New Zealand government demands further wage restraint as living standards decline

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New Zealand Finance Minister Michael Cullen last month warned workers against expecting significant pay rises, even as the cost of living sharply increases. Speaking to a parliamentary finance committee on June 14, Cullen gave his backing to Reserve Bank Governor Alan Bollard. A week earlier Bollard had proclaimed that wage restraint was necessary to curb inflation, which the bank forecast would rise to 3.9 percent.

Bollard warned he would push up interest rates even higher if workers won "extravagant" pay rises. Prior to Christmas, Bollard increased rates to a record 7.25 percent—the ninth rise since January 2004—to dampen spending. The country's official cash rate is now among the highest in the OECD.

The Labour finance minister insisted it was important he back messages from the bank. "We cannot afford large wage and salary increases across the board ... Unfortunately that does mean you can't expect wage and salaries to compensate you for what are major shifts in relative prices over which we ourselves have no control" he declared, referring to the country's ordinary working people.

Cullen himself received an 8.1 percent pay increase last year, taking his salary from $226,700 to $245,000 while Bollard received a pay rise of almost 7 percent, bringing it to more than $480,000.

Emphasising that workers would have to bear the brunt of the Labour government's anti-inflationary policies, Cullen said the Reserve Bank could afford to "look through" the initial impact on inflation of higher fuel prices, which currently sees petrol priced at over $1.71 per litre. However, if workers sought compensation for higher prices, inflation would spike higher, forcing the bank to lift interest rates.

Significantly Cullen's speech took place on the eve of the first ever national strike by the country's junior doctors. It was aimed at sending a message to the business elite that the government would hold firm against the wage claims by doctors and radiation therapists. His remarks amounted to a directive to the 21 district health boards (DHBs) that they could not allow any increases that would raise costs: "We're saying very clearly that we can't afford large expenditure increases in that respect. It would be inflationary."

In the 2005 elections, faced with an aggressive campaign for tax cuts waged by the opposition parties, with the support of economic commentators and the media, Labour posed as the defender of public services and living standards and as the friend of ordinary people. On this basis, it was narrowly returned to office for a third term.

It has not taken long for these promises to be exposed as entirely bogus. In the health sector, radiation therapists have been struggling for a minor inflation adjustment to their pay in the face of a nil pay offer from the DHBs. At the same time, the recent unprecedented five-day strike by 1,500 junior doctors was the result of the continual failure of the DHBs and government to address their appalling working conditions, in which hospital residents typically work 70 hour weeks and regular rosters involving 18 hour shifts.

Further, the week before the strikes, the Hawkes Bay, Wellington and Auckland DHBs had announced they were culling thousands from hospital waiting lists due to lack of funds and an inability to reduce lengthening queues. Currently 180,000 people are officially awaiting surgery or specialist assessment, often for more than 12 months. An official announcement was also made that certain surgical procedures—such as breast reconstruction surgery following a mastectomy—would no longer be performed in the public hospital system due to cost constraints.

Cullen's blunt declaration that workers should bear the brunt of impending economic difficulties makes clear that the Labour government is preparing further attacks on jobs and living standards as the economic downturn gathers pace. Rushing to endorse the warnings, Employers & Manufacturers Association chief executive Alasdair Thompson declared that the outlook for slower growth and rising inflation raised the spectre of stagflation. "Rising prices and lower growth sets the scene for stagflation—rising prices without real growth—which hurts everyone," he said.

A sign of the economic reversal—after five years of consistent growth and record private sector profits—was revealed a week after Cullen's pronouncements. While economists had forecast a "horror" current account deficit for the March quarter, figures released by Statistics NZ showed the result was significantly worse than expected.

The March quarter seasonally-adjusted deficit for the country's financial dealings with the rest of the world came to $4.1 billion—the worst quarterly deficit in the 52-year history of the figures, surpassing the $3.85 billion record set in September 2005. The quarterly deficit pushed the annual shortfall to a massive $14.5 billion—another record. The worsening debt position, up from $13.7 billion for the December year, prompted international ratings agency Standard & Poor's to say the "chronic" current account deficit position was "high and unsustainable", placing pressure on the country's credit rating.

The annual deficit equates to 9.3 percent of gross domestic product—the worst result since the 13 percent recorded during the first oil shock of 1975. Alarm bells normally ring for international investors when a country's deficit hits 5 percent of GDP. The news immediately sent the NZ dollar spiralling lower against the United States dollar. This followed an earlier 9 percent plunge by the currency against the greenback.

Statistics NZ said the widening of the deficit was mainly due to an increase in imports of goods and services combined with an increase in profits and earnings extracted by foreign-owned companies. The price of petrol imports rose for the eighth time in nine quarters. Imports of goods exceeded exports by $1.058 billion in the quarter, even though the value of exports rose $190m to $8.15 billion from the December quarter. While export prices rose 3.2 percent, volumes fell.

The deficit was financed by $7.9 billion of foreign investment into New Zealand during the quarter, exceeding the $5.8 billion of New Zealand's investment abroad. The banking sector was the most significant contributor to these transactions. Nearly $4 billion of the deficit resulted from banks borrowing funds overseas, primarily for the housing market.

Economic commentators were quick to lay the blame for the ballooning deficit at the door of working people, with the *New Zealand Herald* taking the opportunity to note that the shortfall was equivalent to "overspending" of $3500 per person. The paper attributed this to a "nationwide splurge on housing and consumer goods". Bank of New Zealand economist Craig Ebert said "this is what you get when you have an overheated economy... it will take a long time to play out and will be an albatross around the neck of the currency."

Such reasoning is being used to prepare the ground for even sharper inroads into livings standards. Far from engaging in extravagant binge buying, ordinary people are struggling, under ever more difficult circumstances, to make ends meet. Last year's average wage increase of 3.1 percent was below the rate of inflation, currently running at 3.4 per cent.

Most ordinary workers are only sustaining their daily lives by plunging ever more deeply into debt. Reserve Bank data released last week showed ongoing growth in credit card debt. The average daily total owed by all New Zealanders on credit cards in April was $4.29 billion, up 7 percent on the same month a year ago. Total household debt is now about $128 billion, an increase of $32 billion in just two years.

The increasingly fragile conditions that many people confront has been brutally exposed with the onset of winter—with record snowfalls and the coldest temperatures in 34 years. While a 4-hour power blackout in the main city of Auckland on June 12 saw business leaders fulminating about a purported $70 million loss in production, hundreds of rural families in the central South Island went for nearly 14 days without electricity or telephone connections after basic services failed.

Although winter is only a month old, the burden is already falling hardest on the low paid and welfare beneficiaries, as families battle to pay soaring power bills and the elderly scrimp on heat. In Christchurch, the South Island's main city, the local newspaper reported that the Salvation Army had distributed 140 food parcels in the first fortnight in June, compared with its usual 40. Age Concern paid power bills for 35 people in the same period—compared with 81 in the whole of last year—to prevent disconnections.

A Salvation Army spokesman said people were going to the food bank because they were short of cash after paying power bills. Some had decided to go without food to keep the power on, while others were asking for blankets so they could stay warm without using electricity. Many were working families whose part-time work has slowed down over the winter.

Age Concern Canterbury chief executive Andrew Dickerson said there were elderly people suffering extreme hardship. His organisation had found people whose electricity had been disconnected some months before. Dickerson said those most in need were over 75, suffered chronic health conditions, were in financial hardship and typically lived alone. The temperature in the homes of some elderly people reached only 10 degrees Celsius and the inhabitants were forced to use candles and torches, and to visit the local mall for hot drinks. Two-thirds of respondents to a recent Grey Power survey reported difficulty paying their electricity bills.

Meanwhile, the main preoccupation in ruling circles remains the demand for more market reforms, attacks on public services and tax cuts. In the May budget, Labour rejected the renewed calls for tax cuts after bringing down a $8.48 billion surplus. At the time, Cullen argued they would take money away from health, education and infrastructure investment. Moreover, in light of Treasury warnings of a turn in the economy, and economic growth expected at just 1 percent next ear, Cullen warned tax cuts were unaffordable. "To have tax cuts at this point would have to be balanced by comparable cuts to expenditure," he told reporters. "There is no free lunch in this year's budget at all."

Later, however, the finance minister raised the possibility of tax cuts at the next election, telling TV3's Campbell Live programme: "We haven't got tax cuts yet, but we may in a year or two's time."