

Hon Sir ROGER DOUGLAS (ACT): The fact is that the accident compensation scheme is a total failure. It is a walking disaster. Over the last 9 years the Labour Government expanded the coverage of accident compensation far beyond what was originally intended, and, at the same time, told us that it would not cost more. It was absolutely wrong. The employers' account will need to increase by around 55 to 60 percent over the coming years to make up for the shortfalls projected, unless strong action is taken.

The failure of accident compensation has not happened by chance. Accident compensation is failing, basically, because the concept is intellectually bankrupt. The idea that one can provide cheap insurance through monopoly provision is a myth. We know this to be true. Monopolies fail to meet consumer demand because consumers have no choice, at all. Monopolies fail to reduce costs because they have no competition to drive out the high-cost structures. Every State monopoly costs too much. Every State monopoly—whether it is accident compensation or otherwise—costs too much and fails to meet consumer demands.

I ask members to consider the problems with the accident compensation scheme. The Accident Compensation Corporation (ACC) is bankrupt. Any private insurance company that had such a large unfunded liability would be out of business. The only thing that keeps ACC in business, the only thing that keeps ACC from receivership, is that it is compulsory—that is, it has a claim on the income of each and every New Zealander. In other words, it is a tax by another name. Accident compensation shields the negligent. Employers with safe workplaces subsidise those with unsafe ones. What incentive is there under an accident compensation system to make workplaces safer, unless one pays for a lack of safety? That is why in the year after the introduction of accident compensation, workplace accidents increased by 400 percent. I repeat: 400 percent.

The third point I make is that the accident compensation scheme has surging costs. Schemes that have open-ended liability and no way to guarantee that revenue matches costs are unsustainable. In 2008 the number of claims increased by four and a half times the population growth. This suggests that the taxpayer is being defrauded. In the 3 years to 2008 the cost of the scheme's medical treatment increased by 55 percent, at a time when inflation would not have increased by even 10 percent. The accident compensation scheme has a poor record of getting people back to work. For example, half as many New Zealanders receive an action plan for how to return to work as do Australians living in Tasmania who have private insurance. Many people say that private provision would increase costs because there would be a profit motive, but it is the profit motive that ensures that private businesses do not become excessively bureaucratic and bloated. Competition would allow consumers to purchase a much wider range of insurance products. Competition would decrease premiums overall, and especially the premiums for safe workplaces, while increasing them for unsafe workplaces, thus providing an incentive for greater safety. That is how the system would work. Competition would stop bureaucratic expansion and help end insurance fraud.

Once again, the real story here is that State monopolies are destined to fail. But if we look at ACC, we see that the real problem is that it has a cost-plus culture. Under a Labour

Government we had unrealistic cover extensions, loss of provider management, the removal of co-payments for services, increasing claim escalations and service utilisations, limited case management, and limited employer involvement. It is no wonder that it is a mess, and no wonder that it is basically bankrupt.

I have sat here and listened to members go on about the PricewaterhouseCoopers report. The fact is that the Labour Government depended on erroneous international comparisons to counter the clear performance deterioration of ACC. That report cost \$1.3 million but it did not undertake a meaningful analysis of ACC's emerging and comparative performance. No adjustment was made for demonstrable differences between our accident compensation scheme and the Australian scheme. Let me quote two lower-income replacement rates: 100 percent in Australia and 80 percent here. We have significantly lower lump-sum common law payments, with payments of 30 percent in Australia compared with 1 percent here.

If those two factors are taken into account, it would mean 40 percent extra costs in Australia, over and above those in New Zealand. The previous Government has not mentioned that, because it does not want the facts; it wants to pretend. But at the end of the day pretence gets us nowhere, and it is no wonder that we in this country are finding that our productivity and our standard of living have declined. There are no performance incentives to positively influence behaviour and utilisation. There is no risk rating and very limited excesses or service co-payments, which are so necessary in order to keep a cap on expenditure. ACC, as I understand it, is actively preparing for competition while not actively addressing the substantive deterioration in its core statutory businesses.

What the Labour Government did over the last 3 or 4 years is a disgrace—an absolute disgrace. ACC used phoney estimates to give the appearance that it was solvent. For example, it overstated the discount rate, which put a gloss on the figures of \$5 billion or \$6 billion. ACC's optimistically projected reductions in expenditure trends were reduced—for example, the rehabilitation liability came down from 10 percent to 1 percent in 4 years. What the Labour Government did over the last 4 or 5 years with the accident compensation scheme is nothing short of disgraceful—absolutely and utterly disgraceful. The fact is that the scheme during that period was a total failure and it is now a walking disaster; members opposite should be ashamed of themselves.