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INSIDE CANBERRA

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SUBJECTS: Global financial crisis; cost of living; US elections.

BEGLEY: Twenty five billion dollars of frozen life savings may be about to thaw. Last night the Prime Minister offered major investment funds the chance to apply to become quasi-banks so they can get the bank deposit guarantee. Many of the larger funds, some of the oldest in the business, had prevented nervous investors withdrawing cash to put it in the banks. So will Kevin Rudd's latest move to calm investors and sure up the mortgage funds work, or is it proof the Government has mishandled the deposit guarantee? We are now about to go inside Canberra to find out.

Dr Craig Emerson is the Government's Small Business Minister and Senator George Brandis the Shadow Attorney-General. Good morning to you both.

BRANDIS: Good morning Terri.

EMERSON: Hello Terri.

BEGLEY: Good to have you both in the studio this week. Now Craig Emerson, is what happened overnight a backdoor way of doing what the Government should have done all along in that it should have extended its deposit guarantee beyond the scope of the banks?

EMERSON: If these institutions wish to be covered by the regulator and take on the characteristics of banks then they would be able to apply to the regulator and if that is then approved they would be subject to the guarantee. But very quickly, let's get the proportions right here. We are talking about, I think the estimate was in your introduction, about \$25 billion worth of funds. The guarantee that the Government provided for bank deposits covered \$800 billion and 13 million accounts. Now that is very important for all of those mums and dads who have got their money in banks.

Of course we are very sympathetic on the situation in relation to these other funds and we are doing what we can in making this offer. But it needs to be seen in the broader context of the benefits that the big bank guarantee has provided. It's helped reduce interest rates, it's helped secure the flow of funds to home-buyers and also very importantly to small businesses.

BEGLEY: Sure, but this has created a lot of uncertainty and nervousness among retirees for example who have put their life savings into some of these funds, who then froze redemptions, who said even in an emergency we're not releasing those funds to you at this point. A lot of heartache and upset has been caused over this in the last couple of weeks. Shouldn't the Government have extended its deposit guarantee in this way to start with?

EMERSON: The institutions themselves are not banks. They don't pretend to be banks. What we said at the time is that we will make any necessary adjustments as circumstances required and that's what's happening. We are adjusting a basic scheme that has done a fantastic job overall in securing those bank deposits. If there are other issues along the track then of course we are committed to dealing with those but we have no qualms about providing such a comprehensive guarantee for \$800 billion of mum and dad savings, covering 13 million separate accounts.

BEGLEY: Senator Brandis, this move from Kevin Rudd overnight has come after a couple of days of crisis talks on this issue, your view?

BRANDIS: Well it has been more than a couple of days. I mean this is, I am sorry to say, a tremendously bungled attempt to deal with a terribly difficult situation. The initial measures were announced by the Prime Minister on the 12th of October. That's two and a half weeks ago. At the time the Government made these announcements we now know from evidence at the Senate Estimates Committees last week that no Minister, not a single Minister, had spoken to either the Governor of the Reserve Bank, Mr Stevens, or the head of the prudential regulatory authority that regulates banks and financial institutions, Dr Laker. They spoke to Dr Henry, the head of Treasury, but they didn't speak to either of the two regulators. That's the Ministers who made these decisions. Now that's a shocking omission.

We also know that within two days of the announcement of the 12th of October Dr Henry was advising the Government that the policy was beginning to unravel because of this unanticipated capital flight. We know that on the Friday of that week, that is Friday 17 October which is more that a week and a half ago, Glenn Stevens, the Governor of the Reserve Bank, wrote an urgent letter to Dr Henry, the Secretary of the Treasury, which began with the words, quote, we have been going around and around on this stuff and we need to get something out to the markets soon. The tone of the letter was one of a red flashing light saying you have to stop, do something to stop this capital flight straight away. Now that was last Friday week and yet the announcement, we didn't have the announcement until the first part of it was a week later they announced the premiums on the deposits over \$1 million and yesterday when the Government announced the extension, the conditional extension of the

scheme, to the mortgage funds if they qualified for banking licenses. So, you know, this has been, I am sorry to say, a chapter of accidents, of bungled policy, of failing to respond swiftly and decisively to the plainest warnings by the Governor of the Reserve Bank. Why did it, when these markets are extremely mobile, you know 24 hours is an eternity in this environment, why did it take from the 17th of October until yesterday, the 28th of October for the Government to heed the urgent warnings of the Reserve Bank?

BEGLEY: Dr Emerson, a lot of criticism about the timing of all of this...

EMERSON: Stunning criticism actually. It's amazing really because when we announced the comprehensive guarantee Malcolm Turnbull supported it, gave it his bipartisan support. It now emerges that their latest policy, as far as I can understand it to do with this, is to remove the guarantee from 750,000 bank accounts. Now I don't see how that makes those people who hold those accounts any better off. So the Coalition leader, Malcolm Turnbull, has had every possible position on these issues, every possible position. He changes from one day to the other because he sees some sort of political opportunity in this. We have taken the advice of the regulators. Ken Henry has confirmed that we have taken the advice of the regulators in about eight hours of questioning in Senate Estimates and that's how the media reported it the next day.

BEGLEY: I guess what people who have their money, who have their money in these investment funds that has been tied up in the last couple of weeks and they haven't been able to access their life savings, I guess they are asking this morning, now that the Government has made this move overnight, how soon are their funds likely to allow them to access their cash?

EMERSON: Well that depends in part on how quickly the funds themselves move, if they do want to take on the features of a bank.

BEGLEY: How many do you think will take on the features of a bank? How hard is it going to be for them?

EMERSON: Well it is for them to decide. Some are cash management trusts so they look more like banks, behave more, but they don't have the transparency. It would be I think irresponsible for the Government to say to institutions before this initiative, look we will just give you a guarantee, we don't know much about you, we don't get to peer into your operations because they are not regulated, we will just give you a guarantee. Well of course everyone else will say where's my guarantee, where's my guarantee on my superannuation funds, where's my guarantee on the losses on the share market.

Now I have enormous sympathy, enormous sympathy for those people who have had their funds frozen and we are doing everything we can. The head of the National Seniors Association, Michael O'Neil, just yesterday called on the funds themselves to consider unfreezing some of it for real hardship cases so that's out there. We will do whatever we can to help these people. We know

that they are struggling where they need to get the money out for emergency situations and we are doing everything we possibly can. But the solution is not, is not, to remove the guarantee from bank accounts.

BRANDIS: Can I respond to that.

BEGLEY: Sure, then we will move on.

BRANDIS: It's good to see that Craig has a little more sympathy for people in this situation than his colleague Wayne Swan showed last week when he said let them go down to Centrelink, which would have to go down as the most arrogant statement about people in financial hardship by a political leader since Marie Antoinette. Can I correct something that Craig said a little while ago though. It is not and has never been the Opposition's position that the guarantee should be removed. In fact it was the Opposition who initially said that the guarantee should be set at \$100,000 which would have covered virtually all household and small business deposits in banks. If the guarantee had have been set at \$100,000 rather than unlimited there would not have been the capital flight. So Malcolm Turnbull said that on the Friday before the Cabinet made the announcement, Friday the 10th of October, and if his advice had been heeded we wouldn't have had this problem. Can I finally say, you talk about bipartisanship Craig, we want bipartisanship on this, but let me finish.....

EMERSON: Today, not yesterday, day before you did, day before you didn't.

BRANDIS: We have all along said there should be bipartisanship on this but to us bipartisanship means the Government working with the Opposition. It doesn't mean the Government making an announcement and expecting everyone to agree with it.

BEGLEY: Alright, I think we will move on from that. We've had a couple of surveys in the last couple of days, a couple of polls. The first by the Workplace Research Centre finding more working families are struggling to pay bills than they were 12 months ago, up from 52 to 56 per cent and two million have admitted to falling behind on paying the mortgage or the credit card. Dr Emerson your government did make a core promise 11 months ago that it would be helping out working families. This survey is saying it's not getting better for them it's getting slightly worse.

EMERSON: These working families are reporting cost of living pressures; Increases in the inflation rate which the previous government described as a fairy tale - this is the Opposition Leader - as a fairy tale and a charade. When we said inflation was a big problem we were criticised heavily by the Coalition for saying it was a big problem. We had put in place policies designed to combat inflation but it was the inflation that was building up, and I am not going to spend the whole time bagging out on the Opposition, but it was the inflation that was building up over ten years of the previous Government that led to ten interest rates rises by the Reserve Bank trying to quell that inflationary pressure. And it was the Budget surplus that we bought down that

was designed to do that. So again, I know that there are a lot of people struggling with cost of living pressures but if you talk about bipartisanship George I think it is probably best not to pretend that cost of living pressures don't exist, that inflation is a charade or a fairy tale.

BRANDIS: Look Craig I think the problem is that during the election campaign that was going on furiously this time last year the Labor Party raised expectations by making a lot of false promises and false assurances that if it were elected grocery prices would come down. Now you know, I know that in an election campaign political parties advised by their spin doctors make a lot of preposterous claims but time and again you and I or Wayne Swan and I would sit in this studio and either you or he or other Labor front benchers would say well grocery prices have gotten out of control under the Government, we have a plan to stop the escalation of grocery prices and the implication to the electorate was vote Labor and the pressures on working families, to use your mantra, in areas like grocery prices and petrol prices would ease. In fact it has got worse.

EMERSON: Well as you know George neither Wayne Swan nor other Labor spokespeople said that if you elect Labor then grocery prices will come down or petrol prices will come down. You've tried to put that in our mouths subsequently. We know that there are a lot of people under pressure. The Economic Security Strategy that will start from 8 December will give to every household with kids \$1,000 per kid and to age pensioners \$1,400 for singles and \$2,100 for couples and it will be a boost to their capacity to deal with these cost of living pressures.

BEGLEY: I would like to talk about this. This is part of a \$10 billion fiscal stimulus package that was announced. A survey from a national retailers association has found 40 per cent of people won't be buying up with these cash payments. Instead they will be going straight on the mortgage and straight onto the credit card debt. They won't be putting it into flat screen TVs. We were told by Kevin Rudd spend the money, get the economy going and a lot of people are saying I am going to hang onto it, I am feeling very nervous about spending it. Is it not going to have the desired effect do you think?

EMERSON: I think it will have the desired effect. Age pensioners would have been telling your program that they are finding it really hard to make ends meet so I am not sure that they will be pocketing the money that comes to them. They will be spending it and households have a pretty good record too, with children, of spending most of what they earn. And that's why we targeted this economic stimulus straight at pensioners and families because they do tend to spend most of what they earn and it is consistent....

BEGLEY: But not if it goes straight onto the mortgage or straight onto credit cards, it's not going to the shops.

EMERSON: It's consistent with the survey you just mentioned beforehand. If people are struggling to make ends meet and, I accept that they are, then it is

more likely that they will spend the money they get because they are struggling to make ends meet.

BEGLEY: But spending the money on their mortgage or credit card, how is that feeding straight back into the economy which is what the Rudd Government was saying would happen?

EMERSON: Well I am confident that they will spend most of what they earn because that is exactly what they have been telling us that they have not been able to make ends meet. If you can't make ends meet it's less likely that you will just use the money to accelerate the payments, repayments of your mortgage. So it just stands to reason that they will. That is what they have been telling us. It's what the seniors associations tell us. In fact it is what the Coalition has been arguing that pensioners are struggling. We accept they are and this is a big boost to their spending power ahead of Christmas and I think they will be spending it.

BRANDIS: You didn't accept that six weeks ago Craig.

EMERSON: We have always said that pensioners are struggling.

BRANDIS: Hang on a second, hang on a second. You didn't accept it six weeks ago when the Coalition introduced a motion into the Parliament to increase the pension by \$30 a week and the Labor Party voted against it.

EMERSON: Well it's a very, very large amount of money George, we're providing. The amazing thing though is that the head of the National Party in the Senate, again this is this 'we give bipartisan support', he says oh this will be put up against the wall. And every aspect of this stimulus package has been criticised by the Coalition. The first home owners scheme, the boost to that, oh that will be taken by the developers. The increase in family payments, oh you have got that wrong. The bringing forward of infrastructure spending so that people will have more jobs and more income, oh no we are going to take a very hard look at that in the Senate, virtually threatening the prospect of blocking that in the Senate. So George you talk about bipartisanship, you talk about bipartisanship but the truth is that at every twist and turn Malcolm Turnbull and/or his spokespeople have said we are opposed to or very upset with each and every component of what we have been doing.

BRANDIS: Well.

BEGLEY: I will get another response from you shortly Senator Brandis. Now I am just going to pause for a moment because it is time for some news headlines just briefly with Shelly Lloyd, good morning.

News break

BEGLEY: Thanks Shelly and it is now 27 minutes to ten o'clock. We are inside Canberra this morning Craig Emerson the Government's Small Business Minister and Senator George Brandis the Shadow Attorney-General.

Despite the disagreement on how the Government has handled the economic stimulus package and also the way that bank guarantee deposit scheme is working the latest Newspoll Senator Brandis, shows the Government's rating as an economic manager is at its highest since the 1990 recession. They must be doing something right.

BRANDIS: Well I think when there is a real palpable sense of crisis in the community then people do tend to flock to an incumbent government unless they blame the government for the particular crisis. Now, nobody is saying that the Rudd Government caused the global financial crisis. Nobody is suggesting that. The Opposition's criticisms have been in relation to the bungling of the response - the fact that it took 16 days from the 12th of October until yesterday for the mistake that was made in the initial announcement to be corrected. But be that as it may, nothing in the poll surprises me and I might point out, not only has Mr Rudd's approval rating spiked, but so has Mr Turnbull's. They have gone up by the same amount, by about 10 per cent. So that I think is what happens with public opinion and I think it has been an endorsement of both leaders frankly.

EMERSON: George just said that no one has claimed that the Rudd Government has created the global economic crisis. Malcolm Turnbull has claimed that we have hyped it up.

BRANDIS: Well you did.

EMERSON: Claimed that the Government hyped it up. He has also claimed that this is the biggest crisis since the Great Depression. It just indicates that depending on what day it is Malcolm is for it or against it. I think what these polls reflect, in part, is that Malcolm Turnbull is very hard to catch on this. No one knows where he stands. If he sees political opportunity in saying we like bipartisanship then he will say it. If he sees an opportunity in criticising any and all aspects of the package then he will say it.

BRANDIS: Hang on a second Craig. It is still a free country. Oppositions are still entitled when, particularly when a policy has been plainly bungled in the implementation phase to call attention to that fact. You say that Malcolm is going over the top by saying that this is the greatest....

EMERSON: No I didn't say that. I didn't say that.

BRANDIS: I remember being on TV on Friday night....

EMERSON: Don't put words in my mouth I didn't say that.

BRANDIS: ...having this debate with one of your Cabinet colleagues Stephen Conroy and that is the expression he used.

EMERSON: I didn't say that at all. What I'm saying is that Malcolm Turnbull is an each-way bet in a two horse race. He would back both horses each way so that he could say 'I backed the winner and I got the place-getter'.

BRANDIS: Malcolm Turnbull would know a lot more about international financial measures than the Treasurer.

BEGLEY: Okay. Well speaking of backing two horses in a two horse race lets have a quick look to the United States. In seven days time the voting is going to be happening as we speak in seven days time as to who will be the next US President, John McCain or Barack Obama. I want to get a quick response from both of you on this. Who would be a better US President for Australia?

BRANDIS: I think that they are both quite impressive candidates. I'll tell you why I have a concern about Obama from the point of view of Australian policy. Now I think Obama's going to win. I have been saying that all year. But I do have a concern about his attitude to free trade, particularly at a time like this. It is not a time in which you want the biggest economy in the world putting up the shutters and there is a concern I think, for a country like Australia, that an Obama presidency and a Democrat controlled Congress with a filibuster-proof Senate might reverse some of the measures on freeing up trade and access to the American markets which were one of the good things about the Bush administration.

EMERSON: My view is that the Republican administration hasn't done enough George in terms of freeing up trade. I hope and expect that Barack Obama would continue or would push forward with trade agenda. That is though, I acknowledge George, the single biggest consideration for Australia. If the United States puts up the shutters that would be very bad for Australia. So whoever wins, and both sides of politics here in Australia have worked well with both sides of politics in the United States, it is not fundamentally important whether they are Republican or Democrat, what is fundamentally important is that they have an open economy allowing Australia to compete both in the United States and on the international stage against and not with heavily subsidised agricultural products. I have to say that in the United States both Democrats and Republicans have supported farm bills and big subsidies and that has not only damaged Australia but I must say a lot of developing countries, some of the poorest in the world.

BEGLEY: I think that's where we will leave it folks. We will be here helping everybody else count at this time next week for the US election and find out if your tips are right for a next US President Barack Obama. Thank you for your time gentlemen.

BRANDIS: Thank you Terri.

EMERSON: Okay, thanks a lot Terri.

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