



Election Result 2007

Australia votes in Rudd and the Labor Party

28 November 2007

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Generational Change

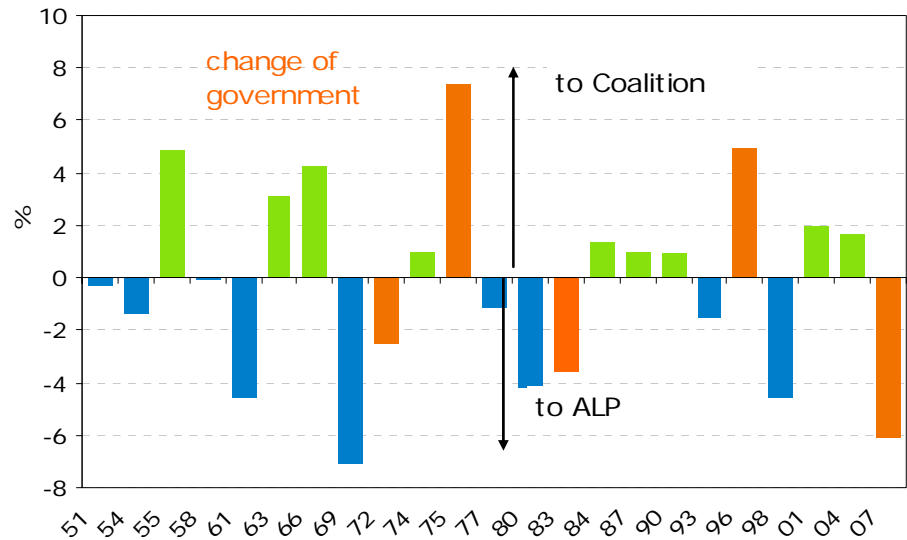
- The Australian Labor Party won the majority of seats in the House of Representatives in the election held on Saturday and therefore will form the Government of the 42nd Australian Parliament for the next three years.
- The ALP's victory ends 11½ years of Liberal/National Coalition rule. At last count, the swing to the ALP was 5.92% on a two party preferred basis. This was greater than the 4% required for the ALP to win Government.
- The ALP has won 82 seats compared to 59 for the Liberals and Nationals and seven seats remain in doubt with 79.78% of the primary vote counted. Two independents, Bob Katter and Tony Windsor have retained their seats.
- Senate counting is not as advanced as for the House of Representatives. But it appears that the ALP will improve its position, the Coalition will lose at least one seat, Independent Nick Xenophon will be elected and the Green's will improve their position. The Democrats will lose all four existing Senators.
- The Prime Minister elect Kevin Rudd has been leader of the ALP for just under 12 months and will lead with Deputy Julia Gillard. The Treasurer will be Wayne Swan and the Finance Minister, Lindsay Tanner.
- Prime Minister elect Rudd has indicated his priorities as education, ensuring long-term funding for public hospitals, building a national broadband network, addressing climate change, helping working families and stripping back the previous Government's WorkChoices industrial relations policy.
- The ability of the ALP to make legislative changes near-term may be hampered as the Senate remains a Coalition majority for another seven months. There are signs from Liberals however that they will allow the ALP to pass at least some of their industrial relations changes before this date.
- Leader of the Liberal party, John Howard, appears likely to lose his NSW seat of Bennelong after more than 11½ years as Prime Minister. This is only the second time in a century that a sitting Prime Minister has lost his seat. The first was in 1929, when Stanley Bruce, also a Liberal, suffered a similar fate.
- The outgoing Treasurer, Peter Costello, said he would not seek the leadership of the Liberal Party. Outgoing Environment Minister Malcolm Turnbull said he would stand for leadership as did former Health Minister Tony Abbott and former Defence Minister Brendan Nelson. Outgoing Ministers for Education Julie Bishop, Vocational and Further Education, Andrew Robb, and Ageing, Christopher Pyne are all in the running for the deputy leadership. Outgoing deputy Prime Minister, Mark Vaile said he would make way for a new leader of the National Party.
- The economic environment played a large part in the election outcome and was far from ideal for the incumbent. Ongoing drought, record high oil prices, weaker growth in the US and volatility on financial markets was juxtaposed with the strong domestic economy enjoying record low unemployment. But even the positive domestic growth came at a cost, adding to prices growth. This was a signal that interest rates were going to rise in early November, as they duly did, an occurrence unprecedented in an election campaign.
- These circumstances will also need to be carefully managed by the new Government. We expect that the strong momentum of the economy will continue to present upside risks to interest rates well into 2008. The new Government will also have to navigate a number of foreign economic challenges in its first few months of office. Ratings agency Standard and Poor's has confirmed however that the Austrasia will retain its 'AAA' rating following the change of Government.

Cherelle Murphy
Senior Economist

House of Representatives

With 79.78% of vote counted, the swing to the ALP is 5.92% after the distribution of minor party and independent candidates' preferences (see page 14 for a further explanation of the mechanics of the Australian electoral system). This was greater than the 4% required for the ALP to win Government as illustrated below. The size of the swing was dramatic compared to recent history with only 3 of the 23 House of Representatives elections held between 1950 and 2007, showing such a convincing swing away from the incumbent. Indeed this was the largest swing for the ALP to take Government since at least the Second World War. A win of this size for the ALP is therefore a relatively rare event.

Figure 1: Two party preferred swing in House of Representatives



A 6% or greater swing has only occurred in 3 out of 23 elections in the past 60 years.

Source: ANZ and AEC

The ALP has won 82 seats compared to 59 for the Liberals and Nationals. The two independents, Bob Katter and Tony Windsor have retained their seats. Seven seats remain in doubt, as summarised below.

Seven seats remain in doubt.

Figure 2: Summary of seats in the House of Representatives

Party	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Divisions won	
									2007	2004
ALP	27	21	15	4	6	5	2	2	82	60
Liberal	14	13	7	10	5	0	0	0	49	74
Nationals	5	2	3	0	0	0	0	0	10	12
CLP	0	0	0	0	0	0	0	0	0	1
Independent	1	0	1	0	0	0	0	0	2	3
Doubtful	2	1	3	1	0	0	0	0	7	0
TOTAL	49	37	29	15	11	5	2	2	150	150

Source: ANZ and AEC

The state with the biggest swing to the ALP was Queensland, at 8.25% on a two party preferred basis. The ALP now holds 15 of the 29 seats in that state. But there were also swings of between 1.94% and 7.04% to the ALP in each of the other states and territories. The ALP now holds the majority of seats and a majority of the vote in all states and territories, except WA, which remains a Liberal stronghold.

The balance of power will be shared between the Greens, Family First Senator Steve Fielding and Independent Nick Xenophon.

Senate

Forty of the 76 Senate positions were contested at the election; six Senators from each state and two from the ACT and Northern Territory. According to the votes counted so far, the Coalition has lost its majority in the Senate. But the majority was not transferred to the ALP, although the party picked up four seats, one each in NSW, Victoria, Queensland and Tasmania. The balance of power will be shared between The Greens, which picked up an extra seat in South Australia, the Family First Senator Steve Fielding and Independent Nick Xenophon from South Australia. The Australian Democrats will lose all four existing Senators and their party status.

The new Senators do not take their places until July 2008. The Territory Senators' terms mirror those members of the House of Representatives, but there do not appear to be any changes here and so the Government is likely to maintain its majority in the Senate for another seven months. From July 2008, the changes will give the Greens a lot more power in the Senate and the so the ALP Government will need to work with that party, as well as Steve Fielding from the other extreme of politics, and Independent Nick Xenophon to get their legislation through parliament.

Figure 3: The changing composition of the Senate

Party	State or Territory	2004 Election	2007 Election
Democrats	VIC	1	0
	QLD	1	0
	WA	1	0
	SA	1	0
	TOTAL	4	0
The Greens	NSW	1	1
	WA	1	1
	SA	0	1
	TAS	2	2
	TOTAL	4	5
ALP	NSW	5	6
	VIC	4	5
	QLD	4	5
	SA	5	5
	WA	4	4
	TAS	4	5
	ACT	1	1
	NT	1	1
	TOTAL	28	32
CLP	NT	1	1
Family First Party	VIC	1	1
Liberal Party	NSW	4	4
	VIC	6	6
	QLD	5	5
	SA	6	6
	WA	6	6
	TAS	6	5
	ACT	1	1
	TOTAL	34	33
The Nationals	NSW	2	2
	QLD	2	2
	TOTAL	4	4
Independent	SA	0	1

Source: ANZ, AEC, ABC and Australian Parliament House Website

Cherelle Murphy
Senior Economist

Key Ministers

Prime Minister – Kevin Rudd

Electorate	Career highlights
Griffith (QLD)	1981 Department of Foreign Affairs and Trade including periods in the Australian Embassies in Stockholm and Beijing
	1988 Chief of Staff to then Queensland State Opposition Leader and later Premier, Wayne Goss
	1992 Director-General of the Queensland Cabinet Office
	1995 KPMG China Consultant
	1998 Elected to Parliament as Member for Griffith in the House of Representatives
	2006 Federal Labor Leader and Leader of the Opposition.
	2007 Prime Minister

Source: ALP

Deputy Prime Minister - and Employment and Industrial Relations Minister – Julia Gillard

Electorate	Career highlights
Lalor (VIC)	1983 National president of the Australian Union of Students
	1987 Industrial lawyer at Slater and Gordon
	1990 Partner of law firm Slater and Gordon
	1996 Chief of staff to Victorian Opposition leader, John Brumby
	1998 Elected to Parliament as member for Lalor in the House of Representatives
	2004 Re-election to parliament and appointed Shadow Minister for Health and Manager of Opposition Business
	2006 Deputy Federal Labor Leader and Deputy Leader of the Opposition
	2007 Deputy Prime Minister


Source: ALP

Treasurer – Wayne Swan

Electorate	Career highlights
Lilley (QLD)	1975 Lecturer in Public Administration at Queensland Institute of Technology
	1991 State secretary of the Queensland Branch of the ALP
	1993 Elected to Parliament as member for Lilley in the House of Representatives
	1996-1998 Adviser to former Opposition Leader Bill Hayden, Special Minister for state Mick Young and Leader of the Opposition Kim Beazley
	1998 Elected to Parliament as member for Lilley in the House of Representatives
	2007 Treasurer

Source: ALP

Finance Minister – Lindsay Tanner

Electorate	Career highlights
Melbourne (VIC)	1982 Article clerk and solicitor with Holding Redlich.
	1985 Electorate assistant to Senator Barney Cooney
	1988 State Secretary of the Federated Clerk's Union
	1993 Elected to Parliament as member for Melbourne in the House of Representatives
	1998 Shadow Minister for Finance and Shadow Minister for Consumer Affairs
	2007 Minister for Finance and Administration

Source: ALP

Kevin Rudd has yet to appoint his ministry but for the first time, he alone will determine the membership of the full ministry as well as allocating portfolios.

The Prime Minister elect, Kevin Rudd, has yet to appoint his ministry but for the first time, he alone will determine the membership of the full ministry as well as allocating portfolios and reserving the right to dismiss ministers. Previously the factions collectively chose the ministry, with the leader allocating portfolios. The Labor Party caucus will meet on Thursday to formally approve the ministry and the new Ministers are expected to be sworn in soon after. Although all shadow Ministers have retained their seats, new blood is likely to be brought in including former Secretary of the ACTU, Greg Combet. The composition of the shadow ministry was as below in Figure 4.

Figure 4: The shadow Ministry as it looked in the 41st Parliament

Minister	Electorate or State	Ministry
Anthony Albanese	Grayndler (NSW)	Infrastructure & Water , Manager of Business in the House
Arch Bevis	Brisbane (QLD)	Homeland Security; Territories , Shadow Minister for Justice and Customs
Chris Bowen	Prospect (NSW)	Assistant Treasurer, Revenue and Competition Policy
Tony Burke	Watson (NSW)	Minister for Immigration, Integration & Citizenship
Kim Carr	Senator for Victoria	Industry, Innovation, Science & Research
Stephen Conroy	Senator for Victoria	Deputy Labor Senate Leader; Communications & Information Technology
Simon Crean	Hotham (VIC)	Trade & Regional Development
Craig Emerson	Rankin (QLD)	Service Economy, Small Business & Independent Contractors
Chris Evans	Senator for Western Australia	National Development, Resources & Energy
Laurie Ferguson	Reid (NSW)	Multicultural Affairs, Urban Development & Consumer Affairs
Martin Ferguson	Batman (VIC)	Transport, Roads & Tourism
Joel Fitzgibbon	Hunter (NSW)	Defence
Peter Garrett	Kingsford Smith (NSW)	Climate Change, Environment & Heritage, Arts
Alan Griffin	Bruce (VIC)	Veterans Affairs, Defence Science & Personnel, Special Minister of State
Joe Ludwig	Senator for Queensland	Attorney-General Manager of Opposition Business in Senate
Kate Lundy	Senator for ACT	Local Government, Sport, Recreation & Health Promotion
Jenny Macklin	Jagajaga (VIC)	Families & Community Services, Indigenous Affairs & Reconciliation
Robert McClelland	Barton (NSW)	Foreign Affairs
Jan McLucas	Senator for Queensland	Ageing, Disabilities and Carers
Bob McMullan	Fraser (ACT)	Federal/State Relations; International Development Assistance
Kerry O'Brien	Senator for Tasmania	Primary Industries, Fisheries & Forestry
Tanya Plibersek	Sydney (NSW)	Human Services, Housing, Youth and Women
Nicola Roxon	Gellibrand (VIC)	Health
Nick Sherry	Senator for Tasmania	Superannuation & Intergenerational Finance, Banking & Financial Services
Stephen Smith	Perth (WA)	Education & Training
Penny Wong	Senator for South Australia	Public Administration & Accountability , Corporate Governance & Responsibility, Workforce Participation

Source: ALP

Cherelle Murphy
Senior Economist

Rudd: "if I am elected I want to be known as the 'education Prime Minister'."

Included in the tax plan is the goal over six years, by 2013-14, of flattening Australia's income tax system.

ALP Policy Priorities

The ALP went to the Australian electorate, distinguishing itself from the Howard Government by promoting its priority for education reform, ensuring adequate long-term funding for public hospitals, stripping back the previous Government's WorkChoices industrial relations policy, dealing with climate change and building a national high-speed broadband network. On top of these policy areas there were also some proposed changes for business. The main policy priorities are outlined below:

Education

Over the coming term, the Prime Minister elect said a Labor Government's number one priority would be education. He told *The Australian Financial Review* last week; "if I am elected I want to be known as the 'education Prime Minister'... as fiscal resources permit the overarching priority of an incoming Labor Government will be education spending; it's the single greatest transformation policy available to a Government".

The ALP said it would give tax rebates to families with school aged children for some categories of education spending. The party will aim to provide a school computer to every student in years 9 to 12 and provide access to 100 megabits per second broadband connections at schools through fibre to the premises (FTTP) broadband infrastructure.

The ALP will also create an additional 200,000 skilled training places over the next four years taking the total to 450,000. It will establish a trades training centres in high schools. The ALP will also double from 44,000 to 88,000 the number of undergraduate students on Commonwealth Learning Scholarship and double from 4,800 to 9,600 the number of postgraduate students receiving an Australian Postgraduate Award for their PhD or Masters by Research.

Helping Families

The centerpiece of Labor's plan for helping working families is tax cuts, worth nearly \$31bn over four years. The ALP's policy in this area was very similar to the Government's, but we mention it here as it was the largest single promise in terms of revenue reduction. The major difference from the Howard Government's plan is that it defers the cut in the top marginal rate for taxpayers earning more than \$180,000 pa. Instead, Labor will provide rebates for spending on education by families with school-age children and provide additional funds for speeding up elective surgery procedures in public hospitals.

Included in the tax plan is the goal over six years, by 2013-14, of flattening Australia's income tax system by reducing the number of personal income tax rates from four to three, with a personal income tax scale of 15%, 30% and 40%. The details of the plan are outlined below;

Figure 5: ALP Tax Policy

Current		2010-11		Aspirational 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 ALP will introduce a superannuation style "First Home Saver Account".

The ALP also has a plan to increase the child care tax rebate from 30% to 50%. The cap for the payment of the child care tax rebate will be increased to \$7,500 and rebate will be paid quarterly, compared to once a year currently. It will also make child care more accessible by establishing 260 new long day care centres on school, TAFE, University and community sites and improving the quality of child care by investing \$77m in the training and education of the workforce and setting tougher standards for child care providers.

To help with the cost of housing, the ALP will introduce a superannuation style "First Home Saver Account" where individuals will be able to contribute a maximum amount of \$10,000 per annum. Pre-tax contributions (the first \$5,000) incur a reduced tax rate of 15%, post-tax contributions incur no tax. Earnings will be taxed at 15% or less after taking into account dividend imputation and capital gains in the fund. Funds will only be accessible after 4 years and only for eligible first home purchases. The ALP will also introduce a National Rental Affordability Scheme to encourage institutional investors to construct new affordable rental accommodation. The ALP will also establish a \$500 million partnership with local Governments to reduce the supply side barriers to the development of new housing.

Industrial Relations

Industrial relations was perceived to be one of the key issues of the 2007 election campaign. This was despite the fact that there were probably few major substantive differences between the parties' policies following the introduction of the fairness test by the Howard Government.

Under a Rudd Labor Government the following changes are expected:

- Australian Workplace Agreements (a form of statutory individual employment contracts originally introduced in 1996) will be abolished over a five-year transitional period. Statutory individual contracts will not be reintroduced.
- A modified version of the unfair dismissal laws (abolished by the previous Government in 2006) will be reinstated. Employees of businesses with fewer than 15 employees would be exempt from unfair dismissal laws for one year, and all other private sector workers would be exempt for the first six months of employment.
- Employers can be forced to engage in collective bargaining if a majority of employees are in favour of collective bargaining. Employers will be required to bargain in good faith.
- Labor will provide for a set of 10 legislated minimum conditions which guarantee basic entitlements for employees earning less than \$100,000 a year.
- The ALP will abolish the Australian Building and Construction Commission (although not before 2010). It will create Fair Work Australia as a 'super' workplace agency. Fair Work Australia will have responsibility for the minimum wage setting process.

The ALP's policy unwinds some of the flexibility that was introduced into the industrial relations system by the previous Government's WorkChoices laws.

The ALP's policy unwinds some of the flexibility that was introduced into the industrial relations system by the previous Government's WorkChoices laws, but we suspect the effect on productivity and job creation will be small, with the ALP's industrial relations policy largely preserving the role of productivity considerations in the wage bargaining process.

Environment

The ALP has announced a number of initiatives aimed at addressing climate change including immediately ratifying the Kyoto Protocol, cutting Australia's emissions by 60% (on 2000 levels) by 2050, introducing a national emissions trading scheme by 2010 and setting a mandatory renewable energy target of 20% by 2020. The ALP also intends to combine the mandatory renewable energy target and State schemes into one single national scheme. The ALP will also;

- establish a clean energy plan which includes funding for renewable energy (\$500mn), clean coal (\$500mn) and energy efficiency;

Labor intends to lift the funding of the nation's 750 public hospitals.

A Rudd Government, will focus on multinational over bilateral trade negotiations.

Labor is also keen to ensure that product disclosure documents in the financial services sector are kept brief.

- establish a Green Car Innovation Fund of \$500mn for five years from 2011, matched by \$1.5bn from the private sector, to develop an Australian low emissions vehicle;
- provide funding and low interest loans to households for solar panel and water conservation equipment installation;

Hospital Funding

Labor intends to lift the funding of the nation's 750 public hospitals to reverse the reduction in the Federal Government's funding of public hospitals relative to state funding. This includes creating an additional 2000 aged care beds, providing more funding for public dental care, and creating community health facilities in the form of GP super clinics. The ALP also intends to invest in more new nursing graduates and attract trained nurses back into the hospital system with cash bonuses, among other things.

Economic Policy

Prime Minister elect Kevin Rudd campaigned on his economic conservatism and in essence has no plans to change the nation's macro-economic policies. The ALP in Government will maintain the independence of the Reserve Bank, keep the budget in surplus, on average, over the course of the economic cycle and not increase taxation as a proportion of GDP.

One of the few differences between parties is related to the selection of RBA board members. Incoming Treasurer Wayne Swan said he would ask the Reserve Bank Governor and the Treasury Secretary to advise on new procedures for appointing RBA Board members, which avoid partisan candidates being short listed for consideration by the Treasurer.

Trade

A Rudd Government, according to a speech by senior ALP figure and previous opposition trade spokesman, Simon Crean, will focus on multinational over bilateral trade negotiations. However the ALP is unlikely to abandon regional and bilateral negotiations, believing that they can enhance multilateral outcomes. The ALP is focused on the Doha round of the World Trade Organisation, which Crean said would be the number one trade priority.

The ALP is also supportive of a subsidiary role, for regional forums such as APEC. The ALP said it will seek to expand APEC to bring in India and a number of other countries and would like to improve APEC's governance and procedures, particularly in relation to how it implements its decisions. It also intends to improve the mechanisms within the Australian Government for providing business input, particularly from the services sector, in the development of APEC policy initiatives.

Broadband Infrastructure

The ALP intends to construct a National Broadband Network, in partnership with the private sector. The network is designed to deliver minimum speeds of 12 megabits per second to 98% of Australians and will be progressively built over five years.

Business Deregulation

Prime Minister elect Rudd has indicated he will appoint a Minister with exclusive responsibility for business deregulation. In terms of financial services, the ALP has also indicated its support for the creation of a single ombudsman scheme for the financial services sector to review the *Financial Services Reform Act 2001*. Labor is also keen to ensure that product disclosure documents in the financial services sector are kept brief. The ALP will also create a Superannuation Clearing House to allow business to pay superannuation centrally if they chose.

Withholding Tax Reform

The ALP intends to halve withholding tax for non-residents on Australian managed funds from 30% to 15% and remove the need for overseas investors paying withholding tax to lodge a tax return and claim debt as a deduction. This would align Australia's tax rate with the USA and Hong Kong.

Cherelle Murphy
Senior Economist

Wain Yuen
Economist

ALP Spending Promises

The ALP's spending promises were largely focused on the priorities outlined above. That is, education, health, high-speed broadband, climate change and helping working families. The ALP's largest spending announcements are outlined below.

Figure 6: The ALP's major spending promises

Policy	2007-08 \$mn	2008-09 \$mn	2009-10 \$mn	2010-11 \$mn	Total over forward estimates \$m
Tax cuts	-	7110	9790	13900	30830
National Broadband Network	na	na	na	na	4700
Education tax refund	-	-	1010	1090	2100
Skilling for Our Future	76	187	351	558	1172
Child care tax rebate	-	574	401	434	1500
National Secondary Computer Fund	100	400	300	200	1000
Labor's National Dental Plan	1	177	201	227	606
National Elective Surgery Plan	50	110	220	220	600
Reduction in Withholding Tax for Managed Funds	-	145	175	185	505
First Home Owner's Deposit Accounts	-	50	155	255	460
HECS reduction for Maths and Science	-	41.7	119	185	345
National Solar Schools Fund	51	149	64	47	310
Renewable Energy Fund	-	75	75	75	225
Clean Coal Fund	-	75	75	75	225
Housing Affordability Fund	-	50	75	75	200

Source: AFR and ALP

The ALP also made some major road spending promises, which differed from the Howard Government's but which were funded out of the AusLink packages already in the Budget.

Additional to these there were many local announcements including GP Super clinics in Ballan (VIC) Shellharbour (NSW), Bundaberg (QLD), Burnie (TAS) Gladstone (QLD) Devonport (TAS) and Berwick (VIC). The ALP also made some major road spending promises, which differed from the Howard Government's but which were funded out of the AusLink packages already in the Budget. These include \$2.5bn for Brisbane and South East Queensland roads, \$2.2bn for north Queensland roads, \$2bn for the Sydney Orbital motorway and freight network, \$1.5bn for Northern NSW roads, \$1bn for Melbourne motorway and freeway upgrades, and \$630mn for Western Australian infrastructure and road maintenance.

There were also numerous savings measures announced by the ALP's Finance spokesperson Lindsay Tanner, which scrap Howard Government spending measures to free up funds for the policies listed above. The ALP claim these are worth around \$10bn. Specifically, the ALP plans to save \$1,149mn by abolishing the ID Card program, \$701mn from improving tax compliance, \$623mn from

abolishing work skill vouchers, \$359mn from ending the dental plan and \$285mn from abolishing Green Vouchers. The ALP also claims it can save \$860m from reducing Government advertising expenditure, expenditure on consultancies and reducing non-defence related recruitment expenses. Finance Minister Lindsay Tanner also claims it can save \$150mn from introducing common purchasing agreements in the public services.

The fiscal bottom line

The Australian Financial Review's Spendometer estimates that the total spending promises made by the ALP were \$56,911mn offset by savings of \$10,199mn over the four year forward estimates period. This brings the net spend to \$46,711mn. Because several large policies, including most significantly the tax cuts, had to a similar degree already been counted by the Government in the budget, the impact of the ALP's policies on the fiscal bottom is actually much smaller. Also, the ALP's \$4.7bn plan to facilitate the construction of a national high speed broadband network will be funded from existing investments and the sell-down of Telstra shares currently held by the Future Fund. The ALP said its spending totalled \$628mn in 2007-08, \$2,735mn in 2008-09, \$3,529mn in 2009-10 and \$3,547mn in 2010-11. That totals \$10,438mn over four years. This should be offset by \$5,422mn in savings over four years, bringing its net spend to \$5,015mn, as shown below.

Figure 7: ALP's major spending promises

Aggregate	2007-08	2008-09	2009-10	2010-2011	Total over forward estimates
PEFO Underlying Cash Balance (\$mn)	14367	14319	17711	15029	61418
ALP net spending (\$mn)	183	1494	2233	1105	5015
Public debt interest (\$mn)	3	57	171	282	513
Balance after ALP promises and PDI (\$mn)	14181	12768	15307	13634	55890
Nominal GDP (\$bn)	1121	1195	1246	1298	
Balance after ALP promises and PDI (% of GDP)	1.26	1.07	1.23	1.05	

Source: PEFO and ALP

There is little question about affordability of these policies, with budget revenues consistently surprising on the high side in recent years due to the commodity price boom and healthy surpluses projected for the coming four years. The question in this economic environment is how much the spending promises would hinder the RBA's aim of keeping inflation low. The ALP's promises compare to Coalition promises of \$62,292mn (according to *The AFR's* Spendometer). On these grounds ALP was the more frugal of the two parties over the forward estimates period, allowing Rudd to claim the fiscal high ground during the campaign. But the differences on the budget bottom between the two parties were minor. Both parties are likely to have kept the budget bottom line at just over 1% of GDP, with our estimation of the ALP's bottom line shown above. In both cases the surplus could have been much larger. We think this indicates that the incoming Government will aim to find additional savings or further offset the cost of its policy proposals. Rudd has indicated that it will be forming a "razor gang" to further cut administrative expenses.

The ALP's \$4.7bn plan for a National Broadband Network will be funded from existing investments and the sell-down of Telstra shares currently held by the Future Fund.

The ALP was the more frugal of the two parties over the campaign.

Saul Eslake
Chief Economist

Key challenges for the new Government

Just like the Hawke-Keating Government before it, the Howard Government bequeaths to its successor an Australian economy in better shape than the one which it inherited. We summarized the Howard Government's economic record in our pre-election note of October 22. Nonetheless, the incoming Rudd Labor Government will need to come to terms with a number of economic challenges, including, on the international front:

- the possibility (although in our view not the probability) of a US recession in the aftermath of the sub-Prime mortgage market crisis;
- the possibility of an extended global 'credit crunch' as a result of a tightening in credit standards, heightened risk aversion and the erosion of international banks' capital by write-downs in the value of assets affected by the sub-Prime mortgage market crisis and other related events – to which Australia, as a significant international borrower, could be exposed; and
- the possibility that the disinflation influence which China has exerted on the prices of internationally traded manufactured goods, which has thus far helped to prevent the surge in commodity prices from triggering higher consumer price inflation, may be fading.

These are all risks, rather than certainties. There is nothing that any Australian Government can do to reduce the probabilities attaching to them, and very little that the Rudd Government can do in the near term to mitigate their impact should any of these risks be realized.

In addition, the Rudd Government will need to come to terms with the fact that, as the Reserve Bank warned twice during the election campaign, growth in domestic demand 'will need to moderate if inflation is to be kept to 2-3% in the medium term'. This is something it can, and will need to, do something about if it wishes to minimise the risk of further increases in interest rates. Although Labor's campaign policies were less expansive than those of the Coalition, their net effect, if implemented in full, will still be to add to growth in domestic demand rather than to moderate it.

To be sure, some of Labor's policies will also boost supply – but that effect will be felt over the medium term, while the impact on demand will show up more quickly. It would therefore be prudent for the Rudd Government to pursue measures designed to offset at least some of the impact on domestic demand which the implementation of its campaign promises is likely to have. These do not need to be dramatic or urgent – for example, the income tax cuts which represent by far the largest element of Labor's platform are to be phased in over three years from July 1st next year, so offsetting measures could be identified in incoming Treasurer Wayne Swan's first Budget next May. Towards the end of campaign, incoming Finance Minister Lindsay Tanner claimed to have identified some \$10bn of savings which it would be seeking in Government; the Treasury and Finance Departments will almost certainly identify others.

The possibility of another near-term increase in interest rates may also be mitigated by the new Government removing the *fatwa* imposed by the Coalition Government on banks raising their benchmark lending rates in order to recoup the increase in their funding costs over the past three months, which the Reserve Bank has estimated to be in the order of 10-15 basis points. Wayne Swan indicated during the campaign that banks, rather than the Government, should decide the timing and magnitude of increases in interest rates.

If banks do decide to lift their mortgage and business lending rates by this order of magnitude in coming weeks (and we claim no special insight into how likely that is), the Reserve Bank may perceive less need to raise the official cash rate than otherwise.

One of the key areas of difference between Labor and the Coalition was industrial relations, and the Rudd Government will presumably be seeking to give legislative effect to its industrial relations policies (including the re-instatement of 'unfair dismissals' laws for employees in small businesses, the abolition of Australian Workplace Agreements, and the replacement of the Fair Pay Commission, the Australian Building and Construction Commission and the

Although Labor's campaign policies were less expansive than those of the Coalition, their net effect, they will still add to growth rather than moderate it.

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Industrial Relations Commission by a new body to be called 'Fair Work Australia') in the first sitting of the new Parliament next year. However that legislation will presumably not pass the Senate until the Senators elected at Saturday's election take their places on 1 July next year (and assuming that the legislation will be supported by the 'Family First' Senator Steve Fielding and newly-elected South Australian Independent Senator Nick Xenophon, who will likely share the balance of power in the Senate with the Greens after 1 July next).

The Rudd Government would do well to use this period before its proposed industrial relations changes take effect to re-assure small businesses, who appear to be particularly fearful of their possible impact. The abolition of the 'unfair dismissals' laws as part of the Howard Government's 'WorkChoices' changes in March 2006 appears to have triggered a significant increase in hiring by small businesses, who no longer had to fear (however irrationally) the possibility of being embroiled in protracted and expensive litigation in the event that they hired the 'wrong' person. Labor's policy includes a 12-month probation period before an aggrieved employee can pursue an 'unfair dismissal' action, and provides for some other circumstances in which employees can be dismissed without giving grounds for an 'unfair dismissal' claim. Nonetheless, a survey of small businesses last week suggests that Labor has some work to do if it wishes to quell widespread concerns among smaller employers about the possible consequences of its proposed changes. For its part, big business now appears to be more relaxed about the implications of Labor's proposed changes, especially after modifications made to them in August.

The polls proved to be an accurate reflection

Review any of the three major opinion polls in 2007 and they show the ALP had a clear lead over the Coalition on a number of measures, whether it be the two party preferred vote or primary vote. The major opinion polls had consistently pointed to a change of Government for all of 2007. Figure 8 below shows the results from our analysis of the power of polls in predicting election outcomes. We took three poll average measures of the last pre-election poll. On average, the election predictions using the last polls deviate from the outcome by about 1.0ppts and they typically overstate the ALP's primary vote.

Figure 8: Poll deviations from actual election outcomes

Year	Average of 3 polls (pre-election poll, 2pp basis)		Election Outcome		Deviation from Outcome
	Coalition	ALP	Coalition	ALP	
2007	46.2	53.8	46.7*	53.3*	-0.5
2004	51.0	49.0	52.7	47.3	-1.7
2001	50.2	49.8	51.0	49.1	-0.8
1998	48.0	52.0	49.0	51.0	-1.0

Source: ANZ, AEC, Newspoll, AC Nielsen and Roy Morgan

*Based on the count so far.

On a three poll average basis, the ALP had a 7.6ppt lead over the Coalition of 53.8% to 46.2% on a two party preferred basis the day before the election. On the morning of 26 November, the Australian Electoral Commission was showing a two party preferred result of 46.7% to the Coalition and 53.3% to the ALP (with 78% of votes counted). This gives a deviation of 0.5ppts between the three poll average and the actual outcome in the 2007 election, the most accurate prediction of the past four elections.

On an individual final poll basis, the Roy Morgan poll conducted on election-eve was shown to be the most accurate with an error margin of 0.2ppts, an unsurprising result given the timing of the poll. The final polls of Newspoll and AC Nielsen predicted a similar result, with both having an error margin of 0.7ppts.

On an individual final poll basis, the Roy Morgan poll conducted on election-eve was shown to be the most accurate.

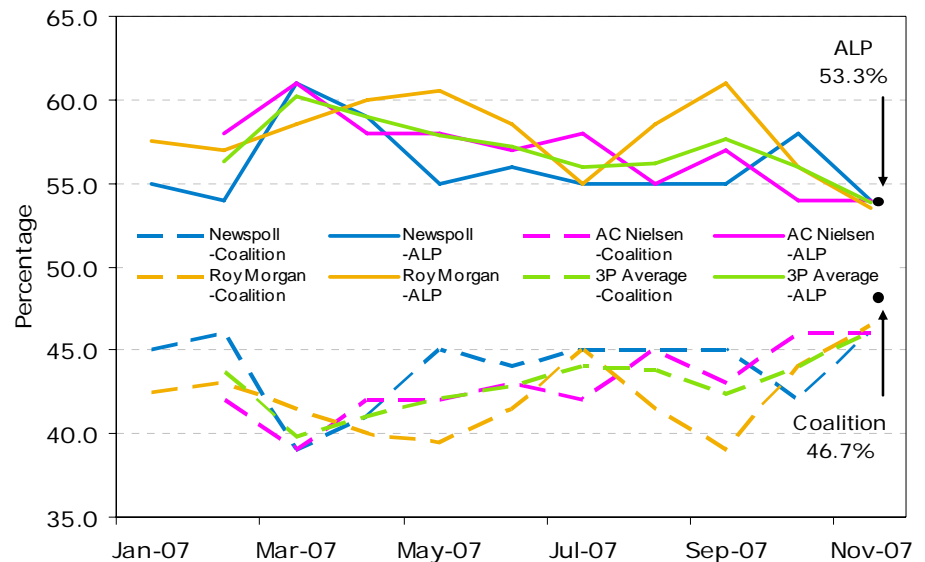
Figure 9: Pre-election polling

Poll	Prediction		Deviation from Outcome
	Coalition	ALP	
Roy Morgan	46.5	53.5	-0.2%
AC Nielsen	46%	54%	-0.7%
Newspoll	46%	54%	-0.7%
Galaxy	48%	52%	1.3%

Source: ANZ, Roy Morgan, Newspoll, AC Nielsen, Galaxy

Polls tend to converge the closer we get to election dates as voters become more fully informed of their alternatives.

Over 2007, we saw a clear tendency for poll results to converge as we neared the election. Figure 10 below shows end-of-month poll readings for this year. As we would expect, polls tend to converge the closer we get to election dates as voters become more fully informed of the alternatives. There may also be an element of indecisiveness amongst the electorate in the months before a decision must be made leading to, at times, wide disparities between polls. For these reasons, it is unsurprising that the polls closest to elections seem to most accurately reflect voter intentions.

Figure 10: End of month polls, Newspoll, AC Nielsen, Roy Morgan, 2007


Source: ANZ, AEC, Newspoll, AC Nielsen, Roy Morgan

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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 $\lceil \frac{1}{s+1} \rceil + 1$ 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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