Britain: Election campaign focuses on economy

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After months of speculation, British Prime Minister Gordon Brown finally announced Tuesday that a general election will be held on May 6. The vote has been described as one of the most unpredictable for many years, with a hung parliament considered likely.

Brown sought to play on voters' fears over Britain's economic future, stating that he was a steady pair of hands to guide the country through its financial troubles. He claimed that he was "one of a team" of experienced politicians, adding that Britain's economic recovery should not be endangered by a vote for the Conservatives.

Labour's differences with the Conservatives are only ones of timing. Brown advocates continued government spending in the short term to guard against a so-called "double dip" recession. Britain was one of the last of the major economies to exit recession last year, with growth in the fourth quarter of 0.4 percent marking the first period of expansion since the banking crisis of 2008.

But with a budget deficit of close to 12 percent of gross domestic product (GDP), Labour has committed itself to reducing the gap by 50 percent in the lifetime of the next parliament, which will necessitate deep spending cuts. Although it has sought to keep such plans under wraps until after the election, estimates suggest that a spending reduction of this magnitude would require departmental budget cuts of between 10 and 20 percent over the next four years.

Both Labour and the Conservatives are seeking to camouflage the inevitable programme of cuts to which both parties are committed.

Brown has sought to play up his "middle class" background and his supposed concern for the "average" Briton with stage-managed visits to various workplaces.

Conservative leader David Cameron claims to stand for the "great ignored" in British society, the law abiding taxpayer. The attempt to repackage his party as more "compassionate" and "caring" has been a constant theme of Cameron's leadership. In the last days he has focused on the message of a "modern" Conservative party, which could offer voters "hope, optimism and change."

Behind such rhetoric, the opposition have insisted that spending cuts must be implemented more rapidly, beginning as soon as they enter office on May 7. They have criticized Labour for its inability to control the ballooning state debt, which currently stands at over £160 billion.

George Osborne, the prospective chancellor in a Tory administration, denounced a Labour plan to increase national insurance contributions by 1 percent from employers, saying spending cuts should be favoured over tax hikes.

Similar views were expressed in a letter signed by 38 business leaders, the Confederation of British Industry (CBI), and several figures previously viewed as sympathetic to Labour.

The British Chamber of Commerce (BCC), in a report released to coincide with the start of the election campaign, urged that any incoming government shift the burden of state debt away from business and onto the backs of low-paid workers by increasing the levels of indirect taxation.

David Frost, the BCC's director general, declared, "Whatever the result of the General Election, a new government must avoid additional business taxes that could stifle recovery. Within the first 90 days of a new administration, the 1 percent hike to employers' National Insurance contributions, planned for 2011, should be scrapped and replaced by a less damaging 1 percent rise in VAT."

This support from the business community comes in the wake of a February letter signed by 20 economists backing Conservative calls for a speedier slashing of Britain's budget deficit. The letter warned that if the next government did not indicate how the budget deficit was to be cut and make this its top priority, international investors could lose confidence in Britain's creditworthiness. International ratings firms have indicated that London's AAA status could be endangered if state debt is not brought under control after the May 6 vote.

But Labour also enjoys the backing of a significant section of the financial establishment, who fear that imposing cuts too quickly could precipitate an economic slump. Over 60 top economists signed a letter solidarising themselves with Chancellor Alistair Darling and Labour's intention to delay the impending budget cuts until 2011, when economic recovery will supposedly be secured. As the letter stated, "For the good of the British public—and for fiscal sustainability—the first priority must be to restore robust economic growth."

During the last 13 years, Labour has shown itself to be entirely subservient to the financial elite, having severed any connection it had with the working class. It has held in place many of the reforms introduced by the Thatcher and Major Tory administrations in the 1980s and 1990s, expanded the privatisation of public services and the deregulation of industry, and created what has been described as an on-shore tax haven for banking operations in the City of London. Social inequality now stands at levels not seen since the Great Depression of the 1930s.

The *Financial Times* recently noted, "The shadow of looming public spending cuts gives voters little cause to think their lot will improve. The UK's fiscal deficit is 11.1 percent of national output. Even Labour's fuzzy plans to correct this imbalance imply cuts to departmental budgets of 11.9 percent over a parliament."

Recent reports have indicated that Britain's economic position is ever more precarious, with comparisons already being drawn with Greece. The latter's budget deficit is comparable to that of the UK, and news that the premium on Greek debt had risen further provoked concern that Britain was heading in the same direction.

Jonathan Loynes of Capital Economics warned, "People are not putting the UK in exactly the same basket as Greece, but there is still a lot of uncertainty over just what sort of action is going to be taken and when to try and get a grip on the UK's finances."

The Bank for International Settlements (BIS) predicted this week that interest payments on Britain's public debt would double from 5 percent to 10 percent in a decade, a scenario that is worse than that of Greece. The Bank complained that the Labour proposal to reduce the budget deficit by 1.3 percent over the next three years would be insufficient to solve this problem. The Organisation for Economic Cooperation and Development (OECD), meanwhile, has downgraded its prediction for economic growth in the first quarter, projecting a 0.5 percent growth rate.

Markets responded negatively to the start of the election campaign and to news that a Conservative victory was no longer so certain as it had appeared several months ago. A poll published in the *Guardian* gave the Conservatives just a four-point lead over Labour, which, under Britain's electoral system, would be unlikely to provide for a parliamentary majority. The pound was down against the dollar by over 0.2 percent on Tuesday, and this trend is likely to continue.

As the *Wall Street Journal* observed, "Investors have had little reason to discriminate between the euro and sterling so far this year: Both are down around 6.3 percent against the dollar. But the long-heralded UK election, finally confirmed for May 6, may change the picture—although perhaps not in sterling's favor."

In any hung parliament, the Liberal Democrats could be called upon to enter a coalition with one of the main parties to secure a majority. Apart from several minor reforms to parliament and the call for abandoning the UK's first-past-the-post electoral system, the Liberals are virtually indistinguishable from Labour and the Conservatives, with party leader Nick Clegg calling for "savage cuts."