



# We must have another vote, quickly

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Uncertainty in the lead-up to an election is bad enough for the economy. We now face the prospect of considerable and persistent uncertainty under a minority government. Unless one major party can form a majority government, the public interest would be best served by going back to the polls.

Economic research shows that in the year leading up to an election, business investment is (on average) about 5 per cent lower than it otherwise would be. As business investment accounts for about 15 per cent of GDP, a typical election year can slow economic growth by 0.5 per cent or more. Investment declines by more the closer the polls, because there is then more uncertainty about which party will win and what policies will apply. In the lead-up to last Saturday's federal election, the polls were close throughout the last nine months. Business investment fell by over 15 per cent in the year to March, although factors other than pre-election uncertainty (such as the winding down of mining investment) also played a role.

However, the impact on economic growth of the pre-election uncertainty that we have just experienced could well be dwarfed by the impact of the post-election uncertainties that we now face.

In the short-term (until we find out who will govern us and we learn more about the new government's policies in practice), spending decisions will be put on hold if they could be significantly affected by policy differences between the major parties. Examples of such decisions include investments by small businesses, investments in housing and consumption by those nearing retirement, as the benefits and costs of those decisions depend on which major party will form government and therefore which policies on company tax cuts, negative gearing and superannuation (respectively) will apply.

However, while that short-term uncertainty is unpleasant, the much bigger worry is the impact of ongoing uncertainty over the next three years if we end up with a minority government. In that case, economic growth will suffer because at least three key political uncertainties will persist:

1. How long the government will last (as minor parties and independents can switch or withdraw allegiances at any time);
2. How long the prime minister will last (given the reported leadership tensions within both major parties); and
3. The government's ability to get its policy measures through parliament.

Economic research around the world has shown that such persistent political uncertainty and/or instability can have considerable negative impacts on economic growth.

Therefore, if neither major party can form majority government, the public interest would be best served by holding another election immediately. Sure, we'd suffer a few more weeks' uncertainty. However, we wouldn't need another eight-week campaign. Voting again would be well worth it if we then end up with a majority government — regardless of which major party wins.

Majority government would greatly reduce political uncertainties that would impede growth.

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