

M&F

Molesworth & Featherston In The Loop

POLITICS AND ECONOMICS

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Economy

Bullish Christmas bells

It looks like the economy has pulled out of its low growth phase and it's growing modestly again, Treasury told ministers in its latest economic update.

When the December economic and fiscal update is published on the 19th of December, it's likely to show growth is stronger than estimated six months ago at budget time. Treasury thinks GDP increased by between a half and three quarters of a percent from June to September this year - "similar to the previous two quarters but a recovery from low growth in the second half of 2005 as a whole."

Lower petrol prices have removed one risk to the economy and helped to free up household income. That's helped improve the outlook in businesses about their own growth and investment – even though the job market is still tight for employers, wages growth is 'high' and profit margins are down because employers are mostly not passing on cost increases. (Producer prices rose 6.9 percent last year.)

There is evidence the housing market is coming back. (We've heard anecdotal evidence the market has quickened again in Auckland especially). Real Estate Institute figures showed house sales and median house prices rose in October, and the median number of days to sell a house fell from 37 in May to 30 in October. Residential building consents are up substantially.

Treasury thinks renewed immigration is one factor behind rising demand.

Higher wages seem to be having an impact too - undermining claims monetary policy doesn't slow the economy when so many mortgages are fixed (fixed mortgages don't prevent, and probably help, home-buyers to make new housing purchases, which in turn releases cash to sellers; recipients of higher wages are also capable of looking ahead two years and deciding that their wallets will still be fatter when their fixed rates roll over. The renewed strength in housing seems to disprove a fashionable theory and means we should hear less about fixed interest rates preventing the Reserve Bank from doing its job.

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Weekend update

Narrowing gap in Moley poll?

Two new sets of data into the rolling poll this week. The Herald Digipoll this week showed a very close race, though the newspaper's decision to break out the pre- and post-National leadership coup results is a bit dubious ... isn't that why we have the big sample in the first place, to iron out such swings and roundabouts? Roy Morgan shows a widening lead for National. However, at the same time THAT One News Colmar Brunton poll, which gave National a thirteen point lead, largely drops out of our algorithm, actually leading to a narrowing of the gap to less than three percentage points. (The now overdue November poll for One News has been dumped and re-polling is underway because it showed a lead for National in the high teens - considered a rogue that was so out of line with the other surveys as to damage the credibility of the series if it was published.) So assuming four Maori Party seats and sitting leaders hold their constituencies:

	Percent	Seats
National	42.17	54
Labour	39.31	50
Greens	7.49	10
NZ First	3.92	0
Maori Party	2.50	4
United Future	1.94	2
Act	1.16	1
Progressive	0.31	1

It is still a 122 seat House. Labour, the Greens and Jim Anderton get to 61 seats - one short of a majority Government. National, Act and United Future get to 57. Either the Greens or United Future swap sides or the Maori Party determines the make-up of the Treasury benches. On the other hand the Greens could actually kick Act out of a deal with National or try to negotiate a very sweet deal for abstaining in a National-led administration - an option getting an increasing airing in backroom Green chat.

Fiji's coup

We hear there is a pointed debate in the aid industry about the value of suspending our aid to Fiji.

This year we were down to give \$8 million for projects in Fiji. Our aid to Fiji was doubled last year and the Fiji government said at the time the extra cash would be used for poverty alleviation and squatter resettlement. It's mostly going to small projects - a human rights commission and public prosecutions; some small educational, training and health schemes; a women's crisis centre; eco-tourism and bio-security initiatives and micro-funding for community groups.

Most of the aid money wasn't going to the government, so who is harmed by its suspension? Inside our ministries, the cash is expected to make its way there eventually. But what happens to New Zealand's preference to give aid cash as 'budget support' on the grounds that paying for books in schools is pointless when the whole education system is crumbling. The trouble with giving the cash to the entire education 'sector' is it goes through the hands of Commodore Bainimarama.

The other Bainimarama...

The real need for change though is in the way Fiji's military has been supported by its role in global peacekeeping operations. Fiji troops are popular because they are cheap, professional, enthusiastic and neutral. Fiji sent soldiers on 35 overseas missions in the last twenty years, including Namibia, Cambodia, Liberia, Solomon Islands, Lebanon, Sinai, Angola, Croatia, and Bosnia. Recent deployments include Iraq, Kosovo and Sudan.

But peacekeeping cash has also helped to prop up the least savoury arm of Fiji's government. After all, what does Fiji's military defend the country from? Niue?)

Immediate removal of Fiji from peacekeeping roles would cut off the blood supply of cash to its military and its new military dictator, Commodore Voreqe Bainimarama, would find himself cut off from his support.

UN Secretary-General Kofi Annan has not been encouraging in his comments on the subject, however, suggesting the Pacific Forum could "work together" to resolve the crisis. A UN spokesman said a coup "could" have a role in what happens with future peacekeeping operations, but there has been "no discussion on removing Fijian soldiers who serve with the United Nations."

Why not?

Law & Economics

A report that Auckland University is relaxing entry criteria for admission to first year law studies raises an interesting economic issue of why the university is pre-selecting for admission at all.

The entry restrictions are a form of rationing. Since students have to pay for their courses, why don't the law schools accept everyone who wants to enrol for a law degree (provided they have matriculated), just as the universities accept everyone enrolling for an arts course?

Students would still have to pass their law exams; but more students would be able to receive instruction and sit the exams. The quality of lawyers would improve because they would need to be better to command higher fees; and a wider pool of selection would ensure more clever kids entered law school, instead of entry being determined by success in seventh form, where the playing field is sharply tilted toward privileged schools.

Entry restrictions are really an old fashioned union closed shop designed to limit the supply of qualified lawyers and therefore keep prices for lawyers high.

If anyone who matriculates had open entry we would end up with more law students for a while; then the price of lawyers would fall. That might be a good thing for the rest of us; it would make access to the law cheaper and easier.

Economics and the law is a fashionable field of legal scholarship. It's a pity its principles are not applied to the schools themselves.

Media

The signs we noted last week have been proved right and the Dominion Post has decided to no longer avail itself of columnist Michael Bassett after revelations in Nicky Hager's book that he was an active player, as well as observer, of National's leadership tussles and policy debates. Quite right too. Will other papers who run his words follow suit, we wonder?

Not since Monica Lewinsky has a cigar been so notorious. What a scream it was to see National's newest associate health spokesperson Jonathan Coleman outed for puffing on a cigar and accepting an invitation to a British and American Tobacco corporate bash at the U2 concert in Auckland. But wait! We hear Mr Coleman and Simon Power were not the only National MPs present at the BAT brouhaha. Also present, according to our party sources (no email leaks required) were Mark Blumsky and newly-minted education spokeswoman Katherine Rich.

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