Claimed benefits of Australia-US trade pact a joke, top economists say

SYDNEY: Two leading economists has called for a public inquiry into an Australia-US free trade agreement which they believe will not boost Australia's economy by nearly as much as is being claimed for it.

Australian National University economics professor Ross Garnaut and former Industries Assistance Commission chairman Bill Carmichael made their call following the release last week of a report concluding the pact will add more than the six billion Australian dollars (4.3 billion US dollars) a year to the economy.

Garnaut, also a former Australian ambassador to China and economics adviser to Labor governments, ridiculed what he said were overly optimistic estimates of its benefits.

"Before economists are really satisfied with the results of any piece of econometric modelling, they put it through the laugh test," he told ABC radio.

"Can someone who knows the real world, that's meant to be described by the modelling exercise, look at the results and not laugh ... I don't think this exercise passes the laugh test."

The government-commissioned report, conducted by the Centre for International Economics, concluded that a decade from now the most probable effect on Australia's real gross domestic product would be an increase of 6.1 billion dollars per year or nearly 0.7 percent above what it might otherwise be.

The report, which immediately drew fire for its underlying assumptions, was used by the government to argue the trade deal is in Australia's interest.

Concluded in February after protracted negotiations, the pact is being reviewed by two parliamentary committees and is the subject of wide public scrutiny, many critics arguing it would have a negative impact in some sectors and could even damage trade ties with Asia.

Trade Minister Mark Vaile will head to the United States to sign the deal for Australia on May 18, although it still has to win the approval of legislatures in both countries before it can be implemented.

"Ministerial signature will allow the US Congress to consider the agreement
by July," Vaile said in a statement.

Garnaut and Carmichael made their call for a public inquiry in a submission to a Senate committee, warning also against any review being carried out too quickly just so it can be implemented early next year.

They said the estimates of the benefits were "potential gains" which could only come about if the agreement had provided comprehensive access to US markets including those for sugar, dairy and beef.

Sugar was excluded while benefits for dairy and beef industries would not be fully realised for many years.

As a result, the government had "heavily overstated" the benefits Australia would reap from the pact and had used them to "foster unrealistic public expectations about the outcome for Australia," they said.

"We believe that the costs of hasty decisions by the Australian parliament, based on assessments that are not widely recognised as being independent ... would be damaging to public confidence in the Australian policy process," the economists said.

They argued it would also be damaging to public support for changes of policy in areas of high political sensitivity and to Australia-US relations.

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