

# Labour's Angst

Keith Rankin, 30 September 2014

Was Labour's predictably low vote David Cunliffe's fault? Was it policy? Was it something else that has aroused perceptions of electoral carnage?

My analysis of the numbers suggests that, as uncertain voters made up their minds, there was a late swing from the Greens *in favour of* Labour, though partially offset by a drift from Labour to New Zealand First, and a late drift from NZ First to National. The combined major party vote held up much better than usual; certainly much better than in 2002 when it was National's turn to score in the low twenties. The minor parties scored 27.6% of the advance vote compared to 27.1% of the election night vote.

So the analysis of failure needs to focus on the left in general, and not just on Labour. It was the Greens who disappointed most; relative to expectations, and relative to the final polls. We all knew Labour would score in the mid-20s; we were sure the Greens would be closer to 15% than to 10%. Had the Greens won 13% of the vote and Labour candidates won Christchurch Central and Waimakariri, then Labour would not have won any list seats.

I have looked at the St Lague results - St Lague is the rounding method that is used for MMP in New Zealand - and predict that on Saturday Labour will lose one MP (Andrew Little) and National gains one (Misa Fia Turner). The next most likely outcome of the special votes is no change. The Greens will need about 16% of the special votes to get another MP.

Much has been made of the issue that Labour scored much better on the electorate vote than on the party vote. While it is clear that the New Zealand electorate does understand MMP, many of these commentators still do not quite get it. Voters get to vote for the party of their choice, and then get a *second* vote to choose their local MP. Too many of the commentators on the TV programmes still talk as if the electorate vote is the *first* vote; they say things like "people voted Labour in the electorate, and then voted for some other party". Then there was Campbell Live and its 'lolly polls' which completely fudged the issue about whether it was the party vote or the electorate vote that was being polled.

Commentators please note. (It would help to be a bit of a sports fan.) The Party Vote - the first vote on the ballot paper - reflects the party contest, which is like a fleet race in sailing, or like stroke-play in golf. The second vote - the electorate vote - is like an America's Cup match race; or like match-play in golf. Each electorate constitutes a separate match.

In most cases that match is between a Labour candidate and a National candidate. In Epsom it was a match between a national candidate and an Act candidate. In Ohariu it was a match between Peter Dunne and Virginia Andersen. Match-play is winner-takes all, though the stakes are generally low in each match. In stroke-play the rewards are doled out in order of success, with every participant who achieves the cut-off getting something in proportion to their efforts.

It is the stroke-play contest that matters. Voters know that. The match-play contests are side-shows. Nevertheless, an important feature of this election was that, with the exception of Hone Harawira who faced special circumstances, all sitting electorate MPs who re-stood got re-elected. Only Trevor Mallard struggled to hold his seat. While we claim to be cynical about politics, we actually like our sitting MPs, just as we generally like our Mayors. In the electorate contest, the incumbent holds a huge advantage, no matter what party he or she is from.

## Policy

Not surprisingly to those who've read my earlier postings. I think that policy was the main problem

that Labour had control over. (The economic cycle and the campaign side-shows were outside of Labour's control; however Labour's past willingness to indulge in 'gotcha' politics – sometimes scoring own goals – will have led voters to attribute dirty politics to both parties.)

From the point of view of the hip-pocket, Labour offered nothing to the ordinary voter. However it was Labour's macroeconomic policy that was problematic. As an economics' teacher, I can say that Labour was offering a contractionary policy to reduce aggregate demand through higher taxes and increased saving, offset though by a promise to increase net exports. While a few targeted people may have gained – eg minimum wage workers and beneficiaries in part-time work – those not targeted will have lost.

On the whole, Labour's policy will have led to both higher unemployment and higher inflation. The two principal theories of unemployment are that unemployment increases when the minimum wage is increased (neoclassical theory) or when aggregate demand decreases. Labour was offering both. (I should note that I think that Labour's proposed increase in the minimum wage will have had minimal impact on unemployment.)

Basically Labour's macro-policy was one of export-led growth offset by domestic contraction. The proceeds of export-led growth were to be captured by the government into the new sovereign wealth fund. The driver of the export-led policy was to have been changes to monetary policy that would have ensured a reduced exchange rate. (There are signs that monetary policy is already changing in this regard.) While not necessarily a bad idea in itself, a lower exchange rate monetary policy raises inflation. Again that's not necessarily bad. But it means that the many people employed in lowish-paid jobs in the service sector face falling living standards, or at least lower living standards than they would otherwise experience.

To get a Labour-led government in 2017, we will definitely need a Labour Party with policies both to boost aggregate demand and to reduce hip-pocket inequality. The phase of the economic cycle in 2017 will be somewhat less auspicious than it is now. There will need to be explicit tax cuts to the bottom eighty percent of taxpayers. Labour will need to offer bigger tax cuts than National to the bottom sixty percent, and (unlike National) require all taxpayers earning over \$100,000 to pay more (albeit offset, for some, by a universal child payment).

Labour will need to raise the trust rate of tax (33% at present) and the 'PIE' rate (28%). It will need a two-tier company tax rate, set at the trust rate for firms that do not compete internationally.

We are living in a developed world in which labour income represents a shrinking pool. Labour must enter the twenty-first century, and develop policies that enable ordinary people to access more income from the non-labour pool.

Finally, Labour will need to reduce the scope of targeted assistance and raise the level of universal benefits; quite the opposite of the present rhetoric of Labour Party policymakers who themselves do not appreciate the Kafkaesque nature of these targeting mechanisms. Too many chardonnay socialists believe in both austerity and targeting; 'why', they say, 'should benefits go to people who do not need them?' Saying these things simply betrays a lack of understanding of universal provision, and a lack of awareness of our social and economic history.

Universal provision works by taking more and by giving more back. For the rich the taking more and returning more cancel out. What matters most is that universal approaches do not require the dehumanising bureaucracy associated with targeting.

Labour can make itself relevant again to ordinary voters. It must focus on hip-pocket issues, and avoid policies that target, that discriminate.

---