

**SPEECH BY TUN DR MAHATHIR BIN MOHAMAD
AT THE WORLD CONGRESS OF ACCOUNTANTS 2010
ON “TRANSITIONING TO A SUSTAINABLE GLOBAL FINANCIAL SYSTEM:
LESSONS FROM GLOBAL FINANCIAL AND ECONOMIC CRISIS”
ON 10 NOVEMBER, 2010**

1. Firstly I must thank the organisers of the world congress of accountants for inviting me to speak, I presume, on the subject of The Global Financial and Economic Crisis.

2. I am not sure I am qualified to talk on this subject. I was trained as a doctor of medicine. My first brush with accounting began with the income tax department way back before I became a Minister. Not knowing how to keep accounts properly resulted in my being accused of not declaring all my earnings.

3. I was told I would have to pay a fine. If I protest and go to court, I may have to pay as much as 300% more than the fine they indicated I would have to pay.

4. After that I engaged an accountant, an ex-income tax officer to prepare my income statement to the Internal Revenue Department. Lo and behold, so many allowances due to me were included by my accountant that I actually had to pay less than before. Since then I acquired great respect for accountants.

5. My understanding of finance and the economy came about when as Prime Minister I had to listen to briefings by Government officers. It was boring until the devaluation of the Ringgit by the currency traders forced me to listen more seriously and to read books.

6. I am always being told how the market responds to certain things happening in the market. It was as if nobody, no living person is involved. But I always thought otherwise. I believe someone is behind anything that happens. And so I look for the culprits and the motive.

7. And the present financial and economic crisis we are going through is due to someone greedy abusing the system. Accountants examining the accounts of the banks involved in the sub-prime lending must have noticed that the bank people were not adhering to prudent banking practices. They were lending far too much money to borrowers who they must know would be unable to pay. But because the banking systems regard the loan that they

give as assets, the urge to lend far more than what was proper overcame prudence.

8. To secure the bad loans the bankers bundled them and insured them with insurance companies and mortgage companies. They could still have avoided disaster but so greedy were they that the sub-prime loans became so big that when they failed as they must, neither the banks nor the insurance companies nor the mortgage companies could cover the bad loans any more. And so the banks, the insurance companies and the mortgage companies collapsed. Their accountants must have seen these disasters coming. But they apparently did not blow the whistle. A system where the overseer is employed by the people they are supposed to oversee is contrary to the principle of independence of the third party. It is like the accused person hiring the judge to hear his case. No one would think this is right. Yet business corporations can choose and hire their accountants.

9. Maybe this was what was wrong with the system. If the Government were to hire the accountants and assign them to the business corporations, the accounting would be less likely to be improper.

10. I am not suggesting this but I note that despite everyone knowing of the abuses of the banking systems which had caused the present crisis, no one is seriously thinking of changing the system. Instead money is being printed in large quantities in order to bail out the failed banks and funds.

11. Everyone and certainly the accountants will know that the money created for these bailouts is worth nothing. Perhaps fiat money can be taken seriously if issued by Governments. But when the money is printed by private banks and there is no backing for the money thus created, how can anyone accept these pieces of coloured paper as money?

12. It becomes even stranger when the privately owned reserve bank in the United States, the Federal Reserve Bank, otherwise known as The Fed, prints the money and then lent the money to the Government at a fixed interest. There must be something wrong with a system which accords a private entity the right to create trillions of dollars out of thin air. It is even worse when we realise that the Federal Reserve Bank of America do not actually print the currency, the greenback American dollars. The Fed merely writes a cheque to the amount to be lent to the US Government.

13. With this capacity to create huge sums of money out of nothing, there is no incentive to change the system. Whenever money is lost, all that needs to be done is to print or issue a cheque to the amount lost.

14. A system in which money that is lost can be simply replaced simply by printing currency notes or issuing cheques cannot be very reassuring. Of

course the absence of backing either in gold or other precious metal or even foreign currency render the currency even less credible. The only thing that gives value to the currency is the strange willingness of people to accept it at the value indicated.

15. The US Dollar has no backing whatsoever. Other currencies, the Malaysian Ringgit included, are backed by gold or other so-called hard currencies held in reserve. Obviously the money in circulation in various forms cannot be equal to the value of the currency notes issued. There would always be a shortage. This shortage is overcome by allowing banks to create money in their account books. The borrower merely have the amount borrowed credited to his account. The shortage of currency notes issued is thus overcome. What most people don't seem to realise is that cheques are money as much as currency notes are money. So are credit cards. Together they must exceed the total amount of money printed by the issuing authority.

16. A lot of things regarding currencies depends on faith. When people begin to lose faith, there would be a rush to redeem. This does not happen often or else fiat money would become useless. But really, fiat money is worthless. How worthless fiat money can be gauged by the ridiculous value that can be given to the currency notes. I have with me a currency note valued according to the figure printed on it, at 100 trillion dollars (100,000,000,000,000) i.e. 100 plus 12 zeros. It is worth almost nothing in Pounds Sterling, Euro or Yen.

17. During the period of Japanese occupation of Malaya, the currency notes printed and used increased to \$10,000 per note. You could hardly buy one comb of banana with it. If you don't use the note immediately after earning it, it would depreciate so that a week later it could buy only half a comb of bananas.

18. The inflation in France after the last war (1946) was so great that everything was priced in thousands of Francs. Then the French Government decided to take out two zeros in 1962 so that 1,000 Francs became 10 Francs. After that the figures that accountants have to deal with became less cumbersome.

19. But Japan insists on not revaluing the Yen this way although its value in Japan itself was far less than before the Pacific War. Still the Japanese Yen is highly valued. One Yen in the years immediately after the war was equal to one Malayan cent. So one Malayan Dollar was equal to 100 Yen.

20. Now one Yen is equal to three Malaysian sen so that 100 Yen is now equal to three Malaysian Ringgit. How did this happen? Japan was told by the United States to revalue the Yen. Suddenly Malaysia's Yen loan increased by 300 per cent.

21. Turkey recently decided to take out six zeros from the Turkish Lira so that one million old Lira is now worth just one Lira. Turkey is now doing well economically perhaps because the smaller denomination looks more credible.

22. To be able to compare values and wealth, we convert all currencies into US Dollars. Thus GDP and per capita are all quoted in US Dollar.

23. Malaysia is anxious to become a developed country by 2020. The per capita should be about 16,000 US Dollars. Before the East Asian currency crisis the exchange rate was RM2.5 to one US Dollar. We needed to have a per capita of RM40,000 to achieve our 16,000 US Dollar target for 2020.

24. Then our currency was devalued by almost 100 per cent during the crisis. To achieve our 2020 target we needed to have a per capita income of RM80,000. That would have been almost unachievable.

25. Now the exchange rate is about RM3 to one US Dollar. To achieve 16,000 US Dollar per capita in 2020 we need to have a per capita of RM48,000. If we still have control over the exchange rate we can just revalue the Ringgit to RM2.5 to one US Dollar and very quickly we can grow and have a per capita of 16,000 US Dollar.

26. Clearly fiat money is very easily manipulated. The Bretton Woods agreement fixed the US Dollar at 35 per ounce of gold. All other currencies are fixed to the US Dollar and therefore to gold.

27. But the US went off the Gold standard, now the market determines the value of the US Dollar. From 35 US Dollar to one ounce of gold, now 1,400 US Dollar is equal to one ounce of gold.

28. The US Dollar is therefore not stable in terms of value for the other currencies to be fixed against it. Yet we go on to use the US Dollar as a reference point.

29. We all need money. We need money to pay our way in life. We need money for the work we do, the service we give, the goods we produce. We need money to give value to our wealth and our poverty. We need money for all business transactions and for trade between nations.

30. But it must be obvious that we don't really have a good monetary system. The only people who are happy with the present system are the currency traders. The more unstable the money the greater their profits. But they contribute nothing to the well-being of other people – no jobs, no goods or services, no business spin-offs and no wealth. In fact they thrive on the misery of others, on the bankruptcies of individuals, of banks and of nations which they cause.

31. We need a good monetary system. We need a good financial and banking system. We need to think not of the well-being of the currency traders but of the people and their nations.

32. The G-20 will be meeting in Seoul, Korea. No doubt the present crisis will be on their agenda. But they will not admit that the present monetary, financial and banking systems are the causes of the crisis.

33. Instead they will try to point fingers at China or some other country which seem to be unhurt by the crisis. They will demand that these countries revalue their currencies so as to be less competitive. But they themselves would merely print more money or issue more cheques because they are not prepared to admit that they have really become poor. They are in a state of denial. Until they admit that their abuses of the system have made them poor and they must now work hard to rebuild their wealth the crisis will not end.

34. So what do we learn from all these tales of chicanery, of systems which are not really systems, of wealth created by printing machines and slips of paper called cheques? I don't know what accountants think about all these. But what is clear is that a new monetary system must be devised based on something of real value such as gold. The rich who caused this crisis through abuses of the system must accept that they are now poor. Printing money will not make them rich again.

35. It is here that accountants can play a positive role. The accounting profession must be willing to tell the "rich" that they must no longer abuse the system, that in fact they must devise a new monetary system, that they must return to gold.

36. The accountants must blow the whistle, blow it hard and long. If you are not willing, and nobody is willing, then we must reconcile to living in this mess.

37. I wish you a successful congress.
