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DEREGULATION

POLITICAL FORUM

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SUBJECTS: Financial crisis and future of capitalism; NSW Government;
technology you can't live without.

GLOVER: This week Owen Harries from the Lowy Institute and Centre for Independent Studies, Heather Ridout the CEO of the Australian Industry Group and Craig Emerson who is the Federal Minister for Small Business. Welcome. Thank you very much for coming in.

They used to say that communism was a nice idea; it just doesn't work in practice. Well following the G-20 meeting this weekend, have we also concluded that capitalism, while great in theory, just doesn't work in practice? How significant is the current crisis in changing how we think about capitalism, and how significant will be the changes that will occur as a result?

Owen Harries, you have spent your career thinking about these big issues. How are you responding to the events of the last couple of months?

HARRIES: Well I have to say that capitalism is a rather nasty idea which works.

GLOVER: Yes.

HARRIES: It has worked spectacularly well over the last 60 years. You have never seen such an historical transformation in the living conditions of so many people. I think that in that sense it is quite different from communism. The problem is though, that capitalism focuses essentially, and this is the ugly bit, on acquisition and greed. It depends on those as motivating forces. Because of its great success that is largely overlooked and regulation and constraints on capitalists were loosened. I think we are bearing, we are seeing

the results of that currently. I think there will have to be a rebalancing of restraints on the basic urges which drive capitalism.

GLOVER: The market made a mistake when it believed that the market was always right did it?

HARRIES: I think so. The market is not, the market can be right and wrong. It will deliver but the costs sometimes come too high.

GLOVER: If there is a way, as you imply, of garnering the great success of capitalism, the motor of capitalism, but regulating it properly do you think the world is smart enough to get that balance right, bring enough regulation to capitalism to regulate in that way without snuffing out its engine?

HARRIES: Well in the past there has been a tendency to over-regulate and maintaining that balance, keeping it is the real art of running a capitalist system I think. Before Reagan and Thatcher we saw too much control, too much restraint. In the last 20 years there has been too much relaxation of that.

GLOVER: Do you think we will get the balance right or will we continue to swing widely one way and then the other?

HARRIES: I think we are going to find out soon. One would have to have a certain scepticism about combined international action on anything.

GLOVER: Maybe that is right. Heather Ridout is that a good way of understanding what has happened in the last, since the war really, that we over-regulated through the 70's then we threw it all away in 79 – 81 with the Reagan-Thatcher revolution and now we need to at least claw back some of that regulation?

RIDOUT: Look I think the regulation has been under massive pressure over the last 15 years or so, 20 years or so. We have had this massive globalisation turbo-charged by technology. You think of the growth of the internet, it was not that long ago and that has turbo-charged the globalisation of the world economy. So issues such as what we have seen with financial movements, I mean they are just moving around the world with the pace that world regulatory structures never, ever envisaged.

GLOVER: But you're implying that this is technologically driven and it was ideologically driven as well wasn't it?

RIDOUT: Well there is an ideological approach to regulation which sat there but happening alongside of that was this turbo-charging of world economics. Transactions just moved with speed that no one really ever anticipated and it wasn't built for it. We also had of course the big growth of China and India which is another whole debate which wasn't built into the world's governance structures.

GLOVER: But you also have people like Greenspan reacting to academic philosophers who were saying....

RIDOUT: I think they weren't totally attuned to what was actually going on and I don't think anyone realised the potential, through technology, to globalise a whole lot of transactions and things that no one really realised was going on.

David Hale said once in the globalised world economy there is no one to call and there hasn't been anyone to call. I think we are getting caught up in it all.

But I think if you can, if you look at Australia, our regulation hasn't been too bad. I mean our banks are pretty well rated, ASIC, APRA, all of them have done pretty well. I think we can at least say we had good oversight. When we have had to bear some of this international regulation, like with accounting standards and stuff it has been a nightmare for us to have to implement because they over-regulate in response rather than managing what's ahead of them.

GLOVER: Is that going to be the story of the next 10 years. Are we going to swing too widely the other way?

RIDOUT: Well one hopes not and one hopes that a whole lot of people don't get on the band-wagon that are against market based solutions because even though they can be full of grief, the market has been the best sifter of our fortunes.

GLOVER: Okay but we are going to agree that the market is not always right aren't we?

RIDOUT: Exactly. I think that who makes that call, how do you make it, I think we have made that call pretty well in Australia. We asked for transparency, we have asked for lots of disclosure, we have had proper prudential arrangements, governance arrangements with banks. We haven't had a bad regulatory structure here. But of course the other thing that Australia has been reminded of is what small beans we are and how vulnerable we are.

GLOVER: It is funny the way we seem to, human beings, seem to need to relearn these lessons all the time. We go through periods where we have too much regulation that we have to understand that that can stifle things. Then we seem to forget about that and then we forget about the converse too.

RIDOUT: But I don't think world regulation kept up with the growth of world capitalism and it was being turbo-charged. I think that is the problem that we are facing around all of those CDS's and CDO's and a whole lot of new acronyms Kevin Rudd I am sure had learned when he has been in Washington and New York lately. But I think they haven't kept up with it and this is what we will see over the next six months hopefully with this co-ordination over the G-20 one hopes.

GLOVER: Craig Emerson, capitalism is a lovely idea but it doesn't work in practice.

EMERSON: Well market economies have a proven track record of being superior to centrally planned economies in generating prosperity. And we hear lots of people complain about prosperity, 'that it's not everything', well that's true but it certainly enables lots of good things to be done on the social front. Just witness the collapse of communism really, the dismantling of the Berlin Wall and that is basically because market economies out-competed centrally planned economies. Now we have got a new challenge in the 21st century and the new challenge is to have a set of regulations that are efficient and effective. It is not a matter in the face of this global financial crisis of just coming up with a big splurge of new regulation.

GLOVER: Any old red tape will do.

EMERSON: Yeah like you know just stick one in and see what happens. It's really, we have got to be really careful about having efficient, effective regulation not more regulation but better regulation. I think we can be proud here, and I will pay tribute to the previous Coalition government in its efforts in regulating our financial services sector, built on the work of Hawke and Keating and we are building on that as the Rudd government. We have had the Business Council of Australia and other international organisations saying 'hey, your regulatory system is a model that Kevin Rudd can take to the G-20'. And he has, as being very relevant and applicable to the rest of the world.

GLOVER: Do you think there is a chance that the world has no got to do one of these big turns where they start to over-regulate?

EMERSON: That's certainly a concern. I think wiser heads will prevail in the end. I'm glad to see President Bush and others at the G-20 talking about open trade. If we started having protectionist tendencies in the big economies frankly the Australian economy would suffer greatly. So, let's make sure what we do here is cool headed. We know it has always been the case, since way back in Adam Smith's day, that market economies need some regulation.

I will give you the simplest example. Why would you and I exchange goods, why would I give you money for some apples, if I could steal the apples from you? So you need regulation to establish property rights.

GLOVER: One of the things, Owen Harries, that is sort of annoying in retrospect is that a lot of those free market guys were so smug at the time over the last 20 years. They were so smug about the fact that anybody who thought that we needed regulation was simply a stuck in the mud, old fashioned socialist, yet they have been proved wrong. They have been decisively proved wrong in their smugness.

HARRIES: I think the combination of smugness and greed was particularly unattractive.

EMERSON: A lethal combination Owen.

HARRIES: Capitalists in the last 10 years have...

GLOVER: They have produced a lot of prosperity. Alright, the Monday political forum, Owen Harries, Heather Ridout and Craig Emerson are our guests.

A tough budget in New South Wales brings criticism of the new Premier, Nathan Rees, with the Australian Industry Group, Heather's lot, calling for the Federal Government to intervene in this state, to devise a process as she likens to administrators taking over a dysfunctional council. Is the situation in New South Wales really that bad and where do you place the blame for the state's problems?

Heather, you're the one who started this, what do you say?

RIDOUT: Well look, I've think New South Wales isn't just a New South Wales issue, it's a national issue. It's 33 per cent of the Australian economy. It's been the nerve centre of the Australian economy for many, many years and business and electors in New South Wales deserve a better deal. The mini-budget that came out a week ago or so, its going to take \$7 billion out of the state when we need \$7 billion put into it.

GLOVER: Kevin Rudd is shovelling on one end, shovelling in.

RIDOUT: And Nathan Rees and the guys are taking it out on the other both through higher taxes and deferred projects. You know it isn't good enough. They've shown very importantly an inability to reform and it hasn't just been over the debacle over electricity privatisation, it's been about workers comp reform, schools, you name it. You can go through a whole list when the unions have euthanased, the public sector unions in particularly, have euthanased a lot of reform in the state.

Now we are not saying that it is all the Government's fault but we're saying something has to give. My view is that they need to put, the Federal Government needs to put more money in New South Wales. It simply has to but it shouldn't go into a black hole with no accountability. Frankly, Craig ought to attest to this, he's going to need to do something about New South Wales because the Federal Government goes to the polls before New South Wales does. We've got 863 days or something to exist here before New South Wales goes....

EMERSON: You're counting.

RIDOUT: ... and, you know, it's a political issue but politics shouldn't rule this it should be good economics.

GLOVER: In terms of that mini-budget, Nathan Rees came onto this program and said we needed to do it because the budget is in shortfall, it is still going into deficit a little bit, so he is still trying to pump prime where he can but he doesn't want a huge deficit that will threaten the AAA rating and therefore cost us more money in the end.

RIDOUT: Well I think people are as about as interested in AAA ratings as I don't know what. No one is going to thank him if they lose a job or if their business goes out of business because they are worried about 50 basis points on their lending. You know that's all the AAA rating may end up being, and I think that is a ridiculous assertion.

I would also say to Craig that the Federal Government who is resisting going into deficit, no one's going to thank them if they lose their job or go out of business because of that. They are all about political positioning, not economics. Good economics should mean that the state of New South Wales and the Federal Government can work out a plan to get some stimulus into the state, not defer the removal of taxes that were agreed back at the GST. Not impose new taxes. Not defer vital projects. Not undertake reform, like the reform to the ports up at Port Waratah. Nick Greiner did a great report. He got 14 parties together on one of the toughest gigs you can get, to get rid of that series of ships off the New South Wales coast. Then the Minister came out and said we don't agree with that. Everyone else agreed with it. For no real reason.

These things, whether it's workers comp, whether it's ports, whether it's, nothing happens in this state.

GLOVER: Craig Emerson, is this just like a dysfunctional local council where your lot should be stepping in and fixing the problem for the sake of the country?

EMERSON: Well we live in interesting times where we have got a business organisation criticising budget repair work. Normally when you repair a budget you have the business community saying good on you for doing that. I accept some of Heather's analysis. It's really important that the State Government presses ahead with a genuine economic reform program.

GLOVER: Do you accept she is right that they have absolutely squibbed that up to this point?

EMERSON: It is a bit hard for me to say. It's a bit hard for me to say as a Queensland MP. But I will say this, federally and through the Council of Australian Governments we've got no less than 27 different areas of reform in business regulation. Thank you Heather for supporting that program. We will see, but the signs are overwhelmingly positive that New South Wales is into that. We will know when the fat lady sings on a couple of those.

GLOVER: Do you think this new Premier will do a better job than the old one?

EMERSON: Let's give him a go hey. Let's see. I think it is vitally important for New South Wales to present itself as a reforming government and to present itself to the business community as a place where business wants to do business, not a situation where it wants to leave.

GLOVER: Mr Rees' critics say that the union movement shanghaied him into the job, it's unlikely that he is going to take them on.

EMERSON: I reckon you should take someone on the basis of their performance not on the basis of preconceptions about the bloke. I don't know Nathan Rees personally but let's see how he performs. I think that is really the test in whether New South Wales is interested in an overall economic reform program and having the business community say hey we like the idea of investing here. And I will make one little political point: the alternative, Barry O'Farrell, is the guy who squibbed the privatisation program which he said he would support if the Auditor-General's report supported it. He voted against it. He squibbed it. So I tell you, Nathan Rees has got a real chance while ever Barry O'Farrell is the alternative.

RIDOUT: We've criticised Barry O'Farrell for that as well. Business was upset about that. But it just shows you the mire that New South Wales is actually in.

GLOVER: Owen Harries do you think the situation is as bad as Heather says?

HARRIES: I think if I was marking the Government I would give it a C not an F. It's pretty bad but it's more like Alabama than Albania.

GLOVER: How reassuring! We are on the political forum. Owen Harries, Heather Ridout and Craig Emerson are our guests. We will check the Sydney traffic for you in a tick.

But first, in a major interview yesterday, the US President-elect Barack Obama said he would shut the war on terror internment camp at Guantanamo Bay and rebuild what he called America's moral stature in the world. How badly has America's reputation suffered through its handing of the war on terror and how easy will it be for Obama to rebuild the American brand if you don't mind that phrase? Owen Harries.

HARRIES: I think the suffering has been real. America has lost a lot of its moral stature because a combination of arrogance and incompetence which is very unattractive and moralising and ruthlessness combined which again is extraordinarily unattractive. How hard will it be to recover? I think it's worth bearing in mind always that America has always been very, very strong on the rebound throughout its history. After the Civil War, after the Great Depression, after Watergate and Vietnam, within a decade or a decade and a half America was hitting its straps and doing remarkably well.

GLOVER: What do you ascribe that to?

HARRIES: It's a very good question. There is basically an enormous amount of energy and confidence in the system that generates that but there is something mysterious about it to. I think that it certainly is a fact.

GLOVER: They rose to optimism so strongly on the night of the election didn't they? They seemed to almost eat it up.

HARRIES: Now the downside is that the hopes invested in Obama are huge. If he fails badly the shock will be very considerable. This applies not just to Americans themselves but to the world. So a hell of a lot, much more than usual, hangs on the performance of this President I think.

GLOVER: Do you think he will be, I mean there was that terrible phrase of Biden's during the campaign. Do you think he will be tested in the sense that the Iranians will say he's the new boy let's test him by doing something dreadful and seeing what he does?

HARRIES: I don't think so. That might happen but I think he is going to be tested anyway. History will test him. The challenges will be multiple. I must say it is the issue of whatever else he is or isn't he is an extraordinarily intelligent man. That's better than what we have been having in the last eight years.

GLOVER: The challenges are pretty real that is true. Heather Ridout.

RIDOUT: Look I agree with Owen, the suffering of Americans is palpable. I think they are very depressed about what has happened to their country and their reputation. This comes of course after the growth of China so they are being threatened from a different side as well so there were a whole lot of things that lined up against them. I think though, it was Churchill who said that Americans sort of wring their hands and eventually they get it right.

GLOVER: He said they do the right thing but only after trying every alternative.

RIDOUT: That's exactly right. I was paraphrasing because I couldn't remember the quote. But it is true of Americans they do have this great capacity to reinvent themselves and they have now thrown their lot in with this young, bright, articulate, visionary character and the change is huge. But they've got good casting and I think in the ultimate this was their best change. Americans, you know it's amazing seeing what people who are racist all their lives in that election have put him in the White House and that shows to me that Americans are determined to restore the integrity.

GLOVER: So the rebound as Owen says might happen again as it has happened before.

RIDOUT: Yes. I think they are giving themselves the best chance. They are out with the old, in with something very different and they weren't frightened of embracing something radically different than they would have dreamt of even 10 years ago.

GLOVER: Craig Emerson it is true that the damage to the brand name if you like has been considerable? You only have to look at something like the Pew World Attitude Survey.

EMERSON: Those surveys have shown a consistent decline in support of other nations for America. But can I say we can be a little bit revisionist about this war on terror. Three thousand people died in the World Trade Centre bombings. This was an attack on American soil by terrorists and you can't blame them for going into Afghanistan and saying we are going to clean this joint up.

GLOVER: Sure. You might blame them for going to Iraq though.

EMERSON: And we did not, on the Labor side of politics, ever support the invasion of Iraq. But you are always going to cause a fair bit on international grief, including in the Middle East, when you go and invade a country like Afghanistan and obviously extra grief when you invade a country like Iraq.

I agree with both Owen and Heather in relation to Barack Obama and I wouldn't suggest that I know the guy but I reckon he will prove to be very tough. He will not be some sort of softie in all of this. But he will also be diplomatic in the way that he approaches some of the more traditional adversaries of the United States.

GLOVER: He's a real politician from Chicago everyone keeps on saying.

EMERSON: Yeah, what are those, what do they say, 'on the south side of Chicago the baddest part of town'. I could sing the rest of it, badly. 'Bad, bad Leroy Brown....'

GLOVER: Please, please, please don't.

EMERSON: I'd drive your listeners away.

Monday political forum. Owen Harries, Heather Ridout and Craig Emerson are our guests.

Break for traffic.

GLOVER: Owen Harries is from the Lowy Institute and the Centre for Independent Studies, Heather Ridout the CEO of the Australian Industry Group and Craig Emerson, Federal Minister for Small Business. Now the situation with Barack Obama is that he has to give up his Blackberry because he is President. He is addicted to it. What is the piece of technology you

would hate to give up? Even unto thinking I don't know if I want to be President at all. Craig.

EMERSON: I don't have a Blackberry and don't plan to get one in the very near future. I reckon the remote control on the TV. Once you have worked out which one works and which one doesn't. Every place I have been to including my own has got three of them. One for the DVD player, one for the TV and the third one was left over from the last TV you had and you.....

GLOVER: And it's still sitting on the table. So once you have got one that works hang onto it. Heather what's your favourite bit of technology?

RIDOUT: Typical blokes comment from Craig, they always hog them. My mobile phone it is my link to the world.

GLOVER: Yeah, don't want to be President if you have to give it up.

RIDOUT: I couldn't bear it.

GLOVER: Owen?

HARRIES: Internet and email. I remember how long it used to take to get a magazine from America. Remember that?

GLOVER: And now it's there.

EMERSON: The telegrams that used to arrive a few weeks later.

HARRIES: That's right.

GLOVER: We've got to go. Thank you so much Owen Harries, Heather Ridout and Craig Emerson. You have a great night.

ENDS