



# Fear shrivels US

**W**ITH venerable Wall Street names dropping like flies, and one trillion dollars wiped off the US stock market this year, the presidential campaign is finally moving on.

It is moving on from 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 such as Australia stand as the big losers.

When America sneezes, the world still catches a cold, especially Australia with its global financial sector and so many superannuation funds riding on market returns.

Even when America recovers, it 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 global economic leadership role.

Cool heads may be right to counsel that the fundamentals of the US economy are good, and there will be ample time to consider new financial regulations when things do calm down.

But this won't do for regular Americans who feel anxious about the future. They're sick and 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 in steel, automobiles and other American manufacturing industries are long gone.

It is no surprise that the immediate reaction of the 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.

No matter how hard he tries, it is hard for McCain to distance himself from Bush, particularly when his core economic policy is to make permanent its tax cuts for the super rich.

McCain didn't help his own cause by uttering the out-of-touch homily "the fundamentals of our economy remain strong" in the middle of the chaos.

The Obama campaign is also happy to remind voters of the fighting pro-market words of McCain's former economic adviser, Phil Gramm.

He dismissed the economic travails of regular Americans as a "mental recession" and those who complained about it as a "nation of whiners".

But regular folks see what's happening to their American dream, built on jobs and home ownership. Wall Street's woes are now Main Street's.

House prices are down more than 15 per cent from last year. Twenty million homes stand empty, another 25 million have negative equity. 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 almost a century.

Job security is eroding.

Wages are stagnant.

Health care is unaffordable and public pensions are on shaky ground.

Whether all this puts Obama in the

White House remains to be seen, given queries over whether he is the right man to govern a nation facing great challenges at home and abroad.

But the direction of economic change under the next president, whoever it is, seems clear.

In the current climate, neither McCain nor Obama will have any choice but to salve voters' pain with a sizeable dose of populism.

Domestic economic reform, from taxes to health care, is a hard road to hoe in the US. Banging on about the evils of globalisation is much easier, 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 globe-trotting 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.

The victims of faltering US leadership will range from mega deals such as Doha down to tiny agreements with Colombia and Panama. Ambitious regional goals such as an APEC free trade area seem at best fanciful.

This can only be bad news for Australia, which needs an open and dynamic Asia-Pacific economy.

If the US downturn curbs China's insatiable appetite for raw materials, it could be devastating for Australia.

Australians today are riveted to the carnage on Wall Street.

But there is deeper anxiety among Americans about global markets.

The country is on the precipice of a profound inward turn for which the entire world would pay a heavy price.

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