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There's much Tony Abbott could learn from John Key's triumph in NZ

HENRY ERGAS THE AUSTRALIAN SEPTEMBER 22, 2014 12:00AM

JOHN Key's election victory is rich in lessons for the Coalition on how to govern and for Labor on the costs of remaining a wholly owned subsidiary of the unions.

It is important to understand just how well Key has done.

Since he first formed government in 2008, the National Party's vote has increased at each election — a remarkable outcome in itself — and is now 10 percentage points higher than it was a decade ago.

Moreover, that achievement needs to be seen in the context of a mixed-member proportional electoral system, which New Zealand adopted in 1996.

MMP encourages a proliferation of political parties, as any party whose share of the national vote exceeds 5 per cent will receive “list” seats, even if its support in any individual constituency falls far short of a majority.

The proliferation of choices fragments the electorate, so that the leading party in MMP countries rarely secures much more than 40 per cent of the seats. Governments are therefore almost always coalitions, as has invariably been the case in NZ since it moved to MMP.

In contrast, with one New Zealander in two backing Key, the National Party now seems set to win an outright majority, although Key has pledged to retain his current parliamentary allies.

That result attests to the merits of Key's policies: a prudent fiscal strategy, which will see New Zealand return to surplus sooner than Australia, despite being harder hit by the global financial crisis and having to bear the immense costs of reconstructing Christchurch; far-reaching tax reform, which reduced income taxes and raised the GST; and a continued emphasis on controlling public spending, including by better targeting social welfare.

Together with cautious changes to industrial relations, injecting greater flexibility into the Employment Relations Act Key inherited from Labour, those policies have helped lift the country's growth rate to a stellar near 4 per cent.

However, Key's victory also reflects the effectiveness with which his government operates.

At its heart is the triumvirate of Key, Transport Minister Steven Joyce and the indefatigable Finance Minister, Bill English, who crisscrosses New Zealand explaining the tough choices the government has made.

At the same time, Key relies primarily on his ministerial colleagues, rather than on his office, for testing and shaping ideas; but that doesn't mean he gives poor performers any slack. Instead, he has won broad party support for a culture in which weaker ministers and ageing MPs leave promptly, with 15 departing parliament at this election.

There is plenty in that for Tony Abbott to emulate: even more so as the scale of the National Party's

success is only rivalled by that of Labour's humiliation.

From the end of World War II to the move to MMP, New Zealand's Labour Party averaged 44 per cent of the vote; its share has now fallen below 25 per cent, the lowest since it became a serious electoral force in the 1920s. Nor is that surprising: under David Cunliffe, Labour has lurched to the left, promising to "soak the rich", raise minimum wages and bolster public spending, while intervening in housing, insurance and electricity markets.

Cunliffe's ill-conceived proposals reflect his masters' voice. Backed by less than a third of Labour's partyroom in the 2013 leadership ballot, Cunliffe succeeded thanks to the unions, which gave him 60 per cent of the membership vote and more than 70 per cent of the vote of Labour-affiliated entities.

In exchange, Cunliffe promised to reverse Key's changes to the IR laws, while initiating a process which would have led to New Zealand emulating Australia's Fair Work Act.

Long gone, therefore, are the days when Labour, under the impetus of finance minister Roger Douglas, was at the global cutting edge of microeconomic reform, dismantling the interventionism which had slashed New Zealanders' living standards from the world's third highest in 1955 to 21st 30 years later.

Unfortunately, NZ's Labour Party is hardly alone in repudiating its reform legacy. Rather, as their electoral base shrinks, social democratic parties have become increasingly reliant on the unions and especially on those whose fortunes depend on public spending. The result, epitomised by Bill Shorten and Ed Miliband (who rose to the top of Britain's Labour Party solely thanks to his 60 per cent share of union votes), is a new generation of leaders that brandishes the rhetoric of class warfare to defend existing entitlements, ignoring entirely how those entitlements are to be financed.

So far, however, that approach has earned few dividends. Even in Sweden, where former unionist Stefan Lofven will lead the Social Democrats into a left-wing coalition government, the Social Democratic Party's vote remains trapped at historic lows, as does the vote of its once powerful German counterpart. Adding Cunliffe's rout to the list should make the ALP think again.

It won't, of course; but that doesn't mean Abbott should simply sit back. If there is one lesson from the NZ election it is that the "reform pessimists", such as Ross Garnaut and this paper's Paul Kelly, who claim the realities of modern politics have virtually paralysed the advanced democracies, overstate their case.

After all, politics in NZ is every bit as brutal and competitive, and the media cycle as unrelenting, as here; but good policy remains good politics — so long as it is managed with consummate skill.

Key will require all that skill, especially if he moves, as he should, to revise the Employment Relations Act, which is becoming a bottleneck to growth, and to reform health and education. Abbott, who is only now finding his stride, needs it even more.

Today, however, New Zealanders have a great deal to celebrate. But as at the eleventy-first birthday party of Bilbo Baggins, the most famous hobbit of northwest Middle-earth, once the gardeners come to remove in wheelbarrows the guests that had inadvertently remained behind, there is serious work to do.

Australians will be cheering it along.

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