

05WELLINGTON650

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classification:CONFIDENTIAL reference:04WELLINGTON89|05WELLINGTON237|05WELLINGTON439|05WELLINGTON566|05WELLINGTON594|05WELLINGTON635|05WELLINGTON642 C O N F I D E N T I A L SECTION 01 OF 04 WELLINGTON 000650 SIPDIS STATE FOR D (CASTRO), EAP/ANP, EAP/RSP, EAP/EP, INR/EAP NSC FOR VICTO.. C O N F I D E N T I A L SECTION 01 OF 04 WELLINGTON 000650 SIPDIS STATE FOR D (CASTRO), EAP/ANP, EAP/RSP, EAP/EP, INR/EAP NSC FOR VICTOR CHA AND MICHAEL GREEN SECDEF FOR OSD /ISA LIZ PHU PACOM FOR J2/J233/J5/SJFHQ

E.O

12958: DECL: 08/25/2015 TAGS: PREL, PGOV, NZ SUBJECT: NEW ZEALAND'S LABOUR PARTY: SEEKING VICTORY IN THE CENTER OF MIDDLE EARTH REF: A

WELLINGTON 642 B

WELLINGTON 635 C

WELLINGTON 594 D

WELLINGTON 566 E

WELLINGTON 439 F

WELLINGTON 237 G

2004 WELLINGTON 89 Classified By: Charge D'Affaires David R Burnett, For Reasons 1.4 (B) and (D) 1

(C) Summary: Locked in a tougher than expected battle for votes, a once-confident Labour Party has forsaken its reputation for fiscal restraint to dish out promises of pork for students and low- and middle-income families. In the run-up to New Zealand's September 17 election, Labour also has played on anti-American sentiment by claiming the opposition National Party is beholden to U.S

interests and itching to eliminate the country's iconic anti-nuclear policy. Just six months ago, Labour appeared to be coasting to a historic third term in office, the first time a Labour Government would have served more than six consecutive years since 1949.

But it stumbled badly in May when -- following six years of large budget surpluses -- its annual budget disappointed the public by failing to provide immediate tax cuts.

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(C) Labour appears to be turning around its fortunes with its election-year gi

fts

It has also gained ground by casting National as a party of the rich with a hidden agenda to destroy social programs

Center-left Labour also appears to be attracting voters by remaining pragmatic and cautious in its policies overall, calculating that solidifying its appeal to the middle of the New Zealand electorate should be enough to spell victory in the election

Public opinion polls show Labour widening its lead over National, which had a slight edge just two months ago

The race is still too close to call, though

End Summary

-----FROM THE LEFT TO THE CENTER -----

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(C) New Zealand's governing Labour Party occupies the center-left of the political spectrum

Its election successes in 1999 and 2002 rested on its ability to build bridges with two camps: working-class supporters representing the party's roots, and younger, often university-educated, urban liberals

Since the center-right

National Party began climbing in the polls in early 2004, Labour has shifted its focus to consolidate support in the center, particularly among lower- and middle-income wage earners.

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(C) Labour supports a strong role for government in improving life for the country's less advantaged, and generally backs income redistribution to achieve that end

Since returning to power in 1999 after nine years in opposition, Labour has restored some of the cuts in social spending and rolled back parts of the employer-friendly labor laws enacted by National-run governments in the 1990s, exacerbating divergence of investment to Australia

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(C) On non-economic social policy, the Labour-led government adheres more closely to its traditional roots

It legalized (previously de facto) prostitution in 2003 and enacted a civil union law in 2004 that provides legal recognition for same-sex and other couples as an alternative to traditional marriage

Recognizing the risk of promoting such controversial measures, the Government allowed Labour and coalition members to vote on both bills according to their conscience

Here in liberal New Zealand, even most members of the opposition voted in favor of civil union, but members of the public opposed to the bill still blame Labour for its passage

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(C) Despite such occasional risk-taking, Labour under Prime Minister Clark has in most respects taken a pragmatic, centrist and, until recently, fiscally conservative approach to governing

It has kept a tight rein on overall budget outlays, even while it ramped up spending on education, health care and selected social programs

Aided by a strong economy that increased tax revenues, Labour has produced budget surpluses for six years and reduced government debt, on which it now stakes its claim to being a prudent financial manager

And, as an example of the party's pragmatism, Labour has risked a rift with its traditional left-wing allies by aggressively pursuing liberalized trade, both within the World Trade Organization and in bilateral agreements (including talks now under way with China)

-----FINDING LOOSE CHANGE UNDER THE SOFA --

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(C) But under pressure from National, Labour has abandoned some of its caution and begun to hike spending, aiming to appeal to middle-of-the-road New Zealanders who had been left out of the party's social programs and might be tempted by National's tax cuts

The first move was a Government announcement in July that it would forgive the interest on student loans for students who remain in the country, gaining support not only among students but also among their parents and grandparents who have watched New Zealand graduates seek higher-paying jobs overseas to help pay off student loans

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(C) Next, Labour repackaged and expanded its 2004 showpiece "Working for Families" (WWF) program, originally designed to increase welfare benefits for the working poor and large middle-income families

Labour's public

advertisements showcasing WWF originally were to culminate in triumph this month, in time to ensure Labour's reelection

But when the public seemed underwhelmed, and drawn instead to National's pledge to cut taxes for all New Zealanders, Labour repackaged WWF as "tax relief" and announced on August 18 it would expand the program to cover 350,000 families at an estimated annual cost of NZ \$400 million (US \$ 277 million)

The move has been applauded by many voters, although others have reacted with skepticism: the Government had previously insisted there was no money for tax cuts

(Many of the funds for expanded WWF allegedly come from higher-than-expected tax revenues.) 9

(C) Matthew Palmer (protect), son of former Labour PM Sir Geoffrey Palmer

, told us that Labour's May budget avoided spending down the surplus precisely so the Government could use the money for election year dazzlers as needed

More spending announcements are to come, he reckons

-----The Anti-American Card -----10

(C) With Labour battered by the National Party on domestic issues and bettered by National in the polls starting in May, the Government opened up a second front with National: foreign policy

One cabinet member asserted -- but later could offer no evidence -- that U.S

interests were providing National with campaign funds and advice (ref D)

Foreign Minister Goff separately accused National of seeking U.S

advice on how to move New Zealand public opinion to reverse its ban on nuclear-armed and nuclear-propelled ships (ref C)

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(C) Labour's spending promises, together with questions it has raised about National on both domestic and foreign policy, appear to be paying off: Poll results announced August 21 showed Labour widening its lead over National from four to eight points, with Labour at 45 percent approval versus National at 37 percent

-----Labour's weak points -----12

(C) In addition to satisfying some voters' suspicions over Labour's sudden ability to fund election-year bonanzas, the Party still has some vulnerabilities heading into elections

"Working for Families" and student loans do nothing for higher-income wage earners or singles

The large budget surplus has fueled a public perception that there is plenty of money available to fund tax cuts, and these groups now see that Labour has largesse to spend but they will not benefit

Moreover, Labour has done little to counter National's claims that the Government bureaucracy, which has grown significantly under Labour, is taking from taxpayers money that rightfully belongs to them

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(C) Labour also still suffers from a perception among some in the public that the Government is arrogant in its belief that it knows better than taxpayers how to spend their money

Similarly, in a land that values the common "bloke," Labour officials -- and particularly PM Clark and her circle of female advisors and confidantes -- often appear obsessed with political correctness and more interested in fringe groups than the "mainstream." 14

(C) Meanwhile, Labour has had to tread carefully on issues involving Maori

, now that many of these traditional Labour supporters are being drawn to the Maori Party

While the loss of Maori support alone will not cost Labour the race, the Labour Party has taken pains to mollify its Maori members over clashes on Forshore and Seabed legislation and has spent a lot of time campaigning among this electorate

Maori compose 15 percent of New Zealand's 4 million people

Even before National's May up-tick in the polls, Labour leaders warned party members at their Party conference that the loss of Maori support could threaten the Government's reelection

But Labour's efforts to attract Maori voters, on top of the Government's proclivity to afford Maori special status in cultural and economic programs, alienates many lower- and middle-income voters the Government is trying to court

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(C) Meanwhile, the Labour government's decision to negotiate a trade deal with China has drawn fire from both sides of the political spectrum

The Greens criticize China's environmental and labor records; the trade unions and some business executives see a threat of even greater competition with low-wage Chinese manufacturers

-----Partner or Millstone? -----16

(C) A coalition will likely be needed for whatever party proves the top vote-getter

Labour currently governs in coalition with Jim Anderton's Progressive Party and is supported by United Future on budget and confidence motions and by the Green Party on a case-by-case basis

While National and NZ First have demurred on naming their preferred coalition partners, Labour has declared it would maintain its ties to the Progressives and strengthen the role of the Greens

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(C) The Greens cooled their relations with the Labour Party when Labour allowed a moratorium on genetically modified agricultural products to lapse in 2003

In recent weeks, however, PM Clark has joined Green Party co-leader Jeanette Fitzsimmons on the campaign trail

While Labour has likely sapped some Green support with its student loan program, Labour wants the Greens to receive at least 5 percent of the vote, the minimum required for a party to be represented in Parliament

This would keep the Greens as a viable coalition partner

By campaigning so closely with the Greens, Labour risks belying its hard-won image as a centrist Party, however

(NB: We will report septel on the implications for the United States of this and

other possible coalitions.) -----Leader: Helen Clark -----

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(C) Helen Elizabeth Clark, 55, has served continuously in Parliament since 1981 and as Prime Minister since December 1999

She has served as Minister of Housing and Conservation, Minister of Health and Deputy Prime Minister and was leader of the opposition during the National administrations from 1993 to 1999

She is a political survivor

David Lange, the former prime minister who died August 13, wrote in his autobiography that Clark kept out of discussions of the economic reforms of the late 1980s

While some Labour members suffered politically due to public backlash over the pace and breadth of the reforms, Clark emerged untarnished

Many people forget that she was nearly toppled as leader by Michael Cullen, now the deputy prime minister, in the 1990s

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(C) With an approach deemed managerial if not micro-managerial, Clark is closely engaged in virtually every policy decision

She holds nearly absolute influence and authority over her party and cabinet

Such centralized control contributes to a dearth of young Labour leaders-in-waiting, raising concern in the party about who would follow Clark and Cullen

Clark is believed to want to head an influential world organization after she leaves office