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.

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 recovery involves two components: a massive stimulus package, and the elimination of toxic assets, also known as toxic assets.

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.

Presto! One economy, fixed and ready to rip.

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Firstly, governments must move en masse to eliminate the morbid infestation of toxic assets, the shadowy doppelgangers of collapsed mortgage-backed securities. For EDC and BDC is nice, but there should have been more focus on industries of the future.

Secondly, governments must move en masse to eliminate the morbid infestation of toxic assets, like mortgage-backed securities. 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 be ready to handle the 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.

Moreover, the government might even make a profit upon recovery, instead of simply shovelling money along these lines).

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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.

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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).

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