

Economic crisis overshadows New Zealand elections

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27 October 2008

Campaigning officially began on October 12 for the New Zealand elections, due to be held on November 8. Prime Minister Helen Clark had earlier announced the date to allow for an eight week lead-in period, but news coverage of the impending elections was soon overshadowed by the unfolding international financial crisis.

The initial response of the political establishment was to issue empty reassurances that the New Zealand economy was "fundamentally sound" and protected from the international maelstrom. Finance Minister Michael Cullen declared that the major Australian-owned banks that dominate the country's finance sector were not in any way exposed to the US sub-prime disaster.

More perceptive economic commentators, however, were not so sanguine. Investment broker Gareth Morgan pointed out that not only were New Zealand households deeply indebted on the basis of vastly inflated housing prices, but that the country's economy was one of the most "leveraged" of all the Organisation for Economic Co-operation and Development (OECD) member countries. Its exposure to overseas borrowing is second only to Iceland. Morgan predicted that housing values were likely to plummet by 30 percent in the coming year and that the market could well "solve" the crisis by creating a full-scale depression.

Official complacency was shattered with the release of the government's accounts on October 6. Although these had been prepared before the deepening of the crisis on world financial and stock markets, the country was by then already moving officially into recession. Statistics NZ confirmed that the economy shrank 0.2 percent in the June quarter, after a decline of 0.3 percent in the three months to March. The Treasury had already been forced to slash forecasts of economic growth and government revenue and predicted a string of operating deficits—not seen since 1994.

The *Press* reported that the new forecasts took financial analysts by surprise, with government books "a sea of red ink on nearly every economic measure". Among the "sobering" numbers, years of cash surpluses had been transformed into huge deficits, hitting \$5.9 billion this year and forecast to peak at \$7.3 billion by 2012. While just months previously Treasury

had been predicting surpluses from 2009, now it does not expect the country's accounts to recover from deficit until 2017.

Cullen responded to the forecasts by urging New Zealanders to "keep their nerve", saying the country would pull through in better shape than its trading partners. However, the rapid deepening of the financial crisis eventually forced the state of the economy onto the election agenda.

Previously, the media had been pushing to make tax cuts the central issue. The crisis, however, forced an abrupt change of tack, with Clark and opposition National leader John Key now both posturing as the more "responsible" economic manager. Above all, this requires imposing the brunt of the rapidly deepening crisis onto those least able to afford it—the majority of working people.

Clark declared that the election was about "trust", and contrasted her own experience with that of the recently-installed Key. Heading into a period of economic "difficulty" was not, she declared, a time to change to a new leader who would still have to operate with his "training wheels" on. Key countered by saying Clark did not have a clue "how the New Zealand banking system works" and emphasised his own past business success. Key is one of the country's richest individuals, having spent 15 years from the mid-1980s as a currency trader for Merrill Lynch, one of the main culprits of the present crisis.

By the time campaigning was underway the NZ dollar and the share market were in virtual freefall. The NZX share index had dropped 32 percent below its high point earlier in the year. At Labour's campaign launch, Clark made the centrepiece of her keynote speech the government's decision to follow the Australian government's earlier pledge to guarantee deposits in the banks and finance houses.

Bank guarantee

The entire media and political establishment backed the scheme, well aware that failure to do so would lead to overseas

funds flooding out of the country. Cullen said the all-deposits guarantee scheme became "inevitable" after Australia announced a similar decision. Key promptly seconded the deal, only stopping to complain that he had not been forewarned about it. All the major banks immediately rushed to sign up.

National then proposed a "bipartisan" approach to further shore up the banking system with a scheme to guarantee loans to New Zealand banks by foreign banks. While the retail deposit guarantee created a liability for taxpayers of \$NZ150 billion, adding the wholesale guarantee is estimated to raise it to \$NZ450 billion. Key said it was important to keep "politics" out of the issue and that urgent progress was needed to stave off a credit crisis before Christmas. Cullen welcomed National's support.

Labour presented the moves to guarantee the banking system as necessary to protect the interests of working people. Nothing could be further from the truth. It is an indication of real fear in ruling circles about the vulnerability of the banking system. The bipartisan support is to ensure that there is no public debate during the election campaign about the implications for working people in the event that public money has to be used to shore up failing banks.

Already austerity measures are being prepared. National confirmed that its tax cut package would be marginally reduced. The opposition also foreshadowed deep cuts to public spending, saying it would force government department heads to go through their budgets "line by line" to identify where savings could be made.

Labour followed suit, announcing it had axed plans to roll out any more spending promises during the campaign. As well as holding back an extension to paid parental leave, Labour shelved a primary healthcare initiative and ruled out a higher minimum wage called for by the unions. Clark said that the party's "total focus" would be on an "economic stimulus package for growth", i.e. government spending to help boost business.

The minor parties fell into line. The Greens declared their support for Labour, while explicitly endorsing the British government's plans for an internationally coordinated bailout of the banks. The Maori Party is demanding an end to all unemployment benefits, while the right-wing NZ First Party has revived its long-standing anti-immigrant rhetoric and called for the privatisation of KiwiBank.

Working people are already being hit. A new round of job cuts is already underway. Carter Holt Harvey last week announced the closure of a sawmill and wood processing plant, with the loss of 300 jobs. Fletcher Building has already shed 600 workers in the past three months, with a further 220 jobs on the line at its Placemakers retail stores. The ANZ Bank is calling for voluntary redundancies, potentially affecting hundreds, and newspaper publisher Fairfax media is cutting 160 jobs.

Inflation is currently running at 5.1 percent—an 18-year high.

Auckland food banks reported last week they were struggling to meet demand. The Salvation Army, which operates 10 food banks serving around 4,000 families, reported a 20 percent increase in demand in the past five months. Meanwhile, Credit information provider Veda Advantage revealed that in the nine months to September there was an 18 percent increase in the number of bill defaults.

Labour entered the election campaign nearly 20 points behind National in the polls, an indication of its deep unpopularity. The gap between the two parties has been consistent since the beginning of the year. Midway through the campaign National remains on 50 percent support and Labour on 36 percent.

While Key has benefitted from favourable backing by the media and from the corporate elite, the fact that the conservative National party has opened up such a wide gap is primarily a product of widespread public hostility to the impact of the pro-business policies of the Labour Party and the unions.

After nine years in office, Labour has presided over rising income inequality and declining living standards. National's campaign for tax cuts has only gained traction because ordinary people no longer look to Labour to improve their wages and life prospects.

An OECD report on inequality trends released last week showed that New Zealand registered among the biggest increases in income inequality in industrialised countries over the last two decades. There was also a significant increase in the numbers of those in income poverty—that is, below the threshold of half of median income.

The Labour governments of the 1980s, and the Clark government from 1999, are deeply implicated in these processes. A ministry of social development report this year showed that income inequality rose sharply between 1988 and 1991, briefly plateaued, then rose again under governments of all stripes between 1994 and 2004. During the 2004-2007 period, the Gini coefficient, which measures social inequality, was the same as a decade earlier during National's vicious assaults on the social position of the working class.

The rapid onset on the international economic crisis has demonstrated that all the established political parties are thoroughly beholden to the interests of the business and financial elite. Whichever party or coalition of parties is installed after the election, it will assume office ready and willing to impose depression-style austerity measures on the vast majority of the population.



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