

Economic Note

NZ 2020 General Election Result

19 October 2020

Labour able to govern alone

- In an emphatic result, the Labour Party has won an outright majority – a first under the MMP electoral system.
- Regardless of whether Labour enters into any arrangements with other parties, it will retain full control.
- The COVID-19 pandemic needs decisiveness, which the outright majority can deliver. The pressure will be on to effectively lead the country forward.

The election outcome, giving the Labour Party 49% of the vote and 64 out of 120 seats, is an unprecedented result since the [Mixed Member Proportional](#) (MMP) electoral system was implemented in 1996. To date under MMP, no one party has been able to form a government by itself, without the need for compromise and negotiations over policies.

Those past MMP governing arrangements have in effect stopped radical policy changes such as those of the 1980s and early 1990s (which themselves contributed to the populace adopting the MMP system). However, the resulting incrementalism has meant that big and long-term challenges have tended to remain unaddressed.

The 2020 Labour Government will not face these challenges in being able to legislate policy, even if it enters into any arrangements with other parties, such as the Green Party. On the flip side, that also brings full accountability to achieve what it sets out to do. A significant proportion of the general population has in effect placed its faith in the Labour Government to lead NZ out of the huge crisis the COVID pandemic has wrought and keep protecting it from the pandemic. The onus will be on to deliver.

On the policy front, despite the crisis backdrop, the election campaign was light on clear specifics from either major party on what the future vision for NZ will be and how to get there. Moreover, past intractable issues (such as poor productivity growth and NZ’s challenge with effectively building enough houses in a cost-effective way) remain entrenched. Now that the election campaigning is out of the way, it is time for action.

The clear outcome

The provisional results give Labour a clear 3-seat cushion above the minimum threshold needed for a majority. Although final results can bring some changes, they are likely to be minor and the outright majority will remain. From this point of view, the result is clear-cut. Regardless of whether the Labour Party enters into any arrangements with the Green Party or Maori Party, it has control over Parliament.

There were significant outcomes for the minor parties as well. The results also gave the Greens a firm footing in Parliament through winning the Auckland Central electorate by a provisional margin of 492 votes. The Greens also comfortably exceeded the 5% party vote threshold.

Results	Party %	seats
Labour	49.1	64
National	26.8	35
ACT	8.0	10
Greens	7.6	10
Maori Party	1.0	1
NZ First	2.7	0
Sum:		120
Majority required:		61

ACT (on the right of the political spectrum) not only comfortably kept its electorate seat but gained a substantial party

vote that put it slightly ahead of the Green Party vote on the night (though that tally could change in the final result). It goes from 1 seat to 10 on the provisional result.

The Maori Party (out of Parliament over the last term) has potentially made a comeback. Preliminary results have its candidate in the Waiariki Maori electorate 415 votes in the lead. If it holds a majority in the final results, it will have a sole MP in Parliament.

NZ First, the populist/centrist party that formed a formal coalition with the Labour Party in the last parliamentary term, failed to either win an electorate seat or exceed the 5% party vote threshold. It is out of Parliament.

Governing arrangements

Notwithstanding its outright majority, the Labour Party may still choose to form some sort of coalition or support agreement with either or the Greens, the Maori Party, or both. There are two reasons why Labour may choose to do so:

1. A 3-seat cushion above the minimum needed for a majority could be eroded over time through by-elections or party defections, something witnessed in the past. Bringing other parties into the fold can help bolster that majority and ensure stability.
2. Longer term, Labour is still likely to need coalition partners, and it may view that working with minor parties (particularly the Green Party) will be in its long-term electoral interests.

Regardless, Labour is in the driving seat, and whatever is legislated (or not) while it has an outright majority will ultimately be down to its own choices. And the bargaining power of minor parties this time around is miniscule. Final governing arrangements are likely to be made over the next few weeks, potentially waiting until the election results are made final on November 6th.

Leading NZ out of the COVID pandemic

The pressing challenge for this parliamentary term is setting a clear direction for NZ's future, and designing and successfully implementing the policies that will get NZ there. The election campaign contained some policy strands of direction from the major parties, but left a lot to be fleshed out. Some areas of priority are:

- Restarting the economy – policies to encourage businesses to start looking forward: adapting, hiring, and investing;
- Resetting the direction – clearly outlining the economy of the future and the policies that will steer the economy in that direction over the long term;
- Border approach – a key influence on NZ's prospects and pace of recovery over the next few years: under what conditions can the border be opened and with who? How conditional is border relaxation on widespread take-up of an effective vaccine? How would timing of a vaccine influence border decisions? What is Plan B if an effective vaccine remains elusive?
- Working on effectively growing skills locally – the border closure means NZ faces greater challenges in obtaining workers with key skills, and even for some unskilled labour. Over the longer term, NZ's resilience and outcomes for its citizens would be improved by a better focus on ensuring education and on-the-job training deliver the training and skills needed. In the meantime, however, NZ still needs to find ways to ensure people are available to fill current gaps – or opportunities will go begging at a time when NZ needs to seize every opportunity it can.
- Looking after the vulnerable and those affected by the COVID-19 economic downturn – the Labour Party has a clear focus on inequality, and rising unemployment means a lot more people need a safety net and support to return to the workforce.

Other key policies

The Labour Party will continue its 5-point plan that focuses on: income support, investment in infrastructure, clean energy, housing and the environment. In the appendix we repeat from our election preview the summary of key policy planks of the Labour Party, along with those of the Green Party (to highlight areas in which there is scope for cross-party co-operation).

There are continued key issues that NZ needs to resolve:

- **Productivity** – NZ lags behind close neighbour Australia and as a result so do NZ incomes. One cause is NZ’s relatively low capital stock, around 30% lower than Australia’s on a per-capita basis. Improving productivity has proved a tough nut to crack for many successive governments, but it is the key to improving our overall living standards over the long term.
- **Housing** – affordability (or more to the point the high level of house prices relative to incomes) is once again set to become a social and economic issue. Super-low interest rates are now clearly boosting house prices, once more meaning low debt-servicing costs are masking affordability challenges and reinforcing the divide between the haves and the have-nots. The core issue remains NZ’s inability to effectively boost housing supply at a reasonable cost. Many – but not all – of the challenges lie in the Resource Management Act and other regulatory restrictions that artificially boost the price of land and limit development potential. The last government had mixed success with boosting housing supply. Its KiwiBuild plan for building 100,000 homes over 10 years to sell to first-home buyers failed to build houses in any great number and struggled to sell what it did build. In contrast, great inroads were made in the provision of social housing. Enabling the private sector (which commissions and builds the vast majority of housing) to get on with it without its hands so tied behind its back, while continuing to directly provide housing support to those in most need, remain two key prongs to focus on.
- **Fiscal health over the long term** – responding to the COVID-19 pandemic is saddling NZ with a large increase in public debt. Using the added borrowing wisely will be important. Furthermore, NZ will still face the long-term pressures of funding retirement incomes for an ageing population and rising long-term healthcare costs – now from a more challenging starting point. Hard choices will face future governments, yet are always easier to defer even further into the future. Fiscal challenges are also coinciding with added challenges individuals will face saving for their own retirement in a low-interest rate environment. SKI-ing will increasingly not just be a sporting past-time, ‘Spending Kids’ Inheritance’ risks becoming increasingly more necessary for retirees that face added challenges saving sufficiently over their working life to fund an adequate retirement. The inter-generational impacts of the COVID debt surge will be profound.

Market Implications

The market has taken the election outcome in its stride, with minimal reaction. The prospect of an outright Labour majority was a distinct possibility, based off pre-election polling, with a Labour/Green coalition the other likely outcome.

Appendix 1: Policy positions of the **Labour** and **Green** parties

- Labour has a 5-point plan based on income support, invest 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 1st 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 aluminium smelter open 3-5 years. Greens to focus on environmental development, 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 and Greens to keep retirement age at 65.

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