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The value of shifting to four-year parliamentary terms

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Executive Summary

It is often argued that four-year terms in Australia would deliver significant economic benefits.[1] Currently, the Commonwealth House of Representatives operates on three-year terms, while every state and territory Lower House has already shifted to four-year terms.[2] Globally, Australia's federal system is an outlier, with only eight of the 186 countries with active legislatures maintaining terms of three years or less.[3]

This research note quantifies the potential benefits of shifting from a three-year to a four-year term in the Commonwealth House of Representatives. We analyse three categories of benefits; **reduced direct election costs** (e.g. the costs to the Australian Electoral Commission (AEC) and political parties), **indirect economic benefits** (e.g. delays and reductions in business investment) and **policy implementation benefits** (e.g. more reforms and better reforms from governments). Based on conducting five elections over 20 years instead of six, we estimate the total benefits over a 20-year period to be between $59 and $71 billion depending on the size of each of these categories.

We estimate the value of avoided direct costs to be $4.6 billion over 20 years. Avoiding these direct costs is the clearest, most tangible benefit from adopting four-year terms. Direct costs include the cost of conducting elections incurred by the Australian Electoral Commission (AEC) worth $1.6 billion, the opportunity cost of voters' time worth $1.5 billion, and political party costs worth $1.5 billion.

We estimate the indirect economic benefits to be worth $40.7 billion over 20 years. For the purpose of this analysis, we have focused on business investment and the disruption to usual government business.

Studies show that increased uncertainty during election periods results in deferred and in some instances permanently lost business investment. We estimate that the benefit in avoiding this reduction in investment by adopting four-year terms is around $40.5 billion over 20 years.

The remaining $0.2 billion reflects disruptions to usual government business during the caretaker period - when governments operate under restricted decision-making conventions before and during elections. While this estimate relies partly on anecdotal evidence, its relatively small size (0.4% of total indirect benefits) means that it has minimal impact on our overall findings. Additional indirect costs, such as market stability effects and foreign exchange fluctuations, have been identified qualitatively in the literature but have not been quantified in this analysis.

The relationship between electoral terms and policy-making effectiveness presents the most complex analytical challenge. Supporters of four-year terms argue shorter terms promote political expediency over good governing.[4] Drawing on research by Alesina et al., we estimate that the benefits of adopting four-year terms is between $14-26 billion over 20 years.[5] Their cross-country analysis finds that reform implementation varies significantly with electoral timing. Market-liberalising reforms, which typically reduce regulatory restrictions, occur less frequently in election years and can negatively impact incumbent vote share unless implemented early enough for economic benefits to materialise. Conversely, regulatory tightening tends to increase during election years. The electoral success of any reform appears closely tied to economic conditions, with voters generally opposing reforms during economic contractions while sometimes supporting them during expansions.

Precise quantification of longer parliamentary terms' benefits faces significant methodological challenges. Distinguishing between correlation and causation proves particularly difficult given numerous external factors.

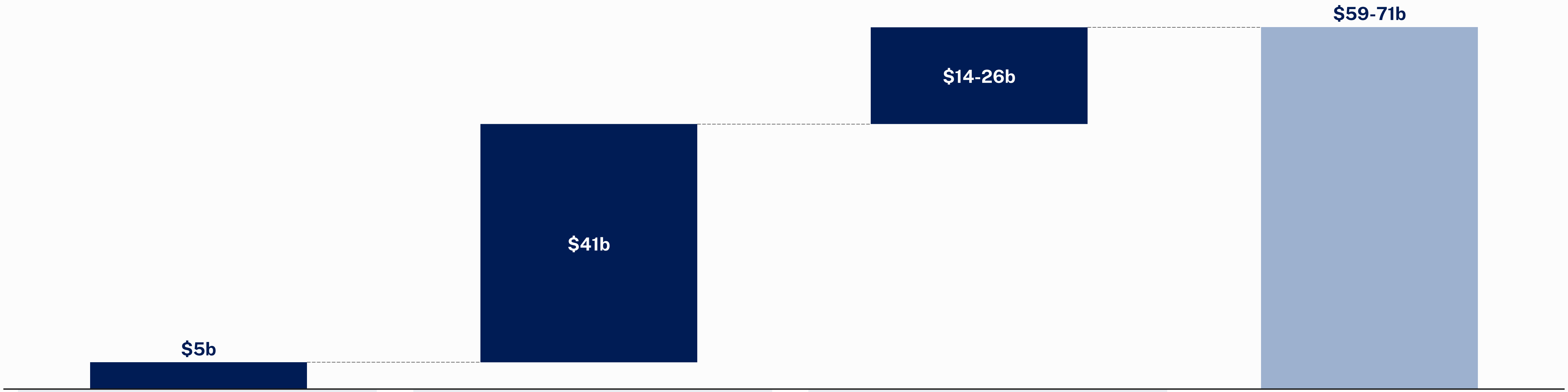
It is important to note that election days serve as important fundraising opportunities for local communities - from school P&C committees to charities running cake stalls, raffles and sausage sizzles. The economic activity generated through these grassroots initiatives, while modest in macroeconomic terms, provides valuable support. This research note is not trying to discount the value of a democracy sausage, both to the consumer and the vendor.

1 Department of Parliamentary Services(2024) *Parliamentary Handbook.* 2 Parliament of Australia (2005) *Chapter 7 Parliamentary terms.* 3 IPU (2024) *Compare data on parliaments.* 4 Parliament of Australia (2005) *Chapter 7 Parliamentary terms.* 5 Alesina et al. (2023) *Structural Reforms and Elections: Evidence from a World-Wide New Dataset.*

The benefit over 20 years of shifting from three-year to four-year terms is between $59 and $71 billion depending on what impact it has on government reform ambition

Benefits of shifting to four-year terms

$AUD, 2022 - 2041



Reduced direct election costs	Indirect economic benefits	Policy implementation benefits	Total
Reduced direct election-related costs include political campaign expenses and expenses of the Australian Electoral Commission	Indirect economic benefits include avoided losses in business investment and avoided disruptions to usual government business	Policy implementation benefits arise due to the increased likelihood of reforms which are beneficial but might be electorally risky	

Source: Mandala analysis. Each component discussed in detail below.

$4.6 billion in direct costs would be avoided over 20 years through a shift to four-year terms

Moving from three-year to four-year terms would reduce direct costs by $4.6 billion over 20 years. Direct costs include the cost of conducting elections worth $1.6 billion, the opportunity cost of voters' time worth $1.5 billion, and political party costs worth $1.5 billion.

The cost of conducting elections accounts for more than 35% of avoided direct costs. This includes labour expenses, administration costs and public funding that is provided to candidates. These costs are paid by taxpayers to the Australian Electoral Commission (AEC). Election costs have been increasing steadily, with the 2022 election costing $522 million.[1]

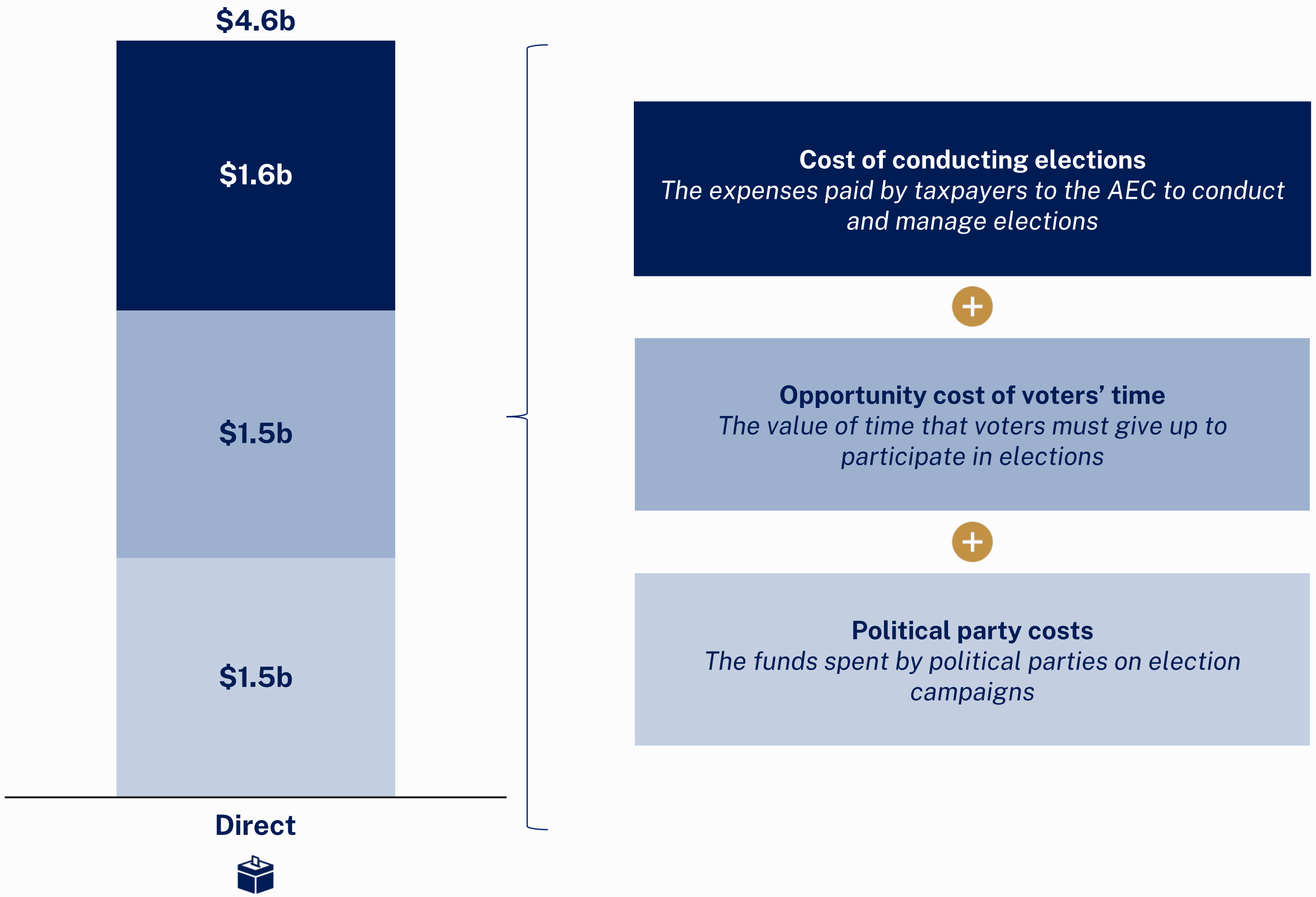
The opportunity cost of voters' time accounts for more than 32% of avoided direct costs. This is estimated assuming voters are not forced to take time off work, but instead give up their leisure time. The opportunity cost of their time would be higher, and would also have implications on national productivity, if voters were forced to skip work.

Political party costs, worth $1.5 billion, are expenses incurred by parties on campaigns including for advertising, staffing and events. Political party costs were $345 million at the 2019 election.[2,3]

1 AEC (2024) Cost of elections and referendums.
2 Parliament of Australia (2022) The price of democracy.
3 Assumes no change to current political finance laws.

Avoided direct costs from shifting to a four-year term

Total avoided direct costs over 20 years, $AUD, 2022 - 2041



Source: AEC (2024) Cost of elections and referendums; Australian Government (2023) 2023 Intergenerational Report; The Office of Impact Analysis (2024) Regulatory Burden Measurement Framework; AEC (2022) Size of the electoral roll and enrolment rate 2022; AIHW (2024) Profile of Australia's population; Parliament of Australia (2022) The price of democracy; Mandala analysis.

$40.7 billion in indirect benefits would be realised over 20 years by shifting to four-year terms

Moving to four-year terms would realise $40.7 billion in indirect benefits over the next 20 years. Indirect benefits captured in this analysis include business investment costs of $40.5 billion and the avoided cost of disruption to usual government business during caretaker conventions worth $0.2 billion.

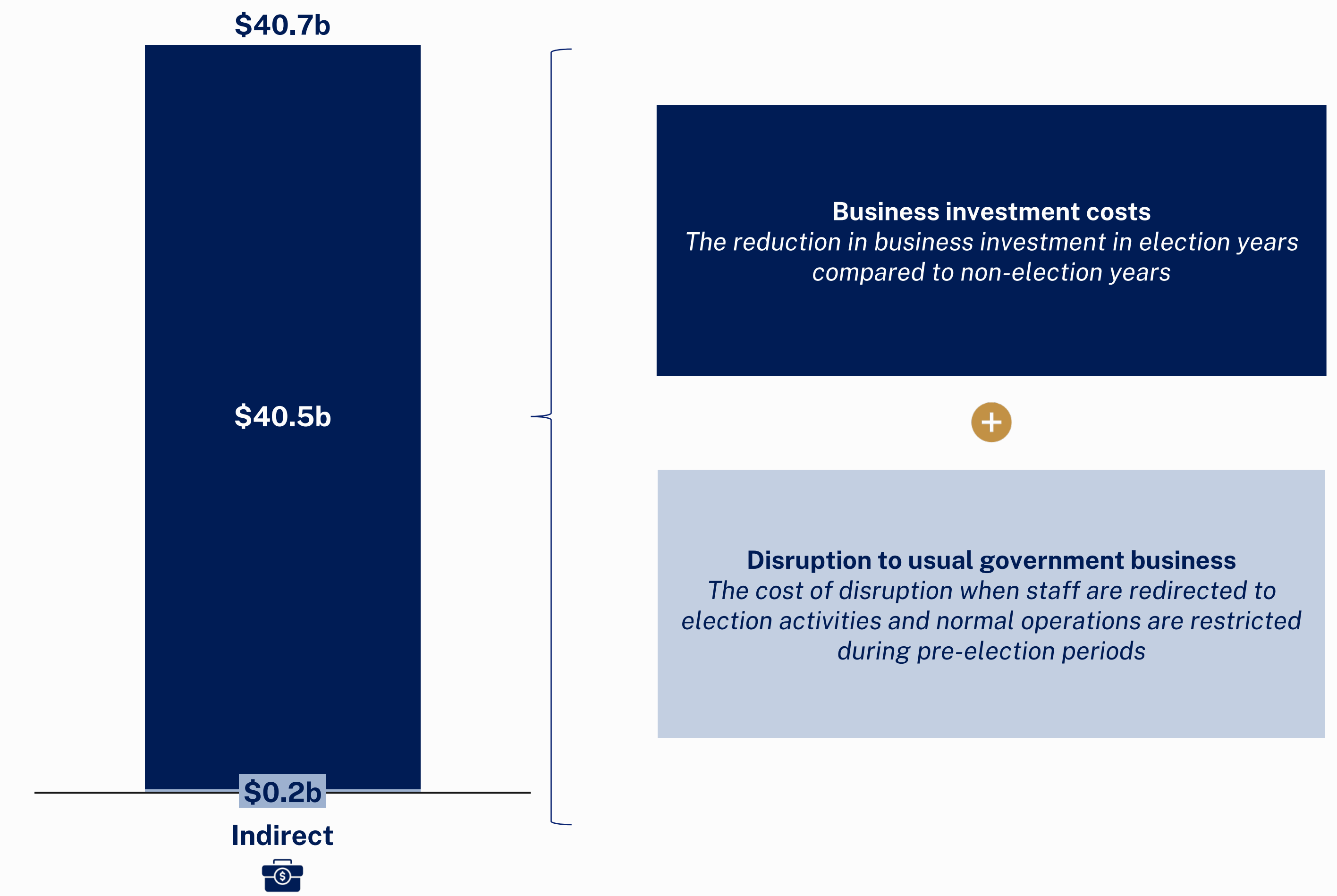
Business investment is on average 2.4% lower in election years.[1] Election related uncertainty can lead to delays in investment, which is recouped post election, but also leads to an absolute decrease due to time-sensitive or irreversible projects. Only the latter effect is captured in this analysis. Since 2000, business investment in Australia has been increasing by 5% per year. At the time of the 2022 election, annual business investment was worth $423 billion.[2]

The caretaker period is the time leading into an election in which the incumbent government is prevented from making major decisions, appointments or commitments.[3] Public servants' roles are disrupted at this time – either due to the limitations of the caretaker conventions, or due to being redirected to preparing for a possible change of government. Estimating the precise cost of this is difficult with very little literature on the topic – but the overall impact is likely to be small relative to the impact of reduced business investment.

1 Amore and Carina (2021) Political elections and corporate investment.
2 ABS (2024a) Table 8: National Capital Account.
3 Australian Government (2024) Guidance on caretaker conventions.

Indirect benefits from shifting to a four-year term

Total indirect benefits over 20 years, $AUD, 2022 - 2041



Source: ABS (2024a) Table 8: National Capital Account; Amore and Carina (2021) Political elections and corporate investment; ASPC (2021a) APS Workforce Strategy 2025; APSC (2021b) APS Employment Data 30 June 2021; ASPC (2024) APS Employment Data June 2024; ABC (2023) How much is a public servant worth?; ABS (2024b) Table 4a: Total hourly rates of pay; Mandala analysis.

Policy reforms enabled in 4-year terms could be worth $16.5 billion over 20 years

Moving from a three-year to a four-year term is estimated to provide $16.5 billion in benefits over 20 years. A four-year term would provide more opportunities for beneficial but potentially politically risky policy reforms in non-election years.

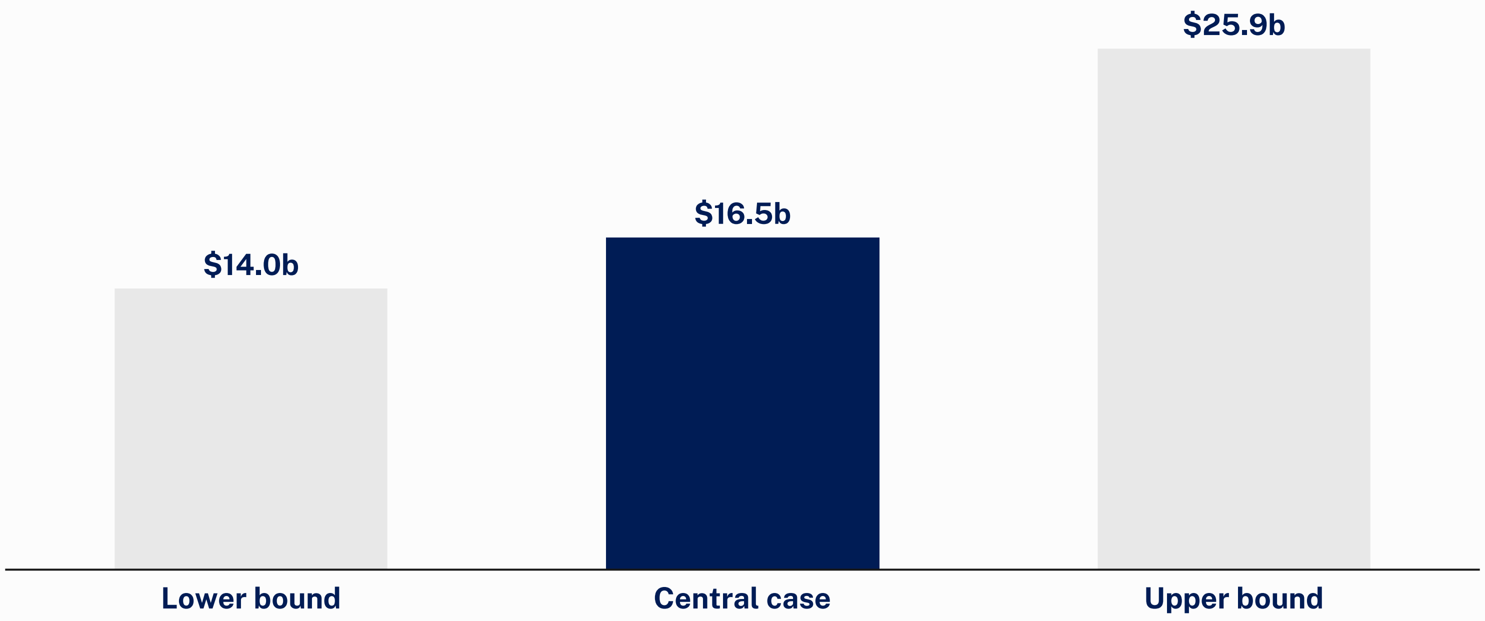
Reducing the frequency of elections is expected to have a positive impact on GDP due to the impact that elections have on governments' appetites to undertake reform. Literature suggests that governments are 25% more likely to undertake reformist agendas in non-election years, as reform can be seen as politically risky.[1] However, economic and financial reforms on average have a positive impact on GDP in advanced countries (driven by liberalising policies, while restrictive policies have more mixed effects).[2] Economic reforms focus on areas such as trade, markets, and labour, whereas financial policy reforms focus on domestic finance, the current account, or the capital account.

In the Australian context, economic and financial reforms are expected to provide around $16.5 billion in GDP benefits over 20 years, with a lower bound of $14 billion in benefits, and an upper bound of $25.9 billion. Importantly, this does not account for the benefits of social policy reform which could be significant.

1 Difference between likelihood of policy reforms in non-election years and election years, in advanced countries.
2 The positive impact of reform on GDP is similar after controlling for country income.

Benefits of policy reforms from shifting to a four-year term

$AUD, 2022 - 2041



GDP impact of economic policy reforms

Impact of trade, market, and labour reforms on GDP in advanced countries

GDP impact of policy reforms

Impact of policy reforms on GDP in advanced countries, including economic and financial policy reforms

GDP impact of financial policy reforms

Impact of domestic finance, current or capital account reforms on GDP in advanced countries

Source: Alesina et al. (2023) Structural Reforms and Elections: Evidence from a World-Wide New Dataset; ABS (2024c) Table 2: Expenditure on GDP; RBA (2024) Statement on Monetary Policy November 2024: Outlook; Treasury (2023) 2023 Intergenerational Report; Mandala analysis.

Methodology

Component	Item		Value					Source	Additional information
Direct	Cost of conducting elections	=	Cost of conducting elections by year, starting at $522m in 2022	×	3.8% annual growth in election costs			AEC (2024); Australian Government (2023).	AEC data on costs of running elections. Growth rate based on CPI and forecasted population growth.
	Opportunity cost of voters' time	=	17m voting population in 2022	×	$37 p/h non-work related labour cost	×	1.4% annual population growth	The Office of Impact Analysis (2024); AEC (2022); AIHW (2024).	Assumes that voters take 1 hour of leisure time to vote during elections.
	Political party costs	=	Political party spending by year, not including public funding, $345m in 2019	×	5% annual growth in political party costs			Parliament of Australia (2022).	Parliamentary library analysis of AEC data.
Indirect	Business investment costs	=	$423b business investment in 2022	×	2.4% reduction in business investment in election years	×	5% annual business investment growth	ABS (2024a); Amore and Carina (2021).	Global study of business investment during election periods for mixed electoral systems.
	Disruption to usual government business during caretaker peiod	=	17k APS employees in relevant caretaker roles with a $92k average salary	×	Productivity loss of APS employees redirected and affected	×	2% annual workforce growth and 3% annual wage growth	APSC (2021a, 2021b, 2024); ABC (2023); ABS (2024b).	Assumes 200 roles are fully redirected from their 'productive' role and remainder of the 17k are partially redirected, operating at 80% productivity.
Policy impact	GDP impact of policy reform: Lower bound	=	25% increased likelihood of policy reform in a non-election year	×	GDP impact from reform of 0.18% after 1 year to 0.3% after 5 years	×	Historical GDP for 2022 to 2023, $2.7 trillion GDP in 2024, with a growth rate of 2.3% till 2026 and 2.2% ongoing	Alesina et al. (2023); ABS (2024c); RBA (2024), Treasury (2024).	Global study from 1973 to 2014. The lower bound consists of economic policy reform which delivers lower benefits, and the upper bound consists of financial policy reform which delivers higher benefits. The central case is a combination.
	GDP impact of policy reform: Central case				GDP impact from reform of 0.18% after 1 year to 0.41% after 5 years				
	GDP impact of policy reform: Upper bound				GDP impact from reform of 0.18% after 1 year to 0.73% after 5 years				

Note: Direct, indirect and policy impact components are calculated as the difference between three-year and four-year terms.

Source: AEC (2024) *Cost of elections and referendums*; Australian Government (2023) 2023 Intergenerational Report; The Office of Impact Analysis (2024) *Regulatory Burden Measurement Framework*; AEC (2022) *Size of the electoral roll and enrolment rate 2022*; AIHW (2024) *Profile of Australia's population*; Parliament of Australia (2022) *The price of democracy;* ABS (2024a) *Table 8: National Capital Account*; Amore and Carina (2021) *Political elections and corporate investment*; ASPC (2021a) *APS Workforce Strategy 2025*; APSC (2021b) *APS Employment Data 30 June 2021*; ASPC (2024) *APS Employment Data June 2024*; ABC (2023) *How much is a public servant worth?*; ABS (2024b) *Table 4a: Total hourly rates of pay*; Alesina et al. (2023) *Structural Reforms and Elections: Evidence from a World-Wide New Dataset*; ABS (2024c) *Table 2: Expenditure on GDP*; RBA (2024) *Statement on Monetary Policy November 2024: Outlook*; Treasury (2023) *2023 Intergenerational Report*; Mandala analysis.

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