

# Economic Note

NZ 2020 General Election Backgrounder

9 October 2020

## Same, same, but different

- Current polling suggests a centre-left government will be returned, although nothing is certain in politics.
- The policy prescriptions of both major parties are broadly similar, with a few modest differentiators.
- We encourage politicians on both sides of the divide to provide a coherent vision of how they will transition the economy out of the crisis stage, lay the platform for sustained growth and address longer-term challenges.

The polls are already open and the October 17 election date is fast approaching. On current polling, a centre-left government looks set to be returned. Nothing is certain in politics and we are mindful that the actual election outcome could be somewhat different from recent polls.

Viewing the policy positions shows modest differences between the big 2 parties, with starker differences between potential support parties (Greens and Act). Here we highlight six key areas where the policy positions differ – broader economic management, fiscal policy, taxation policy, government spending, superannuation and environmental regulation. It is understandable that with the NZ economy going through a 1 in 100-year event like COVID-19 the focus will be more on the here and now. It would also be helpful if the parties articulated a clear long-term strategy.

A clear election mandate would provide more surety to markets and the economy, whereas an inconclusive result could see a period of pronounced volatility. Traditionally the more market friendly policies of the centre-right would be supported by markets. However, the Labour-led government has made inroads in portraying itself as a competent fiscal manager, and we expect currency and interest rate reaction from a Labour-led victory to be modest.

## The likely contenders

Two major political blocs have formed:

- Labour/Greens/NZ First – The incumbents (Labour+). Current polling suggests Labour could almost form a government outright or require support of the Greens.
- National/Act – The challengers (National+). Polling for this group has ranged in the late 30's to low 40's.

There are a number of parties hovering below the key 5% threshold, which means that if the polls are correct (a big if) and these parties fail to win a constituency seat, they are unlikely to be in parliament.

Nothing is certain in politics, however, and we note that the actual election outcome could be different from recent polls. The polls are not always accurate and there is still a large portion of undecided voters. Voter turnout will also have a bearing on the result as well as which parties make it into parliament.

| Latest poll                 | % Decided | Seats |
|-----------------------------|-----------|-------|
| (Colmar Brunton, 3-7 Oct)   |           |       |
| Labour                      | 47.0      | 60    |
| National                    | 32.0      | 41    |
| Greens                      | 6.0       | 8     |
| ACT                         | 8.0       | 11    |
| NZ First                    | 2.0       | 0     |
| TOP                         | 2.0       | 0     |
| New Conservatives           | 1.0       | 0     |
| Maori Party                 | 0.2       | 0     |
| Total                       |           | 120   |
| Majority required:          |           | 61    |
| Undecided (% of poll)       | 13%       |       |
| <b>Potential coalitions</b> |           |       |
| Lab/Greens                  | 53.0      | 68    |
| Nat/Act                     | 40.0      | 52    |

Source: Colmar Brunton, ASB

Here we compare the broad policy positions of both blocks of six key issues. A more detailed summary of individual policies is available in Appendix 1. Themes include:

- **Broader economic management.** This will be increasingly important given the enhanced role that fiscal policy needs to play to support the economy and set the platform for economic growth beyond the crisis stage. There is not much to separate both camps, with each laying claim to providing strong and stable economic management. The incumbents seem to favour more of a top-down approach, where the government, businesses organisations and unions agree to a plan. This differs with the more market-friendly (i.e. bottom-up) approach of the National+ bloc who want to pushback on some regulatory changes and leave it to firms and households to grow the economy. What is lacking is a coherent longer-term vision from both sides of the divide beyond a few broad slogans.
- **Fiscal policy.** There is not much difference here between Labour+ and National+, with the focus on providing stability, eventually delivering fiscal surpluses and repaying debt in a manner that will appease the competing demands of the electorate, financial markets and the ratings agencies. We would like to hear more from both parties on how they would tackle fiscal challenges posed by population ageing. Merely stating that they would grow the economy without providing a credible vision of how this will be achieved does not cut it in our view.
- **Taxation policy.** Both camps are proposing incremental changes. The incumbents have placed slightly more emphasis on redistribution (higher tax rates for top income earners), whereas National + want to maintain a flatter tax schedule to provide more incentives for firms and businesses. Moves like accelerating depreciation on capital investment could help boost NZ's capital stock and help to improve economy-wide productivity. In our view, the current debate over tax between the major parties has lacked the courage and longer-term focus to tackle fundamental longer-term challenges. The NZ tax system looks to be overly reliant on the taxation of income, whereas our taxation of capital gains is very light compared to OECD peers.
- **Government spending.** Public spending is set to approach 40% of GDP this current fiscal year, with the effective allocation of government spending of massive importance to the NZ economy. Tougher controls on government spending could potentially trim some of the fat in the public sector bureaucracy, but they could also cut into muscle (hampering the provision of public services), squeeze lower income earners and exacerbate the downturn.
- **Superannuation/retirement saving.** The incumbents want to keep the retirement age at 65 and maintain contributions to the superfund so as to fund the growing pension bill. The challengers want to (eventually) raise the retirement age to 67 and halt contributions from to the Superfund. NZ is swimming against the global tide of increases to the retirement age given increases in life expectancy. Kiwi's are also poor savers and we need to build up more of a retirement saving nest egg.
- **Coping with environmental challenges.** Climate change, not COVID-19 is the major challenge over the coming decades. Add to that the increasing global scrutiny on the environmental footprint of agriculture. NZ's agricultural producers are amongst the most efficient in the world, but there is still some way to go. Urban kiwis are miles behind the more environmentally conscious Europeans. Either we adopt more stringent environmental policies or place more faith in the ability of the households, the rural sector and other firms to adapt and put things right.

#### Summary table

|                     | <b>Labour +</b>   | <b>National +</b>  |
|---------------------|---|--|
| Economic management | Competent manager, although concerns over increased regulation. Light on articulating a longer-term vision. | Look to reduce the role of government in setting direction. Lighter touch on regulation. Lacks long term vision. |
| Fiscal management   | Prudent, recognition of importance on more fiscal support via higher fiscal spending.                       | Prudent, recognition of importance on more fiscal support via tax cuts.  |
| Tax policy          | Redistribution. Tax increases for higher income earners. Broadening the tax base.                           | Stimulatory. Temporary tax cuts. Depreciation allowances to promote more capex.                                  |
| Government spending | Focus on provision of quality public services and income support for less well-off.                         | Focus on expenditure restraint and spending reprioritisation.  |
| Superannuation      | Keep retirement at 65, maintain contributions to Superfund.   | Debt repayment vs contributing towards Superfund. Phased increases in retirement age to 67.                      |
| Environmental       | Increased regulation so as to achieve objectives.   | Lighter touch, with more emphasis on self-regulation. Agriculture excluded from Emissions Trading Scheme.        |

Source: ASB

## Market Implications

Traditionally, markets have supported the market-friendly policies of the centre-right bloc as have various indicators, including business confidence surveys. However, the Labour-led government looks to have made inroads in portraying itself as a competent fiscal manager. As such, we expect currency and interest rate reaction from a Labour-led victory to be modest.

Markets (and the economy in general) like stability, so a clear-cut election result would be preferred, avoiding the potential for a pronounced period of uncertainty if either block does not have a clear outright majority. An inconclusive result on election night could see a period of increased volatility and a generally lower NZD and NZ yields until the result is confirmed. Coalition negotiations can be long and drawn out. The last election was on the 23<sup>rd</sup> of September 2017 and it was not until the 19<sup>th</sup> of October that NZ First signaled it would form a coalition government with the Labour Party, supported by a confidence and supply agreement from the Green Party.

## Electoral system background

The incumbent minority government is a coalition between the Labour Party (46 seats) and NZ First (9) with support from the Greens (8). The major opposition party is National (54).

NZ has used the Mixed Member Proportional (MMP) system since 1996. Under MMP, no single-party majority Government has been delivered at election. Every eligible voter gets 2 votes: one for their electorate Member of Parliament (MP) and one for the party they want to support. The party vote determines how many MPs each party gets, so is the most important vote for determining the formation of a government. Parties need to win at least 5% of the total party vote to be eligible for seats in parliament or win at least one electorate seat. The normal number of MPs is 120, but overhangs from the MMP system can result in parliaments with more than 120 MPs.

While election day is October 17, polls opened on October 3, with close to 500,000 votes having already been cast at the time of writing. Further details on the electoral system are available [here](#).

## Political parties

According to official [sources](#), there are five parliamentary parties in the NZ parliament, including:

- [Labour](#) – centre-left
- [NZ First](#) – populist/conservative
- [Green Party](#) – left/environmental
- [National](#) – centre right
- [ACT](#) – right

## Appendix 1: Policy positions

### Labour/Green – Key policies

- Labour has a 5-point plan based on income support, investment in infrastructure, clean energy, housing and the environment.
- Tax: Labour have signalled new top tax rate of 39% on personal incomes above \$180k as well as no new taxes or further increases to income taxes. Work to make multinational corporations pay more tax in NZ. Maintain bright line test. Green Party have proposed a more redistributive tax system, with 37% rate for personal incomes above \$100k and a 42% rate above \$150k, with a new tax on individual net wealth of over \$1m. Greens to work to minimise tax loopholes and minimise tax avoidance.
- Business support: Labour to provide some tax relief, interest-free loan scheme, funding of training for SMEs. Greens to promote NZ made products, encourage sustainable business practices.
- Education/training: Labour to boost apprenticeship and trades training. Free training in selected sectors., including primary. Labour to maintain fees-free policy for 1<sup>st</sup> year of study. Greens to prioritise training for clean energy jobs.
- Jobs and employment: Increase minimum wage to \$20 per hour by 2021, extend sick leave to 10 days. More implementation of fair pay agreements/the living wage. Labour to continue environmental jobs scheme, expand loans to firms impacted by COVID-19 and subsidies to reduce long-term unemployment, bolster funding to support transition from education to careers. Greens to progressively increase annual leave to 5 weeks, increase minimum wage, promote training for clean energy jobs, increase funding for community projects.
- Income support: Labour to maintain Covid-19 support package, with tax changes to reduce cashflow pressures, skewed towards SMEs. Labour will maintain increases in social welfare payments. More support for people with health conditions and disabilities. Reduce child poverty by expanding lunches in schools to 200k kids. Increased support for children and younger people with higher needs. Greens to provide more income support to families, create \$325 weekly guaranteed minimum income for adults not in part-time work, with top-up for single parents
- Health. Labour to upgrade hospitals, increase funding for Pharmac, mental health, reduce DHB numbers. Greens to increase public health, Pharmac funding, establish community hubs, to increase funding for wellness and preventative healthcare, with greater community/Maori control.
- Tourism/Immigration. Labour to continue current arrangements. Greens to increase refugee quota and limit visitor numbers.
- Housing: Labour to replace the Resource Management Act, expand the healthy homes initiative, support more building of state homes, maintain the foreign buyer ban of standalone homes and 5-year bright line test, Greens to encourage more community housing, overhaul building code to encourage better quality housing, encourage longer-term renting.
- Infrastructure: Fast-tracking job-rich infrastructure projects and will repeal and replace the Resource Management Act. Invest \$6.8bn in transport projects, including roading, safety and rail. Greens propose rapid rail links between regions, more investment in public transport in major centres, more funding for cycling.
- Environment. Labour to continue the 1 billion trees programme, promote clean energy (goal of 100% renewable electricity generation by 2030), focus on protecting the environment with work on predator control, protecting native wildlife, investing in waterways, and improving water quality and reduce primary sector climate emissions. Greens to have more stringent environmental regulation, setting nitrogen limits, assisting community-led initiatives and pricing agricultural greenhouse emissions. Greens to support forestry diversification.
- Regional Development: Labour: 10-year plan to improve primary sector, investment in rural communities, keep Tiwai point open 3-5 years. Greens to focus on environmental, increase regional public transport.
- Trade: Labour to negotiate FTA with UK and EU, digital trade agreement with Chile/Singapore. Greens to strengthen environmental/labour provisions in FTAs.
- Labour to keep retirement age at 65, maintain Kiwisaver contributions. Greens to keep retirement age at 65.

### National/Act - Key policies

- Fiscal management. National to reduce net core crown debt below 30% of GDP in 10 years. Act to achieve fiscal surplus by 2028 by finding savings/efficiencies in government spending.
- Tax policy. National to propose temporary tax cuts for wage and salary earners via Tax Stimulus Package (16 months from 1 Dec). Indexation of tax thresholds to inflation, business investment tax write-offs up to \$150k and double depreciation rates on plant, equipment and machinery investment. Act to reduce taxes on incomes over \$48k and reduce GST to 10% for 12 months.
- Business support: National to establish BusinessStart scheme, allowing kiwis who lose their job to claim a \$10,000 tax credit and access up to \$20,000 from their own KiwiSaver to use as working capital for a new business.

Technology plan with focus on training, technology infrastructure upgrades, fast-tracking technology skills visa. Act to propose removing regulation not passing cost-benefit analysis.

- Education & training: National to incentivise training providers to get trainees into work, expand use of skill/job hubs. National considering and Act have proposed to reintroduce fees on 1<sup>st</sup> year of study.
- Jobs/employment. National to reinstate 90-day work trial, postpone planned minimum wage increase and to pay businesses \$10k for each job created under JobStart. Act will freeze minimum wage for 3 years, reinstate 90-day work trial and reduce employee protection.
- Income support National: More targeted social spending under Social Investment approach. Extra obligations to beneficiaries under 25. Act to return benefits to pre-COVID levels, establish employment insurance scheme, means test Best Start.
- Health: National to speed up elective surgeries, increase funding for cancer treatment. Act will reduce DHB's, review pharmac, subsidise private elective surgeries, support legalised euthanasia, establish PPPs for hospitals.
- Tourism/Immigration: National to establish border protection agency, with private sector involvement in managing isolation facilities. Will also end tourism recovery fund and to look at streamlined travel arrangements from low risk countries. Would restart international education under strict quarantine and testing protocols. ACT is pro-immigration and keen to allow in high value foreign tourists but will tighten eligibility for superannuation.
- Housing: National to remove restrictions on foreign ownership of residential property, replace RMA, end Kiwibuild, work with community housing providers to increase housing supply, reduce bright line test to 2 years and repeal ring fencing on residential property losses and relax heating/ventilation standards for rental policy. Act to replace RMA with new Urban Development Act, end Kiwibuild, relax building material restrictions, replace council inspections with compulsory building insurance.
- Infrastructure: National to introduce \$31bn Infrastructure package over next decade, mostly consisting of roading initiatives, upgrading schools and hospitals. Establish National Infrastructure Bank to manage crown assets.
- Environment. National: Support industry-led initiatives by agricultural sector to reduce emissions and improve water quality. Encourage the purchase of electric vehicles. Review/repeal environmental regulations. Do not support inclusion of agriculture in an emissions trading scheme (ETS). Act to replace Zero Carbon Act and ETS, reverse agricultural methane/freshwater reforms and repeal ban on oil and gas exploration.
- Trade: National to pursue FTA with US. Act will pursue UK, Canada, Australia, NZ free trade agreement.
- Regional development: National: try to keep Tiwai point open till 2025. Act to abolish R&D subsidies, provincial growth fund, subsidies for film industries, the racing industry and for commercial forestry.
- National to raise superannuation eligibility age from 65 to 67 by 2037, halt payments to Superfund for 4 years, and tightening up of residency requirements for receiving Superannuation. Act to raise retirement age to 67, tighten eligibility and end kiwisaver contributions.

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