Democrat trap explodes US trade policy

Asia pivot

Barack Obama will have to work hard to rescue the key Trans Pacific Partnership trade deal, after being blocked by his own party.

Tom Switzer

Has America taken an isolationist and protectionist turn? Are we witnessing the demise of the Trans-Pacific Partnership (TPP), the 12-nation trade deal that includes Australia? And is Barack Obama moving away from the much-touted "pivot" to the Asia-Pacific region?

Given the Democratic Party's resounding rejection of Trade Promotion Authority (TPA) for the President, you could be forgiven for thinking so. But it's useful to put this great struggle in a broader context and recognise that, although Obama has suffered one of his biggest setbacks as President, it's (of all people) the Republicans who could salvage the trade legislation this week.

With a clear majority of Republicans, Obama rightly believes that the US has no choice but to fight for more open trading rules in a market that accounts for nearly 40 per cent of the global economy. Doing so also means the US can set high standards for worker rights while protecting intellectual property. In order to negotiate a trade deal that Congress can either approve or disapprove without amendments, the President needs TPA, or "fast track," which every post-war president – but Richard Nixon – has been granted.

So on Saturday morning [AEST], the Republican leadership ensured that the House of Representatives follow the Senate and pass the bill that would grant TPA to the President. But Democrats initiated a surprise attack – "imagine Pearl Harbor as an inside job", editorialised the *Wall Street Journal* – and did what they all too often accuse Republicans of doing: obstruct Obama's keynote legislation.

It was one thing for only 28 out of 181 House Democrats to support their own president on the TPA. It was another thing for Democratic leaders to booby-trap their own president.

By exploiting an arcane point of legislative procedure – making TPA conditional on financial aid to displaced workers (Trade Adjustment Assistance or TAA) and then joining enough sceptical Republicans to oppose the measures they've supported for decades – Obama's party sank its president's entire trade agenda.

How did it come to this? The answer lies in understanding that, since the global financial crisis in 2008-09, US Democrats have lurched to the left. From increasing taxes to toughening regulations on Wall Street, the Democratic grassroots want to party like it's 1969.

To negotiate a trade deal Barack Obama needs TPA or 'fast track'. PHOTO: GETTY IMAGES

Democrats, in cahoots with labour unions, blame trade deals with low-wage countries for killing jobs.

Nowhere is this ideological shift more evident than trade. For much of the post-war era, free trade was a bipartisan consensus in Washington. Those days are over. Democrats, in cahoots with labour unions, blame trade deals with low-wage countries for killing jobs and depressing real wages in manufacturing. Never mind that the expansion of globalisation and the information revolution are happening with or without the TPP.

Not that you know it from anything Obama or Hillary Clinton have said. In her keynote address yesterday, Clinton defined herself as a "fighter." Yet she has not even taken a stand in recent trade debates.

As for Obama, he has utterly failed to persuade his own party about the merits of free trade. It is passing strange that Obama has yet to give a televised national address on what he insists is his second-term legislative priority. Nor has he dedicated much time to the TPP in his State of the Union addresses.

Fast track is not dead yet. Its fate depends on Obama's ability to persuade Democrats to change their minds this week when Republican leaders plan a revote on the TAA plank of the legislation.

The significance of a loss would be enormous. It would represent a setback for the US economy, deal another humiliating defeat for Obama and probably doom the TPP.

Asian leaders could also conclude, reasonably enough, that a less active and assertive America means China may write the new rules for trade, cyber security, intellectual property and so on.

A win, on the other hand, bolsters the economic pillar of Obama's legacy-defining pivot towards the region. Asia would be dealing with a stronger and more confident president.

The coming days in Washington could mark a watershed in US trade policy, America's claims to economic leadership and the regional balance of power.

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No good choices left for Europe in Greek crisis

Euro crisis

If Greece had not been in the eurozone it would have been allowed to default on its debts, but it was kept afloat through policies that have made a bad situation worse.

Oliver Hartwich

All eyes are on Greece again this week. The Greek debt crisis was on the agenda of the G7 meeting in Germany last week, and discussed on the sides of a Europe and Latin America summit in Brussels. The IMF is waiting to see if Athens can repay loans worth €1.6 billion ($2.3 billion) by the end of the month.

Despite all this excitement, Greece is not the most important country in the world. Its economy accounts for 0.15 per cent of global population and 0.3 per cent of global economic output. These figures are a reminder what a disproportionate amount of time, money and column inches have been devoted in recent years to this tiny country on the outskirts of Europe.

If Greece had been any other country, its sovereign debt crisis would have been over for a long time. Greece would have defaulted to its creditors, reformed its economy and started over. After all, this is how ordinary debt crises normally work.

The problem is Greece was never allowed to have an ordinary debt crisis. From the moment it started, its crisis was as much a euro crisis as it was a Greek crisis. Being part of the eurozone complicated the situation and prolonged Greek suffering, without leading the country any closer to a solution.

The situation is complicated by the fact that any solution depends on Germany. After five years of bailing out other countries, it is fair to say crisis fatigue has set in. As *Spiegel* magazine reported last week, more than a third of German Chancellor Angela Merkel's parliamentary party may rebel against a third bailout package for Greece.

When then prime minister George Papandreou admitted in early 2010 that Greece's public finances were in a more serious state than previously admitted, markets began to panic. Yields on Greek government bonds skyrocketed. The reason Greece did not default then is the same reason the Greek crisis is still with us today. It was never handled as an economic crisis but always as a political crisis.

Public debt was so high in 2010 that it should have been clear Greece could never repay its creditors. If it had been about helping Greece to recover, it should have been allowed to leave the eurozone and default on its debt back then.

For fear that a Greek default and eurozone exit could spark speculation against other eurozone members, Greece was bailed out. This meant not only that it could not claw back competitiveness by devaluing its currency. Perversely, it also meant that instead of granting Greece debt relief, it was saddled with even more debt.

Today, the effects of this policy are plain for everyone to see. Greece's economy has contracted by almost a third since 2008. Its unemployment rate stands at 25 per cent, and its debt to GDP ratio is around 180 per cent. In every respect, Greece's so-called "bailout" has been a complete and utter disaster.

At the same time, the Greek problem is now more difficult to solve than it was five years ago. That is because other European governments have underwritten so much lending to Greece that should the inevitable default happen, it is their central banks and taxpayers that will be taking a hit. If Greece went bankrupt today, it could cost Germany alone more than €60 billion.

Even if a Greek default is again averted by giving it extra cash, it will not be the last time that Greece needs a new bailout. It would also set a dangerous precedent for other countries. But not continuing the bailout would cost Greece's public creditors dearly, plunge Greece even deeper into crisis, and could also spread uncertainty to other parts of the eurozone.

If Europe's political elites had allowed the Greek crisis to run its course in 2010, Greece would be recovering by now. Instead they have made such a mess of it that this tiny country will continue to haunt international meetings for a long time to come.

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Stadium fever would lift tally of own goals

Brian Toohey

The chance to build new sports stadiums seems to mesmerise Australian politicians. Which is all the more reason to hope Australia doesn't get a second chance to host the 2022 soccer World Cup if Qatar loses the event it corruptly won in 2010. Based on Australia's earlier go, hosting the Cup would probably cost governments more than $3 billion for new and upgraded stadiums. Some regional ones probably wouldn't be full during the matches.

The Rudd Labor government wasted more than $45 million on the bid. The Football Federation of Australia hardly covered itself in glory in winning a single vote. Belated attention is now being given to how the FFA paid $500,000 to a sporting body associated with Jack Warner, an international soccer official who allegedly stole the money. Leaked emails show the FFA hoped, apparently in vain, that Warner would vote for it.

State sports ministers already vie with one another to fund new stadiums for routine use. Wealthy football codes are not even asked to contribute. Mike Baird's Coalition government has committed $600 million to stadiums from the sale of part of NSW's electricity distribution network. How this meets Baird's commitment to spending on productivity enhancing infrastructure is far from clear.

NSW Sport Minister Stuart Ayres says he expects normal budget sources will supply additional funds. Influential sporting bodies are demanding at least $1.5 billion for new 65,000-seat and 35,000-seat stadiums plus an upgrade of the former Olympic athletics venue. Big new stadiums aren't cheap. West Australian Sport Minister Mia Davies says the new 60,000-seat Perth Stadium, due to open in 2018, will cost $918 million for capital works and $358 million for associated transport infrastructure.

Construction costs often rise sharply while the benefits from future tourism are greatly exaggerated.

Some facilities might be justified as the sort of normal amenities that governments provide. But politicians usually claim that new stadiums generate net economic benefits.

Studies published in academic journals show the claimed economic gains rarely exist. The anticipated boost to "brand Sydney" from tourism, for example, didn't happen after the 2000 Olympics.

The Australian Financial Review reported that governments would spend about $3 billion (in 2009 dollars) on stadiums if the 2022 World Cup bid succeeded. Rising construction costs suggest that more than $6 billion would have been required before 2022. The FFA said holding the Cup would require 12 stadiums, each with a minimum capacity of 40,000. The bid involved constructing three new stadiums, purpose-built for soccer. Five others would have required major upgrades and four minor upgrades. Canberra, Townsville, Newcastle and the Gold Coast would have new or upgraded stadiums that analysts said at the time wouldn't fill during the tournament, let alone afterwards.

Victorian Sport Minister John Eren recently said Melbourne was ready to host the 2022 World Cup. Baird then said he would do whatever needed to hold the final in Sydney.

Apart from the World Cup's costly disruption to other codes, a McKinsey study of the five contenders in 2010 found the Australian bid would generate the least revenue and the US the most. Go United States!