

HUGOvision

Assessing the economic and political environment in New Zealand

ELECTION SPECIAL

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Not just a strong mandate - a political generational shift too

Much has already been written about the strength of the mandate that Jacinda Ardern, as the PM who led the country through covid, and her Labour Party have gained as a result of Saturday night's election result.

On the highest voter turnout since 1999, Labour appears **likely to eschew formal coalition arrangements** with the Green Party, who voters have effectively told Labour they would prefer be kept at arm's length.

That's what Ardern meant when she said earlier this afternoon that **while she is a consensus-builder, she would also respect the majority mandate that Labour has been given**, and that part of that mandate was delivered by voters who have not voted Labour previously.

This is a **recipe for another supply and confidence agreement with the Greens**, who may anyway prefer the relative freedom of not being bound by the collective responsibility of a full coalition agreement. While there is much speculation that Labour might seek to fold in the one **Maori Party** MP elected on Saturday night, **don't count on it**. The win could reverse on special votes and Ardern stressed a preference for "straightforward" governing arrangements.

Generational shift

The election of 37 year-old Jacinda Ardern in 2017 was symbolic of a seismic inter-generational shift occurring in NZ politics. Arguably, the 2020 election delivers the substance of that. The hollowing out of the National Party caucus and the **loss of electorate seats by old campaigners Gerry Brownlee and Nick Smith** is matched also by the **arrival of 20 generally youthful MPs under the Greens and Act banners**.

The election of the Greens' Chloe Swarbrick in Auckland Central is another harbinger of this shift. The seat may well be hers for a very long time now.

This shift also introduces **a lot of rookie MPs** to Parliament. Some will crash and burn. But **it may also create space for a shift in the policy paradigms** that have guided NZ govts for most of the last 40 years.

The question is: will Labour regard that as an opportunity to innovate or a risk to be avoided if it is to continue to hold the middle ground and win again in 2023 after what is likely to be a tough three years of economic turmoil.

Natural caution at the top

The evidence of the first three years of the Ardern administration is that **Ardern is an incrementalist leading a Cabinet that struggles to execute its policy agenda** efficiently. **That is unlikely to change**. She is guided on the political economy by her fiscally conservative Finance Minister Grant Robertson. His political instincts - and most official advice - is to seek a path back from the new, higher levels of net Crown debt caused by covid.

Yet over the next three years, the likelihood is that **fiscal stimulus borne of govt debt creation will start to become seen as a prudent and preferable policy mix** that will increasingly be seen as necessary to replace the previous role of central banks and monetary policy to stimulate economic activity. The age of independent central banks and inflation control as a primary objective is drawing to a close more swiftly than many govts, business leaders or voters perhaps appreciate.

The transformation conundrum

As a result, those thinking a handbrake (NZ First) free Labour govt will unleash unpromised and expensive 'transformational' policies will be disappointed or relieved, depending on their point of view.

Ardern's **ability to "accelerate" the govt's agenda is limited by her own self-imposed guard rails**, including not taxing wealth or ramping up welfare payments.

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The second-term Ardern administration has tied its mast to allowing net Crown debt to go no higher than 55% of GDP. That said, a **faster-than-expected economic rebound could create headroom** under that track to afford more infrastructure or welfare spending. However, Labour cannot depend on it or pre-empt any fiscal windfall.

Robertson has also ruled out allowing or encouraging the RBNZ to monetise or cancel the \$100b of govt bonds it will buy over the next couple of years.

Ardern did say on election night that she had a mandate now to “accelerate our response and our recovery.”

But she was also at pains to say she would not surprise or betray National and NZ First voters who may have voted for Labour for the first time.

“We will not take your support for granted. We will be a party that governs for every New Zealander.”

What could be accelerated

Auckland Light Rail and the potential for more aggressive climate change policies in transport could be levered into the debt track, along with tougher regulations on used car import emission standards. There is also scope for Kāinga Ora to expand its \$7.1b build programme with its own bond issuance, which

is seen as separate from the net debt track.

Nats’ soul-searching

Judith Collins is unlikely to last the full term as leader, but a move against her is unlikely in the very short term.

A post-election review of its campaign is probably **more threatening to the position of key party officials, such as president Peter Goodfellow**. Collins identified complacency and poor candidate selection as areas for scrutiny in her post-election press conference.

Goodfellow faces re-election in five weeks’ time. Collins will face a traditional caucus leadership vote in about a fortnight.

While **National’s vote was lower in 2002, the 2020 loss is one respect worse**. The gap between Labour and National was 20% in 2002, compared with 22% this time.

Timetable from here

Ardern is managing expectations of fast negotiations by saying it will take two to three weeks to form a govt. There is now no need to rush, especially as the Governor-General accepts she can form a govt.

Expect the House to sit by late November until near Xmas. 🇳🇿

Party	1996	1999	2002	2005	2008	2011	2014	2017	2020 ⁸
National	33.8 ¹	30.5	20.9 ²	39.1	44.9	47.3	47.0	44.4	26.8
Labour	28.2	38.7	41.2	41.1	34.0	27.5	25.0	36.9	49.1
Green	- ³	5.2	7.0	5.3	6.7	11.6	10.7	6.3	7.6
NZ First	13.4	4.3	10.4	5.7	4.1 ⁴	6.6	8.7	7.2	2.7
Alliance	10.1	7.7 ⁵	1.27	1.2	0.9	-	-	-	-
United Future	0.9	0.5	6.7 ⁶	2.7	0.9	0.6	0.2	0.1	-
Act	6.1	7.0	7.1 ⁷	1.5	3.7	1.1	0.7	0.5	8.0
Maori	0.2	0.25	0.25	2.1	2.4	1.4	1.3	1.2	1.0
Mana	-	-	-	-	-	1.1	1.4	0.1	-
New Conservatives	-	-	-	-	-	2.7	4.0	0.2	1.5
TOP	-	-	-	-	-	-	-	2.4	1.4
Advance NZ	-	-	-	-	-	-	-	-	0.9
Turnout	88.3	84.7	76.9	80.9	79.5	74.2	77.9	79.8	82.5

Red = formed government

¹ only election won where the governing party scored under 35% – first under MMP – NZ First’s best ever showing, 13 seats

² Bill English was leader for 10 months prior to election

³ Greens still part of the left-wing Alliance party

⁴ NZ First left Parliament for one term

⁵ Alliance’s last election, Greens contested separately. Subsequent years, Alliance = Jim Anderton’s Progressive party

⁶ United Future’s best showing – 8 seats

⁷ Act’s best showing – 9 seats in 1999 and 2002 – leader, Rodney Hide

⁸ election night result prior to final count, including special votes, due Oct 9