

Australian politicians ignore forthcoming perils

By Maurice Newman, The Australian, 18 January 2017

As 2017 dawns, we must hope the Turnbull government is better prepared for the unexpected than it was for a Donald Trump election win. A desperate call to golfer Greg Norman for the president-elect's telephone number tells us a Hillary Clinton defeat was never seriously contemplated.

Yet, for open minds, Trump was always on the cards. The emotional outpouring over Brexit served notice that a rising tide of nationalism was sweeping the West, not least the US.

By June, nationalistic, anti-immigration and anti-establishment governments are likely in The Netherlands, France and Italy. Dutch frontrunner Geert Wilders captured the mood when he said: "We want to be in charge of our country, our own money, our own borders and our own immigration policy."

The likely next French president, Francois Fillon, echoes these sentiments, promising to - implement radical "Thatcherite" economic reforms. In Italy, the increasingly popular Five Star Movement is in striking distance of government. It, too, is anti-immigration and anti-globalisation.

These sentiments are shaping attitudes in Germany, which, sometime in autumn, also will go to the polls. The far-right Alternative for Germany (AfD) is the country's third largest political party. It advocates a revival of German nationalism and EU reform and has been influential in hardening Chancellor Angela Merkel's stance on immigration and the treatment of refugees.

Inspired by the Brexit vote, nationalists are taking aim at the EU. The Five Star Movement claims the EU is "an absolutely useless formation" and that the eurozone has brought nothing but "social disintegration and unemployment". Otmar Issing, the euro's architect, believes it is a "house of cards" that is ready to collapse.

This is not surprising. Divergent economic performance between states and an officious bureaucracy in Brussels have bred British-type resentment, especially in the south. Failing Italian banks may bring things to a head. Beyond Italy's capacity to fix, a European rescue, approved by Germany, is required. The AfD opposes foreign bailouts but disintegration of the eurozone would make Greece look like a sideshow.

This year also could see China's banking system unravel. The International Monetary Fund warns of "a growing risk of a banking crisis, or sharply slower growth or both". Reserves are haemorrhaging and a deflationary credit crunch seems unavoidable. China is turning inward as industrial unrest and mass unemployment poses a threat to Communist Party rule. A cautious President Xi Jinping has shored up his authority by becoming "core leader".

Trump's protectionist inclinations will encounter stiff opposition, especially from the Chinese whose trade surplus shrank 14 per cent last year. Trade wars and miscalculations cannot easily be dismissed

While some of Trump's policies do make sense, he inherits an ageing population with - expensive healthcare demands, a debt to gross domestic product ratio of almost 80 per cent and a Federal Reserve shifting to a tighter money stance. Unfortunately for him, his election comes late in the business cycle and his room to move responsibly is limited. Animal spirits may be

lifting sentiment surveys and the stockmarket, but the hard data tells a different story. Inventories are rising, employment is fading, housing has plateaued, capital expenditure is weak and export orders are slipping. There are no quick fixes. When reality and the stockmarket finally collide, watch out below.

The Brexit and Trump phenomena and the political tsunami soon to engulf Europe reflect voters' rejection of an establishment they believe has betrayed them. Governments may still have legal control but they lack moral authority. The people aren't stupid. While they were losing their jobs, houses and savings, they witnessed taxpayer bailouts rewarding poor decisions and bad behaviour. They've had enough of declining living standards and stagnating income. They resent their taxes being wasted on ill-conceived vote-buying programs. They want representatives they can trust.

Strident nationalists tap into this anger but they too are victims of ageing demographics, a late-stage business cycle and fiscal and monetary policies that deliver ever-diminishing returns. World debt to GDP ratios are now significantly higher than during the global financial crisis.

Throw into this mix Russia, which is in prolonged decline, and the Islamic world, which unravels by the day, and 2017 may well be no ordinary year.

With so many downside risks, you would think that in an exposed economy highly dependent on international trade linkages like Australia, the alarm bells would be deafening. Not so. Other than Scott Morrison acknowledging "interesting times may lie ahead and we must prepare", it seems as if it is business as usual.

Certainly, nothing in the midyear verbal gymnastics justifying a \$95 billion deficit across the next four years suggests otherwise. We should feel reassured that "more realistic projections" are being used (were previous projections unrealistic?) and comforted that we're "picking a safe and careful route" and "a measured approach that avoids extreme responses". But what if extreme responses are warranted?

Ratings agency Standard & Poor's expresses pessimism about Canberra's ability (in a relatively stable environment) to deliver a balanced budget by 2021. Unmoved, the government keeps whistling its happy tunes.

Truth is, Turnbull is frightened of negative opinion polls. Rather than prepare, he prefers to run the risk of a global crisis and leave it to his successors to clean up should one occur. Meantime, his Labor opposition represents yesterday. It still dreams of a mythical workers' paradise controlled by trade unions, big government and, Keynesian economics. It appears quite - unsuited for tomorrow's challenges.

Twenty-five years of uninterrupted growth and unprecedented terms of trade have papered over the structural rigidities that now rob Australia of purpose and competitiveness. To quote the Business Council of Australia's Jennifer Westacott: "The alternative to purpose — inaction, cynicism and inertia — usually means at best muddling through, and at worst being overwhelmed by external forces or allowing others to imagine your future for you." Norman won't be able to help next time.