

# OPINION

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## THE COMING STORM TIME BOMB HIDDEN IN THE GLOBAL ECONOMY



**JOHN ADAMS**

**T**he election of Donald Trump has increased Australia's strategic vulnerability in the Asia-Pacific region.

Trump's policy of "America first" and his doctrine of policy unpredictability has caused significant alarm among America's allies who rely on America for military protection and global stability.

This includes Australia which has relied on America since Churchill left Australia to the fate of Japan in 1942 after the fall of Singapore.

In particular, Trump has publicly criticised America's open-ended protection of Japan and South Korea suggesting either a request for additional financial compensation or a military withdrawal from the region.

Trump has also provoked China, both diplomatically through initiating direct communications with Taiwan as well as economically through a confrontational trade agenda and the appointment of aggressive trade representatives.

As a result of increased economic and military regional uncertainty, Paul Keating and Penny Wong want a rethink of the US alliance and a shift towards greater economic and diplomatic engagement in Asia.

The rise of Chinese power and their quest for regional hegemony coupled with the decline of America's global presence has been entirely predictable for years.

As a policy adviser to Senator Sinodinos (now Cabinet Secretary) in 2012-13, he and I had conversations regarding the US government's disastrous financial position and the unsustainability of its global military footprint.

Much like the Roman and British empires or the Soviet Union, an over extended government will collapse financially or cede large swaths of territory in a protracted military confrontation.

Obama and the Congress have left the US economy weak and the federal government in financial ruins.

Under Obama, the American economy grew at a paltry 1.46 per cent per annum against a long-term average of 3.35 per cent (1930-2015).

The government under Obama doubled its gross debt to \$US 19.9 trillion and is budgeted to deliver 10 years of future deficits.

Gross debt is projected to reach \$US 28.2 trillion in 2026.

Obama's debt and deficits were possible via controversial ultra-low interest rates and three rounds of quantitative easing, resulting in the US Federal Reserve and other government agencies now holding \$US 5.49 trillion of

US Treasury Bonds.

Yet despite these extraordinary monetary interventions, the US government was still required to pay \$US 433 billion in interest in FY 2015-16.

Given this situation, Trump's campaign assessment that America cannot afford to be the policeman of the world without adequate financial compensation is both necessary and realistic.

Whilst Prime Minister Turnbull remains publicly confident that America will supplement Australia's national security

infrastructure, Trump has multiple contradictory policy positions both economically and financially unsustainable that challenge this assumption.

Trump repeatedly warned that Americans are trapped in a large financial bubble through "politically manipulated" low interest rates and interest rates need to rise.

Trump's economic plan assumes an annual real growth rate of 4 per cent a year and is built on corporate and personal income tax cuts larger than the George W Bush tax cuts, record infrastructure spending and a significant expansion of the US military, while leaving social welfare and healthcare entitlements untouched.

Raising interest rates is unlikely to generate Trump's planned 4 per cent real

economic growth given the indebtedness of US corporations and households which combined stands at over \$US19 trillion.

Trump's budget plan will likely explode the US budget deficit, requiring global investors to fund additional debt while simultaneously needing to meet higher interest costs on existing debt. Trump's plan is unsustainable, particularly as since the elections there has been a significant international sell-off in the global bond market, which is driving up long term interest rates.

In the final equation, in order to resolve these contradictions Trump will either need to insist on the US Federal Reserve reversing course and artificially suppressing interest rates again through further rounds of quantitative easing which would risk the US dollar's reserve currency status, or Trump will be required to scale back his budgetary and military commitments. Either way, Australia cannot place any long-term faith in America's military protection.

Australia's elites have for years falsely assured the Australian people that Australia's national security is well in hand. The reality is that the nation is not economically, financially, militarily, diplomatically or psychologically prepared for a world without America's defence shield.

Australia's current predicament was entirely foreseeable. The gross incompetence of Australia's elites has led to failed national leadership.



## THEY SAID IT

"Ley has violated every tenet of Malcolm Turnbull's own ministerial standards. Either she must walk or Mr Turnbull must push her."

Labor's Catherine King calls for health minister Susan Ley's resignation following revelations of taxpayer-funded trips to the Gold Coast on weekends and holidays.

"Catherine King is one of Victoria's biggest-spending parliamentarians, according to a new report on international travel. Ms King's overseas travel entitlements for two conferences last year equalled more than \$57,000 — more than all other parliamentary secretaries and most Gillard government ministers."

A 2012 report on King's travel spending.

"I expect the highest standards from my ministers in all aspects of their conduct, and especially the expenditure of public money."

Prime Minister Malcolm Turnbull announces Ley will stand aside without ministerial pay until an investigation is complete.

"I have nothing to hide. I have not broken any of the rules. I'm very confident that the investigations will demonstrate that no rules were broken whatsoever."

Ley is defiant during an Albany press conference.

"That company, if it was operating in any sort of a free market, would go out of business, and if it didn't go out of business, it would be shut down by regulators for fraud."

Former Digital Transformation Office chief Paul Shetler slams Centrelink.

"I think Pauline gave him too much power, he is the one running the party, not Pauline."

Dumped One Nation candidate Shan Ju Lin says chief-of-staff James Ashby (pictured) has taken over from Pauline Hanson



Chris Johnson is CEO of Urban Taskforce and a former NSW government architect

## SYDNEY NEEDS A HOUSE DOCTOR



**CHRIS JOHNSON**

**S**ydney's housing supply needs a big boost and much of this could come from more radical changes to the planning system. Planning Minister Rob Stokes has indicated Sydney has a shortfall of 100,000 homes. Federal minister for cities Angus Taylor says Sydney needs 10,000 new homes a year. Clearly a big

changes are needed. Here are some options. The government must look at the poor transfer rate from housing approvals to completions. Planning department figures show that only 58 per cent of approvals become completed homes over a four-year period.

This is partly due to excessive conditions often by government agencies. The new reforms do help by giving the planning department a stick over other agencies but many conditions by councils make projects unviable.

Another idea is to open up restrictive zoning where only commercial buildings are allowed but not apartments. A similar zoning issue is emerging where inner city industrial land is banning housing even where the industrial uses have moved to Western

Sydney where the jobs are needed. Mixed use zoning in these areas could lead to many new homes being built.

Another area to look at is excessive design standards. A recent review of apartment design standards in Victoria found the NSW controls for solar access to 70 per cent of apartments were unrealistic and have therefore not been adopted. In Sydney it is very difficult to achieve the 70 per cent so many projects are not proceeding.

A relaxation of this rule would boost housing supply.

Finally, an affordable housing boost could occur if the Affordable Rental Housing planning policy was modified slightly to allow 20 per cent extra floor space for affordable apartments.

Up to 40,000 affordable rental

homes could then be built over 10 years.

The improvements to the planning system announced by Rob Stokes are a step in the right direction but they are certainly not of the scale and impact that Robert Menzies initiated after the World War II.

The scale of the problem is getting bigger as Sydney housing prices continue to climb. Some bold changes are needed as outlined here but, more importantly, the government needs to appoint a Menzies-like commissioner of housing supply for Sydney to drive the housing outcomes of the planning system. In other words, someone to make sure these reforms actually happen.