



## **1999 New Zealand General Election: An Update**

by Jim McLay

### **Overview**

The New Zealand General Election held on Saturday 27 November saw the defeat of the center-right National Party (under Prime Minister Jenny Shipley) and election of a center-left government dominated by the Labour Party (Helen Clark) supported by the smaller, left-wing Alliance (Jim Anderton). The result is seen as an end to 15 years of hands-off economic policy.

The election night vote count appeared to deliver a small but clear majority (63-57) to Labour-Alliance. However, with two minor parties on the edge of qualifying for seats under New Zealand's Mixed Member Proportional (MMP) electoral system, there was significant change after the recent finalized counting of Special Votes (including absentee and overseas votes.)

Now, after the final count, the Greens, a far-left party, have won an electorate and also more than five percent of the total vote, entitling them to seven seats. And New Zealand First (NZF) (a centrist, populist party) also won a single electorate entitling it to five seats.

As a result, Labour-Alliance is now a minority government (with 59 seats); but the Greens will support it on the crucial issues of parliamentary confidence (the right to govern) and supply (the spending of public money). On occasions, the government will also need NZF support.

This new government does not have the dominance it and many commentators expected. It will govern only by maintaining Green (and occasionally NZF) support and that may be bought at a price of more left-wing policies than Clark will want, although Alliance's Anderton will be pleased. It will be fiscally prudent; but is also vulnerable to internal differences on social spending issues and will come under pressure not to implement some of its policies, particularly labour market reform.

### **MMP**

This was the second election held under MMP, which is similar to the German system. 66 of parliament's 120 seats are allocated to electorates, with MPs elected on a first-past-the-post basis. The remainder are allocated from party lists formally nominated before the election. Any party with at least 5 percent of the vote or winning at least one electorate secures seats in accordance with its share of the total vote. In simple terms, parties are allocated 1.2 seats for every one percent of eligible vote (thus, 5 percent entitles a party 6 seats).

### **Final Result**

On election night, Labour-Alliance appeared to have won 63 seats (Labour 52, Alliance 11). The Greens seemed to have just failed to win a seat and, at 4.9 percent of the vote, were a tantalising 0.1 percent short of the other MMP qualification. The center-right held 51 seats (National 41, ACT 9, United 1). And, by winning his electorate (by 62 votes with recounts still pending) it appeared that NZF leader Winston Peters had retained his party's parliamentary representation.

All that changed suddenly when the final results were declared after 7 December. First, the Greens won a single electorate. The resulting re-allocation saw Labour-Alliance slip down to 60 seats (Labour 50, Alliance 10). And then, only hours before the new government was sworn into office, the Greens' total vote pushed over five percent giving them another seat at Labour's expense.

Suddenly, Labour-Alliance had gone from a majority to a minority government, and will now have to cater more to left-wing demands than was apparent ten days earlier.

### **New Government**

Prime Minister Clark was Deputy Prime Minister in 1989-90. She is well regarded but (along with her senior colleagues) lacks private sector experience. Curiously, that background comes from her more left-wing partner, Anderton, a self-employed manufacturer.

Labour will dominate the new government but must cater to the demands of its more left-wing partner who will in turn be egged-on by the even more left-wing Greens. Anderton will be Deputy Prime Minister, and Alliance has three other cabinet posts out of twenty. The Alliance grew out of Anderton's defection from Labour in the late '80s in protest at the party's market-driven economic reforms. Despite a "non-aggression pact" during the campaign, the relationship between the two parties (and between Clark and Anderton) has been bad and is still fragile.

Although defeated with its lowest-ever share of the vote (30.6 percent), National (39 seats) and its partners emerge in reasonable strength with a total of 50 seats. There is nothing like the decimation of the Conservatives in the UK or Canada or even Labor in Australia in 1996. With NZF, the opposition has 54 seats against the 66 of Labour-Alliance and the Greens.

### **Policy Outcomes**

Labour styles itself as a moderate social democrat party. However, this is New Zealand's first true left-of-center government since 1975 and many of its new (and inexperienced) MPs hold strong left-wing views, more in line with the Alliance, and will exert much pressure for increased

social spending. Clark and her generally moderate senior colleagues will have to counter these tendencies.

New Zealand will continue surplus budgets, albeit with a small tax increase. Labour will repeal National's Employment Contracts Act (ECA) which, since 1991, has resulted in more labour market flexibility. This will restore trade union influence, largely absent through the '90s, but will not return to compulsory unionism.

After 18 months of economic slowdown caused by drought and the Asian downturn, with three quarters of negative economic growth, the NZ economy is now in an export-driven recovery. Growth in the next financial year is projected at 4 percent. The new government inherits a sound, growing economy, but that will increase pressure to spend more in social areas.

Basic foreign policy (focused on the South Pacific, Asia and trade) will not change. Clark may place greater stress on human rights and might even be prepared to risk relations with some Asian countries on this (although her innate caution will ultimately restrain this). She also hopes to cancel the lease of US F-16 aircraft but this is unlikely because of termination costs. Significant, however, was her immediate instruction to the New Zealand representatives at the WTO Seattle meeting that her government wished to place employment and environmental issues on the trade agenda. Trade is essential to New Zealand which exports 30 percent of its GDP. Previously National and Labour governments have refused to mix trade with other foreign policy or domestic issues. Stopping just short of making this a bottom line requirement, she said that there hasn't yet been a WTO debate on these issues and there was a "long way to go". This new line is more compatible with that of the EU and the Clinton administration, but departs from the previous common position with Australia, New Zealand's closest ally in the "Cairns Group" of free trade advocates. With the exception of the ANZUS nuclear rift of the '80s, the two countries have always been close on foreign policy and trade. This change will not be welcomed in Canberra; and has already been criticised within New Zealand.

## Conclusions

After the euphoria of the election and their rapid agreement on a coalition, Clark and Anderton have been brought quickly back to political reality by the return of the Greens and NZF and the resulting minority status of the new administration. In a masterly under-statement, Clark has described the new situation as "slightly more complicated."

Labour-Alliance now lacks a parliamentary majority and must deal, on all matters, with the Greens and occasionally NZF. While the Greens have nowhere else to go (they couldn't support anyone else), they will exact a price for their support, possibly even a measure of "revenge" for the manner in which they were marginalised in the coalition discussions; and will try to use their new-found clout to force the government to a more left-wing position than Clark and her senior colleagues will want. Alliance will welcome that pressure (likewise Labour's new back-bench MPs). Furthermore, past problems may make it difficult for a Labour-Alliance relationship to work in the long term, particularly when Alliance wants to spend more and Labour is restrained by fiscal prudence.

Markets anticipated this change of government for much of 1999. It has been factored into pricing over many months. There was no immediate market reaction to the election night result nor it seems to the latest developments. In the longer term however, Labour's social spending commitments (and pressure from both the Alliance, non-cabinet Labour MPs and the Greens to increase these even further) may impact on inflation and interest rates. Similarly, resistance to spending pressures may impact on the coalition or on Labour's relationships with the Greens and even its own MPs. In those circumstances, the most powerful person in the country may yet turn out to be the independent Governor of the Reserve Bank!

Finally, questions are again being raised about the conditions of instability and resulting small party clout brought to New Zealand by the proportional representation system (MMP). Other countries considering such systems, including Korea, might wish to look with care at New Zealand's experiences.

*The above was prepared by Jim McLay, Executive Chairman of Macquarie New Zealand Limited. Mr. McLay is a former New Zealand Deputy Prime Minister and Leader of the National Party. The views expressed are personal. Jim McLay can be contacted at <mailto:jmclay@mclay.co.nz>.*