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New Zealand

Stuck in the neo-liberal groove

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After nine years in opposition the Labour Party was returned to office in New Zealand after a general election in October 1999.

Out of a total of 120 parliamentary seats Labour won 49 and in order to establish a government they entered a formal coalition agreement with the Alliance who won 10 seats, and an informal agreement with the Green Party, who won 7 seats. The defeated National Party won 39 seats while the extreme neo-liberal Act party won 9 and New Zealand First won 5, with the remaining seat going to the United NZ Party.

The conservative National Party had been in power for nine years (three parliamentary terms) - either on their own (1990-1996) or in coalition with the NZ First Party (1996-1998) and finally with its remnants (1998-1999) after the collapse of the coalition in 1998. Following its election in 1990 National, continued the neo-liberal economic and social reform instituted by the previous Labour Government, attacking the remnants of the welfare state with a vengeance. National cut the level of welfare payments (by up to 25 per cent in some cases), de-regulated the labour market, and sold off public assets in an attempt to significantly reduce the role and size of the state. The unpopularity of the policies they introduced in their first term contributed towards pressure for electoral reform, and resulted in the introduction of a proportional representation system in 1996.

Prior to the elections in October 1999 the business community issued many warnings about the damage the election of a Labour government would do to the economy. They argued that Labour would restore trade union power and destroy the economic progress made by the country. These attacks occurred despite the extreme caution exhibited by Labour during the election campaign. While Labour exploited the dissatisfaction of voters with the National government they did not propose policies, which in any way threatened the primacy of the free market. In order to dampen expectations that they might just attempt to repair some of the damage wrought in the previous 16 years, Labour stressed that change could not be instituted quickly and that they would be a fiscally responsible government. Indeed, they were very quick to reassure the business community that for them, it would largely be business as usual.

Labour's promises prior to the election included:

- ▶ increasing taxes by 3 cents in the dollar for those earning over \$60,000 per annum (this affected around 5 per cent of taxpayers);
- ▶ reversing the 1999 cuts to public pension rates ;
- ▶ restoring income related rents for state housing so that low income tenants pay no more than 25 per cent of their income in rent;
- ▶ repealing the Employment Contracts Act ; and
- ▶ re-nationalising the Accident Compensation Scheme (ACC) .

Labour in power

Since the election Labour have delivered on some of their election promises. Pension levels were increased by \$20 per week, the Employment Relations Act replaced the Employment Contracts Act, ACC was re-nationalised, rental levels for those in state housing were reduced from market levels to 25 per cent of the income of those renting, and the tax rate on high incomes was increased to 39 cents in the dollar.

In the recent periods they have increased the income level at which beneficiaries are entitled to free medical care - but excluded low paid workers from receiving the same entitlement. As a result we have the obscene sight of the National Government castigating Labour on their failure to protect the low paid.

However, hand-in-hand with these improvements in living conditions Labour have continued the economic path laid out by the previous National Government. Labour has put the preservation of a budget surplus above restoring welfare benefits to compensate for the large cuts in the early 1990s. Monetary policy is still driven by the aim of maintaining inflation in the 0-3 per cent range. Whenever workers attempt to negotiate pay increases to compensate for increases in the cost of living, such moves are called inflationary. However, when company executives' award themselves large increases and bonuses, and public service executives are awarded large increases, nothing is said.

Another key focus of economic policy is the reduction of government debt and the achievement of budget surpluses. Under this scenario, little or no money is made available for funding improvements to health or public housing. Labour has also signed a free trade agreement with Singapore and is negotiating another with Hong Kong.

Business reaction

Despite the moderate nature of the reforms introduced by Labour, the year following their election saw a concerted, and at times almost hysterical campaign from the business community and the opposition National and Act parties. The Business Round Table and the National and Act parties issued a series of warnings suggesting the collapse of the economy was near and that all the reforms of the past 16 years would be reversed.

The richest businessman in the country, Douglas Myers, attacked Labour policies saying they were 'unfair' and would worsen the plight of the poor. He attacked both the increase in the minimum wage and the repeal of the Employment Contracts Act, arguing that these two policies would result in increased unemployment and higher levels of industrial disruption. So far, the opposite has happened. Work stoppages for the year ended December 31, 2000 person-days of work lost were 11,495 the lowest for the decade. Alongside this, unemployment has fallen to a level of 5.4 per cent, the lowest since 1988.

Labour policies were also blamed for the increase in migration overseas with one person running advertisements that suggested the tax increase and other government policies were causing young people to flee the country. However his campaign was completely discredited when it was found to be financed by the Business Roundtable.

The hysteria got to the point that mainstream economic commentators suggested that the business community was over-reacting and would talk itself into an economic downturn if it was not careful. A leading business economist Ulf Schoefisch noted in June 2000 "the massive fall in business confidence over recent months appears completely overdone and out of line with underlying economic fundamentals".

Largely in response to the efforts of the business community, the New Zealand dollar dropped below 39.5 cents per US dollar for the first time and business confidence was surveyed as being very low in early July 2000, the lowest it had been since 1988. The falling New Zealand dollar was blamed on the policies of the Labour Government although the dollar was merely doing what most other currencies were doing, moving down against the US dollar.

In reply to the criticisms by the business community the Labour Party quickly showed whose opinion it valued. A series of relationship building meetings were held with business people around the country where top Labour politicians reassured business that they were on their side. Treasurer, Michael Cullen, reputedly assured the

business community that the Labour administration was a frugal one, and would remain so. As a further sop to the business community Labour also delayed or cancelled policy initiatives that were not favoured by this group, including the introduction of paid parental leave.

Implications

There are several implications of the above events. First, the extreme reaction of the business community and the right wing Act and National parties to what was essentially very moderate legislation raises questions about their reactions had the reforms been even remotely radical. Despite Labour clearly stating its adherence to the perceived neo-liberal economic orthodoxy the business community was worried about the implications of its election. Had Labour announced reforms with a more radical content the reaction of the business community would have been even more hostile.

Second, in its subservient reaction to the criticisms, Labour was even more clearly exposed as a party that would listen to business first. A party, that with only minor modifications, was prepared to carry on the neo-liberal economic agenda of the past 16 years. Any illusions that it had shed its neo-liberal past have been removed.

Finally, Labour has also had the good fortune to come power during a period of economic growth. Despite the fall in business confidence mentioned above the economy has continued to grow, albeit more slowly than some would prefer, unemployment has remained low and inflation, despite some pressures has generally remained within the 0-3 per cent limit set by the reserve bank. Had an economic downturn occurred, Labour would have quickly bowed to pressure from the business community and imposed considerable sacrifices upon workers and others in the name of affordability.

The election of the Labour Party to power signalled, many hoped, the end of neo-liberal economic and social policies that had increased inequality and hardship in New Zealand. However, with some exceptions in the area of social policy labour have proven themselves little different to the preceding National government. While the economy is growing Labour has attempted to present a version of capitalism with a kind face - but the occurrence of an economic recession would quickly expose this.