Election 2007

Australia goes to the polls on November 24

22 October 2007

Inside:

The starting gun has sounded

- A federal election will be held in Australia on November 24, 2007. This leaves another five weeks of campaigning before Australians decide which party they would like to guide the country through the next three years, after 11½ years of Coalition rule.
- The ALP, under the leadership of Kevin Rudd since December 2006, has delivered the best voter support for the Opposition in an election year since 1996 according to the national polls. Rudd is also ahead of John Howard in the preferred Prime Minister stakes.
- But a change of Government would require a national swing to the ALP of 4% on a two-party-preferred basis, which is above the average swing that new Governments historically have achieved. Also, even if the ALP won Government in a landslide as the polls suggest, the party would find it difficult to take control of the Senate, which would hamper a Rudd Government's agenda.
- The Prime Minister emphasised his Government's record of successful economic management when announcing the election date last week and the data supports his proposition. However, many things other than Government policies affect economic performance, and the Howard Government's economic record has been assisted by a more benign international economic environment than encountered by the Whitlam, Fraser, Hawke and Keating Governments.
- Australia's booming economy has generated a further $60bn of revenue over the four years to 2010-11 than projected in the May Budget, of which $46bn has already been committed by the Coalition, mostly to tax cuts. It is unlikely that Labor's promises will amount to significantly less. Either side could promise around another $14.4bn over the next four years without pushing prospective Budget surpluses below the 1% of GDP level identified by both parties as the 'benchmark' for fiscal responsibility.
- The most crucial piece of economic data to be released during the election campaign is the September quarter consumer price index on October 24. This will be the most important influence on the Reserve Bank's decision whether to lift interest rates at its November 6 Board meeting.
- Both major parties have almost identical views on macro-economic policy, in particular as regards the independence of the RBA in setting monetary policy and the desirability of maintaining budget surpluses of about 1% of GDP whilst the economy continues to grow. The most significant area of policy difference in the economic sphere is on workplace (or industrial) relations.
- Policy areas expected to feature heavily during the election campaign, other than the economy, will be health (especially public hospitals), education, climate change (especially water policy) and national security. Indigenous reconciliation will also feature after the Prime Minister last week promised a mid-term referendum promising recognition of prior Aboriginal occupation of Australia.

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The mechanics

The Coalition has been consistently behind in the opinion polls this year. The most recent nationwide Newspoll, taken last week showed the ALP with an election-winning lead over the Coalition, with 56% of the two-party preferred vote. If this result were achieved, the ALP would win the election in a landslide.

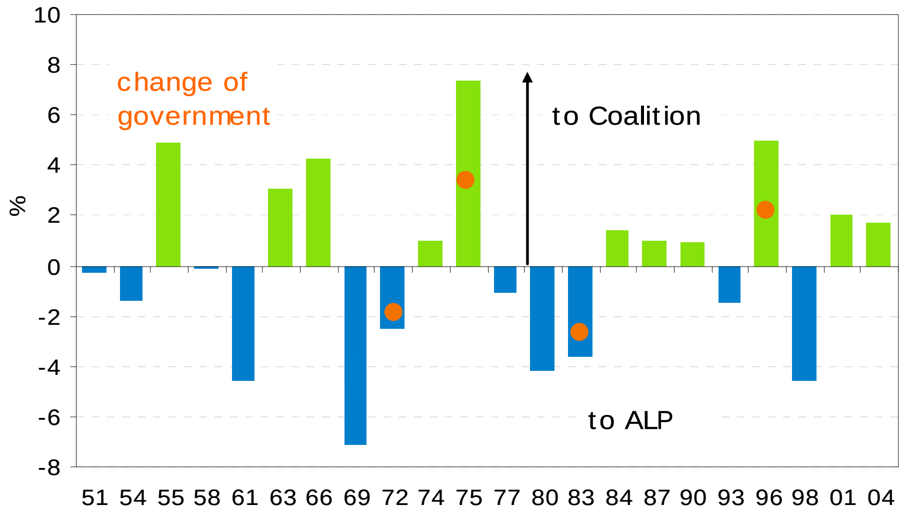
A greater than 4.8% swing is no easy feat having only occurred in 4 out of 22 elections in the past 60 years.

But Governments are only changed when a party can win a majority of seats in the House of Representatives. With the ALP currently holding 60 seats in the House they would have to win a net 16 seats - and hold on to the now notional Liberal seat of Parramatta - to form a majority Government. This requires a uniform national swing to the ALP of 4.0% on a two party preferred basis (that is, after the distribution of minor party and independent candidates' preferences – see page 20 for a further explanation of the mechanics of the Australian electoral system). A uniform swing of between 3.3% and 4.0% would leave Labor and the Coalition with 74 seats each, and the 'balance of power' resting with two Independents, Bob Katter (from North Queensland) and Tony Windsor (from New England in northern New South Wales). Since these are both former members of the National Party, they would presumably be inclined to support the Coalition (albeit at a price). A uniform swing of between 2.8% and 3.3% would give the Labor Party a majority of the two-party preferred vote but leave the Coalition with a majority of between two and six seats.

Of the 22 House of Representatives elections held since 1950, there have been swings in the two-party-preferred vote of 4% or more at only eight.

Of the 22 House of Representatives elections held since 1950, there have been swings in the two-party-preferred vote of 4% or more at only eight. And only two of these have resulted in a change of Government (in 1975, when there was a 7.4% swing to the Coalition, resulting in the confirmation of the Fraser Government which had been installed following the dismissal by the Governor-General of the Whitlam Labor Government; and in 1996, when the Howard Government was elected for the first time on a 5.0% two-party-preferred swing. The other six large swings have occurred as a 'correction' of a large swing in the opposite direction at the preceding election (as for example in 1998, when a 4.6% two-party-preferred swing to Labor was enough to give it a majority of the two-party-preferred vote, but not enough to deliver a majority of seats in the House of Representatives).

Figure 1: Two party preferred swing in House of Representatives



Source: ANZ and Australian Parliament House website

In practice, swings at Australian elections are never uniform. There are often significant variations in the vote between States (for example because of an unpopular State Government, as in Victoria at the 1990 election); or as between individual electorates (for example because of a strong personal vote for a particular sitting member). At this election, as at others, it is likely that – even in the event of an overall swing from the Coalition to Labor – the Coalition will retain some seats which require a swing of less than 4% to fall to Labor, and may lose some seats which require a much larger swing to change hands. It is also conceivable that Labor could lose one or more of its marginal seats, for example in Western Australia where opinion polls suggest that the Coalition's vote is holding up better than in the Eastern States, and would thus need to win more than 16 seats in the rest of Australia if it is to win Government.

Most of the marginal seats which the ALP needs to win from the Coalition in order to form a Government are located in South Australia, Queensland and New South Wales.

Most of the marginal seats which Labor needs to win from the Coalition in order to form a Government (or which the Coalition must hold in order to remain in Government) are located in South Australia, where the Coalition holds eight of the 11 seats (three of them on margins of less than 1%); Queensland, where the Coalition holds 21 of the 28 seats (two on margins of less than 3%, and another three on margins of between 5% and 7%, which might seem impregnable but for the fact that there were large swings to the Coalition in what had been marginal seats at the 2001 election); and New South Wales, where the Coalition has 28 of the 50 seats (four on margins of less than 4%, and another six, including the Prime Minister's seat of Bennelong, on margins of between 4% and 7%). The Coalition also holds two marginal electorates in northern Tasmania, won at the 2004 election, on margins of less than 3%, and one in the Northern Territory on a margin of 2.8%. The Coalition holds 10 of the 15 seats in Western Australia, although only two of these are on margins of less than 2%, while all the rest are on margins of more than 6%; Labor holds two seats in Western Australia by margins of less than 1%, including one where a popular long-term incumbent is retiring. In Victoria, Labor already holds a majority of seats, 19 out of 37, despite there having been a 3% swing to the Coalition at the 2004 election. The Coalition's two most marginal Victorian seats have buffers of 5.0%, while Labor has four seats which would fall to the Coalition on swings of less than 2½%.

Figure 2: Top 20 most marginal seats

Seat	State or Terr.	Margin in 04 election	Seat	State or Terr.	Margin in 04 election
Hindmarsh	SA	0.1% (ALP)	Braddon	Tas	1.1% (LP)
Kingston	SA	0.1% (LP)	Adelaide	SA	1.3% (ALP)
Swan	WA	0.1% (ALP)	Richmond	NSW	1.4% (ALP)
Macquarie	NSW	0.5% (ALP)	Holt	Vic	1.5% (ALP)
Bonner	Qld	0.5% (ALP)	Isaacs	Vic	1.5% (ALP)
Wakefield	SA	0.7% (LP)	Hasluck	WA	1.8% (LP)
Cowan	WA	0.8% (ALP)	Stirling	WA	2% (LP)
Parramatta	NSW	0.9% (LP)	Ballarat	Vic	2.2% (ALP)
Makin	SA	0.9% (LP)	Wentworth	NSW	2.5%(LP)
Bendigo	Vic	1.0% (ALP)	Bass	Tas	2.6% (LP)

Source: ANZ and AFR

A half Senate election will also be held on 24 November. But until July 1 2008, the Senate will remain unchanged, apart from for the Senators representing the Territories who commence their terms at the same time as the members of the House of Representatives. This means that the Senate is likely to be continued to be controlled by the Coalition until at least mid-next year.

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Labor would be most unlikely to gain a majority in the Senate, even if it does very well in the House of Representatives. Forty of the 72 Senate positions are being contested at the forthcoming election (six of the 12 positions in each State, plus each of the two Senate positions in the two Territories; for details of the Senate voting system see page 20). Of these, 20 are currently held by the Coalition, 14 by Labor, four by the Australian Democrats and two by the Greens. Of the 36 Senators whose terms do not expire until 1 July 2010, 19 are from the Coalition, 14 are from the Labor Party, two are Greens and one from Family First (who usually votes with the Coalition).

The Australian Democrats seem likely to lose all of their Senate positions at the forthcoming election, while Greens Leader Dr Bob Brown seems assured of re-election to his place from Tasmania. For Labor to win control of the Senate after July 1, 2008, Labor would need to win 25 of the 40 Senate seats up for grabs on November 24– one in each of the Territories (of which they are assured), four out of the six seats in five States and three out of six in the remaining State (most likely Tasmania).

In order to retain the ability to block legislation in the Senate, the Coalition only needs to win 19 of the 40 seats.

To win four Senate seats in a State requires around 57% of the vote after the distribution of preferences, which seems a formidable obstacle – especially in Tasmania (where as noted earlier Dr Bob Brown seems virtually certain of re-election), South Australia (where Nick Xenophon, who secured more than 20% of the Upper House vote in the State election in February last year, is running as an Independent candidate), and possibly in Queensland (where Pauline Hanson, who still has a personal following, is running under yet another new party banner). To enact legislation with the support of the Greens (which is by no means always assured), and assuming both sitting Green Senators are re-elected, Labor would still need to win four Senate seats in two States (requiring 57% of vote in those States) and three in the other four.

On the other hand, in order to retain the ability to block legislation in the Senate, the Coalition only needs to win 19 of the 40 seats up for grabs, which it can do by retaining its two Territory seats and winning just three seats in five States (which requires about 48% of the vote after preference distributions) whilst losing one seat to Labor in the remaining State. That outcome would also allow a returned Coalition Government to enact legislation with the support of the ‘Family First’ Senator.

Saul Eslake
Chief Economist

The Howard Government’s economic record

Analyses of the performance of an economy under the stewardship of different Governments should perhaps carry the same sort of disclaimer that is typically found, in fine print, at the bottom of advertisements for fund managers: that past performance is no guarantee of future results.

The Howard Government is the only Government in at least 90 years not to have presided over a recession.

Nonetheless, the Australian economy has, by almost every yardstick, performed very well during the tenure of the Howard Government. In particular, the Howard Government is the only Government in at least 90 years not to have presided over a recession - defined, for this purpose, as two or more consecutive quarters (or, for periods prior to the commencement of quarterly national accounts estimates in 1959, consecutive years) of negative real GDP growth. Inflation has been lower under the Howard Government than under any Government since the 1930s; the unemployment rate has fallen by more than under any other Government since the 1950s; and the labour force participation rate has been higher, on average, than under any other Government since the 1940s.

Figure 3 provides a more detailed comparison of the performance of various aspects of the Australian economy over the last 35 years, under the Labor Government of Gough Whitlam, the Liberal-National Party Coalition Government led by Malcolm Fraser, the Labor Governments led by Bob Hawke and then Paul Keating, and the Coalition Government of Prime Minister John Howard.

The key points suggested by Figure 3 are as follows:

- *economic growth*, in both absolute and per capita terms, has been almost identical under the Hawke-Keating and Howard Governments, not withstanding the deep recession which occurred in 1990-91 (under the Hawke-Keating Government), and faster under both than under either the Whitlam or Fraser Governments (each of which also presided over recessions). However economic growth has been more stable during the Howard Government’s term of office than under any previous Government;
- *labour productivity* growth has been almost identical under the Hawke-Keating and Howard Governments;
- *inflation* has been significantly lower under the Howard Government than under any of its post-war predecessors;

Figure 3: Economy performance under successive Governments, 1972-2007

Indicator (% pa unless otherwise signified)	Whitlam (Labor) (1972-1975)	Fraser (Lib-NP) (1975-1983)	Hawke-Keating (Labor) (1983-1996)	Howard (Lib-NP) (1996-2007)
Economic growth				
Real GDP growth	2.1	2.4	3.6	3.7
Real per capita GDP growth	0.9	1.1	2.3	2.4
Standard deviation of per capita GDP growth (%)	2.5	2.3	2.4	1.2
Labour productivity growth[(a)]	na	0.2[(b)]	2.3	2.4
Inflation and labour market				
Consumer prices[(c)]	15.2	9.9	5.2	2.1
Labour market -				
Employment	1.5	0.8	2.2	2.0
Unemployment (%, average)	3.3	6.1	8.5	6.4
Unemployment (%, at end)	5.3	9.6	8.1	4.2
Participation rate (%)	62.1	61.5	62.4	63.6
Household finances				
Real disposable income	3.9	1.9	2.4	3.3
Household saving rate (%)	16.6	13.5	7.9	0.8
Interest payments to disposable income (%)	3.6	6.0	7.0	8.3
Household debt (% of disposable income, at end)	na	37.7	68.8	161.3
Household wealth (% of disposable income, at end)	na	402.5	506.9	806.2
External finance				
Current account balance (% of GDP)	-1.2	-3.2	-4.5	-4.6
Terms of trade	-0.3	-1.5	-0.3	4.0
Net foreign debt (% of GDP, at end)	<5	13.5	37.9	52.0
Net interest on foreign debt (% of export income)	0.7	3.8	14.0	9.5
Interest rates				
Cash rate (% pa, average)	6.54	10.77	11.31	5.39
Mortgage rate (% pa, avge)	9.03	10.59	12.71	7.20
Real mortgage rate (% pa) [(d)]	-4.00	0.24	6.93	5.03
Fiscal policy				
'Underlying' budget balance (% of GDP)	0.0	-1.1	-1.5	+0.9
Net debt (% of GDP at end)	-0.4	4.9	18.5	-2.9
C'wlth tax revenues (% of GDP)	19.8	21.1	22.2	21.6[(e)]

(a) Output per hour in the non-farm 'market' sector. (b) Measured from March quarter 1978. (c) as measured by implicit price deflator of household final consumption expenditure (HFCE). (d) Deflated by implicit price deflator of HFCE. (e) Excludes GST revenues. Including GST revenues but excluding the estimated revenue from State franchise fees invalidated by the High Court in 1999, the figure for tax revenues as a share of GDP under the Howard Government is 23.5%.
Sources: ABS, RBA, Budget Papers and calculations by Economics@ANZ

There have not been any sharp jumps in unemployment under the present Government.

- *employment growth* has been slightly slower, on average, under the Howard Government than under the Hawke-Keating Governments, but the *unemployment rate* has been significantly lower under the Howard Government. This is partly because the labour force has grown more slowly than under the previous Labor Government, but also because there have not been any sharp jumps in unemployment under the present Government. The *labour force participation rate* has also been higher during the Howard Government's term in office than under any previous post-war administration;
- *real household disposable income* has grown more strongly under the Howard Government than under either the Hawke-Keating or Fraser Governments. That largely reflects more rapid growth in average real compensation per employee (4.1% pa as against 2.1% pa under the Hawke and Keating Governments) – although property incomes have also growth more rapidly (in real terms) under the current Government than under its predecessor (as have, partly offsetting this, personal income tax payments).
- *household indebtedness* has risen significantly during the Howard Government's term in office, although the trend began under the previous Government. The proportion of household disposable income absorbed by interest payments has also increased steadily, notwithstanding that interest rates have been significantly lower under the Howard Government than under either of its predecessors. Note however that *household assets* have risen by considerably more than household indebtedness. Reflecting that, household *net worth* has increased substantially during the Howard Government's term in office, from just over 4¼ times annual disposable income to nearly 6½ times annual disposable income. This increase in personal wealth has been a major factor in the decline in the household *saving ratio* under the Howard Government, continuing a trend that began during the term of the Whitlam Government more than three decades ago.
- Australia's *current account deficit* has averaged 4½% of GDP under the Howard Government, the same as it did under the Hawke-Keating Governments. The *merchandise trade deficit* has averaged 1.4% of GDP under the current Government, compared with 0.3% under its predecessor (notwithstanding the dramatic improvement in Australia's *terms of trade* during the life of the Howard Government); but this has been offset by a turnaround in the *services trade balance* from a deficit averaging 1.1% under the Hawke and Keating Governments to a small surplus averaging 0.1% under the current Government. Growth of *export volumes* has averaged 4.1% pa under the Howard Government, less than half the 8.6% average annual rate under the Hawke and Keating Governments, whereas growth in the volume of *imports* has been slightly higher, at 8.5% per annum, under the current Government than the 7.0% per annum rate under its predecessor. Reflecting the recurring deficits on Australia's current account, Australia's *net foreign debt* has continued to rise as a proportion of GDP, although notwithstanding this trend Australia's *external debt servicing ratio* has been lower under the Howard Government than under its predecessor, partly because of lower foreign and domestic interest rates.

***Interest rates* have been lower under the Howard Government than under any other government since the**

- nominal *interest rates* have been substantially lower under the Howard Government than under either the Hawke-Keating or Fraser Governments and indeed lower than under any Government since those of the late 1960s. This largely reflects the significantly lower inflation rate during the Howard era than under previous Governments, although (as implied by the fact that interest rates have also been lower in *real* terms under the Howard Government than under its predecessor) it also reflects the enhanced credibility of the Howard Government's macro-economic policy framework (particularly as a result of the formal independence in setting monetary policy granted to the Reserve Bank) and the decline in global real interest rates over the past 15 years.

The underlying *budget balance* has been in surplus by an average of just under 1% of GDP thus far during the Howard Government's period in office, compared with deficits averaging 1-1½% of GDP under its two predecessors.

- finally, the Howard Government has (by conventional yardsticks) managed the Commonwealth's *public finances* more prudently than most of its predecessors. The *underlying budget balance* has been in surplus by an average of just under 1% of GDP thus far during the Howard Government's period in office, compared with deficits averaging 1-1½% of GDP under its two predecessors. Significantly aided by asset sales exceeding $40 billion (largely accounted for by the sale of most of the Government's stake in

Telstra), these surpluses have allowed the Howard Government to repay all of the net debt it inherited from its predecessor and build up a net financial asset position which it holds in the Future Fund.

- the Howard Government's ability to run successive budget surpluses has been assisted by the buoyancy of tax collections. Excluding the GST introduced in 2000 (as the Howard Government prefers), Commonwealth tax revenues averaged 21.6% of GDP since 1996, just over ½ pc point of GDP, less than under the Hawke and Keating Governments. If (as preferred by the ABS and the Commonwealth Auditor-General), the GST is regarded as a Commonwealth tax, but allowance is made for the State franchise fees, then Commonwealth tax collections have (according to our estimates) averaged about 23½% of GDP. This is roughly 1pc point of GDP above the average for the period of the Hawke and Keating Governments.

The high regard which opinion polls indicate the electorate has for the Howard Government's economic management seems to be well grounded in fact. Of course it does not necessarily follow that everything which happens during a Government's tenure is directly attributable to that Government's policies or decisions.

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The performance of the economy under the Howard Government has been assisted by reforms implemented by the Hawke and Keating Governments, in particular, financial market deregulation, trade liberalization and competition policy. The fact that, for much of its time in opposition, the Labor Party has sought to distance itself from some of those reforms and opposed other reforms initiated by the present Government has perhaps made it easier for the Howard Government to claim a larger share of the credit for the reform 'dividend'.

Australia's terms of trade have improved steadily during the Howard Government's term.

The Australian economy's performance during the Howard Government's term in office has also been enhanced by a much more benign international economic environment than confronted the Whitlam, Fraser, Hawke and Keating Governments. Although the Asian financial crisis and the post 'tech wreck' slowdown occurred on the Howard Government's 'watch', these were smaller shocks than the global recessions of 1974-75, 1981-82 or 1990-93. China's emergence as a significant participant in the global economy has occurred largely during the Howard Government's term. Largely as a result, Australia's terms of trade have improved steadily during the Howard Government's term, in marked contrast to the steady deterioration in the terms of trade throughout most of the first nine decades of Australia's existence as an independent nation. Finally, global inflation and interest rates have been lower during the period of the Howard Government. This has made the attainment of low inflation and interest rates in Australia considerably easier than during the 1970s and 1980s.

Figure 4 provides some more detailed comparisons of international economic conditions during the terms of the current and previous Australian Governments.

Figure 4: International economic conditions, 1972-2007

Indicator (% pa unless otherwise signified)	*Whitlam (Labor) (1972-1975)*	*Fraser (Lib-NP) (1975-1983)*	*Hawke-Keating (Labor) (1983-1996)*	*Howard (Lib-NP) (1996-2007)*
World GDP growth	3.3	3.0	3.3	4.0
Standard deviation of world GDP growth	2.7	1.5	0.9	1.0
OECD area inflation	11.3	10.6	6.7	3.3
G7 cash rate (period average)	8.25	9.25	6.75	3.10
G7 10-year bond yield (period average)	8.43	11.41	9.89	5.26
Australia's terms of trade	-0.3	-1.5	-0.3	4.0

Sources: IMF; OECD; Economics@ANZ calculations.
Note: World GDP growth (and its standard deviation) and OECD area inflation calculated over the calendar years most closely coinciding with the terms of the four Australian Governments shown. Average interest rates and movements in Australia's terms of trade are calculated over the months or quarters covering those Governments' terms in office.

The Howard Government can rightly claim not to have made any significant economic policy mistakes during its term in office.

However, despite having benefited from reforms implemented or initiated by its predecessor, and from a more benign international environment, the Howard Government can justly claim credit for reforms and policies which have contributed to the strong performance of the Australian economy during its period in office. These have included labour market reforms, taxation reforms, and significant improvements to the frameworks within which monetary and fiscal policy are formulated. And, not least, it can rightly claim not to have made any significant economic policy mistakes during its term in office, a claim which cannot be made by any of its predecessors.

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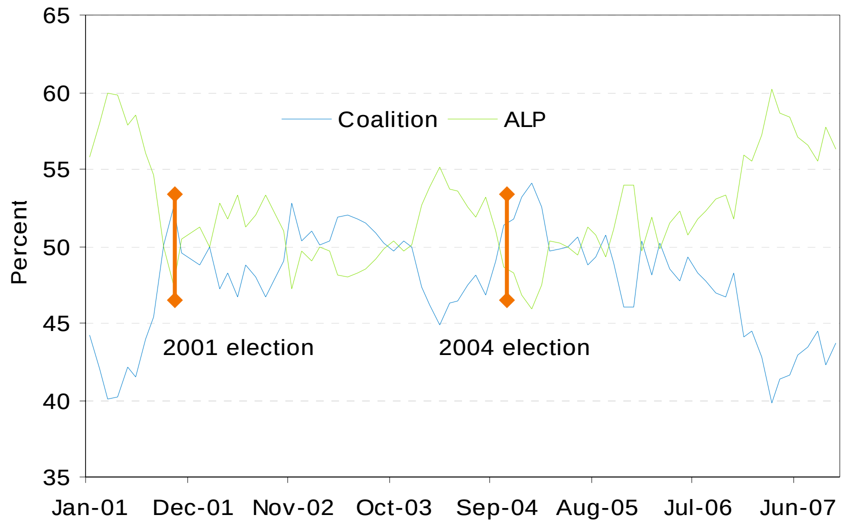
The polls

One of the remarkable features of this election year has been the consistency of opinion polls. Indeed, since late 2006, as shown below in Figure 5, the ALP has recorded a two-party preferred result of at least 55%, according to a three poll average.

Since late 2006, the ALP has recorded a two-party preferred result of at least 55%.

Figure 5: Three Poll Average



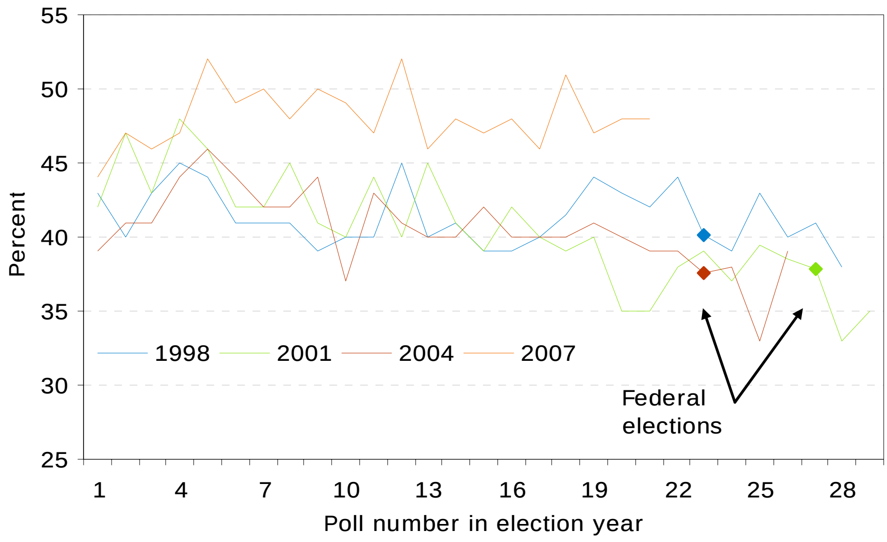
Source: AC Nielsen, Newspoll, Roy Morgan and ANZ

This stability in the two party preferred measure of voter polling has, unsurprisingly, also been reflected in the primary vote count. The ALP's primary vote has been very stable for most of this year, tracking around 46% to 52% (as measured by Newspoll). As Figure 6 illustrates, this has been well outside the range of primary voting intentions for the ALP recorded by opinion polling in previous election years.

The ALP's primary vote has been very stable for most of this year.

For the Government, its measured primary vote remains within the experience of previous election years. What is interesting about the Coalition's primary vote is that in each of the past three election years it has recorded a genuine rise around July/August, the post budget months. So far in 2007, this lift is yet to appear, although one could argue that there are tentative signs of a slight upward trend in the series in recent months. Since recording a low of 35% in May, the Coalition's primary vote seems to have shifted to a new range (37% to 41%). This is despite the Government following up its tax cuts in each of the previous four Budgets with another $31.4B of tax cuts over four years in the 2007-08 Budget. The lack of enthusiasm displayed by voters for the Coalition following this initiative suggests the additional $33.9B of tax cuts over three years announced last week may similarly fail to spark a jump in support for the Coalition in the polls. However, there were some tentative positive signals for the Government late last week. The first opinion poll of the election campaign, released by AC Nielsen, reveals a 2 point rise in the Coalition's primary vote.

Figure 6: ALP primary vote

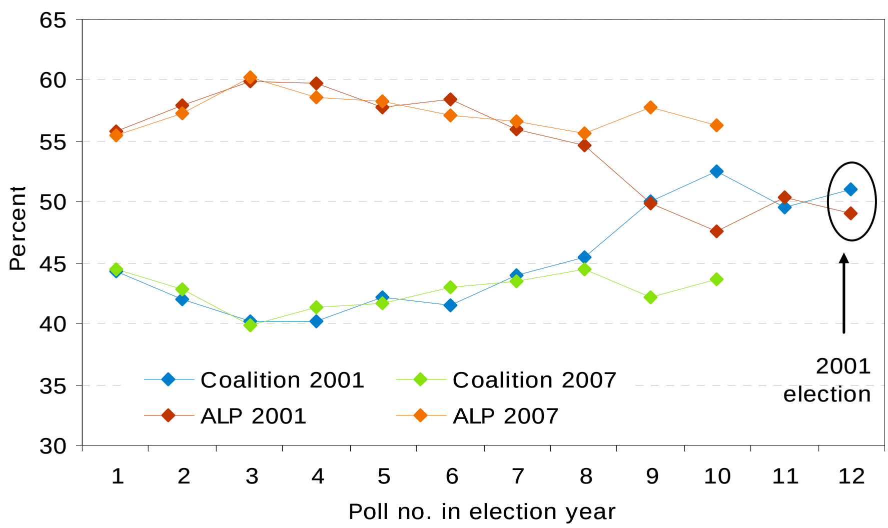


Source: Newspoll and ANZ

The Coalition has come from behind to secure another term of Government in both the 2001 and 2004 elections.

While the two party preferred vote has been strongly in favour of the ALP this year, it is worth noting that the Coalition has come from behind on this measure to secure another term of Government in both the 2001 and 2004 elections. While the gap was much lower in 2004 that it is now, this was certainly not the case in 2001. Indeed, the behavior of the two party preferred vote in 2001 and 2007 is very similar, see Figure 7. Only in the last few months of polling have differences between the 2001 experience and the 2007 experience started to emerge.

Figure 7: Two party Preferred vote



Source: Newspoll and ANZ

Is it necessary to win at least 50% of the two party preferred vote in order to win Government? Not necessarily.

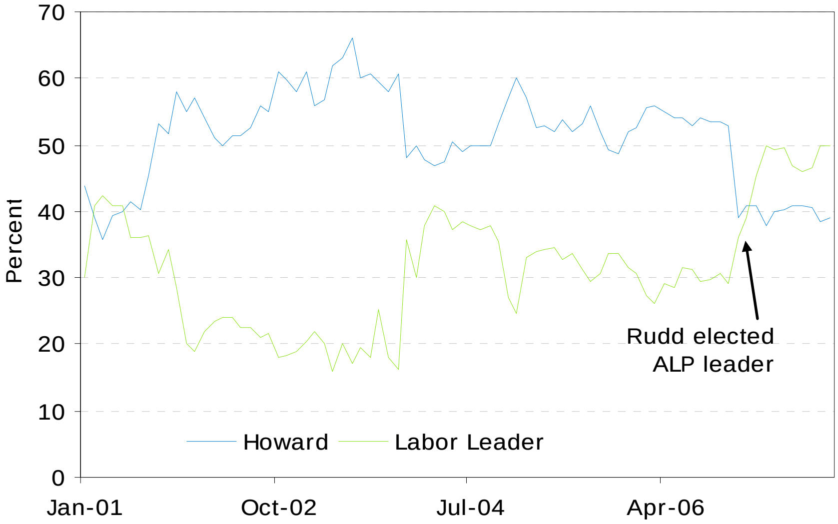
Is it necessary to win at least 50% of the two party preferred vote in order to win Government? Not necessarily; there have been a few occasions in Australian political history (5 since WWII) where the election victor has received less than 50% of the two party preferred vote. Most recently, the Howard Government received 49.0% of the two party preferred vote in 1998 and retained office. In 1990, the Hawke Government retained office with 49.9% of the two party preferred vote. The other occasions were Gorton (1969), and Menzies (1961 and 1954).

The ALP leader has, according to opinion polls, led in the preferred Prime Minister poll for all of 2007.

One of the more interesting aspects of this election year has been the fact that the ALP leader has, according to opinion polls, led in the preferred Prime Minister poll for all of 2007 as shown in Figure 8. The sharp rise in this measure came just after Kevin Rudd was elected ALP leader in December 2006, replacing Kim Beazley. None of his three predecessors as Opposition Leader had been able to achieve this, even when (as in the first half of 2001 and again in the first half of 2004) Labor had been ahead of the Coalition in the two-party-preferred vote (see charts below).

Nonetheless, Prime Minister John Howard has proved himself a formidable campaigner, and the Government retains all the advantages of incumbency (advantages which have been repeatedly demonstrated by the Labor Party in State elections). Thus, Labor's apparently commanding lead in the opinion polls does not mean that a change of Government is inevitable. In that context, the 2% swing back to the Coalition recorded by opinion polls taken at the end of the first week of the election campaign could be a sign of things to come.

Figure 8: Preferred Prime Minister



Source: AC Nielsen, Newspoll, Roy Morgan and ANZ

The fiscal position

Mark Rodrigues
Senior Economist, Australia

The parameters within which both major political parties will need to frame their election promises will not be officially known until the Pre-Election Economic and Fiscal Outlook (PEFO) is released.[1] However, the unexpectedly early release of the Mid-Year Economic and Fiscal Outlook (MYEFO) during the first week of the campaign gives a pretty good indication of what to expect.

Government coffers have been boosted by over $60B since May…

In particular, the budget is continuing to benefit from upward revisions to projected economic growth and to Australia's terms of trade. Upward revisions to projected revenues over the four years to 2010-11 between the May Budget and the MYEFO released on October 13 total $44.2bn. In addition expenses over this period are now expected to be $16.7bn lower than projected in May, boosting the overall budget bottom line by a total of $60.7bn over the next four years.

…and already $46B has been 'spent', mostly on tax cuts

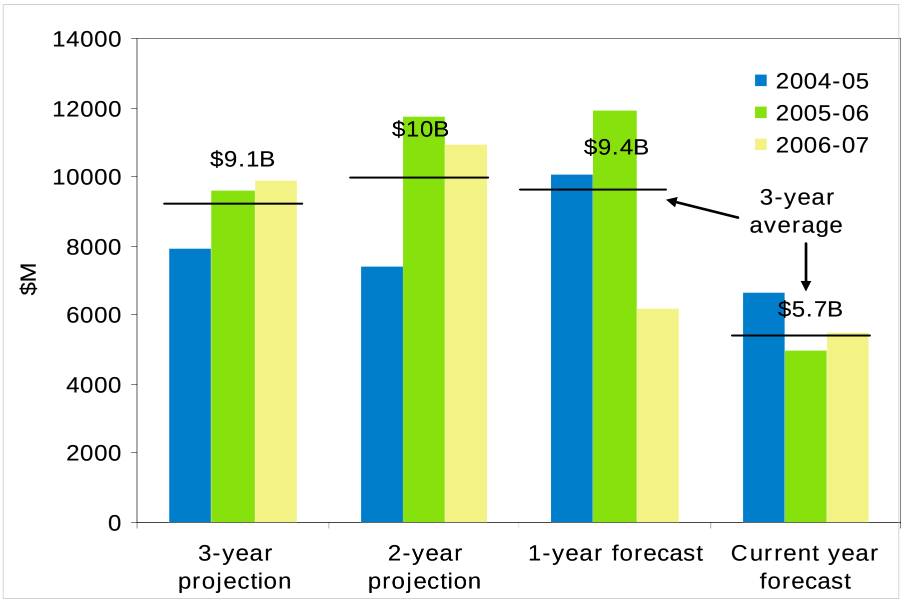
Already, the Government has 'spent' $46.3bn of this on new policies since the May Budget, including, most significantly, the $34bn worth of additional personal income tax cuts announced at the start of the election campaign. These figures also include over $4bn worth of policy decisions that have been taken, but not yet announced. Assuming that the ALP adopts similarly generous policies to those already budgeted; this still leaves both parties with $14.4bn in the kitty

[1] Under the *Charter of Budget Honesty Act 1998*, the PEFO must be released within 10 days of the issue of the writ for a general election, which puts the latest possible release date at 27 October 2007.

to spend without jeopardising the Budget-time forecasts for the fiscal balance of between 0.9% and 1.2% of GDP over the next four years.

In reality, there may be even more money for campaign promises than implied by the MYEFO figures. A look back through recent Budget papers shows that Treasury and Finance projections have consistently underestimated revenues (and, to a much lesser extent, over-estimated expenses). For example, at the time of the 2006-07 MYEFO (in December last year), the Government forecast a fiscal surplus of $10.4bn in 2006-07. The actual outcome was $15.9bn, more than $5bn or 50% higher than had been forecast midway through the year. Such underestimation of final budget outcomes has been the norm rather than the exception in recent years. The average underestimate of the fiscal balance at MYEFO for the current fiscal year is around $5.7bn over the past three years. And, perhaps not surprisingly, the underestimates are even larger for the 1-year ahead forecast and 2 and 3-year ahead projections, with an average underestimate of between $9bn and $10bn over the past three MYEFOs.

Figure 9: Deviation of MYEFO fiscal balance estimates from final outcome



Source: ANZ and Budget Papers

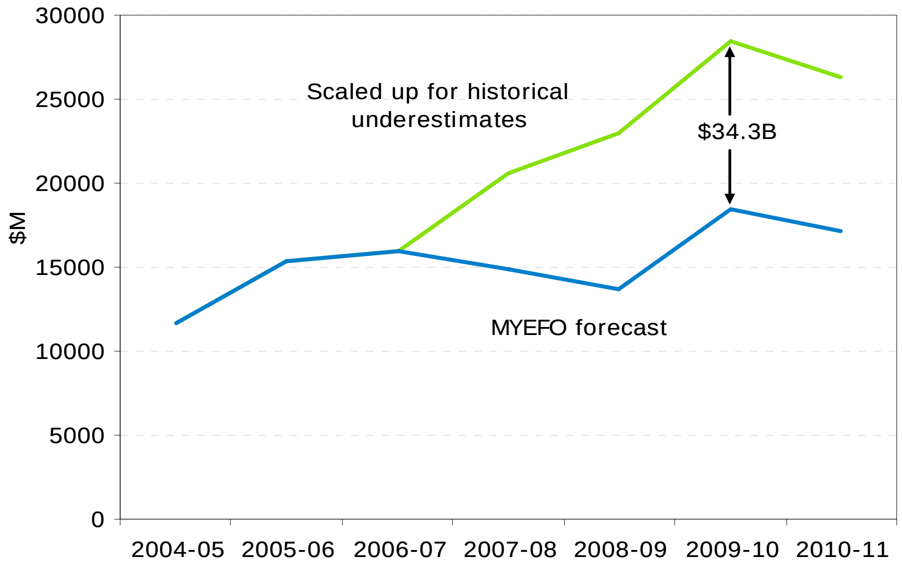
If recent history is any guide, expect more cash to unexpectedly flow into the coffers over coming years

If the 2007-08 MYEFO forecasts of the fiscal balance prove to underestimate the final outcome by a similar factor to those of the past three years, the cumulative surplus over the period between 2007-08 and 2010-11 will be $34.3bn higher than currently envisaged.

The economic fundamentals underpinning the MYEFO forecasts provide suggest the Government's recent track record of underestimating surpluses is likely to repeated. Economic growth is expected to slow from 4¼% this year to 3½% in 2008-09 and just 3% in the projection years, a relatively conservative view given global growth is likely to remain above trend over this period; public investment will reach record levels; household disposable incomes will be boosted by tax cuts; and pent up demand for housing is expected to jump start the dwelling investment cycle. Conservative positions have also been taken on other important fiscal drivers such as employment growth and the terms of trade, with forecast growth in the latter of just 1¼% in 2007-08 at odds with current pricing in a host of resource and agricultural commodity markets.

It all sounds eerily familiar…

Figure 10: Scenarios for the Government fiscal balance



Source: ANZ and Budget Papers

Cherelle Murphy
Senior Economist, Markets

Saul Eslake
Chief Economist

Farah Beaini
Junior Economist

Promises, promises…

Since the May Budget, the Government has committed $46bn of the $60bn upward revisions for the four years to 2010-11. The most substantial promise was the tax cuts worth $33.9bn, over three years, on day one of the election campaign. This promise was in line with the Government's strategy of recycling the windfall revenues thrown off by the unexpected strength and duration of the resources boom back to households. On top of the tax cuts, the Government has made around $10bn of spending announcements and signaled that it has at least another $4bn to come. With the Coalition heavily defending key marginal seats to limit its losses to less than 16, many electorate-specific spending announcement are included in this list of spending commitments, for example the $243mn over four years to takeover the Mersey Hospital in Devonport, Tasmania (in the marginal electorate of Braddon).

Figure 11: Major spending or revenue reducing promises since May Budget

Coalition	$mn(a)	ALP	$mn(a)
Tax cuts	33,980	Tax cuts	30,980
Drought Assistance	2,275	National Broadband Network	4,700(b)
Disability Support	1,275	50% Education Tax Refund	2,300
Extensions to Pharmaceutical Benefits Scheme	811	National Health and Hospitals Reform Plan	2,000
Army additional infantry battalions	790	Trade Training Centres in Schools	729
NT Interventions	675	Additional drought assistance	430
Workplace relations reform and oversight of 'fairness' test	395	**Claimed savings from abolishing 'WorkChoices', reduced use of consultancies in the Commonwealth public service and reduced political advertising plus redirection from the Auslink package**	**(3,200)**

(a) Commitment over the four-year forward estimates period (b)$2.7 billion to be funded from Government's holding of Telstra shares in the Future Fund.
Source: AFR, ALP and ANZ

There is almost no difference in the overall cost of the two major parties' tax proposals

The ALP has committed $6.1bn over the forward estimates period, but has partially offset these with savings, which it claims total $3.2bn. Although some press estimates of spending are larger, these estimates are for the coming 10 years and are not comparable with the Government figures. Kevin Rudd, who has assiduously sought to promote himself as an 'economic conservative', claims to have no intention of outspending the Government. *"I will not be matching Mr Howard dollar for dollar in every promise he make at this election because we want to be responsible, prudent, conservative cautious fiscal managers. I intend to be that."*

Labor's alternative $30.98bn tax plan is similar in most respects to that put forward by the Coalition, the major difference being that Labor would defer the cut in the top marginal rate (for taxpayers earning more than $180,000 pa) by three years and apply the $2.3bn saved to rebates for spending on education by families with school-age children and to providing additional funds for speeding up elective surgery procedures in public hospitals. Labor's total package would (on its costings) amount to just $200mn less than the Coalition's up to 2010-11. Although no details have been provided (by either side) for subsequent years, on the surface it would seem Labor's 'aspiration' for a three-tiered rate scale (with incomes of between $80,000 and $180,000 being taxed at a 30% rate rather than the 37% rate envisaged by the Coalition's 'aspiration') would entail a greater cost to revenue after 2010-11.

Figure 12: Coalition Tax Policy

Current		2010-11		2012-13	
Taxable income ($)	Rate (%)	Taxable income ($)	Rate (%)	Taxable income ($)	Rate (%)
0-6,000	0	0-6,000	0	0-6,000	0
6,001–30,000	15	6,001–37,000	15	6,001–37,000	15
30,001 -75,000	30	37,001-80,000	30	37,001-80,000	30
75,001-150,000	40	80,001-180,000	37	80,001-180,000	35
150,001+	45	180,001+	42	180,001+	40
LITO	750	LITO	1500	LITO	2100

Source: MYEFO, 2007-08

Figure 13 : ALP Tax Policy

Current		2010-11		2012-13	
Taxable income ($)	Rate (%)	Taxable income ($)	Rate (%)	Taxable income ($)	Rate (%)
0-6,000	0	0-6,000	0	0-6,000	0
6,001–30,000	15	6,001–37,000	15	6,001–37,000	15
30,001-75,000	30	37,001-80,000	30	37,001-180,000	30
75,001-150,000	40	80,001-180,000	37	180,001+	40
150,001+	45	180,001+	45		
LITO	750	LITO	1500	LITO	2100
		Education tax bonus			
		Primary students	$375	Primary students	$375
		Secondary students	$750	Secondary students	$750

Source: *A Tax Plan for Australia's Future, ALP*

The income tax cuts now proposed by both sides of politics will undeniably boost household spending.

Certainly the buoyant position of the budget will tempt both parties to spend much more over the coming weeks. But at a time when the Reserve Bank has a clearly enunciated bias towards tighter monetary policy, while the global economic outlook remains upbeat and local growth remains close to capacity, further fiscal stimulus carries the risk of putting additional upward pressure on interest rates. The income tax cuts now proposed by both sides of politics, for example, will undeniably boost household spending, especially to the extent that they are skewed towards lower income earners, who have a greater propensity to spend out of each dollar of additional disposable income than high income earners.

The IMF's semi-annual World Economic Outlook, released last weekend, highlights the risks involved in continually disbursing to households the revenue windfalls arising from the commodities boom and strong economic growth more broadly. Referring specifically to Australia (and New Zealand), the IMF notes that 'the main short-term policy challenge … continues to be to keep firm control on inflation in the face of strong domestic demand and tight labour markets', and encourages Governments to 'continue to exercise fiscal restraint in the period ahead' (page 83). More generally, the IMF argues that 'countries facing overheating pressures in the context of strong output growth and capital inflows would benefit from greater fiscal restraint, by saving a larger share of buoyant revenues, rather than allowing public spending to soar or prematurely cutting taxes' (p. 30). Although the IMF then goes on to say that this advice is 'particularly relevant for countries in emerging Europe with large current account deficits', in our view it is also apposite in the Australian context.

The IMF argues that 'countries facing overheating pressures in the context of strong output growth and capital inflows would benefit from greater fiscal restraint.

Of course income tax cuts may have other consequences besides boosting demand – and in some cases these may be highly desirable. The increases now proposed by both major parties in the Low Income Tax Offset, and in the threshold at which the 15% income tax rate becomes payable, are targeted at improving incentives to work. These can lift labour supply and improve the economy's ability to cope with new demand without raising price pressures. They are especially relevant for secondary income-earners, by easing the high effective marginal income tax rates which result from the interaction between the tax scales and the income tests for Family Tax Benefits and other social security payments. The labour force participation rate has been rising in recent years, and although other factors (including increased skilled immigration and a growing focus on the adequacy of retirement savings) have also contributed to this trend, tax changes such as these have had increased labour supply.

Reductions in the top marginal tax rates, or increases in the thresholds at which they become payable, can improve the competitiveness of Australia's tax system vis-à-vis those of countries such as the United States and the United Kingdom. At the margin that may also enhance Australia's ability to attract skilled migrants from those and other countries.

Economic policy differences

Cherelle Murphy
Senior Economist, Markets

Mark Rodrigues
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Saul Eslake
Chief Economist

The policies so far revealed by the Government and the ALP suggest there are few differences between the parties on the macroeconomic policy front. Both are committed to maintaining the independence of the central bank and an inflation agreement with the Reserve Bank which targets an annual rate of inflation of between 2% and 3% over the course of the economic cycle. Both are also committed to Budget surpluses of at least 1% of GDP over the (four year) forward estimates period.

Both parties also support the Future Fund, a fund that notionally provides for the unfunded superannuation liabilities of federal public servants and defence force personnel. A Labor Government would subtract around $2.7B from the fund's holding of Telstra shares for its national broadband plan, but this is immaterial to the Fund's aim of accumulating $148B by 2019-20. Both parties also support the recently established the Higher Education Endowment Fund and the Health and Medical Infrastructure Fund.

The Coalition is committed to retaining its workplace relations laws.

One area of policy difference however is workplace or industrial relations. The Coalition is committed to retaining its workplace relations laws, at the centre of which are individual contracts (subject to the new 'Fairness Test' for workers in industries covered by awards and earning up to $75,000 per year). The ALP would abolish 'Australian Workplace Agreements' (a form of statutory individual employment contracts originally introduced in 1996) over a two-year transitional period and reinstate a modified version of the 'unfair dismissals' laws (abolished by the present Government in 2006) for businesses with fewer than 15 employees. Labor would also provide for a set of 10 legislated minimum conditions which guarantee basic entitlements for employees earning less than $100,000 a year. The ALP's policy unwinds some of the flexibility that has been introduced into the industrial relations system by the Government's WorkChoices laws (as did the Coalition with the introduction earlier this year of the 'Fairness Test'), but the effect on productivity and job creation is likely to be small, with both parties' platforms preserving the role of enterprise level considerations in the wage bargaining process.

One aspect of Labor's policy which remains of concern to the construction industry is Labor's proposal to abolish the Australian Building and Construction Commission. This body was established by the present Government to prevent violence and other forms of unlawful activity on building sites. Although Labor has agreed not to abolish it before 2010, industry groups remain concerned that it could be underfunded by a Labor Government over the coming three years, making it virtually toothless.

There are also other differences on a portfolio by portfolio basis. A Labor Government, for example, would contribute $4.7bn towards a national fibre to node broadband network which it says would reach 98% of the population within five years. The Government's 'Australia Connected' plan is designed to ensure 99% of the population access to broadband by June 2009 using a mixture of fibre-optic, ADSL2+, WiMax fixed wireless broadband and satellite platforms. In contrast to the Labor proposal which utilises taxpayer funds, the Government's plan will rely on private investment and the network will be owned by the private sector, although the Government will spend $958mn on the delivery of services to rural and regional areas.

A Rudd Government would ratify the Kyoto Protocol while the Government will ratify Kyoto in its current form.

There are also differences on environmental policy. A Rudd Government would also ratify the Kyoto Protocol, while the Government said it will not ratify Kyoto in its current form. A Rudd ALP Government would set a target to cut Australia's greenhouse gas emissions by 60% by 2050, and would introduce a national emissions trading scheme by 2010. The Government has not specified an aspirational goal for emissions reductions, preferring to wait on the outcome of economic modelling by the Federal Treasury. However the Government has started work on a 'cap and trade' emissions trading scheme, which it plans to introduce by 2012. The Government also said it would introduced a Climate Change Fund from 2011 using the proceeds from the auctioning of carbon emission permits to cushion the effect of inevitably higher energy prices on low income earners. On nuclear energy, the ALP has ruled out the possibility of nuclear reactors in Australia, while the Coalition has said it would consider supporting up to 25 nuclear power stations in Australia. The ALP has a more aggressive plan than the Coalition for mandating the use of renewable energy.

On key personnel in the economic area, the Prime Minister said that if the Government is re-elected, Peter Costello would remain Treasurer. Rudd has confirmed the key economic ministries of Wayne Swan in Treasury, Lindsay Tanner in Finance and Julia Gillard in Industrial Relations if elected.

Economic obstables over the election campaign

Alex Joiner
Economist

A poll conducted just before the election date was announced puts the Coalition ahead of the ALP on the key issue on who would best manage the economy[2]. But one big test of the Government's economic record will be the October 24 Q3 consumer price index. The data itself will be secondary; it is the influence that the rate of inflation will have on the deliberations of the RBA that will be of most concern to votes.

We expect that a quarterly increase in the "core" inflation rate of around 0.8-0.9% for Q3 could give the RBA some serious ammunition for a change.

The Government has repeatedly asserted that 'interest rates will always be lower under a Coalition government than under Labor', and Liberal Party advertising during the 2004 election promised to 'keep interest rates at record lows'. Since the 2004 election, the Reserve Bank has raised the cash rate five times, by 25bp on each occasion, taking the cash rate to 6.5%. The November 6 RBA Board meeting, which falls on Melbourne Cup day and right in the middle of the campaign, could be crucial to the Government's changes of being re-elected.

The last four interest rate increases have all followed immediately after quarterly CPI releases. The key question therefore is what rate of inflation would prompt action by the RBA on this occasion. We expect that a quarterly increase in the "core" inflation rate exceeding 0.9% for Q3 would be regarded very seriously by

[2] *The Australian* October 17, 2007, A Newspoll survey conducted exclusively for *The Australian*.

Would Governor Stevens take the unprecedented step of raising the cash rate in an election campaign?

the RBA. Viewing the current domestic macroeconomic environment in isolation, we would think the RBA would more than likely raise rates on the back of this sort of inflation number. However, several external factors could cloud what may otherwise be a relatively straight forward decision.

Firstly, there is the potential for ongoing financial market volatility emanating from the global credit crunch. The strength of stock market and the A$ may cause the average voter to ask 'what crisis?' But concerns in credit markets remain and access to funds is still relatively expensive compared to 'pre-crunch' levels. If credit markets do not settle it will most likely only be a matter of time until the increase is passed on. Consequently, the RBA may be cautious of hiking interest rates in an environment where financial institutions may also be looking to raise rates irrespective of monetary policy.

Secondly, the election itself may affect the RBA's deliberations. Would Governor Stevens take the unprecedented step of raising the cash rate in an election campaign? In his own words, it is a distinct possibility; *"I do not think that there is any case for the Reserve Bank board to cease doing its work for a month, in the month that the election is going to be."*[3]

Consumer sentiment data on November 14 may be of more interest as it could give some indication of public reaction to the Reserve Bank's interest rate decision and higher petrol prices.

There are also several partial economic indicators to be released between now and the election. Retail sales data may give some insight in to the mindset of the consumer, but growth in sales has been fairly robust and we do not expect any significant softening. Consumer sentiment data on November 14 may more interesting as it could give some indication of public reaction to the Reserve Bank's interest rate decision and higher petrol prices. It will also be the final read on consumer optimism before the election and so any deterioration may indicate the shine has been taken off the Government's economic credentials only weeks before the election.

Figure 14: Pre-election economic releases

Date	Release	Importance
22 October	Producer price Index (Q3)	Low
24 October	**Consumer price index – Inflation (Q3)**	**High**
29 October	Business confidence survey (Q3)	Low
31 October	Private sector credit (Sep)	Low
	Building Approvals (Sep)	Low
1 November	Retail sales (Sep)	Moderate
	International trade (Sep)	Low
6 November	**RBA Board meeting**	**-**
7 November	**Monetary policy announcement (9:30am)**	**High**
	Housing Finance (Sep)	Moderate
	House price index (Q3)	Moderate
8 November	Labour force (Oct)	Moderate
14 November	Consumer confidence survey (Nov)	Moderate
	Wage cost index	Low
24 November	**ELECTION DAY**	**-**

Source: Economics@ANZ, ABS and Bloomberg

The release of labour force data on November 8 is likely to be relatively neutral in an economic sense. Yet it will provide the Government with an opportunity to highlight the 30-year lows in the unemployment rate and highlight its Work Choices legislation, which to its mind, have had a positive impact on the labour

3 RBA, August 17, 2007, Hansard transcript for House of Representatives Standing Committee on Economics, Finance and Public Administration

market. However, none of this is new and Labor currently still has the edge on industrial relations in the mind of the electorate.

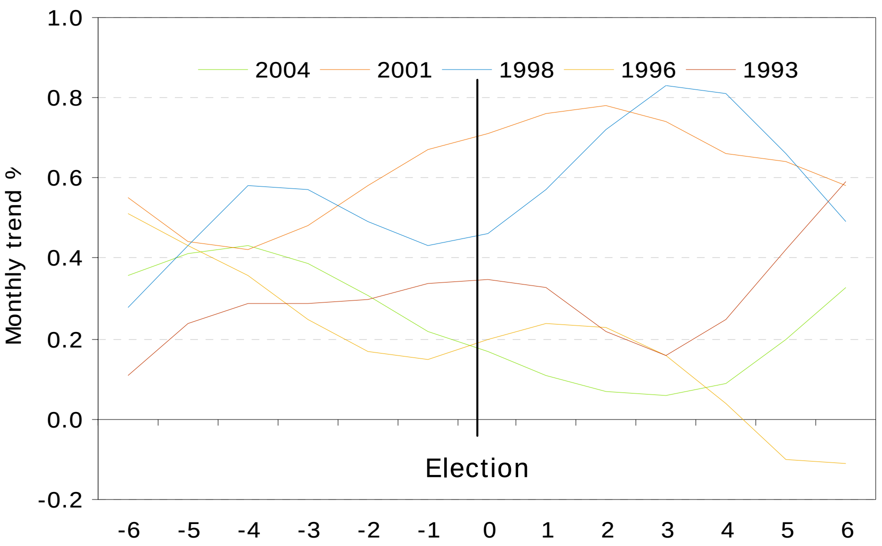
There is little doubt that house price data for the third quarter will indicate increases across most of the country. This will give the opposition an opportunity to highlight the housing affordability issue and its policies to address it. Incidentally, the data is released on the same day as the RBA announces its interest rate decision, potentially hitting the Government with a double whammy on the issue of housing affordability.

Tony Pearson
Head of Australian Economics

Do federal elections create their own ripples?

There is a belief that elections have a material impact on economic activity. It is not just the election of the wrong/right party that can influence post-election confidence and decision but also the uncertainty created by the informal shadow boxing and the formal election campaign. This may cause business to postpone investment and spending and households to tighten the purse strings. It is argued the certainty of an election result, irrespective of the outcome, then provides a settled environment for business and households to resume the normal pattern of economic discourse.

Figure 15: Retail spending and federal elections



Source: ANZ and ABS

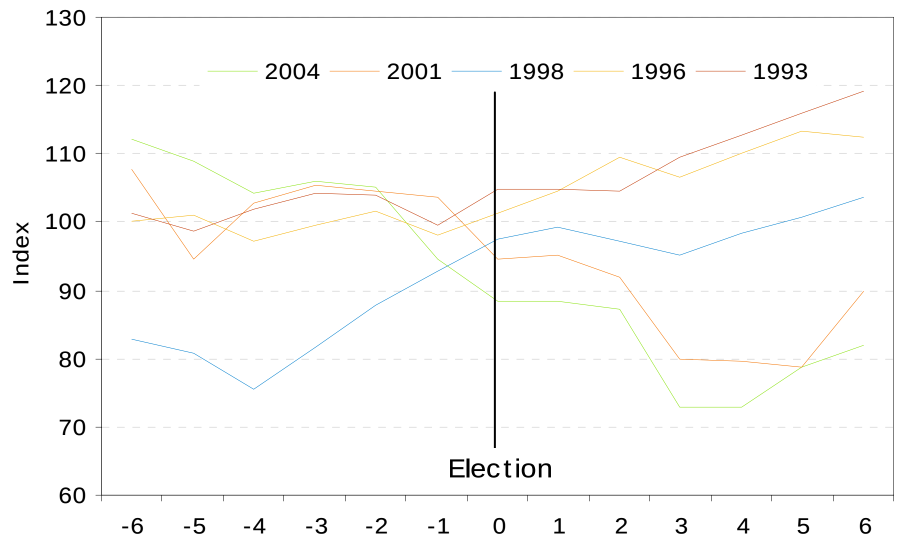
There is no consistent relationship between elections and economic activity, either in the pre-election or post-election periods.

But we find there is no consistent relationship between elections and economic activity, either in the pre-election or post-election periods.

Figure 15 above shows the trend monthly change in retail spending six months prior to, and six months after, the past five Federal elections. In three cases, spending softened in the months prior, while it strengthened in two. In two cases spending eased after the election, while in three cases it rose.

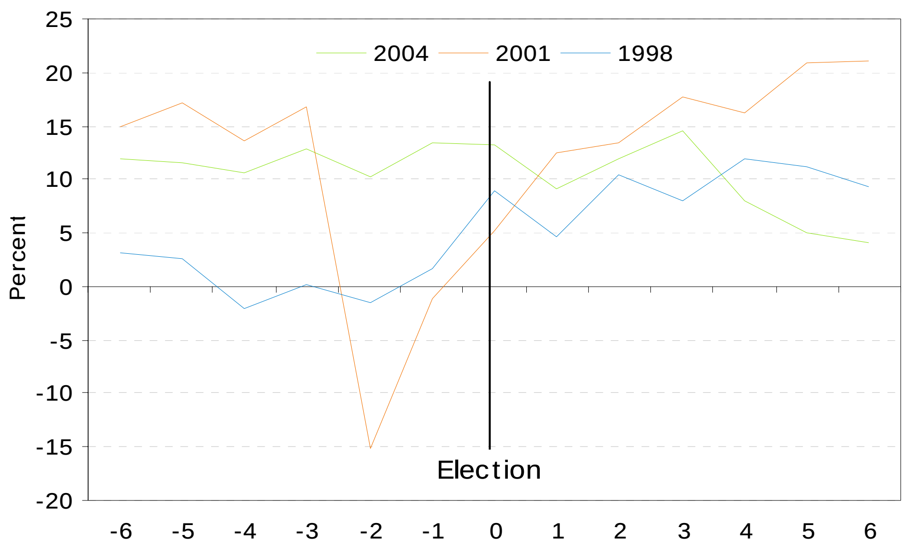
Figure 16 shows the relationship between consumer confidence and elections. The evidence is inconclusive. In two cases confidence fell in the lead up to the elections; in two cases it rose; and in one it was broadly steady. The story after elections gets more interesting, because in no case was there a material fall in confidence in the first two months after the elections.

Figure 16: Consumer sentiment and federal elections



Source: WBC-MI and ABS

Figure 17: Business confidence and federal elections



Source: ANZ and ABS

The impact of elections on business confidence is shown in Figure 17. Data on business confidence is available for only the past three elections. In all cases business confidence rose or remained high in the months prior to the election. In two cases it dipped slightly post election although it recovered in the subsequent month, and in one case it rose strongly.

Will the A$ be affected?

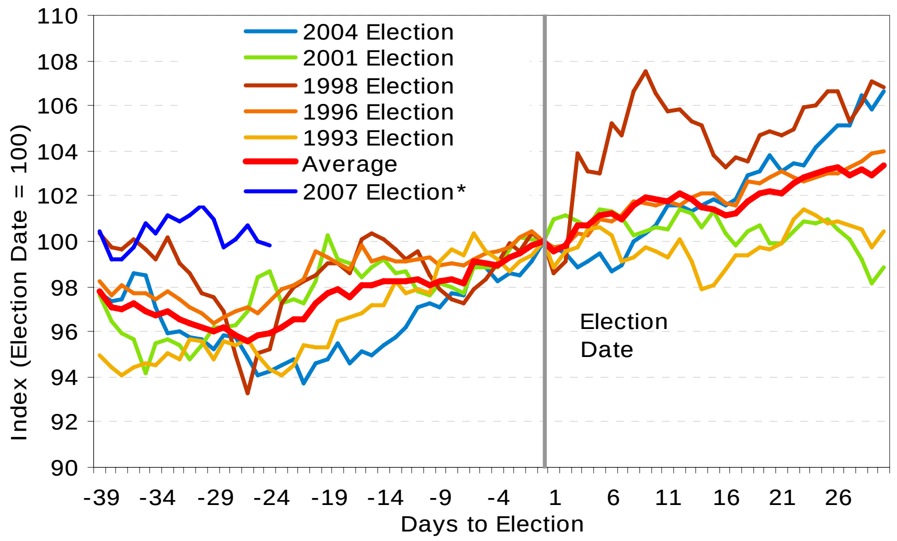
In contrast to the economic data, the A$ shows a clear upward trend into and after elections. Figure 18, which shows the price action of the A$/US$ in the 40 trading days prior to, and the 30 trading days after federal elections illustrates this clearly.

The post-election rally was most marked in the 1998, 2004 and the 1996 elections. On average, the A$/US$ appreciated around 4% in the three weeks leading up to the elections and around 3.5% in the six weeks afterwards.

Patricia Gacis
Market Strategist

Victor Thianpiriya
Junior Analyst

Figure 18: A$ performance around Federal Election Dates



Source: ANZ and Bloomberg

The supposed uncertainty caused by the prospect of a change of Government has not weighed on the A$ in the lead up to the election this year.

The 1993 and 2001 elections were the only experiences where the A$/US$ trade relatively sideways in the weeks following the election date. That said, the A$/US$ had rallied around 5% ahead of the 1993 and 2001 election dates which may explain why the A$ was relatively flat post-election.

In 2001 there was a global economy slowdown (tech bubble bust, 9/11) which may have dampened the performance of the A$/US$. We also note that in 1993, the Coalition was favoured to win power from the ALP. The ALP's surprise win at the 1993 election could have been a factor in limiting the A$'s gains in the following weeks.

The prospect of a change of Government has not weighed on the A$ in the lead up to the election this year. The poll will be held on 24 November. There are probably greater downside risks in coming weeks to the A$ from events elsewhere. The election could add volatility to the A$/US$, but we would expect other factors to continue supporting the A$ in coming months.

Victor Thianpiriya
Junior Analyst

The Australian Federal Electoral System

In the Australian Federal system, Government authority is divided between the national Government (the Commonwealth), the six States and two mainland Territories. The Commonwealth's legislative powers are defined in the 1901 Constitution, as interpreted from time to time by the High Court, with other powers residing with the States.

Both the Commonwealth and the States operate under the Westminster System in which the Government is the party (or coalition of parties) which can command a majority of votes in the 'Lower House' of Parliament (called the House of Representatives in the Commonwealth and the Legislative Assembly or House of Assembly in the States and Territories), to which representatives are elected by single-member constituencies containing roughly equal numbers of voters. The Prime Minister is the Leader of the party (or coalition of parties) with the largest number of seats in the House of Representatives.

The House of Representatives

The House of Representatives comprises 150 members, each representing a single electoral division or 'seat'. Each electoral division represents a portion of the Australian population and is adjusted as necessary to ensure (as accurately as possible) that the population is dispersed equally between electorates. The Australian Constitution provides for elections to the House of Representatives to be held at least once every three years, although subject to that requirement (and provisions in the Electoral Act specifying the minimum and maximum periods between the dissolution of the House and the date of the election) the timing of the election is at the discretion of the Prime Minister. Australian elections are always held on a Saturday.

The Senate

The 'Upper House' of the Commonwealth Parliament, the Senate, comprises 76 Senators - 12 from each State and two from each Territory. There is no requirement that the Government have a majority in the Senate as well as in the House of Representatives; indeed the Howard Government's majority in both Houses during the last Parliament has been the exception rather than the norm since the introduction of the 'proportional representation' system of voting in Senate elections in 1949. Senators from the States are elected for six year terms, typically commencing on the July 1 after the poll at which they are elected; half of the Senate places from each State are contested at each Senate election. Senators from the two Territories serve terms co-incident with those of the House of Representatives.

The Australian electoral system

Voting in Australian elections (or, strictly speaking, turning up at a polling place and having your name marked off, or obtaining a postal vote) is compulsory.

House of Representatives elections are conducted under a preferential voting system under which a voter marks '1' against the name of the candidate which he or she would most like to see represent his or her electorate (this is known as the 'primary' vote), and then ranks each other candidate listed on the ballot paper '2', '3' and so on. If a candidate receives more than 50% of the primary votes cast in an electorate, he or she is declared the winner of that seat. If no candidate obtains a majority on 'first preferences', then the votes of the candidate who received the lowest number of votes are 'redistributed' in accordance with the second preferences of those who voted for that candidate; and so on until one candidate has obtained a majority of the votes after the distribution of those preferences.

For the Senate ballot, candidates endorsed by parties (or who have agreed to run as a group) are listed in columns under their party or group names; independent candidates are listed in a separate column. Voters can, if they wish, cast their ballot by marking '1' against their preferred party or group; this means that their actual vote will be counted as if they had marked the entire ballot paper (from 1 to n where n is the number of candidates) in accordance with a pre-determined schedule submitted to the Australian electoral office by each party or group. Alternatively, voters can mark their preferences from 1 to n according to their own choice. In order to be elected to a Senate place, a candidate must obtain a 'quota' of votes, a quota being [1/(s+1)] + 1 where s is the number of Senate vacancies being contested (6 in a State, 2 in a Territory). Ordinarily, each of the major parties will gain 2 quotas in their own right, and a minor party or independent candidate will also often gain a quota in his or her own right. Those who do so are declared elected. Then, the votes of those candidates with the fewest votes are successively 'redistributed' in accordance with the preferences indicated by those who voted for them, until the full entitlement of Senators have been elected.

In Senate elections, and in closely contested House of Representatives seats, 'preference deals' between minor parties or independents and the major parties (promising 'preferences' in exchange for reciprocal preference flows or other favours) can be crucial in determining the outcome.

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