



**HON CRAIG EMERSON MP**

MINISTER FOR SMALL BUSINESS, INDEPENDENT CONTRACTORS AND  
THE SERVICE ECONOMY  
MINISTER ASSISTING THE MINISTER FOR FINANCE ON  
DEREGULATION

**SKY NEWS AM AGENDA**

Interview with Kieran Gilbert and Steven Ciobo

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**SUBJECTS:** Budget position

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GILBERT: Welcome back to AM Agenda and our panel this morning is the Small Business Minister, Craig Emerson, and the Shadow Small Business Minister, Steve Ciobo. Gentlemen, good to see you both. Thanks for coming in.

Craig Emerson, did we see yesterday that the Prime Minister finally used the “d” word, the deficit, is this, the idea is to start planting the seed now and then explain the economics of it? Because the “d” word, does have a fair bit of baggage to it, particularly for a Labor Leader?

EMERSON: Well the economics of going into deficit if it’s necessitated by the global financial crisis are quite sound. We’re not, at this stage, forecasting a deficit but the Prime Minister’s indicating that if the global environment continues to deteriorate it might actually be necessary and in those circumstances we think it would be better to do that if absolutely necessary than to sacrifice more jobs and I think that’s sound policy and most Australians would agree with it.

GILBERT: Yeah, Steve Ciobo, it’s a fairly sound argument and it’s one endorsed by the RBA Governor as recently as last week, I think or the week before, when he said prudent borrowing might be necessary; ie, a deficit. Alan Oster, the NAB Chief Economist, this week said it would be irresponsible not to run a deficit if the growth forecasts are revised down. So the Opposition’s out there on their own on this?

CIOBO: Well, no we’re not Kieran. The fact is that Labor will always come up with an excuse to run the Budget into deficit. The reality is that in the last six years of Labor Government we saw deficit Budget after deficit Budget put us \$96 billion in debt which it took the Coalition over a decade to repay all of that Labor debt. Now there’s always a reason why Labor will say they need to go into deficit but let’s look at the reality. We have record low

unemployment, we've got a Budget that the Labor Party themselves say will be growing at two per cent and yet despite this, Labor gives next to no assurances on the jobs front and they're now saying that they need to put the Budget into deficit even though we're growing at two per cent. So it seems to me, at a Federal level, we can expect to see ourselves wallowing in debt again just like Labor has done at a State level.

GILBERT: Craig, the points that Steve makes about the growth forecasts and the unemployment rate and various other things are true. I mean, if you look at the current state of play, why does it need to be in deficit?

EMERSON: Well we're not saying it does need to be in deficit and what Steve's just saying there is, you know, I just don't agree with it. He's actually arguing that you should not go into deficit against the advice of the sorts of people that you described. Now we won't do it if we don't need to and if we don't need to we won't but if it is absolutely essential and good economic policy and in the national interest, we would consider doing that.

GILBERT: Why was everyone dancing around the word for so long? It took ages, the Prime Minister yesterday, 21 minutes and 22 seconds.

EMERSON: The mid-year economic fiscal outlook does have, you know, positive growth, not only positive growth but positive Budget balances. Now the situation in the world appears to be continuing to deteriorate. Now we can't just assume that away. While we're not immune from the shocks that are being generated in the United States and Europe we do need to take account of the reality that some of those effects will be felt here in Australia. Now if Steve's argument is right and that is you shouldn't go into deficit, why are most of the developed countries of the world currently in Budget deficit?

GILBERT: It's been, only, first of all before we get on to that point, I want to ask why has it taken so long for the Prime Minister to utter the word, or for the Treasurer last night to do it, you this morning? You've all been dancing around using that word. Why is it? Is it confidence or what?

EMERSON: We've been monitoring the global economic situation and unfortunately it continues to deteriorate. We do not want to go into deficit but it would be irresponsible, irresponsible in the extreme, to get to a position, which appears to be what the Coalition's position is, to sacrifice more jobs rather than go into a deficit. Now on Steve's point about Labor always having deficits, that's not true. Some of the biggest surpluses in Australian history were accumulated under the Hawke Government and some of the biggest deficits in Australian history were accumulated under the Fraser Government. I don't want to spend the whole time going back into history but this idea that the Coalition is the party of surpluses and Labor's the party of deficit is just factually incorrect.

GILBERT: And Steve the other point is, when the growth forecasts, as many people expected, will be revised down next year, will the Coalition be

stuck in a point where you're saying "govern us into a recession rather than have a deficit, rather than borrow a bit".

CIOBO: Sure. Well let's be clear on this. I mean Craig's characterisation of the Opposition's position is completely false. I mean we are not saying under no circumstances can you go into a deficit. We're saying...

EMERSON: Malcolm Turnbull has been saying that Steve.

CIOBO: As recently as Monday the Treasurer, Wayne Swan, was out there saying there will not be a deficit. I mean, you're right, Kieran, when you say Labor has a problem with mentioning the word deficit because the spin-doctors tell them not to use that word. We hear phrases like negative surplus. I mean this is a Government that's so addicted to spin they will do just about anything to avoid it. Now they've got themselves in a situation where we have two per cent forecast economic growth and we basically have a Prime Minister looking for an excuse, looking for a leave-pass from the Opposition, to run this country into deficit. What we're saying is we are not going to give the Government that leave pass. We're going to keep pressure on this Government. We're not going to surrender the field. We're not going to let the hard work that we spent ten years repaying all that debt, now be racked up again by a lazy, ineffectual Government.

EMERSON: The Coalition's position has just changed again. Two days ago Malcolm Turnbull was saying that we must not go into deficit; it is wrong to go into deficit. Now the position has changed. The position has changed. The Coalition is now saying it could be okay to go into deficit. You need to get that fixed up very quickly Steve. Again, Malcolm Turnbull is all over the place on this. It depends what day it is. Only a couple of days...

CIOBO: Let me explain it. I'll explain it.

EMERSON: ...he was saying you cannot, under any circumstances, go into deficit. Now, I accept, there does appear to be a shift in the position, but today is Thursday, let's wait for Friday. Let's find the next Malcolm Turnbull position.

CIOBO: Kieran, I'm happy to explain it for Craig. The simple fact is that your forecasts, your Government's own forecasts are for two per cent growth next year, so why the need for a deficit? That's what the Opposition's asking.

EMERSON: I've just been discussing that and you haven't been listening mate. You haven't been listening. What I'm saying is that the economic situation, even in the last three weeks overseas has continued to...

CIOBO: Since Monday? Because on Monday Wayne Swan said no need for it.

EMERSON: ...has continued to deteriorate. You were talking about the economic forecasts. They were brought down several weeks ago in what's called MYEFO...

CIOBO: After your stimulus, after your stimulus package.

EMERSON: Now, the global situation has continued to deteriorate and we will do everything we can to keep the Budget in surplus.

GILBERT: But Craig the point that we should make in all of this is first of all that the flow-on effect of the stimulus hasn't been felt. That doesn't go into people's pockets until December.

EMERSON: From the eighth.

GILBERT: Also, there's a fair bit of scope there for the RBA to move in terms of cutting rates further. We're hearing talk of over one per cent next week for a rate cut. So there's still a bit of scope in fiscal and monetary policy yet to flow through. Are we going to end up in deficit or not? Tell me your prediction this morning? What do you think?

EMERSON: I simply can't predict because the global economic situation is moving very, very rapidly and in relation to the stimulus that comes from interest rate reductions, you're right, there's been a two percentage point reduction in the Reserve Bank's cash rate.

GILBERT: And there's more next week. Why not wait and see?

EMERSON: Good question. Why not wait? There are very substantial lags associated with reducing interest rates before the positive effects start, the stimulatory effects start coming in. No-one can absolutely estimate them because they change around, there's all sorts of different conditions that govern this but it is generally accepted that the stimulus that comes out of monetary policy - that is cutting interest rates - takes a fair while to come through. Some people say the middle of next year. So what do we do in the meantime? Do we just say, well we'll wait and see what happens in the middle of next year, we won't do anything more if the global economic situation continues to deteriorate? You need to be alert, you need to be ready to act decisively on this and I'll make this final point, the Coalition are saying, oh, well look, this is terrible you shouldn't go into deficit but the Coalition themselves, when we were building the surplus, in the Senate opposed a whole range of key measures of building the surplus. You know, that's not responsible economic management.

CIOBO: What we opposed was the \$20 billion tax grab that the Labor Party put in the last Budget. What we opposed was the Labor Party's mismanagement...

EMERSON: You opposed building a strong surplus.

CIOBO: ... which has now got us into a situation. Your Government did not build the surplus and the fact is that this is a result of 12 years of Coalition responsible economic management.

EMERSON: That's absolute rubbish. This Government by ... growth from five per cent...

CIOBO: I heard you Craig. Inaudible.

GILBERT: In one tick, just let Steve make his point and then I'll come back to you.

CIOBO: The simple fact is that we have come through a period where Australia has been essentially the economic sunshine around the globe and that is now into jeopardy thanks to this Government and their failed policies. Now Craig says...

EMERSON: Oh, come on. It's been raining money from China!

CIOBO: Hear me out. The fact is that this Government says, oh well, we are now dealing with circumstances that we can't control. The Coalition concedes that there are aspects to the Australian economy that are a result of the global financial crisis but the fundamental point is that we have a Government that are taking bad problems and making them worse and we saw that with, for example, the uncapped bank guarantee which, as a direct result of that very rushed and bungled decision by this Government, who say they're acting swiftly and decisively but actually is rushed and bungled, is now seeing GE Money and GMAC pulling out of, for example, the motor dealer industry and that is potentially putting at risk tens of thousands of jobs.

EMERSON: That is not the reason for it. That is not the reason for it.

GILBERT: Can I just ask you something that Steve raised the point and it's a fairly easy political message to sell, 12 years we built the surplus, we spent building it, one year, less than a year, you've lost it.

EMERSON: Look, it was raining money from the China boom, from the mining boom. You'd have to concede that. No, he doesn't concede that? It was raining money from the China boom. The strongest commodity prices in half a century. The strongest commodity prices in half a century. They have reduced dramatically in that time. The surpluses were rolling in. It was not hard to build surpluses. In fact the Coalition spent like drunken sailors: five per cent real growth in spending in the Budget. We cut to one per cent and he says, oh, it's all our good work. It was your good work to increase spending dramatically such that the Treasury actually compared their spending record with that of Gough Whitlam.

GILBERT: Okay, we're not going to resolve this this morning. Hopefully we can get the two Small Business spokespeople back together again some time soon but I know you're busy next week. All the best.

EMERSON: Yes and the bub!

GILBERT: Your first baby. All the very best Steve.

CIOBO: Yes, and my wife, yes thank you very much.

EMERSON: Congratulations.

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