

THE American Letter

A Special Report from Washington and New York



November 2006

Dear Client,

US Politics

The Democrats' smashing election victory in the US holds important signals for NZ, don't expect anything more in terms of free trade. Second, don't be surprised by a new America, more cautious of the world and more inward looking. With the economy in fine shape, Wall St roaring away with the Dow Jones surging over 12,000 points, unemployment steady at 4.5% and corporate profits climbing to a near record 13.6% of GDP, the fundamentals look sound. Only the intractable Iraq war and Republican sleaze seemed likely to trigger electoral change. Or so it seemed. The Democrats discovered a raw nerve: wage stagnation in the middle class, and drilled down into underlying anxieties. Senator *Hillary Clinton* summed it up, "*America's essential bargain with the middle class is breaking down.*" They campaigned on raising the minimum wage, steady on \$US5.15 per hour since 1997, promised to reverse some of Bush's tax cuts and to boost assistance with education fees.

Seismic Shift. On a 42% turnout, typical for a midterm poll, they won 234 out of 435 House seats and won the Senate. Many victories came in states hit by factory closures, Ohio, for instance, has lost more than 200,000 jobs since 2001. Illegal immigration, "*unfair foreign competition*" and free trade caught the blame. As Clinton put it, "*our manufacturing economy has ceased to be a job-creating engine which propels workers into the middle class and we don't know what's going to replace it.*"

New View. This is a lifetime away from husband *Bill's* 1990s Presidency, which launched the global dash towards free trade and globalisation built on the architecture of the WTO and APEC. Now the by-words are "*economic populism.*" With control of both houses of Congress, the Democrats are unlikely to support any new free trade initiatives.

Presidential Race

With Congress in the bag and the Republicans temporarily flattened, the Democrats are looking to the 2008 presidential elections with renewed optimism. For the first time since 1952 there's no incumbent president or VP running. On either side of US politics, the race is wide open.

For the Democrats, *Hillary Clinton* leads the polls. She polarises opinions and clouds the question of whether the US is ready for a woman president. *Rupert Murdoch* with his legendary abilities to pick future leaders, remains doubtful. He ran a fundraiser lunch for her ahead of the elections and backed her with his *New York Post*, but says this was for her as a NY senator and nothing more.

Osama Favourite. Until two months ago, the Democrats' white hope was *Mark Warner*, former Governor of Virginia, until bowing out, citing family issues. Another Governor, Iowa's *Tom Vilsack*, declared the day after the election, forming a campaign committee and filing papers. He's a long chance, and the smart money is on the 45-year-old first term senator from Illinois, *Barack Osama*. He's engaging and articulate, a lawyer born in Hawaii and a graduate of Columbia and Harvard, an expert in constitutional law, an author and also an African American. The only drawback, admit supporters and critics, is his lack of political experience. Lined up against the current Republican front-runner, 70-year-old Vietnam veteran *John McCain*, he generates the same enthusiasm as the youthful *J F Kennedy* of 40-odd years ago.

NZ US Relations

One unexpected casualty was Iowa Republican congressman Jim Leach one of NZ's most steadfast friends at the US Capitol over many years. First elected in 1976, he chaired the House Banking Committee from 1995 to 2001. He described the election as a "*perfect Democratic storm,*" with foreign policy differences, Republican conflicts of interest "*and a level of arrogance out of step with the public.*" Leach went down to first-timer Mount Vernon Democrat *Dave Loeback*. The NZ/US Parliamentary friendship Group was re-launched in Wellington on Nov 15. Labour's *Shane Jones* and Nationals' *Gerry Brownlee* are co-chairs. They have already made contact with the NZ Caucus co-chairs in Washington DC - *Jim Kolbe* (who has just retired) and *Ellen Tauscher*. The caucus lost eight members in the election due to defeats or retirements.

US Life

Want your picture taken with a US politician at a political fund raiser? No trouble, just have your credit card handy. A survey by the *New York Times* lists the following costs, based on the recent campaign: with President *Bush*, \$US10,000 per person; with *Laura Bush*, \$US2000; with VP *Dick Cheney*, \$US5000; with *Bill Clinton*, \$US5000 while *Hillary Clinton* charged a more modest \$US2500 at her own fund raiser.

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Education

Familiar theme: entrants to the US workforce are ill-prepared and lack basic academic and more applied skills. This is from a report compiled for several business organizations and the Society for Human Resource Management. Nearly three-quarters of high school graduates were deficient in arithmetic and English including spelling and grammar. Almost 30% could not write a basic business letter.

Energy

Deregulation of the electricity industry in the US has failed to deliver competitive prices. Some 40% of consumers in the 23 states and the District of Columbia with deregulated supply, have “modestly lower” prices. Much of this can be attributed to State powers to set or cap prices. Others have imposed freezes or cuts in prices under pressure from consumer groups. The last of these protections allowed under Federal law expires next year. The Federal Energy Regulatory Authority warns of “price shocks” as utility companies seek to recover revenues. A draft report to Congress says this may lead to pressure to return to price setting rather than relying on market forces.

New York Life

New Yorkers have long complained about UN diplomats and foreign consulate parking habits and non-payment of fines – but no longer. Four years ago City Hall reduced the number of parking spaces allocated to missions and threatened to remove diplomatic and consular number plates from non-payers. Since then, only 1740 tickets have been issued compared with 161,053 issued in the five previous years. For the record, NZ, which has never featured on offenders’ lists, insists anyone who incurs a fine, pays it promptly.

Trade

NZ’s Ambassador Roy Ferguson has been on the US west coast visiting Oregon and Washington State. In Portland, he met former US Ambassador to NZ, *Charles Swindells*, and called on the Oregon Economic and Community Development Department, *Nike Corporation* and the *World Forestry Centre*.

Oregon’s economic transformation and clusters programme is recognised as one of the best in the world. Nike has strong NZ linkages. Founder *Bill Bowerman* became an advocate of jogging following a visit to NZ in 1962 where he met *Arthur Lydiard*. Some of Nike’s current innovative design team are also graduates of the *Wellington Polytechnic School of Design*.

In Washington State, Ferguson met Governor *Christine Gregoire* and Seattle Mayor *Greg Nickels*. Both visited NZ earlier this year. He also called on NZ’s Hamilton Jet and met senior executives from the *Gates Foundation*, *Microsoft*, and *Boeing*, where the last of Air NZ’s new 777 aircraft is being assembled. He was guest speaker the Christchurch/Seattle Sister City 25th Anniversary celebrations.

Industry

Twenty-two NZ companies attended last month’s 2006 Fort Lauderdale Boat show with two winning awards. *Alloy Yachts* for Ad Lib (Superyacht of the Year) and *McMullen and Wing* for Jaringa. This is the 18th year NZ has participated in the show which rates, with Monaco, as the most important boat show in the world. Ambassador *Roy Ferguson*, who attended the show, says he was impressed at the quality and innovation shown by the NZ companies.

Crime

St Louis Missouri, has hit the top of the list America’s most dangerous cities. *Morgan Quitno Press*, a research agency specializing in state and city affairs says violent crime has surged 20% in the city of 330,000. Second is Detroit then Flint, Michigan. Brick, a city of 78,000 in New Jersey, is rated safest followed by Amherst, New York. FBI figures show the St Louis murder rate rose 16% in 2005 compared with the national average of 4.5%. The FBI says crime rose 5.7% across 12 mid-western states – three times higher than any other region. The FBI says it is working with police departments to form “safe street” partnerships.

Showbiz

NZ actor Russell Crowe has been in New York recently, making a new movie with Denzel Washington on the life and times of a drug gangland lord in the 1970s. This time *Crowe* plays the good guy, the investigator and *Washington* is the crook. Much of the action is based in Harlem but such has been the pace of gentrification in this once crime-wracked borough that director *Ridley Scott* has had to move the action 20 blocks north from the original location on 116th St location to a less salubrious venue on 136th St.

Evergreen Eartha Kitt is back on Broadway in a new production, “Mimi le Duck.” She plays the role of a chanteuse (what else?) running a Parisian boarding house occupied by a daffy American woman who abandoned her day job painting ducks for a US home shopping network for life in a parfumerie in Paris. The *New York Times* describes Miss Kitt, who turns 80 in January, as the “eternally purring pussycat.”

Car Prices

Cars are the most affordable they’ve been in the US since 1980. *Comerica Bank’s “Auto Affordability Index,”* shows it now takes 23.6 weeks of US median family income to afford a new car, 2.8 weeks less than it took at the end of 1995, and slightly longer than it took in 1980, the second year the index was computed. Including finance charges, the average passenger vehicle sold in the third quarter of 2006 cost \$26,500, around 5% percent less than the same period a year before. Meanwhile *Comerica* says the average family income has risen 5% over the same period.

