A HUNG PARLIAMENT WILL BE BAD FOR BRITAIN

The Hung Parliament Party

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‘if we get to [a hung Parliament] …. Gordon could stay as long as he wanted’

(Alan Johnson, quoted in *The Times*, 17 April 2010)

1. Behind closed door politics

- Labour are prepared to do deals….:

  - **Gordon Brown:** “There is some common ground on the constitutional issues. It is up to the Liberals to respond” (*The Independent*, 21 April 2010).

  - **Peter Hain:** “there is a common agenda” (*The Sunday Times*, 18 April 2010).

  - **Alistair Darling:** “If there is a hung Parliament [we] just have to get on with it” (*The Daily Telegraph*, 23 April 2010).

- …. And the Liberal Democrats are making demands:

  - **Nick Clegg:** Electoral reform is an ‘absolute precondition for renewal in this country’ (*Liberal Democrat press conference*, 26 April 2010).

  - **Nick Clegg** set out four preconditions to any coalition deal: ‘the tax reform package, the pupil premium [a plan to give extra funding to schools with more pupils from deprived backgrounds], the bank reforms, and the very specific list of changes to clean up politics’ (*The Telegraph*, 21 April 2010).

2. Indecision and weak government

- ‘During the last hung Parliament of 1974, **short term political decisions caused long term problems.** Although spending restraint was necessary, conscious of a second election, the Government refused to cut spending. They handed miners a 32 per cent pay deal which left to annual wage inflation hitting 20 per cent’ (*The Mail,* 23 April 2010)

- Experts have warned of the problems experienced in 1974:

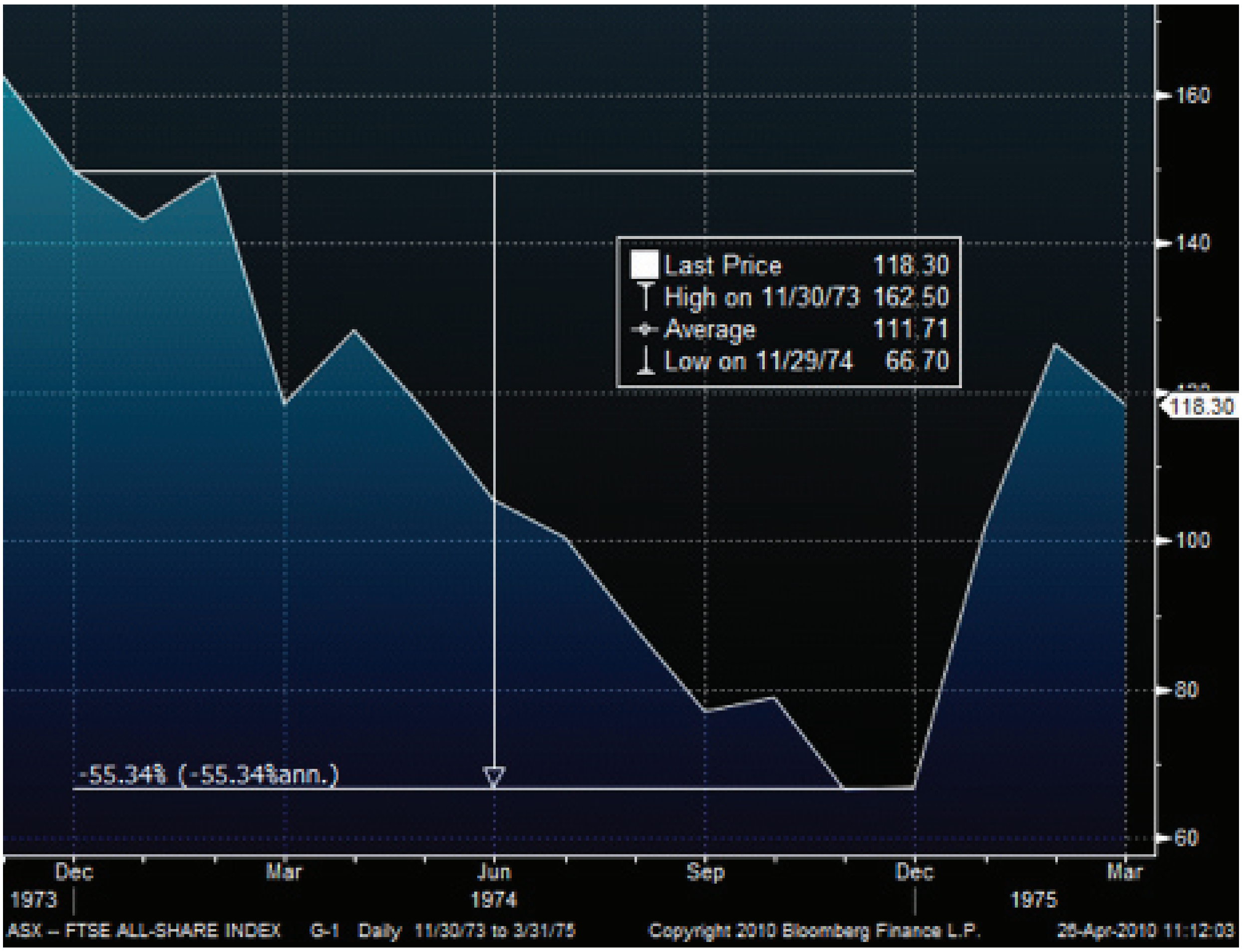
  - **Short-term government.** ‘It’s far more fraught, a far more hand to mouth existence. You can govern but you can’t govern proactively’ (Parliamentary expert Lord Norton, *BBC News Magazine online,* 19 March 2010).

  - **Permanent election campaign.** ‘Many policy announcements were being seen as potentially general election manifesto promises rather than actual policies which would become reality’ (Lord Donoghue, senior policy adviser to Harold Wilson, *BBC News Magazine online,* 19 March 2010).

3. A paralysed economy

<u>**The last hung Parliament in 1974 was a disaster for the British economy**</u>**:**

- **Stock market fell after the February 1974 election.** After the February 1974 election, the FTSE All Share Index fell nearly 15 per cent in a month. It ended the year more than 50 per cent below where it began (*The Daily Telegraph*, 24 April 2010).



Source: FTSE All-Share Index, Bloomberg, accessed 26 April 2010

- **Inflation and tax rates rose.** In 1975, RPI inflation rose to 24 per cent (Office for National Statistics, *Retail Price Index*). The basic rate of income tax was increased by the Labour government to 35p in the pound in 1975 (HM Revenue and Customs, *TA 2 - Rates of Income Tax*: 1973-74 to 1989).

- **Interest rates increased to protect vulnerable sterling.** As foreign investors lost confidence in sterling, the government was left with no other option but to push up interest rates further to defend the pound (*The Daily Telegraph*, 24 April 2010). If this happened today, the resulting increase in interest rates could mean a 10 per cent rise in mortgage costs – more than £60 per month on a typical £150,000 interest-only loan (*The Daily Telegraph*, 24 April 2010).

- Experts have warned of the problems experienced in 1974:
  - **No decisive action on the economy.** 'We had serious inflation building up and the hung Parliament postponed dealing with it' (Professor Nicholas Crafts, Warwick University, *BBC News Magazine online,* 19 March 2010).
  - **Higher bills for everyone.** 'The Wilson Government certainly didn't possess the necessary discipline and conviction in 1974, and it was ordinary families who ended up paying the bill in heavy taxes and public service cuts' (Historian Dominic Sandbrook, *Daily Mail,* 23 April 2010).

<u>Experts and business leaders have warned that a hung Parliament this time could be disastrous for our fragile economic recovery</u>:

- **BCC finds two thirds of businesses concerned by possibility of hung Parliament.**
  - 65 per cent of businesses are 'concerned' or 'very concerned' about the potential impact of a hung Parliament, according to the British Chambers of Commerce's Monthly Business Survey, released on 26 April 2010 (*British Chambers of Commerce Press Release,* 26 April 2010).
  - David Frost, Director General of the British Chambers of Commerce, said that 'Businesses are right to be wary about the prospect of a hung Parliament. Instinctively, companies prefer a clear mandate to lead and govern. With our economy still fragile and the public finances in a dire state, the overwhelming concern is whether a hung Parliament will provide decisive action around the UK's unsustainable deficit' (*ibid*).
- **A recent Opinion Research Business (ORB) survey of investment professionals showed the danger of a hung Parliament or continued Labour government.**
  - 77 per cent thought that a Labour victory or hung Parliament could lead to a downgrading of the UK's sovereign credit rating.
  - 74 per cent thought that a Labour victory or hung Parliament could lead to a fall in the value of sterling.
  - 55 per cent thought that a Labour victory or hung Parliament could lead to a long term rise in interest rates.
  - 68 per cent of the senior City professionals ORB spoke with believed that the UK stock market would be most likely to rise if the General Election resulted in an outright Conservative victory. A Conservative win was also, on balance, seen as being the most likely to benefit sterling, the UK's sovereign credit rating and to keep interest rates from rising.
- **The Centre for Economic and Business Research believes that a hung Parliament could cost consumers up to £5,000 a year.** The CEBR's report set out 'best case' and 'worst case' scenarios over the next three years. It made it clear that a hung Parliament would in all cases lead to higher interest rates and a falling pound. This would lead to higher costs for many items, including petrol, mortgages and foreign holidays (*The Daily Telegraph,* 24 April 2010).

- **And respected individual experts and institutions are concerned as well:**

  - **Digby Jones (ex-Labour minister).** 'One thing that you'll find with a hung Parliament is that the politicians will be looking over their shoulder the whole time, and so you'll probably have more populist policies, and that's not good for stability and growth. That's not good for taking action to reduce the deficit, and it's not good for taking decisive action full stop' (Lord Digby Jones, *City AM*, 8 February 2010).

  - **Andrew Balls (brother of Education Secretary Ed Balls).** 'At a time when markets are focused squarely on sovereign risk, there is a danger that a loss of confidence in the UK's ability to put its fiscal house in order could lead to pressure on the British pound and in turn pressure on the Bank to tighten monetary policy in spite of weak growth' (Andrew Balls, Head of European Investment Team, PIMCO, *The Times*, 13 April 2010).

  - **Morgan Stanley.** 'The worst-case scenario remains a 'hung Parliament', which would increase rate volatility in the short term' (Owen Roberts, Morgan Stanley, 9 April 2010).

  - **JP Morgan.** 'There is little doubt that a hung Parliament would make the process of delivering fiscal consolidation messier, and the possibility that failure to agree on tightening measures could precipitate an election would hang over the government' (JP Morgan, 8 January 2010).

  - **Citi.** 'We remain doubtful that a hung Parliament would lead to credible and sustained early fiscal consolidation, hence leaving both sterling and gilts vulnerable' (Michael Saunders, Citi, 19 April 2010).

  - **CEBR.** 'The growing potential of a hung Parliament will go hand in hand with growing uncertainty, while a minority government may not have the power to take the action necessary to reduce the budget deficit' (Owen Williams, 22 April 2010).

  - **Investec.** 'A minority Labour government is of course the nightmare scenario for the pound, largely because of a more severe risk of a downgrade. Here we envisage the UK currency sliding close to parity against the euro and $1.38 versus the dollar by mid-year' (Lee McDarby, Ivestec, 19 April 2010)

  - **Nomura. '**In our view, markets are likely to be more positively disposed towards a Conservative victory, with a hung Parliament (and the associated risk of political paralysis) the least attractive outcome' (Alastair Newton et al., Nomura, 12 March 2010).

  - **UBS.** 'The UK economy is on a recovery path, but the large fiscal deficit and a possible policy impasse in the event of a hung Parliament are worrying the market... The UK bond yield is more at risk if there is a hung Parliament, with no clear winner emerging after the election, but it has been on the move and its gap with Germany is already wider than it was six months ago' (Karen Olney, UBS, 8 March 2010).

  - **Barclays Capital.** 'A hung Parliament is one of investors' key fears for sterling. Risks in the short run remain to the downside for the pound' (Paul Robinson, Barclays Capital, quoted in *The Wall Street Journal*, 1 March 2010).

- **Deutsche Bank.** ‘A hung Parliament or a slim majority could undermine the credibility of any fiscal consolidation plan, which in turn might be bearish for the rates market’ (Deutsche Bank, 8 April 2010).

  ‘We suspect the biggest risk to the UK’s rating would be in the event of a hung Parliament that fails to produce a government commanding sufficient confidence within the House of Commons, which in turn would require either a second election or would make it difficult for a minority/coalition government to pass the necessary deficit-cutting legislation’ (George Buckley, Deutsche Bank, 8 April 2010).

- **Hargreaves Lansdown.** ‘A Hung Parliament will be the worst possible result for our economy. The pound will suffer the most and could depreciate 10% or 15%. Equities would be nervous. There would be an initial kneejerk reaction to the fear that the only measure to ease the deficit would be tax rises. It could trigger a similar situation to 1974, when the government was eventually forced to go to the International Monetary Fund for a loan’ (Peter Hargreaves, Hargreaves Lansdown, quoted in *thisismoney*, 10 March 2010).

- **Moneycorp.** ‘If the fears of a hung Parliament were to come true, sterling could fall even further, with a risk of us reaching parity against the euro’ (Mark Deans, Moneycorp, quoted in *The Times*, 2 March 2010).

- **Capital Economics.** ‘The morning after an election of that sort [leading to a hung Parliament], then there would be mayhem in the markets. It would be a very uncomfortable ride. We might go through many weeks, perhaps months, in which the markets couldn’t be sure... It’s a foretaste of what might happen if we were to get a confused election result and there were then an extended period of dithering. By contrast, if we actually had a clear election result and a government of whatever colour put together a pretty tough plan, then you would also see there’s scope for pound to go up quite a lot’ (Roger Bootle, on *Bloomberg*, 3 March 2010).

- **Evolution.** ‘The worry for the UK is a hung Parliament because that could lead to delays and dithering over cutting the UK’s budget deficit and public debt’ (Gary Jenkins, head of fixed income research at Evolution, quoted in *The Financial Times*, 24 February 2010).

- **F&C Investments.** ‘The initial reaction of both the equity and gilt markets to a hung Parliament would probably be sharply negative. Markets hate uncertainty and if neither party had a workable majority there could be a further hiatus in policy decision making. Because of the dire state of public finances, action is required sooner rather than later and a hung Parliament would, therefore, be the worst outcome’ (Ted Scott, *The Financial Times,* 19 April 2010).

- **London School of Economics.** Dr Ros Altmann, governor of the LSE and former adviser to the Treasury has warned that ‘we have been living way beyond our means and it cannot go on. For every £4 that the Government is spending it has to borrow £1... So far, investors have given the UK the benefit of the doubt, but if they believe a weak Government would duck the difficult decisions needed to cut public spending, then foreign investors would be reluctant to keep buying UK gilts at current yields’ (Dr Ros Altmann, LSE, *The Telegraph,* 23 April 2010).

- **Savills.** 'The worst outcome for the housing market would be a hung Parliament. That would just drag out the uncertainty for a further six months at least, perhaps until another election is called' (Yolande Barnes, Savills, *Business Week*, 8 April 2010).

4. Yet another election

- The last **hung Parliament of 1974 lasted just under 8 months** before a second election had to be held.

- Experience from abroad shows the danger of hung Parliaments and the regularity of elections:

  - **Belgium.** The Belgian Government fell on 22 April 2010, only five months after a coalition was formed. Belgium faces regular political uncertainty, exacerbated by a voting system which more or less guarantees hung Parliaments. The Belgian king, who has been trying to minimise the consequences of the collapse, said on 22 April that a political crisis would harm Belgium's standing in Europe and hamper its economic prospects as it emerged from the downturn (*Financial Times,* 22 April 2010).

  - **Germany.** The German system of proportional representation means the country has a near-permanent hung Parliament. According to *Der Spiegel,* the difficulties caused by the need to form coalitions has made it harder for Germany to deal with the recession. In October 2009, *Der Spiegel* reported that negotiations after the September election had been 'marked by chaos and horse-trading' and that 'after three weeks of bickering, the new coalition has produced *status quo* – just radically more expensive' (*Der Spiegel English Edition,* 23 and 26 October 2010). Last month it reported on the ongoing problems caused by the hung Parliament, saying that 'public support for Chancellor Angela Merkel's ruling coalition has continued to slide since last September's general election, reflecting the political partners' failure to agree on key issues like tax reform, adjustments to the overdrawn health care system and Germany's future approach to nuclear energy' (18 March 2010). This shows how difficult it is for hung Parliaments to make tough decisions.

  - **Italy.** The Italian constitution, which makes coalitions the norm, is one of the reasons why the country has been so politically unstable, with more than 60 different governments since the Second World War (*The Economist,* 22 February 2007). A Prime Minister's term in office usually lasts for one or two years.

  - **Israel.** In its 62 year history, there have been 32 governments in Israel. Governments are formed through coalitions. As the *Jerusalem Post* commented, 'politicians of all stripes now agree that Israel needs reforms that will create conditions for greater stability, more continuity and effective long-term planning and, most of all, give the nation's leaders a fair chance to get things done' (*The Jerusalem Post*, 13 November 2006). Elections were held in 2009 because Prime Minister Ehud Olmert resigned and his successor as leader of the Kadima Party, Tzipi Livni, was unable to form a new governing coalition. Gideon Doron, a political science professor who is leader of a single issue party campaigning for electoral reform, said that because of this 'we cannot make decisions and we cannot plan for the future on major, major things' (*BBC News Online*, 6 February 2009).

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CHANGE

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