Appeals for wage restraint as New Zealand companies record huge profits

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With the New Zealand share market running at its highest-ever levels for the past two years, the recent company-reporting season in February has recorded a profit bonanza for leading corporations.

Company reports cover a range of key sectors including media, construction, energy, waste, tourism, banking, transport and dairy produce. Among these, profit increases of 20 to 55 percent were the norm. Some of the more notable were the second half-year 2004 returns for Sky TV (up 300 percent), Steel and Tube (55 percent), Freightways (46 percent), Fletcher Building (45 percent), Fairfax NZ (26 percent), ASB Bank (14 percent), and the full year results for CDL Hotels showing a 36 percent rise.

The soaring profits had the financial press in a lather of excitement. The business pages of the Wellington-based *Dominion Post* headlined one prominent article "The golden summer" and triumphantly recorded a string of "impressive" and "record-breaking" results reaping "rivers of gold" for big business. According to this report, the most remarkable factor was that the rises were not isolated, but the product of an economy "running hot" over an extended period. Major companies, it enthused, have for seven years been "swimming in cash".

The "booming" economy—which has seen growth averaging 4 to 5 percent over the past three years—is underpinned by an influx of foreign investment. Strong international commodity prices have sustained profits for the country's farm and agriculture exports, which account for about 50 percent of export earnings. The major dairy exporter Fonterra increased its payout to farmers by 16 percent in 2004, despite the value of exports being squeezed by the New Zealand dollar, which recently hit a 22-year high of US 74.5 cents.

As in Australia, Britain and the US, an unsustainable housing and property bubble had been a significant factor in New Zealand's growth. House prices rose by 46 percent between 2001 and 2004, with prices at the beginning of 2005 hitting a new record—some 17 percent higher than February 2004. Exacerbating the economy's dependence on property speculation, construction in the tourism, office and industrial sectors pushed the value of non-residential building to $3.6 billion in the June year—a 12.9 percent rise.

Underlying these economic results is a sustained attack by successive governments, including the current Labour administration, on the social position of working people. Labour has continued to slash public spending and social services. Among the more profitable companies are privatised public concerns that have used their position supplying essential services to continually ratchet up charges (or, as the *Dominion Post* puts it, exercise their "strong pricing power").

Electricity generator and retailer Contact Energy, for example, saw its after-tax profits leap 50 percent for the December quarter from $27.5 million to $41.3 million. This was despite high river flows depressing wholesale hydroelectric power prices and lines companies dropping their charges to suppliers. Contact's net profit for the whole of 2004 was $143 million, an 11 percent increase on the previous year. Contact Energy's average prices to its 508,000 electricity customers rose by 12 percent last year alone. Overall, householders have seen increases of up to 42 percent in their power bills over the past three years.

Auckland International Airport, previously owned by the local council, last year returned, according to another article, "bucket loads of cash" to shareholders, boosting profits by 20 percent and dividends by 43 percent. The company, now "awash in cash", announced a four-to-one share split and said it was considering returning between $100 million and $300 million to shareholders. The airport, which is the country's most important public transport hub, catering to 11 million passengers a year, gained its windfall from user charges levied on passengers. A 9.6 percent increase in international passengers and 5.3 percent more domestic passengers produced a 10 percent increase in revenue of some $142 million.

These massive profit increases are also a direct result of the relentless assault on wages over an extended period. The decline in wages is now openly acknowledged by financial writers. The *Dominion Post* noted recently that company chiefs are now "hanging on to a greater share of the spoils" while "the lid has been kept firmly on wages". What the financial commentators avoid mentioning is that Labour and the trade unions have been the accomplices of big business in ensuring the "competitiveness" of New Zealand industry and suppressing the opposition of workers.

Statistics NZ figures show the sharpest redistribution of income away from working people occurred between 1986 and 1991, as a result of the pro-market policies of the Lange-Douglas Labour government. By the end of the period, wages had fallen to 55 percent of national income. That share fell again in the early 1990s after the National government's Employment Contracts Act led to the break-up of many national awards and their replacement by individual contracts. In the past five years under Labour, the decline in the real value of wages has resumed. Union settlements have been consistently below the inflation rate. Overall the cost of

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living has increased 13.5 percent but average wages have only risen by 11 percent.

Business insists that "the lid" has to be kept on wages. The *New Zealand Herald* warned that larger wage increases in the December quarter were "squeezing corporate profits and testing the Reserve Bank's patience". Mainly due to acute labour shortages, wages rose 0.7 percent over the quarter, pushing the annualised increase to 2.5 percent, marginally up from 2.2 percent in the September quarter. In reality, the "rise" was another cut in real terms—less than the annual 2.7 inflation rate. The cause for alarm was that it represented the biggest increase in private sector wages since March 1996.

A spokesman for the National Bank warned that workers had to realise that their "share" of recent economic growth should come in the form of "more jobs rather than higher wages"—in other words, the working class should be grateful for an expansion in the pool of exploited labour. Westpac Bank economist Brendon O'Donovan declared that in forthcoming wage bargaining, "4 percent plus a bit of catch-up" was warranted—but no more.

The unions, which function as virtual corporate branch offices, immediately got the message. The country's largest private sector union—the Engineering, Printing and Manufacturing Union (EPMU)—entered negotiations at the end of February seeking a meagre 7 percent rise. Union officials, however, immediately dropped the figure to 5 percent when, on the first morning of negotiations, employers removed a counter-claim over holiday entitlements. The talks collapsed when the 220 engineering sector employers, represented by the Northern Employers and Manufacturers Association, insisted that 3.2 percent was their best offer.

A few days later, the Council of Trade Unions (CTU) announced a combined unions' "wages push" for 300,000 workers of just 5 percent. This miserable target—a sell-out before the "campaign" even begins—was then puffed up with empty rhetoric. CTU President Ross Wilson declared that workers were "hungry" for a fairer share of economic growth and that their "patience" was running out. He warned employers that being "tight and greedy" resulted in greater militancy.

EPMU national secretary Andrew Little threatened to suspend any bargaining that did not come up to the 5 percent level—not very different from the "4 percent plus a bit of catch-up". In a similar move last year, the EPMU froze 270 sets of negotiations to put "pressure" on the metals employers for a 3 percent pay rise, but after a month accepted 2.9 percent.

The nature of the union "push" is already apparent. When Nelson Coldstore workers stopped work on February 28 as part of an ongoing pay dispute, the strike coincided with the beginning of the national campaign. The workers had been demanding an increase of more than 20 percent, but the Service and Food Workers Union (SFWU) had already dropped the claim to between 10 and 12 percent. After sending strikers back to work, the union lowered it even further, declaring that "no one should expect less than a 5 percent pay rise".

Prime Minister Helen Clark called for wage demands to be tempered, pointing to tax relief for low paid workers that is due to begin in April under the so-called "Working for Families" package. In other words, the government is now effectively subsidising the low wages paid by employers—a measure paid for through cuts to public services. Confident that the unions would suppress demands for higher wages, Clark went on to dismiss media speculation of widespread strikes as "a bit hysterical".

The unions and Labour government have also joined employers in pushing for increased productivity. In an article in the *Herald,* CTU economist Peter Conway described how, through the government-sponsored Workplace Productivity Working Group, union leaders have been advising employers how to implement so-called "best practice". According to Conway, the unions have been crucial to imposing productivity gains, as workers come "with a lot of negative baggage associated with restructuring, layoffs and work intensification".

The present euphoria over economic growth will not last. Already concerns have been expressed that "fine days" have come to an end and the economy may be in for a "hard landing". Economic growth is predicted to slow, the Reserve Bank has again raised interest rates and the share market has fallen from its previous highs. Of particular concern is the current account deficit, which blew out in the December quarter to 6.4 percent of GDP, the worst in nearly 5 years and considerably higher than 5 percent which is regarded as a "red flag" by the money markets.

There is no doubt where the burden will be shifted and who will be asked for further sacrifice. Demands by workers for wage rises will be denounced as irresponsible and either scaled back or shelved completely—with the acquiescence of the unions. Even before a downturn, calls are being made in the business press for further restructuring. The chief financial commentator for the *Dominion Post* last week decried the country's "woeful" productivity growth and called on the government to take action—that is, to impose another round of savage cutbacks to jobs and working conditions.

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