



**HON CRAIG EMERSON MP**

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DEREGULATION

**SBS Insight - excerpts**

Host - Jenny Brockie

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**SUBJECTS:** *Global recession, economic stimulus packages, credit flow to businesses.*

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**BROCKIE:** Robert Shiller in the United States, you've written extensively about the psychology of confidence. What do these stories tell you about what's happening at the moment?

**PROF SHILLER (Yale University):** Business I believe is driven substantially by confidence, by animal spirits, by people's perception of what is going on and perception is formed by the stories they hear and about memories they have about other experiences. People are talking about past recessions and some people are talking about depression and if you believe that's a possibility it's rational.

Home prices have been soaring in Australia as well as other countries. They could turn around so maybe you do want to sell your home. And maybe you want to pull back from a business experience. Unfortunately this is what propels an economy into a recession.

**BROCKIE:** What about the role of government?

**TERRI (anti-gloom website host):** If you compare Kevin Rudd to Obama his whole body language, the way he speaks. Obama gives me confidence and I don't even live in his country. I'd like to see Kevin Rudd take more of a strong leadership role and say 'look guys I know it's going to be tough but together we can work through this and just show a little bit more positivity when he's talking to us'.

**BROCKIE:** Does she have a point Craig Emerson?

**EMERSON:** Well it's the challenge for governments isn't it? If you say to people everything is going to be fine and it's not because we're being buffeted

by international forces which are massive compared with the size of our country then they're entitled later to say you misled us.

BROCKIE: What about the point Terri is making that her impression, and it's just one impression, is that she's getting doom and gloom from this government and she wants more positive statements coming out of the government? That's a real political problem for you isn't it because as you say you're damned if you do and damned if you don't.

EMERSON: That's what I say, it's a dilemma. I mean if we say to people everything's fine, don't worry about it... We're a little trading nation bobbing up and down like a cork in a sea of global turbulence mainly coming out of the United States but that's then spread to Europe. Japan, just in the last couple of weeks, has gone into such a deep recession. I think it's about three per cent in one quarter, an annualised rate of 12 per cent. What's that mean? That it lost 12 per cent of its economy if this keeps up and Australia can't just say that's got no effect on us. It has a big effect. For example, in the mining community it affects the price of coal, the price of iron ore. The second biggest economy in the world going into a deep recession and the International Monetary Fund describing the global recession as 'serious' and 'deep'. What do we say, 'No, no don't worry about it. Always look on the bright side of life...?'

BROCKIE: (laughs)....

EMERSON: You know, Life of Brian.....

BROCKIES: (laughs). Well what do people think about this?

ROB (Mine contractor): It's like exactly what he's saying. When I was out there just before I left the job in the camp. All the big companies put off about 2500 people just in that area, western Mackay....

BROCKIE: Do you want that story told? Terri is saying I don't want to know, I don't want to hear.....

ROB: ....a lot of people were contractors but it got really scary when you heard of people with permanent positions had to go as well and because up there is mainly mining communities, if they don't have work how are they going to live in that town?

BROCKIE: Ross, what do you think of the political rhetoric that's going on at the moment?

ROSS GITTINS (SMH economics editor): I think it's been difficult for the Government partly because our Government has acted very very early, really before anything too terrible has happened and it's had to establish in the minds of the electorate the need for that. So it's been very hard for the Government to be positive and on the up side while also saying things are so serious that we need to take early action. The problem here is that what's in

the community's interest, which is for everybody to be confident and spend, is not in the interest of the individual. An individual who's worried about their job security, who has a fair bit of debt, the sensible thing for that person to do is to cut back, to use any money that comes along to get on top of their debts and that's not a bad thing. This roughly speaking happens in every recession and although at the moment there's an enormous emphasis on saying forget your debts, spend, spend, spend, in fact the way recessions work and the way we get out of them is that the economy really has to work its way through the debt that people have acquired and they now consider to be excessive and when they get through that that's when the economy starts growing again.

BROCKIE: John Taylor what do you think about this? I mean we started off talking about political rhetoric here and whether it can make a difference in turning people's mood around or making people who have money more willing to spend it? Does all that matter?

JOHN TAYLOR (Stanford University): I think it can matter a great deal actually and I think the tendency for sometimes politicians to talk the economy down in order to get say a stimulus package passed can actually do harm. I do think there's already been two stimulus packages both in Australia and in the United States. The Australian one came very early as has been mentioned. But to sell that there was emphasis on how bad things were and so I think governments can actually make it worse and I don't see quite frankly that this is a crisis of capitalism. It seems to me the crisis, in many respects, has been brought on by governments over reacting if you like and causing excesses.

BROCKIE: Craig Emerson how confident are you that the strategy is going to work?

EMERSON: Well so much does depend on what happens in the United States, Europe, Japan, Korea, our trading nations. All of those are in recession. Now the fiscal stimulus package that Barack Obama announced was \$1200 billion. Ours is \$42 billion. And yet we've got people who say 'yours is too big'. I mean.....

BROCKIE: We're a lot smaller country though.

EMERSON: We are a smaller country but we're doing what we can and we are indicating that the Government is prepared to stand shoulder to shoulder with the people and drive through this recession. What we get from the Coalition is criticism of everything we do and their opposition to the \$42 billion stimulus package.

### **On credit flow to small on medium enterprises**

BROCKIE: Ross what do you make of all this?

GITTINS: I think it's very important not that banks continue lending to bad risks but lend to good risks including new good risks. The banks are getting a

lot of support from the Government. They've had a lot of guarantees given to them. I think it puts on them obligations to make sure that they are continuing to lend to good risks in small business and that is very important to the ultimate size of this downturn. I hope the Government is putting a bit of pressure on.

BROCKIE: Craig Emerson are you?

EMERSON: Yeah we are and I've been talking to the banks including Peter (Hanlon – Westpac) and all of the banks, the Australian Bankers Association and the Council of Small Business Organisations of Australia with a view to getting a meeting sooner rather than later. The banks are saying we are tightening a bit and there is a lot of money there. Why don't we get people around the table and test all the arguments because it's 'he said she said' at the moment. I'm hopeful that we'll be able to do that.

BROCKIE: Craig Emerson, you've got to turn the herd around that Ross Gittins is talking about. How are you going to do it?

EMERSON: Frankly I think it would come from America. What I've been saying tonight is that the forces that are arranged against Australia are enormous and we can do so much but we are a small trading nation. When the financial markets and the banking system in the United States and Europe starts to get back on its feet there will be more lending to businesses here in Australia, small and large, confidence will come back.

BROCKIE: Why spend all our money if we are so dependent on what they do?

EMERSON: We feel there is an obligation on Government to do what it can and the idea of sitting and wishing and hoping and praying and being the Dusty Springfield of Australian politics is a pretty dumb one as far as I'm concerned.

BROCKIE: Thanks very much everybody for joining us tonight. It's been terrific to have you all particularly our American guests.

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