

Australia could prove big loser in global market crunch

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Geoffrey Garrett
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AUSTRALIA could be the big loser if the US turns inward and retreats from the global economy after a trillion dollars was wiped off the US stock market.

With venerable Wall Street names dropping like flies, corporate writedowns and bailouts since the subprime crisis began, the US presidential campaign finally is moving on from the political theatre of pigs, pit bulls and lipstick.

"It's the economy, stupid" all over again in 2008, and the smart money says this will pump air back in Barack Obama's deflated balloon. But in the longer run, the global economy and, in particular, export-dependent economies like Australia, stand as the big losers. When America sneezes, the world still catches a cold; nowhere more so than Australia with its globally oriented financial sector and so much superannuation riding on market returns.

Even when America recovers from the current downturn, the country will turn inward, unwilling and unable to promote freer trade and international investment. Rolling back free-trade agreements seems implausible. But don't expect the US to play a leadership role in meeting global economic challenges.

Cool heads may be right to counsel that the fundamentals of the US economy are good, the Government should hold tight and ride out the storm, and there will be ample time to consider new financial regulations when things calm.

But this won't do for regular Americans who feel anxious about the future and are tired of being told that global market capitalism is good for them. What economists tend to trivialise as inevitable bumps in the road to free-market nirvana, Middle America views as profound threats to its cherished way of life.

The halcyon days of high-paying, secure jobs with generous benefits in steel, vehicle and other American manufacturing industries are long gone. And Americans are unconvinced there is anything in the much-hyped "new economy" to replace them.

It is no surprise the immediate reaction of the presidential candidates to this week's bloodbath has been to rail against the Bush Administration as aiding and abetting the gargantuan excesses of the super elite gambling away the country's hard-earned money on the Wall Street casino. Obama is likely to win the short electoral battle over the economy. It is hard for John McCain to distance himself from the Bush Administration, particularly when his core economic policy is to make permanent its tax cuts for the super-rich.

Here is what regular folks see happening to the American dream of prosperity built on steady jobs and home ownership: Wall Street's woes have engulfed Main Street; house prices are down more than 15 per cent from last year; 20 million homes stand empty, with another 25 million in negative equity; and foreclosures exceed sales in many states.

This body blow to Middle America could not come at a worse time. Inequality is at its highest level in nearly a century. Job security is eroding. Wages are stagnant. Health care is unaffordable and public pensions are on shaky ground.

Whether all this finally will put Obama in the White House remains to be seen, given the questions over whether he is the right man to govern a country facing great challenges at home and abroad. But the direction of economic change under the next president seems clear. In the current climate, neither McCain nor Obama will have any choice but salve voters' pain with a sizeable dose of populism.

Domestic economic reform from taxes to health care is a very hard row to hoe in the US. Banging on about the evils of globalisation is much easier, particularly when almost two-thirds of Americans believe that free trade has been bad for the country.

A decade ago, globalisation's opponents were limited to Americans without a tertiary education. Today, its supporters are limited to America's globetrotting elite with postgraduate degrees.

The next US president probably won't, and probably can't, roll back globalisation. But in 2009 the next administration will be in no position to push for more of it. Victims of faltering US leadership will range from mega deals like Doha to tiny agreements with Colombia and Panama. Ambitious regional goals like an APEC free-trade area seem at best fanciful. This can only be bad news for an Australia whose future is so tightly tied to an open and dynamic Asia-Pacific economy.

If America's downturn ends up curbing China's insatiable appetite for raw materials, the impact on Australia could be devastating. Australians today are riveted to the minute-by-minute carnage on Wall Street, hoping against hope that no more dominoes will fall. But there is deeper anxiety among Americans that global markets are strangling their cherished way of life. The country is on the precipice of a profound inward turn for which the world would pay a heavy price.

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