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The Battle for Britain: The UK General Election

As the UK general election campaign draws to a close, the result remains too close to call. Gordon Brown's Labour Party, which has held power since 1997, is deeply unpopular and has now all but given up hope of winning a fourth successive term in its own right. David Cameron's Conservative Party, seen as government-in-waiting since late 2007, retains its lead in the opinion polls but it is still somewhat short of securing the required majority of parliamentary seats. The Conservatives could yet enjoy a late surge in support but pundits are predicting a hung parliament for the first time since 1974.

The apparent failure of the two main political parties to seal the deal leaves all eyes on Nick Clegg's Liberal Democrats. The 'third party' is run at second place in the opinion polls thanks, in no small measure, to Clegg's surprise victory on 16 April in the first-ever televised election debate between party leaders¹. The Liberal Democrats, though its members have hardly been immune from

controversy, have also benefited from a backlash against the political establishment following the parliamentary expenses scandal of 2009.

It remains to be seen whether, in the event of a hung parliament, the Liberal Democrats could or would choose to work with Labour or the Conservatives and what form such cooperation would take. What is clear at this stage is that Nick Clegg sees the election as his party's best chance of securing electoral reforms that would allow the Liberal Democrats to turn their popular support into a proportional share of parliamentary seats. If such reform was realised – and it remains an immense if – this election could, for better or worse, herald a new era of coalition politics in the UK.

Constitutional conundrums of this sort mean that debates over policy have seemed to be of second-order importance in the campaign. As a result, there is an air of mystery about what a Conservative government would do in its first hundred days or how the priorities of a Liberal-Labour coalition might differ from those of a Liberal-Conservative alliance. This briefing note takes a closer look at the economic strategies outlined in the manifestos

N. 184 - MAY 2010

Abstract

Voters in the United Kingdom go to the polls on 6 May in what has been the closest-fought general election in a generation.

The Labour Party is losing its grip on power but David Cameron's Conservatives will struggle to secure an overall majority.

This leaves open the possibility of a coalition agreement between either one of these parties and the Liberal Democrats, which have been the surprise success story of the campaign so far.

This Policy Brief looks at the economic manifestos of all three parties and asks what the election might mean for the UK's membership of the European Union.

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¹ A positive trend which has been confirmed (but to a lesser extent) by the other two TV debates.

of Labour, the Conservatives and the Liberal Democrats. It also considers what the election might mean for the UK's relations with the rest of the European Union (EU).

The economy: Facing up to the financial crisis but not fully

The global financial crisis continues to cast a long shadow over the UK economy. Real Gross Domestic Product (GDP), which turned negative in the second quarter of 2008, resumed growth in the fourth quarter of 2009 but risks to the economic recovery remain. According to the UK Office for National Statistics, the economy grew by just 0.2% in the first quarter of 2010 as the temporary cut in Value-Added Tax (VAT) came to an end and the economic effects of the coldest winter in 30 years began to bite². The European Commission expects the UK economy to grow by 0.6% in 2010, which is considerably better than the 4.8% contraction experienced in 2009 but still well below par³.

The nascent economic recovery has produced some good news for the labour market – the number of people claiming unemployment benefit fell by 32,900 in March 2010 – but the overall picture remains bleak⁴. The rate of jobless-

ness now stands at around 8.0% of the civilian labour force, which is higher than at any time since the mid-1990s. High unemployment has helped to contain inflationary pressures but this effect has been offset by rising fuel and food prices and a sharp depreciation of sterling. Forecasts of consumer price inflation in 2010 have been revised upwards to 2.4%, raising concerns over the sustainability of the Bank of England's near-zero interest-rate policies⁵.

The financial crisis has also taken a heavy toll on UK public finances. Falling tax receipts, a shortfall in stamp duties following the end of the housing boom and the costs of bank bail outs were among the factors that caused government borrowing to reach 12.1% of GDP in 2009. The UK's budget deficit is expected to reach 12.9% in 2010, which is higher than in any other EU member state, although it should be recalled that the ratio of government debt to GDP in the UK (80.3%) is close to the EU average (79.3%)⁶.

Given the precarious state of UK public finances the three main political parties have made reducing the budget deficit a priority in their election manifestos. Labour has promised to halve the overall deficit over the next four

years⁷, while the Liberal Democrats plan to do at least this much over the same period⁸. The Conservatives are committed to eliminate the bulk of the structural deficit by 2015 and, unlike Labour and the Liberal Democrats, plan to phase in deficit reduction measures forthwith rather than postponing fiscal adjustment until next year⁹.

Doubts exist over the credibility of these fiscal plans. The Conservatives and the Liberal Democrats are promising fairly sizeable tax cuts at a time when tax rises are all but inevitable. The Conservatives have promised, among other things, to cancel the government's planned 1% increase in national insurance contributions for those on lower incomes and to cut the headline rate of corporation tax from 28% to 25%. The Liberal Democrats would raise the threshold at which people start paying income tax.

None of the parties have, moreover, come clean about the scale of expenditure cuts that will be required during the lifetime of the next parliament. Taking HM Treasury's estimate that a fiscal tightening of 4.8% of GDP (or £71 billion a year) is needed to plug the hole in the public finances, the Institute for Fiscal Studies finds that the Conservatives have announced around 17.7% of the required cuts in public services spending, compared with a figure of

² Office for National Statistics, *Gross Domestic Product: Preliminary Estimate - Q1 2010*, London, 23.4.2010.

³ http://ec.europa.eu/economy_finance/articles/pdf/2010-02-25-interim_forecast_en.pdf.

⁴ http://www.statistics.gov.uk/downloads/theme_labour/LMS_QandA.pdf.

⁵ http://ec.europa.eu/economy_finance/articles/pdf/2010-02-25-interim_forecast_en.pdf.

⁶ European Commission, *Economic Forecast, Spring 2009*, European Economy, 3, Luxembourg, Office for Official Publications of the EC.

⁷ <http://www2.labour.org.uk/manifesto-splash>.

⁸ www.libdems.org.uk/our_manifesto.aspx.

⁹ See <http://www.conservatives.com/Policy/Manifesto.aspx>.

13.1% for Labour and 25.9% for the Liberal Democrats¹⁰.

Though there are differences between the economic manifestos of the main political parties none are proposing a radical change to how macroeconomic policy is made in the UK¹¹. The Conservatives plan to enhance the independence of the Bank of England and strengthen its powers in the area of financial supervision but they would leave Labour's inflation target unchanged.

All three parties imply that attempts to restore order to UK public finances should take place at one remove from the political domain. Labour, for example, would make existing rules on government borrowing legally binding, while the Conservatives would establish an independent Office for Budgetary Stability to prepare macroeconomic forecasts and advise the Chancellor of Exchequer on the most appropriate fiscal stance.

The consensus that exists between Labour, the Conservatives and the Liberal Democrats over macroeconomic policy is one reason why scare stories about the economic consequences of a coalition government are overstated. Another reason is that coalition governments in other countries have proved themselves capable of exercising a tight grip on public finances. A case in point is the

Netherlands, where real expenditure targets have been a regular part of coalition agreements since the fiscal crisis of the early 1980s¹².

Europe: pragmatism vs. idealism

Labour's cautious pro-Europeanism, with its enthusiasm for the EU's global role and its reluctance to cede control over macroeconomic policies and certain aspects of justice and home affairs, is now familiar to the UK's EU partners and is unlikely to change if Gordon Brown is returned to power. One question that remains open at this stage is whether a Conservative government would reignite the tensions between London and Brussels that marred Margaret Thatcher's final years in office. Another is whether the Liberal Democrats could encourage the UK to sign up to some of the EU policy initiatives that the Labour Party has stood aside from since 1997.

There is little evidence to suggest that David Cameron is as viscerally eurosceptic as some of those on the backbenches of the Conservative Party. Since becoming leader in 2005, he has assiduously avoided arguments over the EU, famously telling his colleagues that they should be talking about 'things that most people care about' rather than 'banging on about Europe'¹³. Cameron also invited Ken

Clarke, the pro-EU former Chancellor of the Exchequer, to join his shadow cabinet in 2009 and, more importantly, avoided a major row with EU partners over the Lisbon Treaty by dropping his pledge to hold a referendum once all EU member states had ratified the text.

Even if David Cameron is a euro-pragmatist by nature those who are ideologically opposed to European integration still hold considerable sway within the Conservative Party. Indeed, Cameron's most controversial policy on Europe to date – his decision to withdraw Conservative Members of the European Parliament from the European People's Party in order to found the Movement for European Reform – owed more to a promise made to backbenchers in the heat of his leadership campaign than to any innate sense of euroscepticism.

As a self-proclaimed progressive, Cameron cannot have been pleased with Nick Clegg's claim in the second televised election debate that the Conservatives had forged an alliance in Europe with 'nutters, anti-Semites, people who deny climate change exists, [and] homophobes'¹⁴. Nor can Cameron expect a warm welcome at the European Council after receiving the cold shoulder from Nicolas Sarkozy and Angela Merkel for quitting the European People's Party.

The Conservative Party's ambivalent attitude to the EU is plain to see in its manifesto, which promises to play 'an

¹⁰ http://www.ifs.org.uk/election/ebn_summary.pdf.

¹¹ D. HODSON - D. MABBETT, *UK Economic Policy and the Global Financial Crisis: Paradigm Lost?*, in «Journal of Common Market Studies», 47/5, 2009, pp. 1041–1061.

¹² M. HALLERBERG, *Domestic Budgets in a United Europe: Fiscal Governance from the End of Bretton Woods to EMU*, Ithaca 2004.

¹³ http://news.bbc.co.uk/1/hi/uk_politics/5396358.stm.

¹⁴ See http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/23_04_10_seconddebate.pdf.

active and energetic role in the EU' but reflects concerns over sovereignty¹⁵. The latter is more evident in practical proposals, which include changes to the 1972 European Communities Act to ensure that the UK must hold a referendum on future treaty changes and a Sovereignty Bill that would enshrine Westminster's ultimate authority.

The former would make it next to impossible for the EU-27 to consider treaty changes under a Conservative government – the chances of a 'yes' vote from the UK electorate is slim given the poverty of debate on EU issues in this country in recent years. The latter raises awkward questions about the supremacy of EU law even if this principle is already enshrined in the Lisbon Treaty. Cameron the pragmatist will seek to deliver these changes in a way that maximizes his room for manoeuvre on EU issues but Cameron the leader of a vocal minority of euro-sceptics may not have the luxury of this choice.

Those expecting the Liberal Democrats to usher in a new era of pro-Europeanism in UK politics are likely to be disappointed. Although the party's manifesto makes reassuring noises about putting Britain at the heart of Europe it presents few specific proposals to this end. Mention is made of the UK's involvement in EU police and judicial cooperation but Liberal Democrat support for adopting the euro has been quietly shelved. Nick Clegg is also on the record as saying he would prefer a referendum

on the UK's membership of the EU to one on future treaty changes. The Liberal Democrats are confident of winning such a referendum, but the Conservatives and Labour are less keen on engaging in an act of brinkmanship that could so easily backfire.

Watch this space

If the Conservative Party wins an outright majority on 6 May then David Cameron will be installed as Prime Minister within a matter of hours. The rapid handover of powers that occurs in the UK when one party is victorious stands in stark contrast to the protracted negotiations that will begin in the event of a hung parliament. In such a case, Labour, as it is the incumbent and no matter where it comes in the polls, will be given first shot at forming a government. In so doing, it could seek a formal deal to bring the Liberal Democrats into government or, as occurred in 1977, conclude a pact on specific policy issues to keep its minority government afloat.

If Labour fails in this endeavour, then the Queen will invite the Conservatives to seek out a similar arrangement with either the Liberal Democrats or some of the smaller parties, including those representing voters in Wales, Scotland or Northern Ireland. This battle for Britain could continue for some time but whoever wins it will have their work cut out to secure the economic recovery and handle what could be a tricky time for the UK's membership of the EU.

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¹⁵ See <http://www.conservatives.com/Policy/Manifesto.aspx>.