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TRANSCRIPT

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ABC Lateline: Friday forum: Craig Emerson and Greg Hunt

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The Minister for Small Business Craig Emerson and the Shadow Environment Minister Greg Hunt join Lateline to discuss the week in federal politics.

Transcript

LEIGH SALES, PRESENTER: Federal politics has been thoroughly dominated by the global financial crisis and questions about how deep its impact will be on Australia. All week, the Rudd Government has maintained a steady-as-she-goes message that Australia's well placed to withstand the storm and the Opposition has generally backed it.

It's not all been happy families though, the parties are at odds over the behaviour of Australia's banks in passing on partial interest rate cuts and over the amount pensioners have to live on. Joining me tonight in Sydney is Craig Emerson, the Minister for Small Business, and from Brisbane the Shadow Environment Minister Greg Hunt. Thanks to both of you for being with us.

CRAIG EMERSON, MINISTER FOR SMALL BUSINESS: My pleasure, thanks for having us on.

GREG HUNT, SHADOW ENVIRONMENT MINISTER: Good evening.

LEIGH SALES: Craig Emerson, I'll start with you. The Australian share market is at its lowest level in three years, down eight per cent today alone. What's it going to take to restore confidence?

CRAIG EMERSON: Coordinated global action. The key word is coordination here. If countries go off and do their own thing, then confidence isn't restored to the markets and that's why Wayne Swan's in the United States now at the epicentre of it with the IMF and the G20, to ensure that we have coordinated global action by the regulators, by the central banking authorities and that's the way through this.

LEIGH SALES: But countries are all different sizes, they all have different financial systems. Doesn't that make it very hard for there to be some sort of coordinated approach?

CRAIG EMERSON: No, not really. I think it involves political will and countries not just racing off on their own and putting in place measures that then investors and financiers say, "Well, why are they doing it and why aren't they doing it and what's wrong with this country because they're not doing it?" That undermines confidence. So if we can actually get the political will around the world to act in a coordinated way, then we can see a way through this.

LEIGH SALES: Greg Hunt, in a former life, you spent a bit of time with the World Economic Forum in Geneva, so you're no stranger to trying to get people to work together. Do you have much hope that there will be a coordinated global response?

GREG HUNT: Well I think that this is arguably the most profound economic challenge that the world has faced at least since the Second World War and what we have seen so far is a very strong sign of real international coordination. And we need to do two main things: internationally, we have to be part of the process of bringing people together. Domestically, we have to underline the confidence that we do have in our own system. And we are fortunate, even though this is such a profound challenge, we're fortunate because we have perhaps the best prepared economy in the developed world, so that doesn't mean that we are not at risk, but it does mean that we are as well prepared as any country in the world.

LEIGH SALES: Craig Emerson, I'd like to ask about the Australian dollar, which has lost 28 per cent in the last three months. It's one of the worst performing currencies against the US dollar. If Australia is in such a strong position as the Government and we just heard Greg Hunt as well claim, why are people running from our currency?

CRAIG EMERSON: It is to a significant extent a commodities currency and the global financial crisis has raised some question marks about the future of commodity prices. So, if you track the Australian dollar with commodity prices, there is a very strong link there. So that's what's happening. There's always some good news in this and that is such a big depreciation of the Australian dollar provides a stimulus to Australian business, to our exporters, and that's just one of the natural attractive features of an economic system that's open and competitive. That's what we have. Greg's right: I think successive previous governments have helped build a strong economy. The previous Hawke and Keating governments opened it up, floated the exchange rate - thank goodness for that - and as a consequence you'd get these adjustments. But the good news on the impact of a falling dollar is that it does stimulate our exporters who are hardworking and very competitive but they get this extra boost now.

LEIGH SALES: You spoke about commodities and that's just one factor that's impacting on Australia. The budget forecast for 2008-2009 is a surplus of about $20 billion. Surely

that's now outdated. Is the Government going to issue an update?

CRAIG EMERSON: Well, there's always a mid-year economic statement and that's been the practice of previous governments and we'll always be, you know, in place in our situation. The Government's current budget forecast that we've released in May actually indicated a bit of a slowdown. But Australia is better placed than, I would argue, any developed country in the world to ride through these choppy waters.

We have, and I think Greg was eluding to this, a very good strong financial system, we've got good financial regulation and importantly, we're linked very strongly nowadays with China. Again, a tribute to previous governments who've built that relationship and we supply commodities to China. Now, the Chinese authorities have indicated that, yes there will be an impact on their exports, but they've got a big urbanisation and industrialisation program which is very hungry for our commodities. So, they're three reasons why we assert, and we are joined by the international monetary fund in this assertion, that we are better placed than just about any country on Earth. The IMF released a report yesterday showing that most of the developed countries of the world will be close to or in recession. Our economic growth is expected to have a two in front of it. In all the circumstances, that's pretty good.

LEIGH SALES: Greg Hunt, would the Opposition like to see some new figures from the Government on the budget forecasts, sooner than the six-monthly figure that Craig Emerson's talking about?

GREG HUNT: Well, firstly, because it is such a profound crisis, you can't sit still. What you do need to have is real leadership. And so whilst we agree that this is a time of a strong Australian base, you can let things go bad or you can take real action. One, we would like to see updated figures. Two, we set down today three clear actions which we think that Australia needs to take now. The first of those is that we need to lift the deposit guarantee from $20,000, which is currently before the Parliament, to $100,000. Malcolm Turnbull and Julie Bishop set that down clearly today. That's about confidence, particularly in the smaller financial institutions, and also about competition. Secondly, we do want to see a lift in the liquidity which is put into the residential backed securities, or residential mortgage backed securities, from $4 billion up to at least $10 billion. And that's about ensuring that there's competition in the mortgage market, the smaller lending institutions have access to funds which are currently denied. Because of the global credit crunch, what's happened is that they don't have the access.

And then the third thing is, we have to prevent a bad decision and a bad decision would be to introduce a new tax through the emissions trading scheme before the majority of the rest of the world takes on new obligations in 2010. We think that that should be deferred. We know that the advice going to the Government is that should be deferred. We think that they are considering that, but if there's no level playing field, if Australian firms are paying a higher rate than competing import goods, then what we will see, as Visy has said, they'll just simply take their production off shore and that's the last thing that Australia needs at the moment because it won't help emissions, but it will hurt our economy.

LEIGH SALES: Greg Hunt, you've always been somebody who's argued very strongly though that Australia needs to take action as soon as possible on emissions trading because the longer we leave it, the bigger a problem it's going to be. Have you changed your mind about that?

GREG HUNT: Well, I believe very strongly in the reality and challenges of climate change. That's why we are one of the only countries in the world to be on track to meet our 2012 targets. So we are on track to do that. But what I have always argued is that this - bringing forward the date, unilaterally, will mean that we don't have a level playing field. So for cement, for aluminium, for pulp and paper, for so many different products, they are simply likely to be exported and the jobs go and in addition the emissions go overseas. So, we do believe that there's a mistake and a new tax which would mean that we don't have a level playing field would hurt Australia, not do anything for emissions and that's why we think 2011, 2012 is the right time.

LEIGH SALES: Craig Emerson, let me put to you the first point that Greg Hunt raised about lifting the deposit guarantee from $20,000 to $100,000. Is that a reasonable enough suggestion?

CRAIG EMERSON: Well, we'll take our advice from the authorities. It's perfectly legitimate for the Opposition to be part of the debate on what they think should happen, but we will take our advice from the authorities. There were proposals put in front of the Coalition Government in 2005 that were never acted upon, recommendations. So we're consulting, but once that consultation process is completed, we'll be making decisions there. But I do emphasise the fact that we have a very strong financial system here. Of the double A, top-rated banks in the world, our big four banks are 20 of the - four of the top 20, and there's a World Economic Forum report out just yesterday which has us in the top four of about 134 countries in terms of the strength of our financial system. So all the basics are there, but we'll take the advice from the authorities on that.

LEIGH SALES: The strength of the financial system is one thing, but I'm wondering if nations such as the UK and the US and Europe nationalise their banking systems, is Australia at a competitive disadvantage if we don't guarantee our deposits just because everyone else has?

CRAIG EMERSON: Well, and this is where a coordinated action is very sensible. You're speaking of nationalising, so this is an example. We would not want to go and nationalise our banks. They've kind of been forced to do that. In fact, it's ironic, isn't it, that the United States is regarded as the land of free enterprise and they're acquiring banks left, right and centre. Here in Australia in 1990, every state government owned a bank and the Commonwealth Government owned a bank called the Commonwealth Bank of Australia. Now we own none. And, yeah, there was a lot of criticism about getting - off-loading the banks, privatising the banks at that time, but I have to say I think it's put us in a pretty good position.

LEIGH SALES: Greg Hunt, can you think of a - sorry, go on.

GREG HUNT: Leigh - I was going to say, if we don't take this step, we won't be responding to a rapidly changing international environment. The United States is going to lift its deposit guarantee in all probability from $100,000 to $250,000, the UK to £50,000, the EU to 50,000 euros. So, the point about a moment like this is that it does require decisive action and that's why you have to adapt quickly to a changed international regime.

LEIGH SALES: And what marks would you give Kevin Rudd and Wayne Swan so far?

CRAIG EMERSON: Come on, don't be too biased here.

GREG HUNT: Well, I think the biggest mistake - clearly - there are things with which we agree and things with which we disagree. An example of an agreement was the introduction of a $20,000 deposit guarantee or the movement along that line that was something we were working on. Where we disagree is around interest rates and the fact that there was the egging on of the Reserve Bank. Basically, the Reserve Bank had no option earlier on in the year when it was clear we were going to face the financial tsunami, we had the Treasurer saying the genie was out of the bottle on inflation, the Prime Minister saying that we had an inflation monster. There was no choice for the Reserve Bank but to jack up interest rates. That was a profound mistake and I think it was moving in precisely the wrong direction at the wrong time.

LEIGH SALES: Craig Emerson?

CRAIG EMERSON: Well, we have confidence in the Reserve Bank and it's obvious that the Coalition doesn't have confidence in the Reserve Bank. And, this is...

GREG HUNT: It's not the Reserve Bank, it was the hectoring at the time.

CRAIG EMERSON: the sort of thing that does undermine overall confidence and I can assure you and your viewers that the Reserve Bank doesn't take its instructions from or a lead from a statement that any politician makes. They weigh up the evidence and they make the decisions. And they've actually put Australia in a pretty strong position. You see, in the United States, they were reducing interest rates from about 2000 onwards. I remember every month another percentage point, it seemed to be anyway. And, as a consequence, all of this liquidity flowed into the system and that was one of the precursors to the subprime crisis. So, we're pretty proud of our central bank. And, Greg talks about decisive action. Recommendations were put in front of the Howard Government in 2005 in relation to, you know, the protection of deposits and so on and no action was taken. Now, I don't want to spend the night political point-scoring. I don't think that's appropriate and I think Greg, overall, has been pretty fair about that. But this is a time for unity, national purpose, working with the banks, with the regulators and with Australian industry and I think we can see our way through it if we do that.

LEIGH SALES: Greg Hunt, as much as I'm sure the Coalition will try to make some political mileage closer to the next election by claiming that as soon as Labor took the wheel, the economy tanked. Isn't the indisputable reality that even if John Howard was still the Prime Minister today, the country would be in the same position?

GREG HUNT: Australia did not cause this global financial crisis, obviously. Neither the previous government nor the current government nor the Australian private sector. The variable is what you do at a moment like this. We are all fortunate that we now have one of the best prepared economies, probably the best prepared economy in the world. But it's the decisions you make at a moment of crisis which determine the future. And that's why we've put on the table the three key points in relation to the deposit guarantee, the liquidity injection for residential backed mortgage securities and then finally the correct timing for an emissions trading scheme. And the big concern we have when you talk about how do you react in a crisis is the difference between action and the impression of activity. The classic example is I think Malcolm Turnbull proposed a liquidity injection to help the residential mortgage market. Wayne Swan, with the greatest of respect, said that that was a

monumental gaffe and within five days had adopted Malcolm Turnbull's leadership position.

LEIGH SALES: Craig Emerson, Labor does have a political problem, doesn't it, that the last time you were in power you presided over a recession and now you're back in power and you're presiding over a downturn?

CRAIG EMERSON: I think people do understand that this is a global financial crisis and I believe that we will steer our way through this global financial crisis and who knows, it may well be that the Australian people say, "Good on you for doing that." But that's not the reason we're doing it. We're doing it because we are governing in the national interest, we are exercising responsible economic management and we're well-positioned to do so.

LEIGH SALES: Now, Greg Hunt, I want to ask you about something that you said last time you were on this program with me. You declared with absolute certainty that Brendan Nelson would remain the Opposition leader. You said, "Brendan Nelson will lead us to the election and he will do that because he's a very driven individual." And then seven weeks later, your party dumped him. Now, I can only think of two possible explanations for your very strong public assurance: one is that you genuinely believed what you said at the time, which raises questions about your judgement; or two is that you didn't actually believe it, which raises questions about your trustworthiness. Now, which is it?

CRAIG EMERSON: Ouch!

GREG HUNT: The simple answer is: I was wrong. I accept my licks on that: I was wrong. But I do think that the public has responded very well to Malcolm Turnbull. It's almost as if you had to create somebody for this moment of a global financial crisis, dealing at the same time with the environmental challenges, Malcolm was designed, built and constructed for this moment in history, so ... But I accept: I was wrong.

LEIGH SALES: Good on you for admitting it. Thanks very much Greg Hunt and Craig Emerson.

CRAIG EMERSON: Pleasure.