

M&F

ECONOMICS & POLITICS

ROLLING AVERAGE POLL

	%	Seats
Labour	42.64	53
National	42.05	53
Greens	6.10	8
NZ First	3.43	0
Maori	2.44	4
United Future	1.37	2
Act	1.05	1
Progressives	0.12	1

As usual, we assume sitting leaders hang on and that the Maori party holds its four electorates.

It is a 122 seat Parliament with hangover seats for Jim Anderton and the Maori Party. The 62 seats needed to govern can be derived from Labour, the Greens and Jim Anderton - just.

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Telecom

Call now in priority queue

The emerging consensus around Telecom is that, for all of its pledges to change its ways, there will have to be wholesale changes at the top.

Chair Rod Deane is on the way out. The position of CEO Theresa Gattung looks only marginally better.

As even Telecom now accepts, its business strategy for a decade and a half has been driven by a regulatory approach - blocking competition and dominating the market. Its leadership might recognise the need now for a new approach, based around being the fleetest market participant with the best customer proposition.

The company needs new leadership to implement its new strategy. And for the first time the Telecom board will need to demonstrate genuine entrepreneurial skills, rather than administrative and regulatory ability. Few of the Telecom board have the back story.

If new management comes from inside keep an eye on Kevin Kenrick, who turned around Telecom's mobile strategy and now runs the company's consumer business; and Technology, Enterprises and Wholesale chief Mark Ratcliffe.

Meanwhile Theresa Gattung told the TUANZ Telecommunications Summit Telecom's new strategy would include simpler, more bundled services, and lower prices with less service.

In two or three years, telcos will offer entertainment and information services as part of their core business. Google and Skype will be offering far more services

Far more voice calls will be delivered over the Internet and we can expect seamless convergence between fixed and mobile services, possibly with one 'does it all' device.

Mobile broadband speeds will begin to match "the broadband suite" and Wimax - a high-speed wireless Internet connection service available over a wide area - will potentially deliver much of the last mile of broadband connection.

M&F

Weekend Update

The Sunday Star-Times last weekend decided to run as a front-page story a renewed bout of speculation about possible retirements and elbowings-out in the Labour ranks.

It has been known for some time that the six to be hit are Fairbrother, Hartley, Pettis, Yates, Sutton and Samuels. You could add Hobbs as a near certain retirement at the next election, but for now it is list places that are being targeted because they roll over without the disruption and cost of a by-election. Rejuvenation is one of the buzzwords for Labour this year, but the plans of the Prime Minister and others have hit a snag. For instance, Mr Fairbrother has told the media and his electorate in a circular that he is here to stay. No sign of others on the list putting their names forward for an early shower either. Once the Budget spinning has had its last turn, there is an expectation in the Government caucus that change will occur and we are tipping the first to have their hand put up shortly after the days start getting longer.

Finance Minister Michael Cullen's off-the-cuff comments to the Wellington Chamber of Commerce on Friday - about the possibility of across-the-board tax cuts - may have been over-interpreted.

We suspect he was not so much hinting the personal rate may be dropped (as well as the business rate), as thinking out-loud about how far the business rate could drop – in tax design terms - before it got too far from the personal rate and fueled avoidance through individuals corporatising.

Anyone who thinks Dr Cullen is going to drop the top 39-cent rate and the 33-cent rate to 30 cents to match the business rate – if it goes there – is surely dreaming and would see the error of their ways if they did the numbers.

The cost of that would be \$1.17 billion a year for the top rate to go to 30 per cent and \$335 million for the 33-cent rate to drop three pips to match it. The cost would come on top of a \$660 million bill to drop the business rate to 30 cents. So an all up annual cost of \$2 billion? Sounds a bit rich for Labour's blood to us, especially as it would blow out the new steady state 20 percent gross debt target.

Labour is a centre-left social democratic party. It does not believe tax cuts of the size National was promising are affordable or wise – and in the short run it is right, given the precarious hold the RBNZ has on inflation. There was room for Dr Cullen to move slowly and steadily to reduce his tax take over the past three years, by lifting slightly his debt level and the amount he was borrowing for long term capital spending. However, for now that time has probably gone.

However, we still think a threshold adjustment – before the threatened 2008 move - is both justified and affordable.

The cost of moving the 39-cent threshold, now at \$60,000, would be \$20 a year per \$1000. So shifting it to \$75,000 – the level at which Australia 40-cent rate cuts in - would be a mere \$300 million.

That would be a big step. Half that would mute the upper-middle income whinging and bring the numbers hit back into the region that Labour forecast would be affected when the new rate was brought in (with a mandate!) in 1999.

Moving the 33 percent rate is more problematic, but is of benefit to more of Labour's core constituency. It would cost about \$100 million for each \$1000 movement from the current \$38,000 level, but a lift to \$40,000 could surely be put in the timetable. A move to the bottom threshold (the 15-cent rate that applies below \$9500 and is abated) would cost \$55 million per \$1000 and is screaming out (politically) to be done.

While we are on the topic, the tax design problems of a business rate well south of the top personal rate are surely not as severe as some would think. Otherwise, how could Australia have a 40-cent rate at \$75,000 and a 45-cent rate at \$150,000 while holding a 30-cent corporate rate? Unless there are rorting Aussies all over the red continent. Actually, now you mention it ...

Moreover, while we are dishing out advice ...

If National's John Key was wise, he would begin to redefine capital spending into two categories. The first is long-term capex, which justifies long-term funding across generations (with only the current interest and a portion of the capital to be counted against the surplus). The second category is the rest. That distinction would be another way to peel a layer off Dr Cullen's claim as to why he cannot afford those tax-cut beasties ... and would make National's arguments stronger and clearer.

Media tattle

Expect an announcement any day from APN that Martin Simons will be the company's new New Zealand CEO.

NZ Herald reporter Julie Middleton is leaving for a job in Noumea.

Pam Graham has resigned as Lianne Dalziel's press secretary to return to NZPA.

Broadcasts of parliament on Radio New Zealand's AM network are being extended to Waikato, Bay of Plenty and Southland.

We note the death of journalist and publisher Robert Keith-Reid.

Kreid will be known to any Kiwi journo who has worked in the Pacific. Fiji-born Keith-Reid started his career in radio, moved to the Fiji Times, and freelanced from 1981. In 1982 he and New Zealand accountant Godfrey Scoullar took over the about-to-collapse Islands Business magazine and built it into the largest Pacific-owned publishing group. Jailed during the 1987 coup because Fiji coup leader Sitiveni Rabuka didn't like "his lean and hungry look", he signed off a telex to the Associated Press with "I've been arrested now. Cheers." Keith-Reid predicted the 2000 Fiji coup and the recent riots in the Solomon Islands, and fleeing from that country when he suffered a heart attack. He died in Brisbane hospital after a heart bypass operation.

Minimum wage and unemployment

Nobel laureate in economics and author of the best-selling economics text in history Paul Samuelson once reputedly commented, *"When the economic theorist turns to the general problem of wage determination and labour economics, his voice becomes muted and his speech halting. If he is honest with himself, he must confess to a tremendous amount of uncertainty and self-doubt concerning even the most basic and elementary parts of the subject."*

No such halting speech or uncertainty from the Auckland 'University' of Technology, which announced Maori would be most adversely affected by a rise in the minimum wage. The claim is based on a study by economics lecturer Gail Pacheco.

"There are high numbers of Maori and Pacific Island people on minimum wage. Together they account for more than a fifth of minimum and sub-minimum wage workers, therefore they'll attract more negative impact if the wage rise drives employers to reassess their options," she argued.

"My study found for Maori who find the minimum wage binding, a ten percent rise in the real minimum wage would see a 15.8 percentage point fall in employment propensity, a drop of 13.5 hours usually worked each week, a 5.7 percentage point increase in unemployment propensity and a 10.9 percentage point increase in inactivity, that is, not working or studying."

These are dramatic findings: A substantial fall in numbers who have jobs and a staggering one third drop in average hours worked if the minimum wage increases by around a dollar.

The study is all the more dramatic because its certainty conflicts with the weight of international academic evidence on the topic.

A 1998 International Labour Organisation study (Minimum Wages and Youth Unemployment, ILO Employment and Training Papers) found the relationship between minimum wages and the employment of youth can't be usefully considered in isolation from other influences on the labour market - elasticity of labour supply, wages and demand for labour along with "reservation wages" (that is, the availability of welfare).

The ILO noted the key question is productivity.

Obviously, at some level a minimum wage would cause unemployment; and if there were no minimum wage and no welfare payments, there might be no unemployment because anyone could find employment for a dollar a day. But cartoonish examples do not tell us much about what happens when the minimum wage is a modest fraction of the average wage and it increases mildly.

Increases in the minimum wage entice some low skilled workers to join the workforce. They also increase purchasing power (by consumers who are most likely to spend their entire income) and therefore stimulate economic activity. It's also clear that low value jobs can be destroyed (it's hard to get your shoes shined in countries with a realistic minimum wage).

The AUT study goes further in attributing the employment effects not just to youth, but to Maori.

Claims a higher minimum wage affects racial groups differently were investigated and rejected in a major 1983 study published in the peer reviewed Journal of Human Resources.

"Minimum wage effects differ very little by sex, and there is no strong evidence that the effects vary by race," it found. [Time-Series Evidence of the Effect of the Minimum Wage on Youth Employment and Unemployment; Brown, Gilroy & Kohen, Journal of Human Resources, Vol. 18, No. 1 (Winter, 1983) , pp. 3-31.] That study, found a ten percent increase in the US minimum wage would reduce teenage employment by about 1 percent. But it also found the unemployment effects would be negligible because low-skilled workers would withdraw from the labour force.

A 2003 survey reports only 46 percent of academic economists in the US agree with the statement, "a minimum wage increases unemployment among young and unskilled workers". Another 28 percent partly agreed and 27 percent disagreed.

Media

Miserable old coots

The quality of New Zealand's feature writing received a slap from Qantas Awards judges in the latest online edition of the Journalism Training Organisation.

Too many entries were merely competent, tight intros were rare, much of the feature writing was formulaic and predictable, judges complained. Too many feature entries were undisciplined, flabby and loose. Grammar is no longer fashionable.

But many of the judges' criticisms stink of old timers waxing on the glory days. "Over my 40 years as a journalist I have seen a steady decline in journalists' grasp of the basics – grammar, punctuation, construction, media style, clarity of thought and writing, interviewing skills, ideas, energy." So the halcyon days of high quality feature writing were the sixties? Come off it, sunshine.

The judges should have been more careful about where, to risk a cliché, they cast their stones. Consider the unconscious irony of this judge's fret about grammar: "I have the impression that tenses/deconstructed clauses/misplaced participles/dilly punctuation/etc are avoided by luck rather than good management." Bad luck.

And some complaints were simply illiterate. One judge attacked the “solecism” of nouns used as verbs. Ever elbowed anyone? Tabled a document? Booted a ball? Have the judges ever...judged? Many, many verbs began life as nouns; the English language adapts.

One judge revealingly commented editors have too little time to keep portfolios of reporters’ work to submit for awards. “Suggestion: Designate an exec to quarantine clippings in a designated newsroom filing cabinet (if such things still exist).” It is not too much to expect a judge to know whether modern news rooms have filing cabinets.

It’s true many outlets undervalue and under-prepare for awards. We don’t know of any editors who keep portfolios of reporters’ work for awards submission. Most big papers keep databases, reporters choose their own entries and then go to the paper files to find and photocopy stories. It would be better for all concerned if the Qantas folk would encourage print-outs from databases, or even - shock horror - email entries!! The layout and placement aspects of the story would not be present but it would arguably make for a more even comparison of story quality. (We have also previously suggested doing away altogether with the the self-congratulatory blurb entrants are encouraged to supply).

Formulaic and predictable writing was common in entries, judges said. “Scene-setting intro, often only tenuously connected to the main theme of the story ... slowly ... and obliquely segueing into the real subject.” Yet it’s the judges who seem imprisoned by their style guides. To take a simple recent example - The New York Times this week began a celebrated front page feature,

“Bill and Hillary Clinton flew to Chicago together last month to deliver speeches a few hours and a few miles apart. And like any couple, they thought about having dinner at day’s end. But life is not so simple when you are married to a Clinton.”

One can almost hear the pipsqueak kiwi judge sending that graf back. “Tighten it up, laddy. Sentences don’t begin with ‘and’ or ‘but’.” Then, the judge who counted nine - nine! - entries with intros over 32 words might explode when the Times of London matcher was submitted with a jaw-dropping 31 word lede: “Hillary Clinton sees her husband almost every other day but rarely appears with him in public, apparently because strategists want her to emerge as a presidential figure in her own right.”

So which is the criticism? That writing is too formulaic, or that it doesn’t conform enough to the judges’ ideas acceptable styles? If judges must deprecate the entire industry’s talent, precision is called for.

The judge's oddest grouse was that the art of billboard writing seems to have died. Well, judge, we found a fresh one on this story.

BACK PAGE

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