

Q+A: Guyon Espiner interviews Bill English - transcript

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Bill English - Source: ONE News

Guyon Espiner interviews Bill English

GUYON Thank you, Minister, for joining us. We appreciate your time. The dust has settled since Thursday when you announced the support package was standing ready for AMI. How likely is it that you'll have to use it?

BILL ENGLISH - FINANCE MINISTER

We still don't really know. There's various estimates ranging from estimates they may have enough reserves to cover the claims from Christchurch as well as their business-as-usual claims and estimates that they're about a billion short. Over the next couple of months, we'll get alongside the company, get a better idea of how they're running, get better information about the earthquake claims which keep coming in every day, and two or three months down the track, we'll have a better idea.

GUYON You said that they'd met their statutory requirements. Do you need to change those to make sure that insurance companies have more reserves and can be covered for major disasters like the Christchurch earthquakes?

BILL Well, I think it's the case that there's no indication at the moment that they didn't meet the statutory requirements that applied in the past. Those are in the process of changing now. Legislation was passed in September.

GUYON So insurance companies will have to have more reserves?

BILL Well, it's not exactly clear yet. The new legislation was passed in September. The Reserve Bank are putting regulations in place now. They're being tested very early by the AMI situation. So clearly there's been a need understood for four or five years to have a better regime for insurance companies, but I wouldn't want to jump to conclusions about what difference it'll make in this case. What we know is something went wrong here with AMI, they've been knocking on the government's door, we've got to straighten that problem out - that's been our top priority to protect the claimants in Christchurch - and then we can move on to these other issues.

GUYON Their competitors say they simply undercharge - AMI failed to accumulate enough capital - one telling the Herald, 'They price everyone else out of the market with their stupid rates and then go running to the government for a handout. This is just another socialist free ride after AMI's been run like a cheap shop.' What's your reaction to that?

BILL Well, we'll find out whether that's the case. At the moment, we simply don't know. We're not close enough to the company. I think it's important, while their competitors are focused on AMI, we're focused on the policy-holders. It's pretty important to understand here there's no shareholders; there's no depositors. The people who own the company are the people sitting in their damaged - severely damaged homes in Christchurch.

GUYON But there's a moral hazard here, though, isn't there? Because effectively the message is, 'Buy whatever the cheapest insurance is and don't worry if it falls over, because we'll bail you out.'

BILL And that's one of the reasons we're very reluctant to get involved in this. If we thought there was any way round ensuring the rebuild of Christchurch can proceed and those 80,000 policy-holders there can be protected, then we wouldn't have gone into this, because it can create that perception. However, I think politicians are hearing pretty clearly from the taxpayer that in unique circumstances such as these, they are willing to support this kind of company.

GUYON It doesn't seem to be so unique nowadays, though, does it? I mean, it's the same case with the finance companies - people chasing the high returns and the riskier investments get bailed out by the responsible people who did the safe thing.

BILL And those responsible people I think have every right to be concerned, and Government is just weighing up the less-worse option. In the case of the finance companies, it was the potential destruction of our financial system, and that's been hugely expensive for countries like Ireland where that's happened. In the case of AMI, it's been people sitting in their

severely damaged houses who bought insurance in good faith. So I think the politicians have got a clear message from taxpayers that this is not something they want to do if at all avoidable.

GUYON So why are we still doing it? In terms of the finance companies, I understand that we needed to guarantee the financial system, but why is it now that we still have four finance companies with exposure of \$1.7 billion being accepted in a scheme as late as January 5 this year? Why are we still guaranteeing those finance companies well after the actual acute financial crisis is over?

BILL Well, there's long lag times here, so we have the finance- the first deposit guarantee back in 2008. There was over 7 or 80 institutions in that guarantee. We're now-

GUYON We know the history, but, Mr English, why are we still letting companies into this scheme?

BILL Well, we're down to four or five companies now.

GUYON With exposure of 1.7 billion-

BILL That's right.

GUYON &there won't be a lot of appetite for the public to bail that out, will there?

BILL That's right. It's still not ideal. Bear in mind these companies were covered by the previous guarantee. When we'd been making these decisions on the way through, the focus has been on maintaining these companies so that they can work their way out of any issues they might have. Because the alternative to the guarantee- the only reason the guarantee's there, cos the alternative's worse, which would be the automatic collapse of those companies.

GUYON So is that the case for these four companies - Fisher & Paykel Finance, PGG Wrightson, the Wairarapa Building Society and Combined Building Society? I mean, without this guarantee, are they toast?

BILL Well, there's certainly been times in the past when that was possible, where without the guarantee, their depositors could've just taken their money and run.

GUYON Isn't this the idea of capitalism? I mean, I can understand when there was going to be a run-on at the banks, you have to do it. You did do it, Labour did it, you agreed it with it - fine. But why are we doing it now?

BILL Because we've seen it as the most prudent way of managing the guarantee out of the system. Bear in mind that in most other countries there's deposit guarantees that apply all the time, such as Australia. Depositors there in their banks are covered by a guarantee at all times. We'll be one of the few countries that's actually found a way to work our way out of these kind of deposit guarantees that create obligations for taxpayers, and we will work our way out of it by the end of the year.

GUYON Another bailout in the news this week and for some weeks - MediaWorks. Why did you loan MediaWorks \$43 million?

BILL Well, I think as it's been explained there, that's not a loan.

GUYON But it is a loan, because you signed a document saying it was a loan under the Public Finance Act. Otherwise it would have been unlawful. Do you remember that?

BILL I do remember being- I do remember the Cabinet discussion about it, of course.

GUYON So it is a loan.

BILL This is a situation where the government has licences. These media organisations pay for those licences. In the midst of the recession, there was some real concern that the government was being a bit greedy taking its payments up front, taking cash for, I think, periods of six or seven years of licensing, making them pay in full up front. Now, there was a trade-off there. That had been the understanding of what would always happen. The broadcasters put a case that a deferred-payment system would mean they'd be able- that may be the difference between them surviving and not surviving, so the government made a pragmatic decision.

GUYON But we do seem to get, you know, considerable cases of commercial companies being bailed out. I mean, you are the moment considering proposals where you reduce people's benefits if they don't meet their obligations. Yet private companies fail to meet their obligations, can't pay their debts, and along you come with taxpayers' money and bail them out.

BILL Look, we have- The companies that have had any kind of support from the government are a fraction of those that have approached the government over the last- over the time that we've been in government. I mean, from very early on we had a number of companies approaching us for support. The government has always followed some pretty clear principles-

GUYON So were there a considerable amount of companies that approached you that we didn't hear about, were there?

BILL That's right, and the government-

GUYON Dozens or&?

BILL Oh&

GUYON Just give us some idea of the perspective.

BILL It could be a dozen if I went back and added them all up. And we followed some pretty straightforward principles, which is should not get involved at all if there's any kind of commercial solutions that's available, that they'd have to repress some kind of large-scale systemic risk to New Zealand for it to be considered at all, and you'll remember the discussion about Fisher & Paykel early on, which was fairly high profile. We've been driven by not overreacting to recession, helping New Zealand through it, protecting the vulnerable, maintaining jobs where you possibly can. I think the government's been pretty pragmatic. If anything, people would've expected that we would be completely hands-off. That's not John Key's style; it's not the National Government's style. Where there's a strong case, we've taken some action, but we do clearly want to get out of this situation, as the economy picks up, where this is going to happen.

GUYON And you want to get out of having full ownership of some state assets. I mean, you came in in some respects to sell some state assets. You ended up buying Allan Hubbard's loan book, a helicopter company, possibly an insurance company, a KiwiRail company that you don't want to sell. Has any of this put you off further experimentation with privatisation?

BILL No, it hasn't. I think it makes it important - more important, actually - that the government is getting - that the government is moving assets on. So we've got this big balance sheet, there's companies that have come on, our risks that have come on which we need to - which we've had to deal with, like, as you mentioned, KiwiRail, the finance company guarantees. Government is not good at running these businesses, inherently. It's important that we meet the urgent need of time and then move the assets on.

GUYON Let's talk about the logic of moving those assets on in terms of the ones that you actually want to sell. In 2010, you got \$831 million in dividends from the state-owned enterprises and Air New Zealand. Now, \$802 million, almost all of that, came from the five companies that you want to sell. I mean, aren't you killing the goose that laid the golden egg here?

BILL Well, under the model the government has proposed, we would be maintaining at least 51% ownership in those companies, so we still have a right to the dividends that would come from it.

GUYON Well, half the dividends, presumably.

BILL Well, the dividends that come to our 51% share, that's right. Half the dividends. And we believe in the long run we're going to get better performance and more value out of those companies by having the opportunity for Kiwis to buy a share in it, get better performance from the market pressure that would be on them.

GUYON But is that true? Your own Treasury says, and I quote, in the paper that you requested on this issue, 'There is no clear evidence to suggest that financial performance of the SOE companies is better or worse than private-sector comparables.' It says, 'There's little evidence to suggest that privatisation would significantly improve the financial performance of many of the SOE companies.'

BILL Well, we simply don't agree necessarily with Treasury on that, and we have a number of-

GUYON But Treasury aren't exactly left-wing sort of hand-wringers on this, are they?

BILL Well, they've had no experience of these kind of asset sales now for 10 or 15 years, so it's not something they've dealt with.

GUYON Where are you taking advice from? Is it just you and a few other Cabinet ministers? I mean, if Treasury don't even believe, and they say there will be 'modest economic gains', where has your evidence come from?

BILL Well, we are of the view that the model, like Air New Zealand, has worked very well - mixed ownership where a combination of market pressure, an arm's-length relationship with government has allowed that company to go through considerable changes and achieve what's very difficult to achieve anywhere in the world, and that is be a successful regional airline. So we're more convinced than Treasury that we'll get better performance out of those companies, but we have other objectives as well, which are to provide some kind of investment opportunities that New Zealanders think would be useful for them, particularly longer term solid investments after all the negative experiences that they've had.

GUYON Just finally on asset sales - is it important to restrict the amount of foreign ownership of these companies? And if so, how are you going to do that?

BILL We will certainly look at the possibility of using restrictions on foreign ownership or significant ownership by individuals, whether they're foreign or New Zealanders. There's currently rules in the Telecom constitution that apply some restriction so it's not a new idea at all, and we'll consider it on the way through.

GUYON And will the asset-sales policy be in the Budget?

BILL Well, we'll make a decision about that shortly. The government proposed some tests. Treasury have gone away to see whether mixed ownership would meet those tests. If it does, the government will put that proposal to the public in the election campaign as we promised we would.

GUYON You're about to or have already signed off on the Budget? It must be pretty close. How easy was it to find that \$800 million that you needed to get to a Zero Budget?

BILL Well, we are getting close. It's been quite a job, but I have to say that the senior management of the civil service has done a very good job of understanding the situation they're in. Ministers have been quite creative in many respects, because they all understand what we've been talking about for a couple of years - that we're not trying to cut public services; we're going to cut costs.

GUYON And that's important, because are these cuts that people are going to notice to entitlements and allowances like KiwiSaver, students loans, Working for Families? Is that going to be the major target? Or is it going to be more about policy advice and government agency spending?

BILL Well, you've got to cover the whole range to make the kind of progress we want to make to reduce debt and get back to surplus, and the public service has responded with ideas across the whole range.

GUYON So it's going to be a mix of those things?

BILL That's right. But it'll be pretty- Look, there's nothing particularly radical in there, and what we're looking for here is the kind of changes that make our services and our transfer programmes sustainable.

GUYON Can I talk about the real economy for people? They see the cost of living keep going up. They see wages really not- if not quite keeping pace with that, certainly not outstripping it much. I mean, you said at the weekend to the Australian New Zealand Leadership Forum that one of our advantages over Australia was that our wages were 30% cheaper. I mean, that an advantage now?

BILL Well, it's a way of competing, isn't it? I mean, if we want to grow this economy, we need the capital - more capital per worker - and we're competing for people as well.

GUYON So it's part of our strategy to have wages 30% below Australia?

BILL Well, they are, and we need to get on with competing for Australia. So if you take an area like tourism, we are competing with Australia. We're trying to get Australians here instead of spending their tourist dollar in Australia.

GUYON But is it a good thing?

BILL Well, it is a good thing if we can attract the capital, and the fact is Australians- Australian companies should be looking at bringing activities to New Zealand because we are so much more competitive than most of the Australian economy.

GUYON So let's get this straight - it's a good thing for New Zealand that our wages are 30% below Australia?

BILL No, it's not a good thing, but it is a fact. We want to close that gap up, and one way to close that gap up is to compete, just like our sports teams are doing. This weekend we've had rugby league, netball, basketball teams, and rugby teams out there competing with Australia. That's lifting the standard. They're closing up the gap.

GUYON But you said it was an advantage, Minister.

BILL Well, at the moment, if I go to Australia and talk to Australians, I want to put to them a positive case for investment in New Zealand, because while we are saving more, we're not saving more fast enough to get the capital that we need to close the gap with Australia. So Australia already has 40 billion of investment in New Zealand. If we could attract more Australian companies, activities here, that would help us create the jobs and lift incomes.

GUYON The last headline I saw said Australia had dropped its unemployment rate to 4.9%, added 37,800 jobs. Unemployment here pushing 7%, wages 30% higher over there - why wouldn't you go?

BILL Well, some people will, and that's fine, but why would we sit round being mesmerised by the fact that some Kiwis go to Australia? We've got a long-term plan to lift the performance of this economy, because we need higher incomes and we need more jobs. This is an economy that's taken a few knocks in the short term, and Kiwis are being remarkably resilient about it. But this is really a matter of attitude. I think Kiwis have shown a very resilient and positive attitude with all the unexpected events that have occurred. We are going to get through that, and I think we can have a very positive attitude about the direction our economy's going in. One indication of it is I think we are going to be, in many respects, outside of the resources sector, a more competitive economy than Australia. And over the next four or five years, we should take advantage of that by attracting Australian capital to New Zealand.

GUYON Got to leave it there. Thanks very much, Bill English, for your time. We really appreciate it.

BILL Thank you.

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