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In The Loop



ANALYSIS

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POLL POSITION

With specials to be counted, it's looking likely only Labour and Progressive will be in government. Will the election result mean a change of approach for the big parties?

DEFICITS RISING

A new trade deficit sets a record as our overall account with the rest of the world begins to nudge the 'uh-oh!' point. [page 3].

INDUSTRIAL

There is new leadership on the way at two of the larger trade unions. [Page 4]

FEEDBACK

We welcome your comments, corrections and tips. [Email us.](#)

Government talks

Who can count to 62?

With the result of the special vote count due at 11am Saturday talks between party leaders have stopped (although the behind the scenes horse-trading goes on) and cabinet and the party caucuses are taking a break.

It is becoming increasingly obvious that (ignoring for now any change after special votes) Helen Clark is working towards a Labour-Progressive minority Government (51 seats) supported on confidence and supply by the Green Party (+6 = 57), with New Zealand First either abstaining or coming to the rescue if the going gets tough on confidence motions. The Maori Party may also abstain, leaving 54 votes out against the Government.

With Helen Clark's right-hand woman Heather Simpson conducting a series of bi-lateral negotiations on possible policy outcomes the smaller players are being finessed out of the play.

Each is waiting to see what crumbs fall from the Labour table, and in the interim vetoing each other from a role in cabinet. What they seem to be missing is that the main game is not what Labour is prepared to give them, but is really – from Labour's point of view – getting into Government.

Election

Result reviewed

Some of the more astute commentators (including Auckland University politics professor Jack Vowles) are putting to sleep the emerging myth that somehow the right did very well in the election and were – as Richard Prebble put it – robbed by the overhang Maori seats. To win that argument Mr Prebble and others define NZ First and United Future as centre-right, when in fact they, and those who vote for them, define themselves as centrist. In truth the election saw the consolidation of the opposition around National, but very little swing from the left to the right.

What there has been is a strong resurgence for National as the alternative Government, with non-leftist voters opposed to Helen Clark – now feeling that antipathy much more strongly than they did in 2002 – swinging in behind Don Brash.

Which brings us to ask: Just why does Labour holding its support and the National party returning to viability dictate that Labour should switch to some serious across the board tax cutting – as opposed to its current targeted track – as some have argued?

Equally intriguing is whether National will now tack back towards the centre – with a new leader and a raft of new policies – and leave its race attack to quietly subside, as some in the Auckland branch of the party are suggesting it should. If it wants to get ahead it may have to develop, over the next term, a more conciliatory and inclusive view of what constitutes ‘mainstream’ than the one it used in the recent campaign.

Remember Bill English’s Balclutha speech warning the party that the population was getting younger and browner and that to stay relevant National needed to address their needs? The current mix of policies and attitudes might have closed the gap but that is not enough, as Bill Clinton might have said, to get the whole cigar.

While we are editorialising, an old myth but a goody is starting to gain some currency again. It has at its heart the thesis that Helen Clark should turn to Peter Dunne to top up her confidence and supply votes (setting aside for now that he does not have the numbers to do so) because with 2.7 per cent of the vote he represents what New Zealand wants more than do the Greens with 5.1 or NZ First with 5.8.

He actually represents National voters’ preference for what Labour should do and Labour voters’ preference for what National should do if it were in government.

When it comes to doing deals the Greens are actually the first choice of Labour voters, and Act are the first choice of National voters. It is only voters from the other camp - and perhaps conservative editorial writers – who think that parties in Government should compromise towards the bland centre.

A far better option than United Future for either party is New Zealand First. It represents a much larger section of society than UF, including the blue collar conservative men that Labour, with its more socialist and feminist tinge, does not reach, and those who prefer a more hands-on economic model than National is comfortable advocating.

M&F

Weekend update

New Zealand's account with the rest of the world is looking sick – and it's not just because of oil.

Our August trade deficit was our largest ever. We spent \$1,105 million more than we earned in the month, nearly half as much again as we earned. There is usually a trade deficit in August. Over the last decade the size of the deficit averaged sixteen per cent of exports. This year it was 46.8 percent.

Imports are up. Way up. At \$3,465 million we spent more on merchandise imports in August than in any previous month ever.

Exports have actually fallen (though minutely) compared to August last year.

We are usually cautious about taking figures from any one month too seriously. Monthly results are too volatile to draw conclusions from. But we have been issuing those warnings all year and the picture now looks hideous.

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Many commentators are not too worried about persistent current account deficits because those lenders wouldn't be lending unless they believed we could service our debts. But throw in record trade deficits and they might start to worry about our debt servicing ability. That is when the trouble will start. A sudden 'correction' would mean sharply higher interest rates and lost businesses and jobs. Even a slow correction can lead to ugly consequences if it drives down asset prices and suppresses consumption.

Fiscal and industry policy can help, but monetary policy is part of the mix too. At the start of this year we repeatedly noted policy makers had little to say about the looming current account deficit. With it now testing new record levels, it's prudent to ask what would happen if it gets too far. A monetary policy change would be unavoidable. Wouldn't it be prudent then to consider the topic in advance?

The KPMG-Business NZ Compliance Cost Survey says half of respondents selected 'tax' as the 'their top priority for improvement'.

Business New Zealand says there is 'a groundswell of support for reducing tax.' Compliance costs are increasing for most businesses, the survey found, though there is room for skepticism about a finding that compliance costs rose from an average of \$36,000 in 2004 to \$53,000 this year.

The survey says small enterprises face compliance costs of \$3,604 a year for each employee. (\$247 per employee for a business with more than a hundred staff).

After tax as priorities for attention: The Employment Relations Act, health & safety legislation, accident compensation, and the Holidays Act.

The Companies Office and MAF are the government agencies seen as most helpful. The Ministry of Education and the Environmental Risk Management Authority (ERMA) are the least helpful.

Critics claim Telecom has further entrenched its market dominance with Telstra Clear's declaration its going to focus more on its existing strengths rather than trying to build a network to compete with Telecom.

No one outside Telstra Clear and a few Wellington policy offices ever believed it would expand to compete fully with Telecom. The humiliation for the telecommunications commissioner and the (outgoing?) minister David Cunliffe leaves three policy options:

1. Find a way to entice someone to build a competing network with national coverage, possibly through a new platform utilising convergence;
2. Step up regulation of the wholesale telecommunications market;
3. Decide the costs of the foregoing two options outweigh the existing approach of muddling through with over-priced telecommunications and some of the developed world's poorest broadband performance.

The do nothing option seems certain to prevail.

Industrial

Former Associate Labour Minister Laila Harre has won the top job at the National Distribution Union. In a postal ballot of members she has defeated long-time NDU official Mike Jackson.

With Service and Food Workers' Union national secretary Darien Fenton bound for Parliament on the Labour Party list, the union's central region secretary John Ryall is a hot favourite to succeed her.

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