

New Zealand: election date set as Labour government's support slumps

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New Zealand Prime Minister Helen Clark announced on Monday that elections will be held on September 17. Confirmation of the date had been withheld for some weeks while Clark attempted to come to grips with an accelerating crisis in support for her Labour-led government. Labour's hold on office is looking increasingly tenuous following a slump of almost seven points in the latest opinion polls. The last time the government had such a negative rating was in February last year.

In the event, the election will now be held at virtually the latest date possible in order to give Labour time to try and recover lost ground.

A *National Business Review* poll published on July 1 put the opposition National Party on 39 percent support, with Labour down to 35 percent. A *New Zealand Herald* poll published three days earlier gave a similar result, with National on 40.1 percent and Labour on 36.2. Both surveys showed National having gained seven points in a month, while Labour dropped five points. The trend was confirmed in another poll published in mid-July by the *Dominion Post*, which had National increasing its lead to five points.

Until now, Labour had been confidently aiming for an historic third consecutive term in office, after beginning the year in what was widely assumed to be an unassailable position. The trend of falling support has been apparent for three months, but it accelerated after the May budget. The change in fortunes began after the media and sections of the ruling elite criticised the budget for not going far enough in implementing tax cuts.

The media is attempting to give its campaign a populist flavour by claiming that tax cuts would benefit ordinary workers. The principal canard cited by the press is that the meagre tax relief in the budget offers many people just 67 cents a week—or the cost of half a packet of chewing gum—in three years' time.

The real motivation, however, is not to lower taxes for working people, but for businesses and the wealthy. There have been incessant and increasingly strident calls from financial commentators and editorial writers that the company tax rate be lowered from 33 to 30 percent. The Treasury has, in a series of briefing papers, also argued that, among other moves, the top personal tax rate be brought down from the current level of 39 cents, claiming personal tax cuts are necessary to fuel economic growth.

Behind the demand for tax cuts are renewed preparations in ruling circles for a fresh assault on wages, living standards, social

services and the public sector. The National Party, which is promising to slash taxes, has declared that it will cut a billion dollars from public spending and eliminate thousands of state sector jobs.

The media is clearly attempting to make this right-wing agenda the basis for the elections. The *New Zealand Herald* triumphantly reported that since the budget had “propelled tax cuts as one of the most defining issues of this election”, Treasurer Michael Cullen had sought in vain to argue against them. According to the *Herald's* poll, 61.2 percent of respondents did not believe Cullen's argument that “the country could not afford tax cuts”.

The polls, however, also reveal widespread concern over the implications of the tax proposals. Asked if they would support tax cuts if higher interest rates were the result, 52 percent said no, while only 37 percent said yes. As a result, National leader Donald Brash has changed his tone, saying that National would initially “ring fence” the health and education sectors in order to maintain their current levels of funding.

These promises are entirely hollow. In education, National's main pledge is an extreme right-wing program to compulsorily impose “bulk funding” on school boards. This would mean forcing elected governing boards to be fully responsible for operating their schools as businesses, including supervising the principal as CEO and imposing performance pay measures on staff. National also proposes to increase funds to private education and abolish school zoning. These measures will inevitably impact hardest on schools in working class areas that are least able to compete for students and funding.

Labour is also being challenged by the right-wing populist New Zealand First party. Its leader Winston Peters has resurrected the party's sagging fortunes with a vicious attack on immigrants, particularly from the Middle East. He recently launched a witchhunt against Iraqi immigrants, claiming that several Iraqis currently in New Zealand on visitor permits had links with the former Hussein regime. It is increasingly possible that NZ First will hold the balance of power, regardless of which of the major parties wins the most seats.

The turn by sections of big business against Labour became more pronounced after the release of new economic figures, showing the economy in decline, after six years of high growth and record private sector profits. Pessimism is evident in much of the financial commentary, with open discussion about the real possibility of the economy moving into recession.

The economy grew less than expected in the first quarter of 2005, expanding 0.6 percent on top of just 0.3 percent in the fourth quarter 2004. The annual rate of growth is 2.5 percent, the slowest in four years. At the same time the Reserve Bank raised interest rates to a record 6.75 percent—the highest of any country with a top credit rating at Moody's Investors Service—and did not rule out another increase. Ulf Schoefisch, chief economist at Deutsche Bank warned that if the bank continued to push rates higher, "then the risk of a hard landing is fairly real".

For the year to March, the current account deficit topped \$10 billion for the first time or 7 percent of GDP—the worst ratio since 1986. One financial commentator described the deficit, which was worse than any forecasts, as being of "Grand Canyon" proportions. The blowout is due to weaker export volumes, declining earnings from tourism and the repatriation of bumper profits by foreign-owned companies.

The trade balance was also worse than expected. Instead of a predicted \$300 million surplus, a \$25 million deficit was posted, taking the overall deficit in the year to May to over \$5 billion. The annual trade deficit equates to 16.3 percent of exports—the largest since the mid-1970s. Exports have been hit by the rising value of the New Zealand dollar. High global oil prices were the main contributor to the rise in imports.

In this context, business is pushing for further measures to improve "competitiveness" and workplace productivity. Notwithstanding a recent OECD report showing New Zealand as having one of the most deregulated labour markets in the world, opposition leader Brash is demanding a further round of "deregulation" to drive down real wages and salaries.

Until now, Labour has regularly been depicted in the media as "Teflon coated" for its apparent ability to brush off any hint of trouble or scandal and appeared to have the full confidence of the ruling elite. This is now proving to be a decisive weakness. The party is particularly vulnerable to criticism over its performance on the part of business and media circles because they have been crucial to keeping it in office. Labor has, after all, made the implementation of their agenda the centrepiece of its program.

The campaign for tax cuts is only having an impact because the living standards of ordinary people have been so thoroughly sacrificed to the requirements of the business elite, and Labour is incapable of generating support among the broad mass of working people. Recognising this, the Council of Trade Unions is desperately attempting to revive the government's fortunes on the basis that it has put in place "protections for ordinary people"—citing, for instance, four weeks' annual leave and increases in the minimum wage.

Over the past six years, however, the social position of working people has deteriorated. The cost of living has increased 13.5 percent while average wages have only risen by 11 percent. Union settlements have been consistently below the inflation rate. A series of struggles by tens of thousands of workers has erupted this year over the declining value of real wages. Workers in public transport, banking, manufacturing, mining, local government and the health sector have been involved in strikes and stoppages. Ignoring the usual appeals to not "rock the boat" with an election on the horizon, Air New Zealand cabin crews and academic and

general staff at all the country's major universities were involved last week in major strikes over wages and conditions.

Most people find themselves conducting their daily lives on the basis of overwork, permanent debt, insecurity and grinding struggles to make ends meet. Since 1990, the percentage of personal debt to disposable income has risen from 50 percent to 140 percent. House prices are rising at one of the fastest rates in the world. A recent cover story in the *Economist* magazine put New Zealand at fifth place out of 20 countries on its house-price indices, behind only South Africa, Hong Kong, Spain and France—and equal with the United States.

Labour was elected in 1999 by appealing to a groundswell of opposition to the onslaught of the conservative National Party government on jobs and living standards. Once in office, it accommodated to the economic demands of business, while implementing minor social measures to put on a "progressive" face. The result has been an ever-widening increase in social inequality.

In government, Labour has presided over a series of record budget surpluses, achieved by reducing spending on public services, as a percentage of GDP, to among the lowest levels in the OECD. At the same time, windfall gains on the sharemarket have seen the rich increase their net worth at a greater rate than during the previous decade when the Nationals held office. The *National Business Review's* annual "Rich List", which has been just published, showed that the net worth of the country's wealthiest 205 individuals had leapt from \$NZ9.8 billion in 1999, when Labour took office, to \$31.4 billion last year. The increase over the last year alone totaled \$9.1 billion. Meanwhile, recent academic reports show 29 percent of dependent children—around 250,000 under 15 years of age—living in poverty.

With the election campaign formally underway, Labour immediately began its re-election bid with a surprise announcement that it would wipe out interest payments on student loans—a \$300 million per annum measure it had previously dismissed as "unaffordable". The announcement came just days after National had declared it would introduce tax rebates on the loan interest. The move by both parties is completely cynical. Total debt accumulated by students is now running at \$7 billion, a result of "user pays" policies in education that were first introduced by Labour in 1987, and pursued and extended by National throughout the 1990s.

The fact is that none of the parliamentary parties will offer a platform on which to defend the interests of working people. The volatility already demonstrated in the polls is a sign that the campaign will be conducted in an atmosphere of widespread disaffection with all of them, along with growing alienation from the official political process as a whole.



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