



Craig Emerson joins Insiders

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Federal Minister for Small Business Craig Emerson joins Insiders to discuss the results of the Government's meeting with small business representatives in Brisbane on Friday.

BARRIE CASSIDY, PRESENTER: Time now for our feature interview.

On Friday the Federal Government met in Brisbane with hundreds of small business representatives to talk through the financial crisis. They came up with a modest list of measures including some assistance with taxation.

To talk about that we're joined this morning from Canberra by the Minister for Small Business Craig Emerson.

Good morning and welcome.

CRAIG EMERSON, SMALL BUSINESS MINISTER: Thanks Barrie.

BARRIE CASSIDY: Small business contributes to about one-third of the country's GDP. Are they more or less vulnerable to the global financial crisis than the rest of the economy?

CRAIG EMERSON: Small business tends to be at the forefront of any economic slowdown and we've been very conscious of that from the outset. And in designing that economic security strategy, we wanted to inject money into households who would spend the money and that is to the benefit of small business.

It's also the reason that we held that very successful summit on Friday in Sydney, to hear first hand how small business is faring.

BARRIE CASSIDY: Now can you guarantee though they'll continue to have access to credit which is terribly important to them, to the funds that they need to properly function?

CRAIG EMERSON: Well we got very strong endorsements of our financial stability arrangements from the major banks who provide the vast majority of the funding to small businesses.

They stood up on Friday, Barrie, and said that the arrangements that have been put in place to guarantee the deposits of people who put their money in banks have been really important in their decision to reduce interest rates to not only mortgage holders but to small business.

They also assured us that the flow of credit would continue. There's quite a lot of money around for good propositions, new ones. And where it's existing credit, then that will continue as well.

But we've also put \$4-million into enabling local chambers of commerce and business enterprise centres to give good advice to small businesses in putting proposals to banks if they are actually proposing to expand their operations.

BARRIE CASSIDY: Okay, part of your package says that when government departments don't pay on time, small business will be paid interest. Why don't government departments pay on time?

CRAIG EMERSON: In 92 per cent of cases they do but we want to lead by example here Barrie and for those eight per cent we want to get that up to 100 and the best way of doing that is by saying to government departments: you don't pay on time, then you have to pay penalty interest to small businesses.

We think this is a measure that shows a bit of leadership and also gives that assurance to small businesses that the Government will do the right thing by them.

BARRIE CASSIDY: You're also asking the tax office to go easy on some small businesses. How destitute do they have to be before they're given this leniency?

CRAIG EMERSON: Well the tax office view on this is that they don't want to drive small businesses to the wall. If they can come to arrangements where small businesses themselves can't necessarily pay all their tax in one instalment then the tax office is happy to talk to them, to spread it out over time. So I think that's a very constructive approach from the tax office as well.

BARRIE CASSIDY: Is there any prospect of further stimulus measures that will be aimed directly at small business?

CRAIG EMERSON: Well Kevin Rudd said at the summit that we will do whatever is necessary to navigate our way through this period of financial turbulence. Australia is well placed.

I must say, Barrie, that the most precious commodity at the moment is not gold or silver but confidence and that was really clear at the summit; that small business people and their representatives were saying that confidence is so important in keeping small businesses moving along.

And I did get quite a few comments criticising I must say the Coalition for undermining that confidence, undermining our institutions, the heads of our major institutions. So the sort of sniping hasn't been very welcomed by the small business community.

BARRIE CASSIDY: If confidence is so important and yet you had this run on some of these mortgage funds during the week, "The Australian" described that as a policy induced investor panic - policy induced.

CRAIG EMERSON: Well let's bear in mind that we have guaranteed the deposits worth \$800-billion and that's 13-million bank deposits around Australia. Now that is providing financial stability for all of those mums and dads who have got their money in bank accounts and it has been welcomed. It has been welcomed by the financiers of small business who have said that that has been important in their decisions not only to continue the flow of finance to small business but actually to cut interest rates to small businesses during these turbulent economic times. So I think that's a pretty big endorsement of what the Government has done.

BARRIE CASSIDY: So what caused the run then if it wasn't policy?

CRAIG EMERSON: Well during these times, you know, people are obviously uncertain about the security of their deposits in various institutions. That's understandable. We will continue to work around the clock with the regulatory authorities.

Also in some of these funds the money is not liquid if you like. It's in assets such as houses and other fixed assets so it's not that easy for the people who run these organisations to then just convert that immediately into cash.

My information is that generally income is still flowing out of those institutions but the real issue there is the redemption of the money that was put in there in the first place and as I say, these particular institutions don't have as much liquidity perhaps as the banks do.

BARRIE CASSIDY: Yeah and they're not banks and they offer market based products. Now they sometimes give a higher return but at a greater risk. And is that why you...

CRAIG EMERSON: That's right.

BARRIE CASSIDY: That's why you take a different position with their...?

CRAIG EMERSON: They're not banks. They don't pretend to be banks. And our first priority was to secure that \$800-billion worth of savings of people who have got their accounts in banks and that's been very successful, very effective and I'd hate to see anything Barrie to undermine that.

And I have to say if we can track down the Coalition's latest policy on this, they don't agree with the comprehensive guarantee on bank accounts so let's understand what

that could mean. It could mean that a very significant proportion of the money held in bank accounts is no longer guaranteed. That is official Coalition policy.

BARRIE CASSIDY: Yeah but if you're saying this is not policy induced and that it's basically there because they are market based products then this run is going to continue isn't it, because the world financial crisis isn't easing any time soon?

CRAIG EMERSON: Well again it's a question of confidence. It's people wanting to get money out of these particular institutions where the income by and large is still flowing but they're saying oh, we want to get our cash out. That's not easy when the actual assets that they have invested in are bricks and mortar, not liquid assets. So I'm not saying that there is one particular reason for this. There is a combination of reasons. But overall our financial stability package has been welcomed by not only the big financiers, that is the big banks, but by small business because they are very happy that the money is continuing to flow and they are very happy that interest rates have been reduced.

BARRIE CASSIDY: Given that it's bricks and mortar, they're not liquid assets, do you think the institutions were justified in applying, it's not necessarily a freeze I suppose but these sorts of restrictions that they have put in place? Were they justified in doing that?

CRAIG EMERSON: Yeah look it's not really for me to comment on that Barrie. I'm certainly not going to criticise them. We will continue to work hard to put in place whatever measures might further be appropriate.

But the point is that we've guaranteed the bulk of the lending and the bulk of the deposits of Australian households in what we know as the traditional banks. All of those have been guaranteed. It's a comprehensive guarantee. It's a good effort I think.

And it's probably less important what I think. What's really important is what the major banks think and what all of those mum and dad investors think who have put their money in banks and that's now guaranteed.

And it's Coalition policy to at least remove that guarantee in respect of a particular threshold. I think that changed on Friday but you know probably a day ending and you don't know where they are one day to the next.

BARRIE CASSIDY: Well you have done all that but why did it take so long from the initial decision to offer guarantees on bank deposits to finally get to the fine tuning? Surely that delay was unhelpful to at least the non-bank institutions.

CRAIG EMERSON: Well we take advice from the regulators on this. We needed to move early. We've had criticism from the Coalition for moving early and decisively. If there are further adjustments that need to be made we make those based on the best advice available to us. And I think that's the responsible way of approaching this Barrie, rather than the irresponsible approach of the Coalition which seems to be to change policy one day to the next, to undermine our institutions and to undermine that very valuable commodity called confidence.

BARRIE CASSIDY: Obviously there's been some unhappiness in Government ranks with some of the media reporting but surely Ken Henry was wrong to suggest that maybe we'd be better off if the issue hadn't been raised at all in the media.

CRAIG EMERSON: Well I don't mind if there's debate about these issues in the media. I mean that's a perfectly reasonable role for the media.

I don't mind, by the way, if the Coalition, they're entitled to debate these issues. But they're not really entitled to undermine confidence for short term political gain. That is at the long term cost and the immediate cost of the Australian people. So let's understand what their tactics are.

Just I think yesterday Barrie at that National Party convention, Warren Truss is the alternate prime minister of Australia, described the economic security strategy, or is reported to at least, as bull dust. He said we've come out and called it for what it is - bull dust. Now what he's criticising is \$10.4-billion going to our aged pensioners and to our families. They've also criticised the infrastructure program that we're accelerating. They've criticised the first homeowners' boost.

So you know I don't mind commentary but this undermining of what we're doing, undermining of the most precious commodity of all, confidence, is highly irresponsible.

BARRIE CASSIDY: Okay. More broadly, can Australia survive this crisis without sinking into recession?

CRAIG EMERSON: We are better placed than any country on earth to withstand the economic turbulence. The United States looks like it's headed for recession. I think we've already had a quarter of negative economic growth in Britain. Europe looks like it's headed for recession.

But our fortunes are much more linked up with those of China. And just overnight, at midnight last night I was talking to Professor Ross Garnaut who is at a conference in China. There's a sense optimism there amongst the Chinese authorities and the leading economists. Certainly for the medium to long term things will be fine. And they are saying that they will invest very heavily, for example in a massive expansion of their rail system. Why is that good news for Australia? Well we sell China lots of coal and iron ore.

Now what we need though is just that stimulus to get us through this in the shortest term and that is why Kevin Rudd, Wayne Swan and the team invested, made that decision, \$10.4-billion stimulus package which is now being criticised by the alternate prime minister of Australia.

BARRIE CASSIDY: Well the Chinese might be saying that but it got a bit of attention just recently when their growth rate fell to single figures, albeit a high one.

CRAIG EMERSON: Yeah, that was expected. That was expected, that it would fall. But just as they did in the Asian financial crisis the Chinese authorities are saying they will step into the breach.

The question though Barrie is how quickly they can make those investments in the rail network and other crucial infrastructure and that's why it's very important here at home in Australia that the Rudd Government does what it can to stimulate economic activity until all of that comes on stream. That's why we've invested \$10.4-billion. That's why we're accelerating our own infrastructure program.

BARRIE CASSIDY: Craig Emerson thank you for your time this morning. Appreciate it.

CRAIG EMERSON: Thanks very much.