

keeping you

intouch

with business issues



Issue 9
Spring 2010
www.embg.co.uk

The background of the cover is a photograph of a grand, Gothic-style stone building, likely a government or institutional structure, with many spires and windows. In the foreground, there is a black wrought-iron fence and a dark-colored car driving past, which is blurred to suggest motion. The overall scene is set in an urban environment.

Election 2010 Special Report

Time to Decide

■ With only days to go before the general election on May 6 there are still a lot of undecided voters. A combination of the financial and huge distrust of politicians on the back of the expenses scandal have left the electorate angry and worried about the future of the country. The country is screaming for change and yet none of the main political parties have convinced the voters they should be given a clear mandate to govern this country. As suggested by recent opinion polls, there is now a real chance of a hung parliament with no party having an overall majority.

This election will be close and it is not the time to vote tactically.

Given the way the political debate has been conducted, the electorate do not have enough easily available unbiased accurate information with which to make an informed choice. However, given the fragile state of the economy, the implication for our public services and the financial implication for us personally, this election is one of the most important in recent times. For this reason we believe that we should avoid a hung parliament where no party has overall majority and a coalition government is formed. This election is not the time for a protest or tactical voting. What is required is a clear mandate to govern otherwise the consequences are likely to be both unpredictable and financially disastrous for both businesses and individuals. We therefore suggest that in this election you vote based on your convictions and for the party that you feel meets most of your requirements.



The Leader's Debates – A Missed Opportunity.

Given the rules under which the leaders and the chancellors debates have been held the public has been denied the opportunity to see a real challenging debate amongst parties to examine and understand the key issues facing the country. Instead it has become the "X" factor show in which the LibDems received much greater public prominence than in previous elections. They have exploited it well for their political advantage by portraying themselves as the party of change and tapping into the large protest vote. However, with their increased popularity they have been subject to increased scrutiny for both their policies and their leadership. Although this has reduced their huge lead in the opinion polls after the first debate they are doing very well compared to their historic performance.

The main opinion polls all put the three main parties very close with the Conservatives ahead followed by the LibDems both polling in the 30's and Labour in third place in the high 20's. If

these polls are reflected in the election on 6th May the most likely outcome would be a hung parliament.

What history tells us about Hung Parliaments.

The Liberals last won an outright majority in 1906 with subsequent elections being won by Labour or the Conservatives and with only a few hung parliaments. UK's track record of hung parliaments is not good; it has led to weak indecisive government and a quick election soon afterward. This was experienced in 1974 when there was a hung parliament and an election in both February and October of that year. From Labour's point of view the Lib-Lab pact in 1977 was to help keep Callaghan in power until the economy recovered and a general election could be called. It had a mixed success at best but it did prove very popular with the country. It was also unsatisfactory from the Liberals point of view as, although they got to take part in a joint consultative committee on a number of policy issues, they achieved no real power. The Liberals went along with the

pact for 15 months and finally abandoned it in July 1978.

The Dangers of a Hung Parliament.

The British electoral system is far from perfect and contributes largely to a two party dominance. Therefore the attraction of a hung parliament is understandable, especially amongst the young as it may seem like the dawn of a new politics.

Whilst the two main political parties are busy warning the country of the dangers of a hung parliament, the parties such as LibDems and Scottish Nationalists (SNP) who would benefit politically from a hung parliament point to the success of the SNP in running a hung Parliament in Scotland and in countries like Germany.

So who is likely to be right and why?

A hung or a balanced parliament need not spell financial and economic disaster if you believe that politicians can and will work together from day 1 for the interest of the country and not in their party interest. History would indicate that this is unlikely to happen.

To understand why, here are some of the issues to consider:

- *The SNP in Scotland do not have to manage currency or borrow from foreign investors from the money markets, therefore they have time to form their coalition without spooking the markets.*
- *Countries such as Germany have had coalition governments for years and therefore they have a tradition and a model that is widely understood by bondholders.*
- *Britain is living above its means and requires borrowings of £167bn in the current year from the bond markets. As the UK citizen does not have enough savings most of this deficit has to be funded from foreign investors.*
- *Bond investors will need to have confidence that the UK will be able to pay the interest on the debt as it falls due and eventually repay its debt. The*

interest demanded by bond holders will be higher as the risks increase.

- *Bond investors need to have confidence that the pound will keep its value against their domestic currency otherwise their return will fall and they will require a higher interest rate for the risk.*
 - *The problems that Greece currently face include seeing their bonds reduced to Junk status and they can effectively no longer borrow from the money markets. It now needs a bail out from the IMF and the EU (all EU countries in the Eurozone will have to contribute to the Greek bailout). Its two year bond as I write this article is yielding over 20%. Greece has found itself in this position because it has failed to deal with its budget deficit over the years and now has a deficit almost the size of the UK. Greece and UK are not the same, but unless the UK can bring its budget deficit and public expenditure under control it risks a fall in the value of sterling and significantly higher interest rates.*
 - *Since the UK opinion polls have pointed to a hung parliament sterling has continued to fall and the 10 year bond yield has risen. The hedge funds have been shorting UK gilts and sterling (selling these assets that they do not own with a view to buying them back as price falls). Given the pending election in the UK the selling short is risky as a favourable outcome (one which there is a clear mandate for the party that bond holders believe could tackle the budget deficit, control public expenditure and stimulate economic growth) should mean a big rise in both sterling and bond prices.*
 - *If a hung parliament is formed and as a result there is likely to be a period of indecision whilst the parties horse trade to form a workable government, the markets could take fright. This could lead to a big rise in interest rates, fall in sterling, fall in house prices and higher taxes.*
 - *Politicians generally are slow to act in a crisis and then are driven to act in a rush as markets move rapidly. This*
- happened in the UK in the run up to the credit crunch. Our government spent six months dragging their feet over taking early action against Northern Rock and instead their inaction and statements from the governor of the Bank of England that they would not support Northern Rock contributed to a run on the bank and the decimation of its share price. Eventually, the government stepped in to save the bank to avoid a risk to the whole banking sector. The German government has also been prevaricating over bailing out Greece and only now when Greece is about to go bust and the contagion is spreading to Spain and Portugal and could then go to Ireland and even Italy, it is acting in a hurry. Against this background how confident can we be that if there is a hung parliament than it will be able to act decisively. The logical conclusion is that it will not.*
- *Labour could have published their spending review but chose not to do so. This makes it very hard for opposition parties to prepare their plans. However, most people now believe that none of the parties are being straight about the extent of the austerity measures that would be required to get the economy back in balance. Unpopular measures have proved hard to put through parliament with a big majority and are likely to be near impossible to enact in a coalition government. This type of deadlock could prove very damaging to the economy.*

Sustained Economic Growth is the Key to Recovery

The debate in this election seems to be dominated by which party is going to spend more on public expenditure or cut less. The key point being missed is that our country has to earn money by creating wealth. This will create jobs and tax revenue that will enable everything else to happen. This requires a strong private sector and business friendly policies, skilled workforce, stable economic environment and a tax regime that rewards enterprise and innovation.

The key policies to help businesses and the economy

The Conservatives key policies

- Support small and medium sized businesses (SME's) by ensuring government procures 25% of their research and procurement through SME's and making small business relief automatic.
- Abolish the NI rise planned by Labour in the last budget.
- Safeguard UK's credit rating by eliminating a large part of the structural deficit (difference between tax receipts and spending that is not impacted by economic growth) over a parliament.
- Keep the independent Bank of England and the target of 2% CPI inflation.
- Introduce a new supervisory role to preserve financial stability.
- Improve international tax competitiveness and business regulation.
- Increase the private sectors share of the economy.
- Reform the banking system to reduce risk taking and provide greater availability of credit for SME's.
- Reform public services to deliver better value for money.

Many business leaders and organisations including the British Chamber of Commerce, the CBI and bosses of Marks and Spencer, Easy Jet, Diageo and Sainsbury have endorsed conservative plans for business and in particular the cut in NI.

Labours key policies

- Secure the recovery by supporting the economy now and halving the deficit by 2014.
- Sell the stake in public controlled banks and introduce new rules to control the banks.
- Build high-tech economy supporting business and industry.
- Encourage a culture of long term commitment to sustainable company growth.
- Future jobs fund with a job or training place for young people out of work.
- More apprenticeship for workers to upgrade their skills.

After 13 years in power, Labour has increased taxes, fines, penalties and the regulatory burden on small businesses. They missed the opportunity to make improvements to public sector procurement and better support for small businesses.

The LibDems key policies

- Break up the banks between retail and investment banking.
- Reform the bank bonus scheme to discourage putting the financial system at risk or rewarding failure.
- Support the set up of local enterprise funds and regional stock exchanges.
- Support the creation of green jobs.
- Create a fairer business rates based on site value and provide automatic small business relief to eligible businesses.

In addition to the above all parties have policies to promote green jobs, technology and innovation. To get a fuller picture consult their manifesto available from their website.

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

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

LibDems: http://www.libdems.org.uk/our_manifesto.aspx

To send comments, news stories or to subscribe to a hard copy of this magazine write to: news@embg.co.uk or call: (0)845 0940310

Directors: Alok Mitra, Larry Rach, John Roberts. Editor: Caroline Mitra.
Patron: Rami Ranger. Advisors: Patrick S. Frederick, Dr Tim Rhodes and Dilip Joshi

Designed and produced by Aurora Design Ltd. www.aurorafordesign.co.uk

