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Our never ending Financial Problem

How governments working together will solve the Global Financial Crisis

story by Grant Goldberg

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To the Leaders of the World: Get this economy moving!

Barack Obama, President of the United States (left and Andrea Merkel Chancellor of Germany (right), are both heavily invested in the success or failure of the European Union

By Grant Goldberg

When you're in a pit, the first thing to do is to stop digging. - James Ellman, Seacliffe Capital

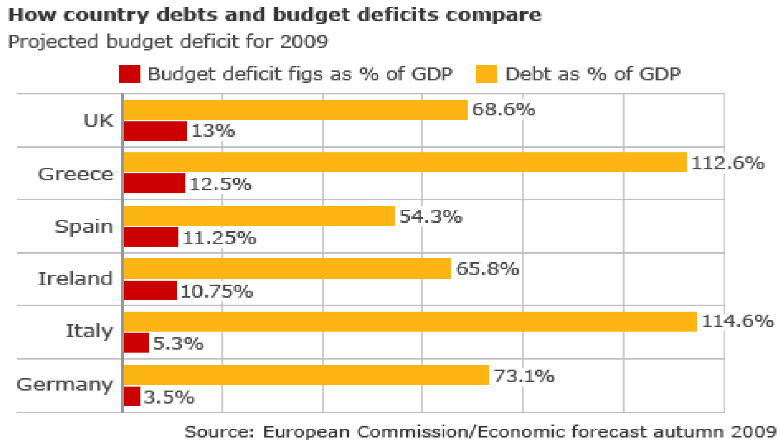
To the Leaders of the World,

The quote above is from 2007, and in 2012 although we've finally stopped digging we still haven't been able to start filling that hole. Our world is still facing some of the largest challenges ahead of us, from double-dip recessions and large government deficits to a Eurozone on the brink of disaster. It is up to you, our parliamentarians and governments officials around the globe to come together to solve these problems effectively, before they become any worse.

The crisis of government financing in Canada and around the world is one which is important to solve due to its wide spread implications. It is therefore up to you as leaders, especially here in Canada to make the right choices surrounding this challenge. We have faced government deficits since the start of the financial crisis in 2008 that have forced governments who were not planning on such a long term stagnation to begin to tighten their belts and cut social services provided by the government. Canada's budgetary deficit will reach $21.1 billion this year, and will only grow in the next 2-3 years. Our government has been trying to rein in spending as the stimulus package given out start to run dry on funds. You as government officials must now come up with a sustainable means of keeping the growth on track to bring us back to the levels we saw pre-2008. But it is the fear of what is happening in Europe that scares both those in your finance ministries and outside economists alike; that the slide we saw in 2008 may happen once again.

Canadian finance Minister Jim Flaherty holding a copy of this year's federal budget. The budget is not set to be balance until 2015-2016, a year later than previously announced.

The Eurozone unlike the positive signs we see in North America, is facing a potential double dip recession in the coming months. Many countries in the EU following the financial crisis in 2008, are not able to sustain the massive amounts of borrowing that their budgets require to stay balanced. Many people in countries like Greece and Spain bought government debt, but when these nations became more strapped for cash, a slow speed bank run ensued with many trying to get their money out of these



Italy has the most debt per GDP at 114%, followed closely by Greece at 112%. This is a clear indication of how much money Greece has had to borrow to come close to balancing their budget.

high risk bonds. Spain and Greece's economies ran off of borrowing to sustain a social safety net they could not afford. Greece for instance has over 112% of its GDP as debt and failed to report their financial issues to the European central bank before it was too late. Greece also has one of the largest underground economies, which reduced the government's revenue severely and now makes it structurally harder to get out of debt. While countries like Germany are economic power houses and have weathered the storm without much trouble, the Spains and Greeces of the Eurozone have relied on wealthier countries to loan them upwards of €110 billion to get them out of debt. This crisis has become unsustainable for the Eurozone, and many of the nations are feeling the effects through their combined currencies. North American governments have become worried due to the seepage that may bring a similar crisis back to North America and force a double dip recession domestically.

Although it may seem all doom and gloom in both Europe and globally, this is not the case! There are justifiable reasons why the government needs to help with this issue. You in the halls of power are the only people with the means of making effective change. If we fail to keep our budgets under wraps, both internationally and within the Eurozone, there are both implications both on you as politicians and on those who put you into office. The only way you keep your job is to keep public support high and people happy and by extension people employed with an economy churning at full speed. Whether you believe government should be large or small, the government has an impact on the economy, and therefore it is justifiable for this challenge to be tackled by you as officials.

As for the justification for you to make a change in the Eurocrisis, it is almost certain that any European wide problem will become a global problem due to our economic interconnectedness. Mark Carney, the governor of the bank of Canada said on June 14th in his annual report on the financial system warned of the seepage of European problems into that of Canada's. You, as the leadership of the globe must continue to work together to find the solution to the challenges that face us as they are not purely European problems, but global problems. In two specific steps for the challenges and one general step to help both, it will become easy to help bring our economy out of stagnation and into success and boom.

Step 1: Spend, Spend Spend!

It's time to get back to the basics of government fiscal policy. When we are in economic troubles around the world, it's important to increase our Aggregate Demand (the total goods and services nations demand) to bring our economy back into shape. The easiest and most assured means of increasing the GDP of a country is through the influence of government on the GDP formula. This means higher government spending on anything from products to infrastructure. Infrastructure is easily the best way to increase this as it not only affects GDP now, but increases productive capacity of an economy in the future. Building highways or a national clean energy grid now will allow nations to transport goods and electricity 5 years down the road and for many years after that. It is almost for certain that the investment you put into that infrastructure will pay for itself very quickly.

Step 2: To keep the European Union from imploding, REGULATE!

Most of the nations who are facing financial hardship in the Eurozone have mismanaged their economies both before the financial crisis in 2008 and continue to do so to this day. This is due to the little regulation and tax that was brought in when these nations were in economic boom. Greece spent over their GDP and went into a lot if debt, failed to tax many people, allowed hundreds to retire early while still providing many expensive social services. It's time for the EU to get tough on Greece, and I don't mean austerity tough, by restricting how much they can spend, but tough in the sense of revenues. For any economic recovery to take place, the country must spend to increase aggregate demand. But Greece, although it has signed the austerity measures, still has no idea of how it's going to make the money back to repay the loans. Issuing more bonds to pay off bonds isn't an option due to its lacklustre credit rating and neither is printing more money. Although the previous two options are off the table regulating its banks and its taxpayers is something Greece can do. Grecians' tax haven is now over, it's time to start making sure loans are paid, and revenue is brought in. Greece needs to capitalize on one of the best tourism economies on the planet, and take advantage of this fantastic cash coming into the nation. We need to make Greece an attractive place to invest again, but that comes with time, and a banking system which people can trust.

Step 3: Make the global economy a better place to invest again.

The governments of the world need to band together and come up with a way to make the world a better place to invest again. No, I'm not advocating starting a war to increase investor confidence, I mean starting things like massive infrastructure plans a scientific advancement like we've never seen before. In the past the world has used positive technological advancements like the space race and the computer age to jump start economic prosperity. Advocating for investment in science, technology and advancement instead of things Collateralized Debt Obligations and bets for and against the stock market. Its time people started investing in people again, and through this we will not only be able to support a sustainable economy, but create a better place to live for us all, especially looking at it in the long term. This is truly investing with a conscious.

Humbly yours,

Grant Goldberg

Grant Goldberg is a grade 12 economics student at William Lyon Mackenzie C.I in Ms. Cuttle's class. He will be attending Queen's University next year and hopes to continue on with his study of economics while there.

Riots in Greece and Spain have plagued their nations for a number of months leading to further economic stagnation and a lack of consumer confidence