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Europe can't put Humpty Dumpty back again

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STATE OF DENIAL: The continent has not been able to recover the great wealth that it had enjoyed all these years

I DON'T know whether our schools today acquaint the children with Humpty Dumpty but I am sure older Malaysians are familiar with the character, and know the following ditty:

"Humpty Dumpty sat on the wall

"Humpty Dumpty had a great fall."

For those who are not acquainted with this ditty, I would like to explain that Humpty Dumpty is an egg, a great big imaginary egg, and it sat on a wall.

Then this great egg had a fall. We all know what happens when an egg falls. It breaks into innumerable pieces of shell, spilling out yolk and egg white. And the ditty went on to say that all the king's soldiers and all the king's men could not put Humpty Dumpty together again.

Somehow, I am reminded of the currency crisis experienced by Europe today. Try as they might, they have not been able to recover the great financial wealth that Europe had enjoyed all these many years. Trying to put the European economy and finance back into the great thing that it was is like trying to put Humpty Dumpty together again.

Europeans seem to think that they can restore their wealth to its former self by some kind of financial juggling.

And because they think so, they refuse to recognise that their economy is beyond repair. They are in a state of denial.

The fact is that their economy

was not sound in the first place. They believed that their wealth was real but it was not. It was really make believe wealth created by trickery.

Their so-called wealth was created through tricks in valuation. Share prices, for example, were increased not because the businesses were making profits but because of the demand for the shares. And very often, the demands were artificial, cleverly manipulated by the market players.

The money they use for all those wealth-creating tricks were not real either. The banks lent money that they did not have. The banks created the money out of nothing. The money lent is then regarded as the asset of the bank. The more they lent, the bigger the bank's asset. It was all right as long as they did not abuse this money creation too much.

But they became greedy and created too much. This non-existent money is then invested in the shares of companies that were incapable of producing anything substantial. They were invested in houses that did not exist or were not even built. But on paper, in their book, these non-existent things were given values.



Tun Dr Mahathir Mohamad
is the fourth
prime minister
of Malaysia

The money created is also lent for the purchase of non-existent currencies, which appear in the books of the banks. When this non-existent money was bought or sold, the only thing that happened was the transfer of the ownership of the figures in the banks to the new owner, the so-called buyer.

Somehow, the owner of this non-existent money was able to buy things with it as if the money was real.

This money takes the form of cheques, credit cards and entries in

bank books. The owner is seemingly rich. Hundreds of thousands of these seemingly rich people push up the per capita income and gross domestic product of the nation. The nation is then considered to be a developed nation based on figures collected of GDP and the per capita income

And there are many other financial products that do not really exist but which can be invested in to give huge profits.

But then the balloons burst. The borrowers failed to make even nominal profits and returns and could not repay the loans that had been registered in the books of the banks.

For a while, it was possible to hide with imaginative accounting. But the amounts became so huge, running into tens and hundreds of billions that even smart accounting could not hide the losses. The great banks failed and went bankrupt.

Part 2 tomorrow: Recovery will take time