very practical manner if we are to survive in an increasingly globalised and less equitable world.

11. The currency crisis had exposed the bankruptcy of unfettered free market mechanisms. More than ever, we need integrity, competence, efficiency, expertise, selflessness and equity. We need to go beyond the pure pursuit of profit. I know that in our society, there is also a deep-rooted scepticism about the reliability and moral quality of business' integrity and of the business approach to efficiency, expertise and equity. More than ever, we now need to work hard at changing mind-sets and set for ourselves a new path forward, learning from the bitter lessons of the recent crisis. Without a strong foundation in excellence, sustainable development will remain elusive.

12. All these lead me to the ethical tradition of business. Does business ethics make economic sense? Concern with ethical questions such as this is of course as old as civilisation; indeed, ethics has always been at the centre of philosophy and moral theory, be it Christian, Buddhist or Muslim. And it still is today. All religions have their own ethical standards. Muslims are required to act in a very precise, decent and benevolent way which has been spelt out in detail and to refrain from wrongdoing. This is reminiscent of Aristotle' s admonishment not to harm others, very much like the golden rule of the Christians: "Do unto others as you would have them do unto you", which is echoed in Islam: "No one of you is a believer until he desires for his brother that which he desires for himself". Similarly, Buddhism expresses it in terms of: "Hurt not others in ways that you yourself would find hurtful". This spirit of benevolence and non-aggression underlies the fundamental need for social justice.

13. It is this concern for others and for distributional equity that raises ultimately the quality of life; hence, the challenge to the classical orthodoxy of the supremacy of the private market place and the tyranny of the rule of maximisation of private profits. The more narrowly profit-oriented an enterprise is, the more it would tend to resist looking after the interests of others -- workers, consumers and associates, as well as the environment. This is one area in which sensible ethics can make a difference. Indeed, visionary entrepreneurs and businessmen have tended of late, to encourage this line of reasoning. This is of critical importance if we are to have distributive justice, so vital to the sustainability of political stability.

14. Looking back to the origins of Western classical liberalisation, it was Adam Smith' s `Wealth of Nations' that started the process to glorify the egoistic pursuit

of personal advantage. Accordingly, people regarded businesses, big and small, and banks as enterprises committed solely to the pursuit of material gains. In more recent times, however, new social theories have succeeded in establishing the good of all players in the economic process as the final goal of business activity. This shift in ethical values towards greater sensitivity to post material needs, and reflected in more ecological sensitivity and increased responsibility for the poor and socially disadvantaged, came at a time when the material aspects of life are becoming more accessible. So much so that there emerged a longing for a new ethic. And so, increasing attention is being placed on those responsible for corporate decisions and to the economic systems whose main stakeholders are the entrepreneurs themselves. Mind-sets are beginning to change in favour of social justice.

15. It is recognised, of course, that ethical business practices can only thrive within the economic systems created by Government to protect the environment, assure the soundness of the banking systems, control the presence and the use of weapons for mass destruction, and so on. These regulations are needed to provide standard benchmarks to protect national security and to ensure fair competition in the market place. To make economic sense in this context, corporate culture will need strong ethical content. Enterprises, for example, should offer 'environmental audits' ; and banks, greater transparency in disclosures on best practices in corporate ethics, and even, 'distributive justice audits' . This implies that businesses need to move beyond a short-term view of their own potential, i.e. forgo some short-term profits in exchange for longer-term ethical goals. In a classical sense, ethical businesses today move to optimise profits, as against maximising them, that is, after adjusting for environmental and distributive justice considerations. At the same time, this also means that corporate governance provisions will become more responsive not just to shareholder power, but also consumer power and the interests of other stakeholders, distributive and social. Strangely by being concerned over the needs and interests of others, business will actually do better because they will have a longer life, earning and growing steadily and accumulating greater wealth than those who maximise profits at the expense of everything else.

16. Finally, it must be recognised that for business ethics to make good economic sense, it has to be integrated into the overall values of workers and professional personnel: integrity, competence, efficiency, selflessness and hard work, attributes which Tun Ismail spent a lifetime promoting. In the end, this means that businesses will say what they think make good business ethics, do what they say, and be what they do. This should encourage a whole new level of social responsibility and accountability for businesses and entrepreneurs as they look forward to meet new challenges in the new millennium. We need this to achieve the high quality of life which future generations of Malaysians rightly deserve. We need this if Vision 2020 is to be achieved and to last beyond that.