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News Story

Are you stimulated yet?

By Jim Donnelly, Ottawa Business Journal Staff
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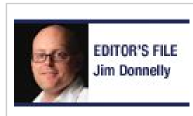

Just a month into 2009, and already there's a whole lotta stimulation goin' on.

Not that that's a surprise, mind you. After federal Finance Minister Jim Flaherty's rosy economic assessment and subsequent beat-down by economists a little more than two months back, it was virtually a given that Keynesian economics was ready to make its rosy-cheeked entrance into the Canadian political/economic scene.

After all, we're constantly reminded by the mainstream media that "We're all Keynesians now." (Whether we like it or not, it seems.) The man has certainly never been so popular outside of economics class.

But in all this talk surrounding the late Mr. Keynes lies a danger, and that's the dumbing-down of the current situation. The recipe for economic comeback, we're told, is simple: toss several billion dollars in a large bowl, while adding a pinch of skills training and a dash of knowledge-based funding. Mix well, distribute evenly among political and geographical lines and bake for four years.

Presto! One economy, fixed and ready to rip.

It's a relatively simplistic plan of attack, given the mess we're in. And though Canada's stimulus package in 2009's budget amounts to a little less than two per cent of GDP – putting it far below the Obama administration's proposed $800-billion-plus package, hovering at around five per cent – it does contain several 'good news' items for business, especially industries in Ontario.

(The feds' $12-billion infrastructure package is certainly welcome news to any of us who pass under bridges during our commute, considering how many of those overpasses have unceremoniously heaved to the ground over the past few years. Getting those ticking time bombs fixed, while putting some folks back to work, would undoubtedly be a good thing.)

Indeed, I'm not saying the federal budget's emphasis on economic stimulus is a bad thing at all (although what's been lost in the debate is whether, historically at least, this stuff actually works). Considering the effectiveness of the Bank of Canada and U.S. Federal Reserve's other secret weapon – the knee-jerk response of lowering interest rates, a tool that worked when rates were higher but has become virtually irrelevant as they've crept towards zero – maybe massive stimulus packages are the only way out of this.

What I am saying, though, is that no amount of pushing, prodding, inducing, spurring, motivating or stimulating will do much overall good without taking a hard look at the global banking system.

People lack confidence right now, especially when it comes to our banks and financial institutions. Former tycoon Bernie Madoff and other, less-publicized Ponzi-wannabes – along with bonus-grubbing executives such as Merrill Lynch's John Thain – have made sure of that.

People don't trust banks anymore. Heck, even banks don't trust banks anymore.

So what to do?

As Duke University's Cam Harvey has argued, no economic recovery is possible until – number one – governments require more transparency from these institutions. We hear staggering figures of billion-dollar losses at banks across the globe almost weekly, but thanks to a lack of transparency it's virtually impossible to analyze those numbers. Forcing banks to be more accountable in their accounting would go a long way.

Secondly, governments must move en masse to eliminate the morbid infestation of toxic assets from these same banks' balance sheets. That's the elephant in the room, of course – the same bad debt, based on U.S. mortgages, that watered the roots of this crisis back in 2007. That debt is still there, and it's still freezing the credit system.

With these financial gremlins exterminated from the banks' balance sheets, institutions would begin to feel less terrified in making large-scale loans. Credit would begin to flow. Businesses could stop missing their payments and, finally, the economy could begin to pick itself up off the floor in earnest (indeed, in recent days, it seems the U.S. is moving closer to doing something along these lines).

The government might even make a profit upon recovery, instead of simply shovelling money into a yawning maw. As it stands now neither they nor the public have any idea of how that cash is being used – other than to protect their balance sheets come earnings season.

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Name	Last	Chg	% Chg
TSX Comp	8688.81 ▲	60.18	0.70%
S&P/TSXV	889.58 ▲	20.33	2.34%
NYSE	5243.83 ▼	-24.19	-0.46%
NASDAQ	1517.05 ▲	0.75	0.05%
S&P 500	832.58 ▼	-5.93	-0.71%
TSXTLCM	76.98 ▲	0.26	0.34%
RUSS1KV	428.51 ▼	-4.64	-1.07%
NASDTLCO	145.51 ▼	-0.04	-0.03%
TSXINFO	21.40 ▲	0.29	1.37%
^TXX	458.47 ▲	0.37	0.08%

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Reader Poll 01/30/2009

What is your take on the federal budget?

- A stimulus package worth 1.9 per cent of GDP is exactly what the doctor ordered.
- Personal tax relief, along with tax breaks for small businesses and computer purchases, gets a thumbs-up from me.
- The extension of EI benefits, and the $4 billion for retraining, will help workers affected by the global downturn.
- The $50 billion purchase of mortgages and money for EDC and BDC is nice, but there should have been more to encourage the availability of risk capital.
- There was too much support for "industries in distress" instead of industries of the future.
- How are we going to pay for all this?
- I was waiting for a reason to renovate the bathroom…
- Other.

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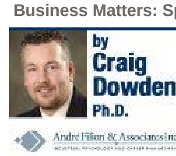

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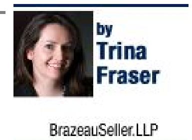

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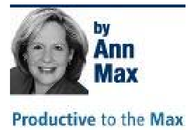

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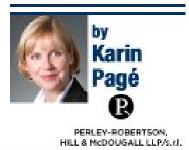

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