Big business renews pressure on New Zealand government as economy falters

John Braddock
31 October 2000

A series of poor economic indicators over the past month has pushed the New Zealand dollar into a downward spiral, dragging the share market with it and producing increasing alarm in ruling circles over the parlous state of the economy.

Last week the dollar dipped below US39.5 cents for the first time ever. The sharp drop came with the release of official figures showing inflation for the September quarter up by 1.4 percent, taking the annual inflation rate to 3 percent, its highest in five years.

Like the Australian dollar, the euro and other currencies, the NZ dollar's fall is largely a by-product of the surge in the US dollar. However, fuelled by a worsening current account deficit, it has declined even against other hard-hit currencies. Prior to the current crisis, the NZ dollar had been steadily falling for nearly four years, almost halving in value since December 1996.

Speaking to parliament's finance and expenditure select committee earlier this month, Reserve Bank governor Don Brash warned that worse is yet to come. As one of several possible "scenarios", he raised the prospect of the country sliding into a period of "stagflation"—low growth and high inflation—as the economy is caught in the pincer of a declining dollar and rising fuel prices. He compared the current period with the aftermath of the "oil shocks" of the mid-1970s, when the country experienced a particularly severe episode of "stagflation". New Zealand is totally reliant on imported petrol, with prices at the pump now over $1.20 per litre.

Brash further reported that the economy had contracted by 0.7 percent in the June quarter, more than expected, and that the September quarter would also be "weak".

Brash's remarks immediately induced a tremor of panic in the money markets, prompting the dumping of major New Zealand stocks on the share market. The next day the share market closed at its lowest point in two years. Hardest hit was the market leader Telecom, whose shares plummeted to a five-year low. In total $7.7 billion has been wiped off Telecom's market capitalisation since mid-April, a 45 percent drop.

The gloom evident in ruling circles was summed up by Richard Legget, analyst and spokesman for the broking firm Merrill Lynch. "International interest is minimal, retail investors have been scared off and local fund managers are shy of the market.... Generally, the market feels dreadful," he said.

Further confirmation of the fragility of the local market, and its susceptibility to the slightest piece of bad news, came a week after the share market slump, with a decision by the Commerce Commission to reject a proposed $4.6 billion take-over of Fletcher Energy by the international oil company Shell. The Commission declared that the take-over would leave Shell dominating the country's important natural gas industry. The announcement saw Fletcher Energy's share price crash by 18 percent, dragging the share market into another 2 percent fall.

The deterioration in the markets has brought renewed pressure on the government to implement a fresh range of austerity measures. In his report to the parliamentary select committee, Brash warned that if workers sought "compensation for the impact of the low dollar and high oil prices" by demanding wage increases, the Reserve Bank would lift interest rates. Most workers have had wage settlements of less than 2 percent over the past 12 months and face rapidly escalating living costs. In addition to ballooning oil prices, double-digit increases on basic household items have been foreshadowed as the cost of imports races away.

Attacking the Labour-Alliance government for its "policy direction", Business Roundtable (BRT) spokesman Roger Kerr demanded that, in light of the deteriorating economic conditions, tax cuts be immediately implemented and the government's "anti-business positions" be reversed.

The BRT, whose members have been the chief promoters and beneficiaries of the market liberalisation and privatisation program of the past two decades, has consistently argued that neither the current nor previous governments have gone far enough in their attacks on the working class.

Relations between the government and key business organisations have become increasingly strained and embittered. Five months ago, and just six months into the government's term of office, employer lobby groups began a campaign against a series of legislative measures introduced by the government, including a minor increase in the top tax rate, the re-nationalisation of Accident Compensation, and new industrial laws.

The measures were part of Labor Prime Minister Helen Clark's election promises to an increasingly discontented and restive electorate. While they failed to even begin to address 15 years of cutbacks, they reportedly resulted in a fall-off in business confidence.

The BRT's latest intervention went further, assuming the character of a "dirty tricks" campaign aimed at destabilising the government. A highly-publicised full-page advertisement was placed in all the major newspapers, listing by name 700 young

New Zealanders currently living and working overseas, mainly in law, business and commerce. Under the heading “The Lost Generation”, the advertisement claimed there was a “brain drain” of talented young people, who were being driven offshore by high taxes, restrictive government policies and lack of opportunity.

While the public co-ordinator of the advertisement was known to be a politically active young entrepreneur from a prominent National Party family, it was eventually revealed that the campaign had been bankrolled by the BRT.

Prime Minister Clark hit back sharply, accusing the BRT and the National Party of “economic sabotage” by “talking down the whole country” externally and internally. She demanded that the BRT remove Roger Kerr from his position of executive director and declared that, while her government would like to deal with some of the “talented executives” on the BRT, Kerr should go because of the level of “malice” he was directing at the government. Then Clark announced that representatives of the BRT and the Employers' Federation would not be invited to a forthcoming special government briefing on the economy.

Jim Anderton, leader of the “left wing” Alliance and deputy prime minister, weighed in criticising the “doom and gloom” attitude of opposition spokesmen, and extolling the business successes being achieved under the coalition government. Last week he defended the low level of the dollar, saying it represented the “real value” of the currency and would provide a sound basis for an “export-led recovery”.

The conflicts indicate growing tensions within ruling circles over the increasingly crisis-ridden New Zealand economy.

The Labour-Alliance Government was elected last December on a rising tide of popular opposition to the market “reforms” implemented by the previous government. It pitched its election campaign to three key social layers; firstly, small, national-based employers, desperate for relief from the impact of the financial markets and foreign investors. Many supported the coalition's policies, which offered a measure of national protectionism—the maintenance of certain tariffs, grants and financial support to businesses, and a degree of opposition to foreign take-overs.

Secondly, the increasingly influential Maori entrepreneurs who have arisen on multimillion-dollar land settlements, but who bitterly opposed a decision by the previous National government to put a financial “cap” on future deals. Having mobilised a wave of support among Maori voters for the right-wing populist New Zealand First Party in 1996, they swung back behind Labour.

Thirdly there is the trade union bureaucracy, whose continued existence was guaranteed by Labour's promise to revamp the industrial laws to favour collective contracts enforced by the unions.

In government, Labour and the Alliance have been obliged to walk an increasingly perilous tightrope. On the one hand, they have sought to maintain their electoral constituency by enacting a series of minor reforms and blocking the sale of NZ companies to foreign buyers. Most state assets have already been sold off or privatised by both Labor and National governments over the past decade and a half.

In the face of mounting social distress and anger over deteriorating social conditions the Clark government has advanced a “closing the gaps” strategy, which is being touted as an initiative to cut social inequality. In reality it is aimed at ethnic “empowerment” which will further bolster the privileges of the petty-bourgeois Maori layer created over the past decade through the Treaty of Waitangi land settlements. Similarly, Labour's industrial legislation, touted as defending the rights of working people, is designed to further incorporate the union bureaucracy into the state, by enshrining it as the enforcer of increased productivity and industrial “cooperation”.

On the other hand, the coalition government has set out to reassure business of its essentially pro-market position.

Labour's Finance Minister Michael Cullen has addressed numerous international business audiences, insisting that his is a “fiscally conservative” administration, committed to returning a government surplus, keeping spending down and reducing debt. In recent weeks Cullen has reiterated the government's commitment to the independence of the Reserve Bank, while Clark has moved to assure the markets that the “broad parameters” established by previous Labour and National governments—the Reserve Bank Act, the Fiscal Responsibility Act and the commitment to budget surpluses—remain intact.

But this has not convinced the BRT, which speaks for the country's globally oriented multinationals. It wants to see the removal of taxes, the gutting of what remains of social welfare, the full privatisation of health and education and the removal of any vestiges of restraints on business. According to the BRT, the international market place should determine wages and conditions, with New Zealand workers forced to compete with workers in the so-called “Third World” countries.

The prime minister's reaction to the BRT's efforts to destabilise the government has been condemned by many of the editorialists who supported her during the election campaign. This suggests that, under conditions of deepening economic crisis, the government's tightrope is about to be pulled out from under it.