



**Globalization**  
**Capitalism**  
**Free market**



**Bailout**  
**Terrorism & war**  
**Exploitation**

**Power**

**Sub-prime problem**  
**Banks failure**  
**Stock market fall**



**Greed**



**Crisis**

# **Greed , Power & Crisis :** **A Black Box for Malaysia**

**Economic Society Talk**  
**11th November 2008**

# **Content:**

**Conceptual framework**

**Previous crisis**

**“Financial” crisis 2008**

**Malaysia: Possible effects & responds**

## What do we mean “greed”?

Maslow hierarchy of needs >> “wishes to have” more than our “needs”

The desire to have more (of money, power, etc)?

Money capitalism as “root to all evil” in Occidentalism view?

Adam Smith’s “The Theory of Moral Sentiments”

Christianity & Islam (moral capitalism), Buddhism “middle path”

## What do we mean “power”?

Source of power: Military might (warrior), intellect (scholar, priest) & money (wealthy capitalist)

The desire to “dominate”? Mercantilist School >> ideology of “greed and domination (religion & economy)”?

## What do we mean “crisis”?

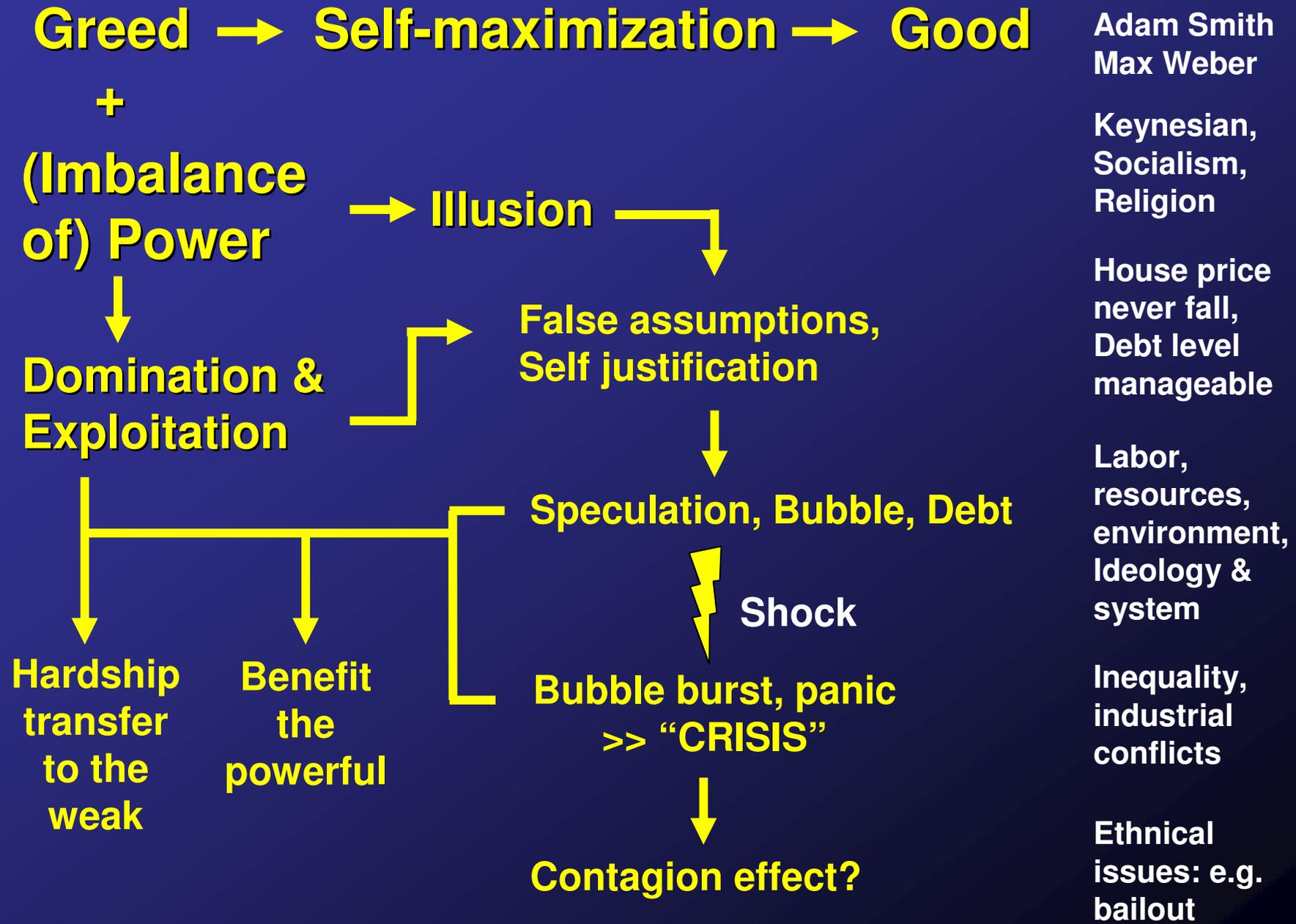
Negative growth? Bank fail? Unemployment? Anything “bad”?

Crisis as “sickness”: They may be just “detoxification” process

The symptoms (not the cause): “Debt” & “Speculation”

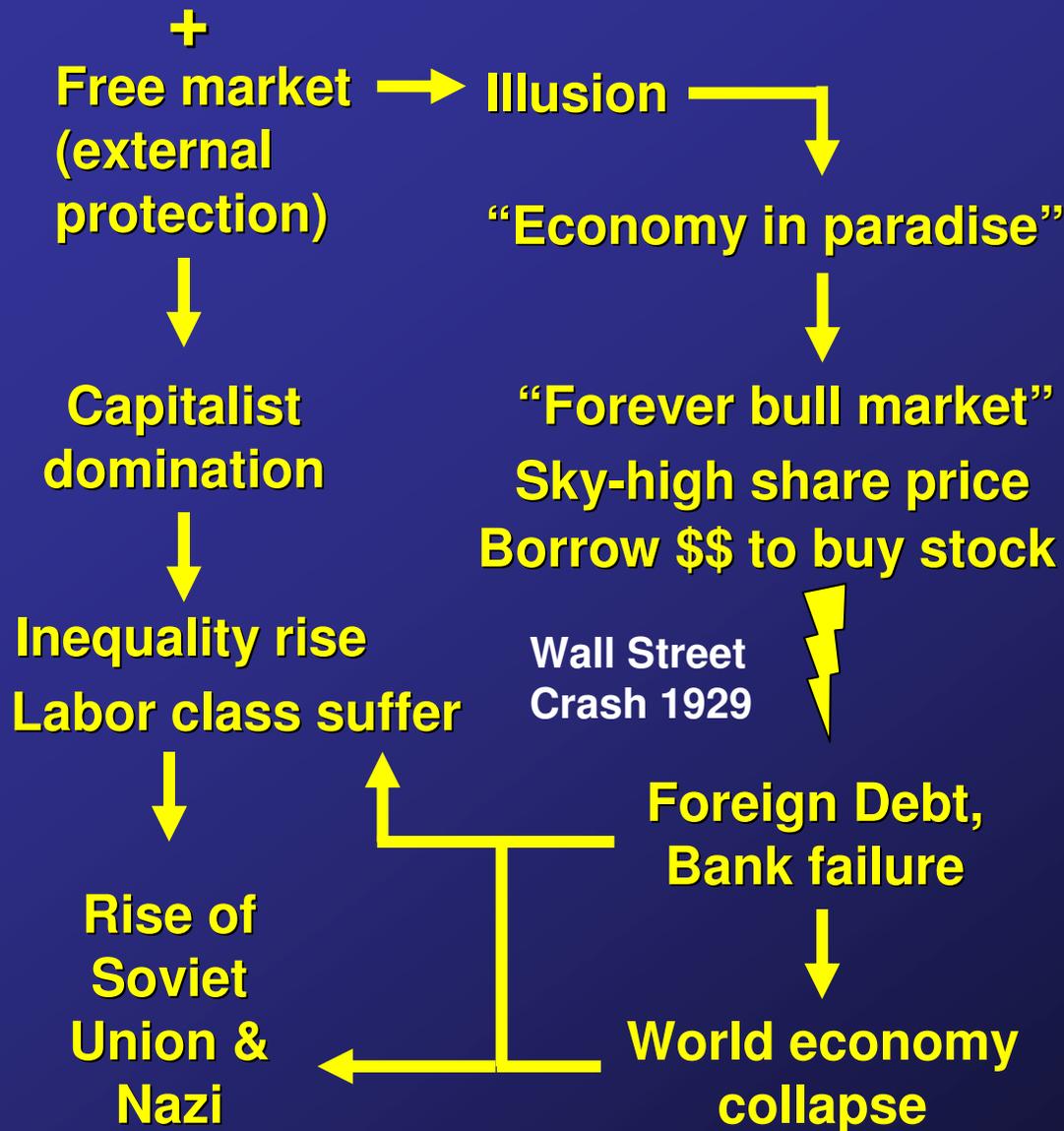


Conceptual framework



Previous crisis

## U.S. Goldilocks economy (1921 – 1929)



## 1929: The Year of Great Depression

Fisher: over indebtedness and deflation

WW 1 end (1918)

Keynes: Under-consumption & over-investment

Birth of *Reader's Digest* (1922) & BBC (1927)

Marxism: Over accumulation of capital

Wall Street invested heavily in European debt

Rebalancing of global power >> World War II

British bought American securities

Criticism on greed

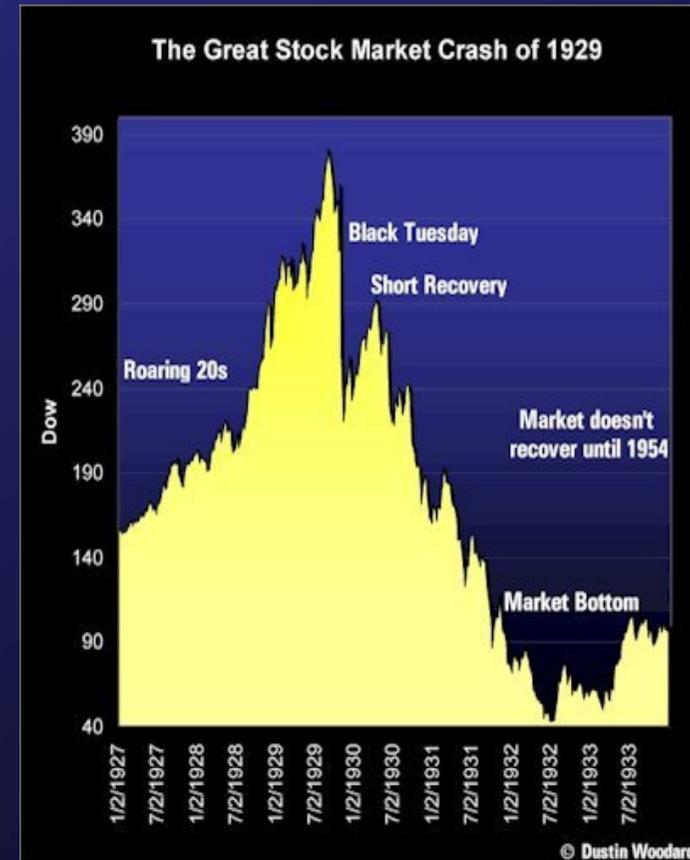
## Interesting quotes:

The Economist (Nov 23<sup>rd</sup>, 1929):

- >> Speculative movement seemed to lose all touch with reality.
- >> Democracy triumphed over authority and leadership in the advance, and the orgy at the finish was all its own.

Batra, 1999, *The Crash of the Millennium*

- >> What erupted in 1929 set in motion the events of the next decade.
- >> Stock markets crashed all over the world. Product price collapsed, and so did many industries.
- >> Four years after the crash, nearly one out of five Americans had no job; millions were underemployed with skeletal incomes. Thousands of college graduates drove taxicabs or operated elevators.



Previous crisis

**Power/ Crisis** : Yom Kippur War (6 Oct 1973)  
[Syria & Egypt vs. Israel]

## 1973 & 1979: Oil Crisis

Oil embargo against U.S.  
& those support Israel

17 Oct 1972

12 Oct 1972

U.S. support Israel

Negotiations on oil  
strategy

12 Feb to  
14 Feb 1974

11 Feb 1974

U.S. unveils the Project  
Independence plan to make  
U.S. energy independent.

Arab oil ministers, except  
Libya, end of the embargo  
against the U.S.

17 Mac 1974

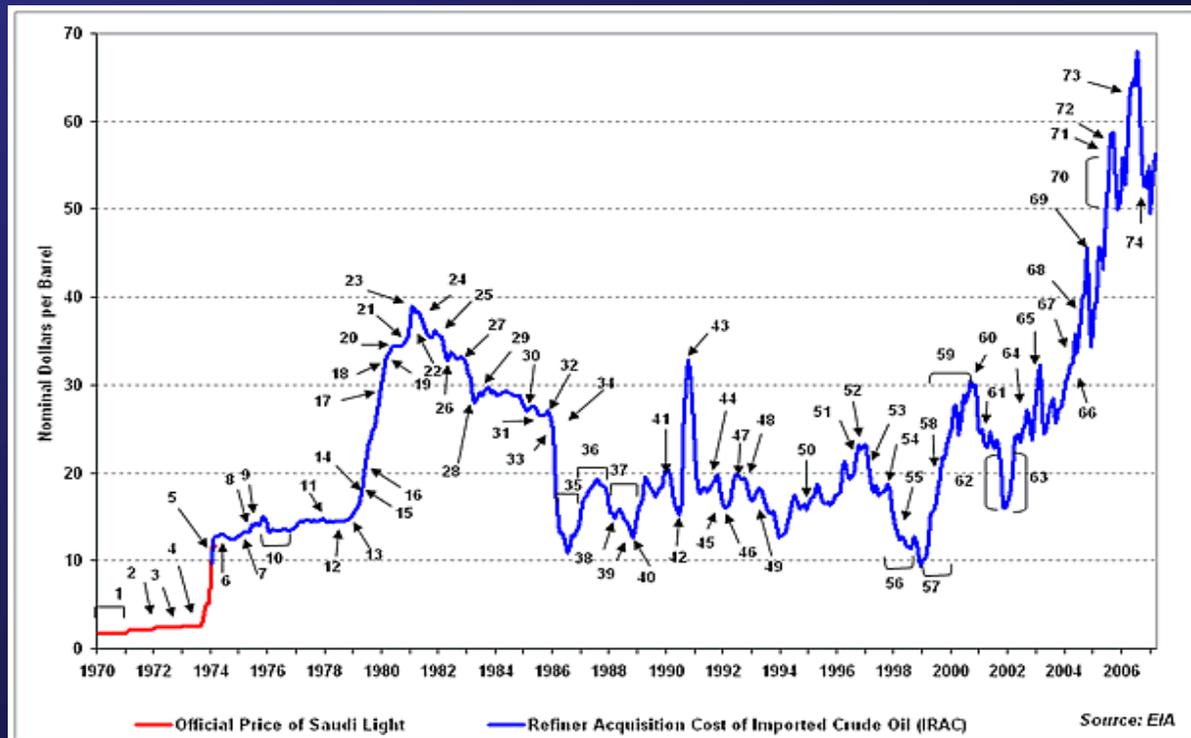
Dec 1974

Stock market crash

Oil price quadrupled by  
1974 (US\$12 per barrel).

Other oil crisis:  
1979: Iranian Revolution &  
Iraq vs. Iran  
2000s: “debatable”?

Arab world (thru OPEC)  
emerged as powerful nations:  
Crude oil as “weapon”.



Previous crisis

Oil discovery (late 1970s)

+  
Corruption  
(political  
power +  
greed)

→ Illusion

Over-confident to Mexico

Falling  
oil price



Higher world IR  
Over-value Peso

↓  
Many  
investment  
but no growth

→

Debt default  
Economy turmoil



Debt forgiveness  
(Brandy Plan, 1989)



1990s: NAFTA &  
Foreign fund  
inflow again

## 1982 & 1994: The Mexico Crisis

Caused  
large  
foreign loan  
inflow

Mexico bond  
yield < world  
bond yield

Aug 1982:  
Mexico  
unable to  
service debt

1986: Real  
income p.c.  
10% lower  
than 1981;  
wage 30%  
lower &  
average  
inflation 70%



Previous crisis

1990s: NAFTA &  
Foreign fund  
inflow again

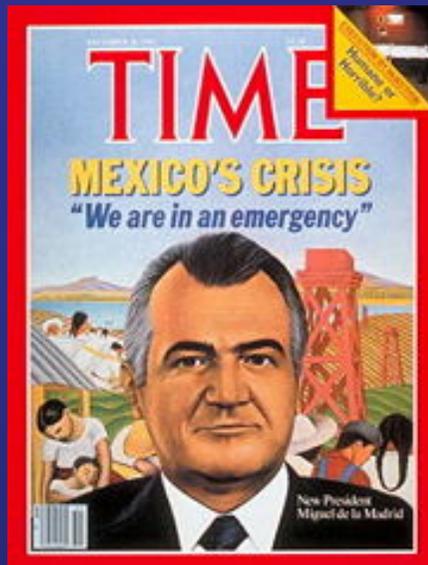
+  
Deficit 8%  
GDP



Illusion



Fundamental  
problem  
ignored



Politician  
Assassination



Peasants  
uprising

Peso collapse

GDP down 7%



Tequila effect

## 1982 & 1994: The Mexico Crisis

Also, small  
GDP growth  
offset by  
high  
population  
growth

Caused  
large  
foreign loan  
inflow

Mexico bond  
yield < world  
bond yield

1995: Saved  
by U.S.  
Exchange  
Stabilization  
Fund & IMF

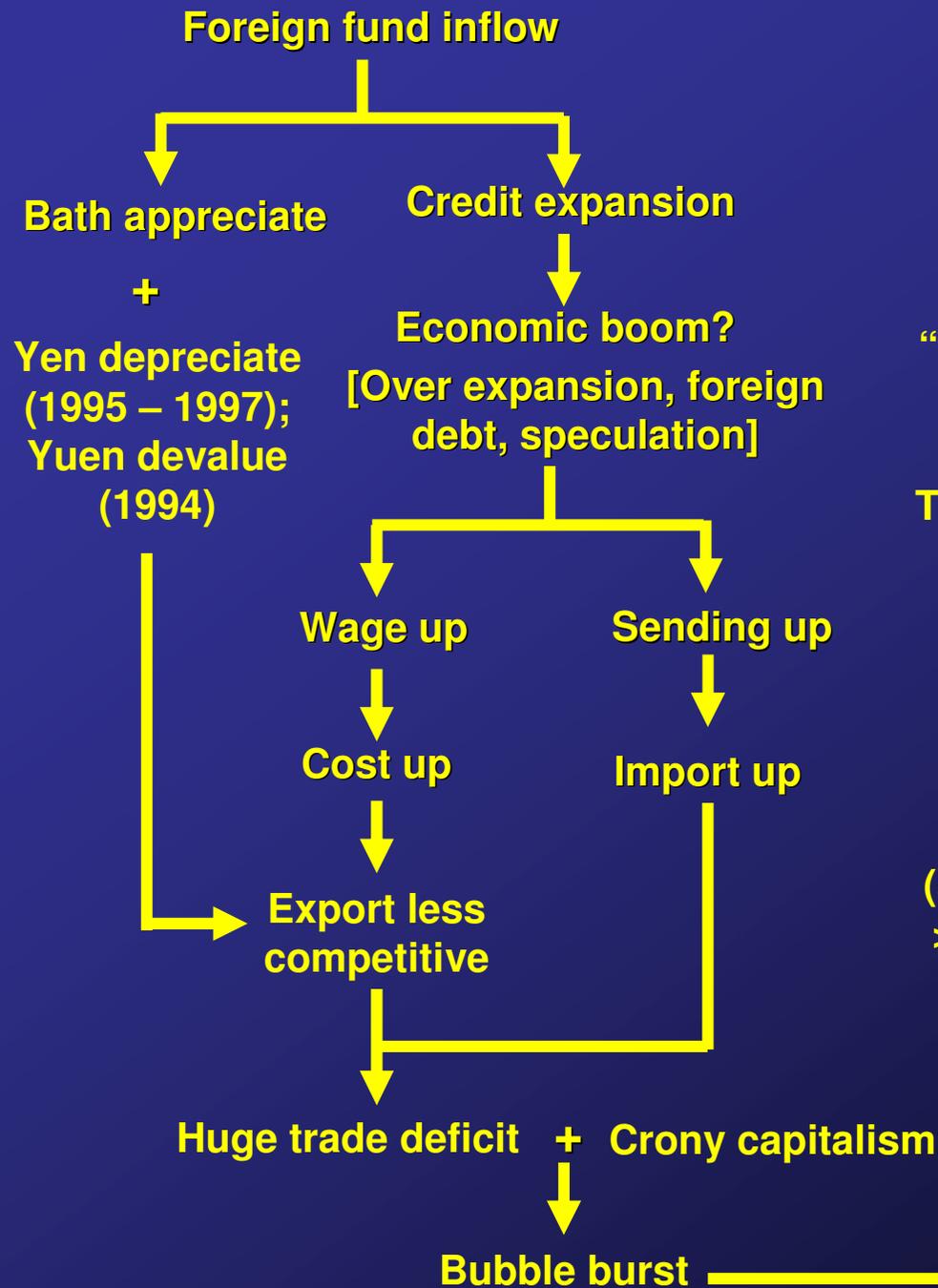
Aug 1982:  
Mexico  
unable to  
service debt

Tequila effect  
shocked  
Argentina  
into crisis

1986: Real  
income p.c.  
10% lower  
than 1981;  
wage 30%  
lower &  
average  
inflation 70%

Previous crisis

# 1997/98: Asian Crisis



“Tom yam” effect to Asia

Thru financial market link

Bath collapse

Govt. deceit tactic (swap dolar with bath) >> more debt & panic

Bath depreciation



## 2008/9: Financial Crisis

### Chronology of events: Year 2008

- 30 May Bear Stearns sold to JP Morgan Chase
- 7 Sept Fannie Mae & Freddie Mac putted into conservatorship
- 14 Sept Lehman Brothers announced would file bankruptcy
- 14 Sept Merrill Lynch sold to Bank of America
- 16 Sept AIG received credit facility up to US\$85b
- 25 Sept Washington Mutual Savings Bank seized from Washington Mutual, Inc.
- 26 Sept Washington Mutual, Inc. filed bankruptcy



## 2008/9: Financial Crisis

### Chronology of events:

28 Sept U.S. announced US\$700b stabilization fund, to be table as “Emergency Economic Stabilization Act 2008” >> fail at first attempt but passed at the 2<sup>nd</sup> attempt.

28 Sept Bradford & Bingley (British mortgage lender) needs rescue.



28 Sept Fortis (Benelux banking) needs rescue



29 Sept Wachovia will be acquired by Citigroup. But later reject Citigroup offer, preferred Wells Fargo >> causing dispute.



29 Sept Hypo Real Estate (Germany) needs rescue >> but in Oct 08, the rescue plan failed.



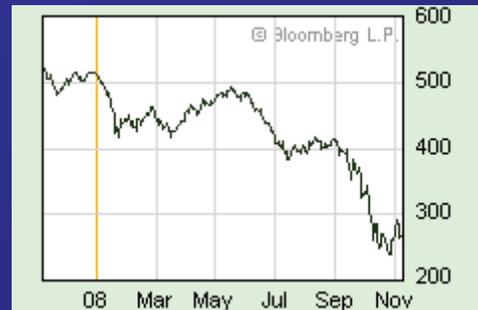
29 Sept Glitnir nationalized by Iceland



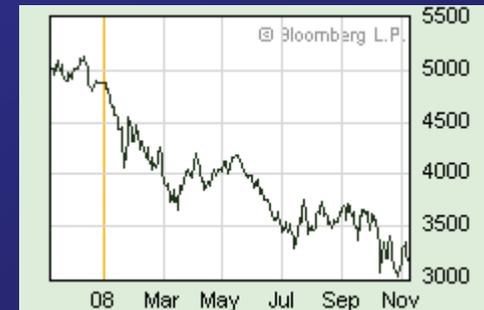
2008/9 crisis



**Dow Jones (U.S.)**



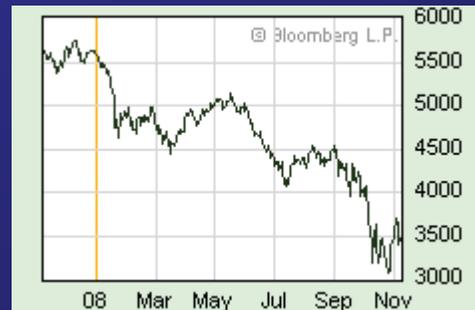
**AEX (Holland)**



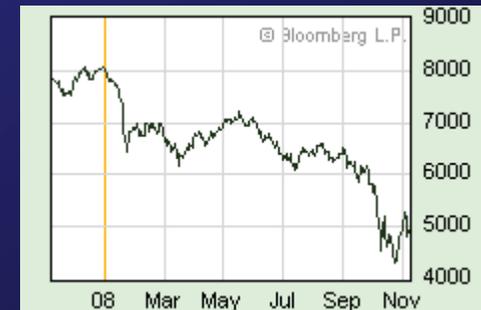
**Australian 100 Ind. Index**



**FTSE 100 (U.K.)**



**CAC (France)**



**DAX (Germany)**



**KLCI (Malaysia)**



**Hang Seng (H.K.)**



**Nikkei 225 (Japan)**

## Iceland



OMX Iceland 15 Index

Ratings of Icelandic sovereign debt  
(long-term foreign currency)

Agency	29 Sept	10 Oct
Fitch	A+	BBB-
Moody's	Aa1	A1
S&P	A-	BBB

## Iceland's Debt (Debt to GDP ratio)

	1990	1996	2002	2004	2006	2007	2008(II)
External debt position (%)	54.0	61.8	109.3	172.8	431.8	557.4	730.3

**2008/9 crisis**

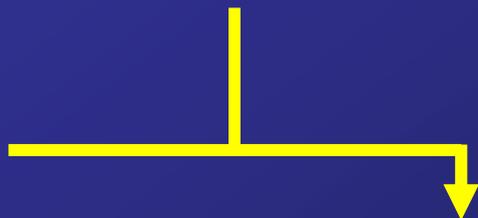
Maximize profit

+  
Asymmetric  
information



Investors & Entrepreneurs:  
Debt-financed investment

Banking sector:  
Excessive Leverage



“House price never fall, Stock  
market good, job secured”,  
“growing economy”



Speculation (Bubble),  
over-expansion (Debt)



Shock

“Greed” & miracle of  
financial architecture

The powerful  
holds the weak  
at ransom.



Bubble burst (sub-prime  
problem “re-emerge”)



Bank failure +  
stock market fall

Leverage:  
magnified by  
financial  
engineering,  
technology &  
liberalization

E.g. REITs,  
derivatives,  
swaps.

Shocks: Oil  
price hike,  
post-Olympic  
slowdown

Bailout



Contagion  
effect



# The powerful holds the weak at ransom

## Too big to fail

- Economy will collapse if no bailout
- Workers lost job if business failed / banks closed
- Politician may lost election or support for doing a bad job of not rescuing the economy (the capitalist??)

## So, bailout with tax-payer money granted

- Ethical? >> When economy good, profit goes to bankers and capitalist. When their business failed, public fund used to save them???

**“Head” you win, “Tail” I lose**

# “Greed” & miracle of financial architecture

Assume 10% reserve ratio.	The miracle of multiplier effect			After economic multiplier effect, these 90 000 grow bigger.  Thus, growth of debt contribute to growth of economy!!!  ... but might take different paths
	Deposit	Loan (Debt)	Reserve	
Initial deposit (10 000) created 90 000 of debts, called “financial multiplier”. The initial deposit end up as reserve.	10 000	9 000	1 000	
	+ 9 000	8 100	900	
	+ 8 100	7 290	810	
	+ 7 290	6 561	729	
	•	•	•	
	•	•	•	
	•	•	•	
	100 000	90 000	10 000	

## a) If the depositor of 10 000 to take back money:

(i) 9 000 loan recalled, thus cancelling payment (deposit) of 9 000, causing reverse multiplier effect [100 000 >>> 10 000].

(ii) Inter-bank loan (but almost impossible if the amount is high).

(iii) Central Bank to pump in 10 000.

(iv) Bank run & panic.

## “Greed” & miracle of financial architecture

### The miracle of multiplier effect

Deposit	Loan (Debt)	Reserve
10 000	9 000	1 000
+ 9 000	8 100	900
+ 8 100	7 290	810
+ 7 290	6 561	729
•	•	•
•	•	•
•	•	•
100 000	90 000	10 000

**b) Banking survive by matching perpetual deposit withdrawal with debt repayment. If loan payment is default:**

**(i) partial loan recalled, thus cancelling partial payment (deposit), also subject to reverse multiplier effect.**

**(ii), (iii) & (iv) same as (a) but in smaller (partial) amount.**

Since the probability is small for depositors withdraw ALL their money or ALL borrowers default, what is the problem?

>>> when this probability is **greatly increase because of greed.**

>>> Worst, if the financial multiplier miracle can be continue limitlessly through **financial architecture** like securitization (e.g. REITs), derivatives, swaps, asset back commercial papers, credit guarantee.

# The different paths...

## The miracle of multiplier effect

Deposit	Loan (Debt)	Reserve
10 000	9 000	1 000
+ 9 000	8 100	900
+ 8 100	7 290	810
+ 7 290	6 561	729
⋮	⋮	⋮
⋮	⋮	⋮
⋮	⋮	⋮
100 000	90 000	10 000

When house/stock price fall, probability to default debt greatly increase



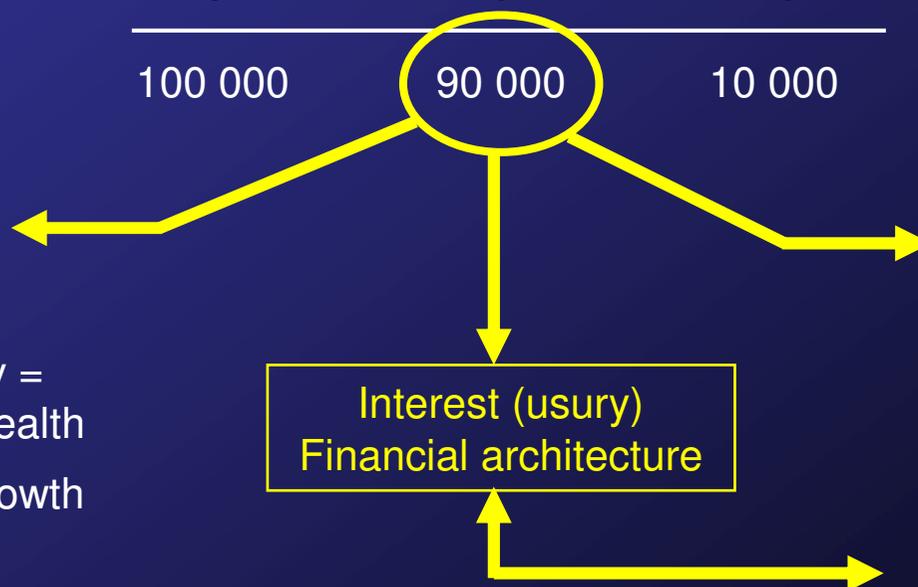
Bubble economy driven by greed:  
 >House investment for rental  
 >Stock market speculation (especially due to available of hot money (perhaps, petrol-money))

Real economy expansion:  
 >produce real goods

creation of money = creation of real wealth  
 >> sustainable growth

Interest (usury)  
 Financial architecture

creation of money ≠ creation of real wealth  
 >> not sustainable growth  
 >> thus, need continues creation of money



# The dangerous paths...

Assume 10% reserve ratio.

## The miracle of multiplier effect

Deposit	Loan (Debt)	Reserve
10 000	9 000	1 000
+ 9 000	8 100	900
+ 8 100	7 290	810
+ 7 290	6 561	729
•	•	•
•	•	•
•	•	•
100 000	90 000	10 000
+ 4 500	4 050	450
•	•	•
•	•	•
•	•	•
145 000	130 500	14 500

Interest on principle →  
e.g. (7 - 2)%

# The dangerous paths...

Assume 10% reserve ratio.

## The miracle of multiplier effect

Deposit	Loan (Debt)	Reserve
10 000	9 000	1 000
+ 9 000	8 100	900
+ 8 100	7 290	810
+ 7 290	6 561	729
⋮	⋮	⋮
⋮	⋮	⋮
⋮	⋮	⋮
100 000	90 000	10 000
Non-disclosure	+ 10 000	0
⋮	⋮	⋮
⋮	⋮	⋮
⋮	⋮	⋮
unknown	unlimited	10 000

Financial architecture  
(assume 10 000, but the  
amount that can be created  
are unlimited)



With this great multiplier effect, the line that differentiate  
“miracle” and “disaster” is too thin

## Black box for Malaysia: Possible effects

Actual effects remain disputable, yet the “guess” outcome could be as follows:

How much Malaysian banks or financial institutions hold debts securities issued by failed banks (e.g. Lehman Brothers)? >> not disclosed yet.

How much contraction of demand to Malaysia’s export? >> not only from U.S. but from Malaysia’s others trading countries especially ASEAN, China and Japan.

How much contraction of foreign funds to Malaysia? >> could cause depreciation of Ringgit, decrease liquidity and fall of stock market.

How much contraction of foreign investments to Malaysia? >> the effect is seen as medium to longer term, thus would be less likely to cause immediate panic.

## Malaysia's RM 7 billion Fiscal Stimulus

Targeted to increase consumer spending: A Keynesian approach but is it beneficial to consumer? Consumers' spending to safeguard business (capitalist) interest? Consumer spending financed by debts do more harm than good.

(i) Employee EPF contribution allowed to reduce by 3 percentage points.

(ii) Civil servant car loans increased

(iii) Housing loan repayment period can be extended to 30 years to all civil servants, including current mortgage.

(iii) Allowing supermarkets to close late (weekdays 11pm, weekend 1am)



Earlier, government announce to use millions of Ringgits to boost stock market >> the rationale is strongly debatable !!!

## Malaysia's RM 7 billion Fiscal Stimulus

### Increase government spending:

- (i) RM1.2 bil >> low-and medium cost houses
- (ii) RM500 mil >> police stations & quarters, army camp & quarters
- (iii) RM600 mil >> public infrastructure project and maintenance program.
- (iv) RM500 mil >> repair & maintain public facilities
- (v) RM500 mil >> road in rural & agriculture areas (included Sabah & Sarawak)
- (vi) RM200 mil >> government-aided religious school, Chinese & Tamil school
- (vii) RM300 mil >> start-up fund for skill training
- (viii) RM500 mil >> public transport system
- (ix) RM1.5 bil >> set up an Investment Fund to attract private investments
- (x) RM400 mil >> High Speed Broadband Project

## Malaysia's RM 7 billion Fiscal Stimulus

### Increase government spending:

(xi) RM200 mil >> To fund program by private training institutions.

(xii) RM100 mil >> Youth programs 😊

(xiii) RM200 mil >> Revive abandoned housing projects 😊

(xiv) RM100 mil >> Increase number of business premises in small towns

(xv) RM200 mil >> Early education program (age 1 to 6) 😊

**These spending is partly funded by sales of government land and reduce need to subsidies petrol >> debatable**

“Government has to look after the **rakyat** and not **elites**” DPM. 

## **Conclusion remarks**

**An unfortunate reality: Modern economy growth rely on growth of debts.**

**Human excessive greed, dynamic financial architecture and digital technology encourage debts creation and bubbles.**

**The power of capitalists embedded in “free market” ideology creates imbalance domination and exploitation.**

**Government intervention (Keynesian or socialism) too cannot solve the problem.**

**The root cause is at the very foundation of mankind civilization – HUMAN itself.**

**The moral economy school of thought is needed.**

**Lets us together create a sustainable economy.**

**Lets us together make this world a better place to live.**

**Thank you**