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Dr Emerson interviewed by Peter Switzer
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SWITZER: The small business landscape is set to change markedly this election year, with talk of changes to paid maternity leave, company tax hikes are possible, rising rates, as well as a release of the much anticipated Henry Review. So, for a look at how small business is tracking, and what changes you can expect, I'm joined in the studio by the Minister for Small Business, Craig Emerson.

Thanks for joining us, mate.

EMERSON: And thanks for having me on the program.

SWITZER: Great pleasure, mate.

Look, the thing that you should understand better than any other Minister is small business. And I've always said that often people in the media and people in government don't get it. But you've been on - in the portfolio in Opposition, and now you've got the reins.

EMERSON: Yep ... and ran a small business.

SWITZER: And ran a small business as well, and that's why I always thought you were the right man for the job. But look, Heather Ridout today says, looking at the Australian Industry Group survey, that the recovery is looking fragile, and she cited a couple of things, stimulus is being withdrawn, interest rates are going up. What's your reading about small business at the moment?

EMERSON: Well, I think small business, generally, are the last ones out of the economic slowdown. Consumers have surged out. By and large, they are feeling that their jobs are a lot more secure than they feared that they might be, with the unemployment rate not going up to the projected levels – at one stage the Treasury projecting 8 ½ per cent unemployment, and it's in the low fives. So they're cooking with gas, to a fair extent.

SWITZER: Yeah, [indistinct] good, good on them.

EMERSON: Large business, especially those associated with the mining industry in Western Australia, South Australia, and Queensland...

SWITZER: They're cooking with gas as well.

EMERSON: They're cooking with gas too, as they're digging it up and...

SWITZER: Selling it.

EMERSON: ...exporting it.

But the small businesses, they were really rattled by the economic slowdown and all the really bad news coming into Australia from the deepest global recession since the Great Depression. So I wouldn't say that their confidence is fully restored. Small business confidence is growing, but they're still looking around and not totally confident about the strength of the recovery insofar as it affects them.

SWITZER: Okay, so if we understand the importance of the small business sector, it underpins a lot of the growth of the economy.

EMERSON: It does.

SWITZER: Even though we are heavily dependent on China and miners nowadays, if they're feeling that it - those figures we've seen and Reserve Bank's fairly confident we'll get the three, three and a half per cent, which is a great number, I hope they're right. At the moment I'm kind of feeling it may well - we may well be surprised because the fears are quite mixed. And I guess every time the Reserve Bank raises interest rates I shudder a bit.

Now, you're not the Treasurer, so you can talk about interest rates, the Reserve Bank.

EMERSON: [Laughs] I'm still a politician.

SWITZER: [Laughs] Yeah, I know, but still, you're not governed by the restriction.

Do you think the Reserve Bank is chancing their arm a bit with some of these interest rate rises?

EMERSON: Well, what they have said is that interest rates were at emergency lows, when they were at the lowest level for half a century.

SWITZER: Yep.

EMERSON: Lowest level for half a century. Now, there have been a couple of adjustments. I'm sure, reading the tea leaves, that they are as sensitive as anyone in Australia to the impact of rising interest rates, but they do indicate that they can't stay at emergency low levels forever. And the rest of the economy is growing reasonably strongly, particularly compared with where people thought it would be. Now, I think that's actually a tribute, obviously, to the sound financial and regulatory position that we were in before going into this economic slowdown. It's the influences of China, influences of the government economic stimulus package, but if I can add, I think small business were magnificent during that period, because instead of just laying off people at the first whiff of an economic slowdown, they negotiated fewer hours, and now those hours are coming back up, people are purchasing more, and that's adding to the strength of the recovery.

SWITZER: But you know small businesses really appreciate their staff, often it can cost them a lot of money to get them...

EMERSON: That's right.

SWITZER: ...they train them, so they don't get rid of them easily.

EMERSON: And doing it all over again is not - they don't see the funny side of that.

SWITZER: Yeah.

And now, I've made a reputation by being hard on government, and I've been hard on you in various times.

EMERSON: You're a hard man [laughs].

SWITZER: I try to be fair as well.

EMERSON: Hard but fair.

SWITZER: But the interesting thing about the interest rates, and this is why I bring it up in connection to small business, because a) they didn't see the rate cuts as much as householders will.

EMERSON: Yep. That's true.

SWITZER: And there's also the story coming out that it's still hard for businesses to get credit.

EMERSON: Yeah.

SWITZER: Do you occasionally, or does Wayne Swan, the Treasurer, go to the banks and say; are you giving small business a fair deal? That kind of stuff?

EMERSON: Not occasionally. Often.

SWITZER: Often?

EMERSON: Including twice in the last four days. I've had two discussions but I won't name the banks, but I've had two discussions with banks.

SWITZER: You'll give the colour? Yellow, black...

EMERSON: [Laughs]

SWITZER: ...red[laughs] or blue?

EMERSON: Both in the big four.

SWITZER: Okay, rightio.

EMERSON: That's as far as I can go. But I've persistently, as Wayne has, said: now, what's going on? What's driving the way you are behaving towards small businesses?

One of the banks today, interestingly, said they're trying very much to expand their small business book. This is a market that is important, not only for the present, but for the future. Yes, they'll squabble over market share for mortgages, but it's game on, according to some of these banks, for market share for small business.

There has been an adjustment to the risk premium because the small business default rate has gone up a bit, not nearly as far as people had feared.

SWITZER: Were expected, yeah.

EMERSON: But the - some of the banks, at least, are now being quite aggressive in their approach to small business. Now, that doesn't necessarily mean a big reduction in the cost of funds for small business, but they are saying to me that they are becoming more liberal in their lending practices. So - the quantity, maybe a tick; the price not yet.

SWITZER: Yeah, but the quantity's probably the critical factor.

EMERSON: At this stage, yes.

SWITZER: And a couple of times on this program we've had some people from the mortgage industry. The people from the mortgage industry are surprisingly respectful of you guys, but when I put the issue to them; could the Government do more to bring money from overseas using the triple A rating? You've thrown about \$16 billion at the mortgage industry so far...

EMERSON: Yeah.

SWITZER: ...but could we do more? Because I believe the Canadians have done a very good job, historically, before we'd even started, they've always been backing their financial institutions. Is this something that you guys are seriously thinking about? Because that's going to be very important - the supply of money to small business.

EMERSON: It is, yeah. The wholesale funding available to both the first-tier and the second-tier banks has opened up a fair bit. It nearly froze. This is what, you know, caused - had - potentially caused a huge meltdown, and the banks are reporting to us that the wholesale funding market is opening up again, but what they're

trying to do, as I understand it, is not to rely so heavily on the overseas wholesale funding market as they have before. Perhaps that's relevant to their rating agency's assessments of their balance sheets, and so there's a competition on for local depositors.

One of the banks was telling me today that small business depositors, and they're after that money, also expect to be able to get a loan. And so, you know, they don't only want one side of the equation. So small businesses expect to get a loan, and this particular bank is saying; we now understand that, and we can't attract deposits, which we want, without being pretty forward in terms of our lending practices.

So, look, we're not in a situation where it's all beer and skittles, but I think things are gradually moving in the right direction, in terms of both small business financing, and the economic recovery more generally.

SWITZER: Because it seems to me there's an enormous pool of money in our super funds...

EMERSON: Yeah.

SWITZER: ...and we know our super funds do invest in long-term assets....

EMERSON: That's right.

SWITZER: ...like, the industry funds have done very well, have gone for exotic things like hydrated electricity power, and all that sort of stuff.

So, it seems to me that be ... we didn't have to think about this before, before the credit squeeze.

EMERSON: Yeah.

SWITZER: It'd be great to think that - particularly if people like you are saying, well, if the small business fraternity's lacking funding, we're going to lack growth, we're going to lack job creation, and all that sort of stuff. So it's certainly an area where I'd love you to twist Wayne Swan's arm a bit harder to get into this.

EMERSON: Well, I think with the super funds, and you and I would agree that superannuation's a great thing...

SWITZER: Oh, of course.

EMERSON: ...and this is a massive pool of funds, but bear in mind, that has, to an extent, attracted money away from the traditional bank deposits, because they're low-risk but very low return too. And so that has, in an indirect way, led to some of the increased reliance on overseas wholesale funding. So now, I think the banks are saying, well, let's compete for local funds, but in order to do that we have to offer small business loans as well.

I don't want to present an overly rosy picture. It's tough for small business, and it's tough to get finance, and I'll add this - that

might be an interesting perspective. With the disappearance, or at least the winding back of funding by some second-tier financial institutions and non-bank financial institutions, there's a segment of the small business market that used to be able to get money, but never relied on the big banks, the big four, to get it, now going to the big four, and some of them may not be succeeding. And I reckon that's part of the explanation why some small business associations are saying, well, our members can't get funding and they used to. It's, at least in part, that they used to get funding from institutions that had to stop lending or disappeared altogether.

SWITZER: Okay.

Do you have sleepless nights about the potential revelations of the Henry Tax Review? Because Hen... you know, Ken's going to be an economist when he looks at this, he's not going to be a small business representative. Do you worry that there could be some things in there that could hurt small business and make people hate you?

EMERSON: True confession, I don't have sleepless nights.

SWITZER: [Laughs]

EMERSON: Maybe I should [laughs]. I worry about why I don't have sleepless nights.

SWITZER: Yeah, so - I'm worried too, you should be worrying more.

EMERSON: It keeps me awake during the day.

SWITZER: Yeah, okay.

EMERSON: Look, the Henry Tax Review is an independent review, it's a blueprint for the future of the Australian tax system over 10 years. Obviously, I'm making my views known about where we should be heading in respect of small business taxation, and I can't reveal them here on your program. But one of the issues that repeatedly comes up from my discussions with small businesses and their representative organisations is the complexity of the tax system. I mean, I think most people know that there is a need to pay tax, for health, education, defence, and all that sort of stuff. But what they'd like to think is it could be made simpler.

What happens is that the small business owners themselves don't necessarily do all the tax calculations and so on, but they sure do pay accountants and bookkeepers who charge them for that service. So I think simplicity is a real virtue here, especially for small business, because the big businesses, they kind of know their way around the tax system.

SWITZER: What about the parental leave? Tony Abbott. Because, you know, it's going to be fantastic for workers, they're going to say: "Half a year off, I'm on a hundred thousand, there's 50 grand,

half a year off". What's your view? Because you've got a parental leave scheme - but it's not as good as that.

EMERSON: This is another one of Tony Abbott's funny money schemes.

SWITZER: Yeah. Well, people are going to like it, you know, politics is strange.

EMERSON: Let's look at it. We're here talking about small business, and it'd be easy to fall for Tony Abbott's story that he's applying a 1.7 percentage point increase in the company tax rate for big businesses. He's the only bloke in Australia who believes that big businesses, out of the goodness of their heart, will absorb that increase in the corporate tax rate to make it the fifth highest in the world, and not pass it on to their small business customers, and to consumers, in the form of higher grocery prices, higher prices in department stores, higher petrol prices, and higher bank charges.

Tony said no - that large business of Australia, in the national interest, are going to absorb this, they're good guys. Well, come on, Tony. Let's come back, you know, from Triton or Pluto, into the real world. Larger businesses, generally, are powerful enough to pass on these cost increases to small businesses and to consumers.

SWITZER: Yeah, and big issue for me is that, you lose a person for six months - and your program we lose them for 18 weeks?

EMERSON: Eighteen weeks, yeah.

SWITZER: So, we hate you for that as well in small business.

EMERSON: [Laughs]

SWITZER: But at least, you know, half a year is a lot longer.

EMERSON: Oh, I think for small business, and I've long believed this, that - we were talking at the beginning of the program about people, small business owners wanting to keep their staff, you know, and wanting to get some loyalty from their staff after giving loyalty to them. In a way, paid parental leave, even though it's taxpayer funded, from a small business, may well be a way of maintaining a connection with the mum who used to work there, and who may well therefore come back to work in that small business. So I think it's worth thinking of it as an investment in the future.

SWITZER: Okay. One last thing, the Sensis Business Index Survey says support for Federal Government fell to 18 per cent, 31 per cent said that policies don't support small business, and the other 59 said it makes no difference what you do. Now, I figure, because we've avoided the recession, they're going to mark you down a lot harder, because things haven't gone as badly as they could have. And they say your popularity has fallen in recent time.

EMERSON: Yeah, those surveys, I don't follow them on a monthly basis but I do have a bit of a squiz.

SWITZER: [Laughs] You should.

EMERSON: I should, and I do. Those surveys recorded high levels of support for our Government during the global economic recession.

SWITZER: That's right.

EMERSON: Well, you know, they said you stepped in, you stepped in early, you've saved our bacon, in many cases. Now we've got to manage the recovery. And managing the recovery means doing new things that are important on our agenda, like toughening up the unconscionable conduct provisions in the Trade Practices Act, and those sorts of behaviours by larger businesses that most people would just say are not on. And we're doing that, we've put a major law through the Parliament, the biggest revamp of the Trade Practices Act in 35 years, since it was first brought in in 1974. So now we're moving into this phase of supporting small business against anti-competitive behaviour by bigger businesses.

SWITZER: Well, Craig, we're out of time. I've got thousands of questions I could ask you.

EMERSON: Next time.

SWITZER: We'll get you back, we'll get you back next time.

EMERSON: Very keen.

SWITZER: Okay, mate. Thanks for joining us on the program.

EMERSON: Righto, mate. Thanks.

SWITZER: Cheers, buddy.