

## Who speaks for Britain?

With a month to go, voters seem to think Labour deserves to lose the election but the Conservatives don't deserve to win it. An unexpectedly close race could hand an important role to a third party for the first time in almost four decades.

THIS time next month, a government may have fallen, and New Labour gone to its rest alongside Thatcherism. But the mood in 2010 is very different from the buzzing eagerness of 1997, when the Labour Party swept the Conservatives from power. This time the polls are close; party positions are far less distinct than party rhetoric; many voters are undecided; and a big chunk of them are more apprehensive about the future than elated by it.

Five years ago Labour won an unprecedented third consecutive victory. Five months ago it looked as if that would have to be the limit of its ambition. Labour seemed tired and divided, its leader, Gordon Brown, ham-fisted and hated. The Tories, redeemed from political Siberia by a fresh-faced centrist, David Cameron, were streets ahead in polling, and had only to hold on to win.

But things moved on. The prime minister, bloodied but unbudgeable, urged voters to "take a second look at Labour" and "a long, hard look" at the Conservatives. They did. And decided they either didn't know what the Tories stood for or didn't like it. By the end of March a hung parliament, in which no party enjoys an overall majority, seemed a plausible outcome.

The background to all this is one of wrenching change and uncertainty, on several fronts. For a decade and a half Britain enjoyed solid growth. The City of London was the world's biggest international financial centre. Jobs grew on trees. Heavy spending on public services pulled up their quality a fair bit. Most Britons grew more tolerant of diversity (or maybe more indifferent to it). And there was a certain swagger on the world stage. Mr Brown, chancellor of the exchequer for ten years, preached the virtues of Anglo-Saxon capitalism to benighted folk in other lands. As prime minister, Tony Blair intervened militarily hither and yon.

So the shock was considerable when, in 2008, Britain slid into its worst recession since the 1930s, taking longer than other big countries to crawl out. Banks needed handouts. Factories closed. Now prospects for growth are wan and the budget deficit eye-wateringly large. Spending will be cut back and taxes are already rising. People are frightened about their economic future, and their children's.

That increases unease in another area: social cohesion and behaviour. Britain has just undergone its biggest wave of immigration in history. Race relations were already mixed when Islamist attacks in London in July 2005 threw them into the headlines. Other questions were raised by the influx of workers from central and eastern Europe, such as what Britain's own working class was for. And while new people were arriving, old problems were disappearing only slowly, including binge-drinking, crude, rude young people and dysfunctional families. As opportunities evaporate, anxiety about identity and entitlement seems to be sharpening.

The third big shock has to do with foreign policy and defence. As it limps away from the war in Iraq and struggles with the cost, in money and lives, of another in Afghanistan, Britain is re-evaluating its place in the world. Not for the first time, it faces the prospect of relegation from the Premier League of nations with worldwide influence. This time a long, strong fiscal squeeze will make it hard to spend as much on diplomacy, defence and foreign aid as keeping a top spot requires.

So this election matters more than many. The central choice is, as usual, between the two main parties, Labour and Conservative. But with the polls close, the Liberal Democrats are in

the spotlight too. And in a very tight election any of the parties in the devolved bits of the United Kingdom—the Scottish National Party, the Welsh Plaid Cymru and four Northern Ireland parties—could also hold the balance of power.

The issues most on voters' minds as they head to the polls are the economy, health and education, immigration, and law and order, according to Ipsos MORI, a polling firm that tracks these things. Policy differences are not always clear-cut (though party manifestos due out soon will seek to make them so). Austerity is on the way whoever wins, though both the Tories and the Lib Dems would cut the deficit faster than Labour. No main party has made immigration the strident issue the Tories did (disastrously) in 2005, though it is cropping up more as the election nears. Foreign wars, too, are less divisive this time than last. The biggest foreign-policy gaps are over Europe, with the Lib Dems its loudest cheerleaders and the Tories the most sceptical.

If the debate over economic and fiscal policy is mainly about judgment (when to cut, how much and where), big differences of principle emerge in the argument over education. Recognising that the failure of the school system to equip a great many children for life or work is Britain's Achilles heel, the Conservatives (and indeed the Lib Dems) want to shake it up with the kind of supply-side reforms that New Labour has given up on.

But this election is in fact less about ideology than it is about values and personalities. The Tories talk of reducing the role of the state and strengthening families; Labour, drifting to the left, laments the persistence of privilege and promises "fairness" in distributing pain or gain. In the end, it may come down to how well the party leaders project competence and empathy, or even whether a televised preference for pancakes or bacon butties echoes the voters' own. Britain's parliamentary elections are becoming ever more presidential.

## **Once and future kings**

*The three men who would be prime minister, and what they represent.*

WHEN Gordon Brown moved into Number 10 in June of 2007, *The Economist* said he had the makings of a disappointing prime minister, and also of a fine one. We were right, albeit not in equal measure.

In the autumn of 2008, when banks were toppling and capitalism seemed to be imploding, Mr Brown's government introduced a bail-out plan that saved Britain's financial system and served as a model for bank rescues elsewhere. History may regard that intervention as his main positive achievement as prime minister. The rest of the world was impressed; indeed, many foreign observers have never understood why Mr Brown has been record-breakingly unpopular at home.

The explanation is that the bail-out was a moment of unusual resolution and boldness. For much of the past three years he has tottered from one calamity or cock-up to the next, often flirting with farce.

The trouble began in October 2007, when, after a competent start, Mr Brown toyed with calling an early general election, only, in popular parlance, to "bottle it". His claim to strong leadership never recovered; thereafter a run of mistakes and accidents transformed his image, as Vince Cable, the Treasury spokesman for the Liberal Democrats, devastatingly put it, "from Stalin to Mr Bean".

And despite a recent push to soften his perceived persona, Mr Brown has struggled to communicate with the public. He responded leadenly to the parliamentary-expenses scandal that convulsed British politics in 2009. Perhaps most surprisingly, he has seemed to have little in the way of an animating mission to communicate. Having coveted the top job for so long—his supporters fought for years to force out Tony Blair—Mr Brown has too often seemed uncertain about just what he wanted to do with it.

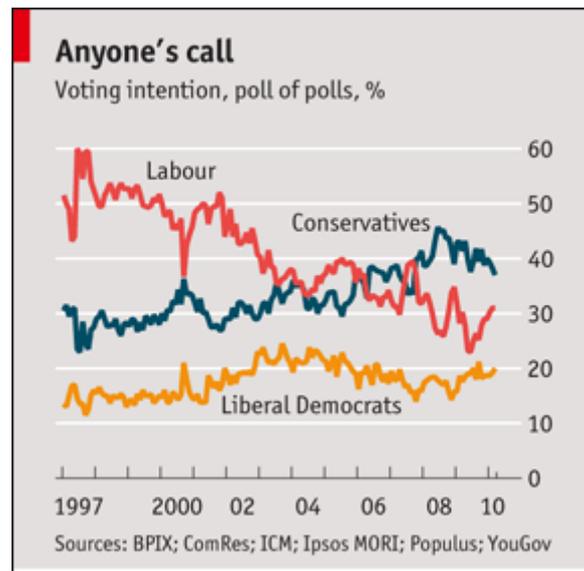
Partly because of the old Blair-Brown rancour, and partly because of Mr Brown's own failings, his premiership has been blighted by repeated attempts within his own party to oust him. Had he not brought his old political foe, Lord Mandelson, back into the cabinet in 2008—since when the business secretary has been Mr Brown's canniest defender—the putschists might have succeeded. All this raises a big and strange doubt about Labour's pitch: even if the party clings to office, it might find a way to ditch its leader and install someone else.

Mr Brown's re-election bid—re-election for his party that is: he himself became prime minister without a contest in either his party or the country—rests mainly on his strategy for the British economy. The man who said he had abolished "boom and bust" has presided over the longest, deepest recession since the second world war. As chancellor and subsequently prime minister, he has overseen the build-up of a massive deficit (the result of inescapable global forces, he argues). Nevertheless, Mr Brown now casts himself as a sort of economic war leader, safeguarding the recovery while planning for a green, zippy future economy.

In the meantime he claims to have hit on a fresh approach to what is conventionally the other main battleground of general elections: the public services. Labour is peddling public-service "guarantees"—entitlements to minimum standards in schools, hospitals and so on—that are in theory an alternative to both the top-down targets applied in Mr Blair's first term, and the choice- and market-driven reform strategy that the government eventually adopted.

Part of Labour's problem, however, is that the recession and deficit have undermined more than Mr Brown's claim to economic competence. They have also called into question New Labour's whole method of government. That now seems to have relied on benign economic conditions that enabled lavish spending without requiring the tax rises that can alienate the middle classes. The days of "have cake and eat it" politics are now over—and, despite Mr Brown's guarantees and ideas for the economy, Labour has struggled to come up with an updated philosophy. It boasts some decent thinkers, such as the Miliband brothers—David and Ed, the foreign and energy secretaries, respectively—both plausible future leaders. But it hasn't seized the chance for intellectual renewal that many on the left felt the crisis offered.

Still, if there is uncertainty about Labour's direction and even leadership in a putative fourth term, there are also doubts about the convictions of the Conservatives, and of the man who leads them.



Before David Cameron became party leader in 2005, the Tories, once one of the great election-winning forces of Western politics, had come to seem hopelessly estranged from the British people. His accomplishment has been to make them electable. But the once-gaping Tory poll lead has shrunk, and a victory that looked almost certain now seems much less so (see chart). Many attribute both Mr Cameron's success and his recent stumble to the apparent malleability of his views.

If Mr Brown's "offer" is an uneasy mix of change and experience, Mr Cameron's is unequivocally one of change. Exactly what sort of change is less obvious.

Besides a spell in public relations, Mr Cameron has spent his adult life in politics, beginning as an adviser to various ministers in John Major's government. His tight circle of strategists is largely drawn from his colleagues in that era (many of them from backgrounds as privileged as his own). This coterie appreciated that their priority was to "decontaminate" the Tory brand, still seen by many as sleazy, greedy and heartless. To that end, Mr Cameron embraced causes such as environmentalism, the National Health Service (NHS) and the alleviation of poverty, not previously associated with his party. He espoused liberal views on social issues, such as civil partnerships. As Mr Blair did when he reinvented Labour, Mr Cameron, as Westminster-watchers say, "ran against his base".

At the same time, partly out of necessity and partly out of conviction, he has coddled the Tory faithful. Many of his policies—tax support for marriage, for example, or a potentially distracting Euroscepticism—are old-fashioned. This combination of the modernising and the traditional created tensions in his leadership from the beginning: between his environmentalism and enthusiasm for the market, say, or between his defence of civil liberties and his tough line on crime.

Then came the financial crisis. Mr Cameron tried out a new role: that of saviour of the public finances, more Margaret Thatcher in 1979 than Mr Blair in 1997. If Mr Brown is the dour deliverer of an upbeat message on the economy, Mr Cameron has often seemed the reverse: a chirpy prophet of doom, who vows to inaugurate an "age of austerity" in public spending in place of Mr Brown's "age of responsibility" (though Mr Cameron has brandished his axe somewhat less enthusiastically as his poll lead has shrunk).

The trouble is that this new imperative has clouded and sometimes contradicted his previous goals, such as the commitment to the public services (part of his modern, compassionate agenda) or the aspiration to cut taxes (one of his orthodox Tory themes). For many, this

combination has led to a lack of clarity about what sort of Conservatism Mr Cameron represents, and thus what sort of government he might lead. He has seemed at times to stand in the incremental tradition of Disraeli or Macmillan, paternalistic and not zealously ideological; at others he has posed as a Thatcher-style revolutionary.

His greatest asset, say his boosters, is his even temperament, often contrasted with Mr Brown's irascibility. As prime minister, Mr Cameron's patience might be tested by, among other things, his own party. His leadership is not in jeopardy as Mr Brown's is. But many of his MPs and others in the party do not share his cuddly views on the NHS or relatively pragmatic stance on Europe. Eventually—especially if he lacks a strong majority—such disagreements may prove problematic.

Nick Clegg, the personable leader of the Liberal Democrats, likes to joke that he cannot help being roughly six feet tall, male, white and in his early 40s—like Mr Cameron. When he became his party's leader in 2007 he seemed intent on making his mark through stunts, such as staging a walkout of Lib Dem MPs from the Commons.

Gradually, however, he has managed to instil a degree of intellectual consistency in a party that has historically been torn between its authentically liberal and its social-democratic instincts. He argues that the liberal tradition is irreconcilably different from the statist thinking that is habitual for Labour politicians. Perhaps unexpectedly for a Lib Dem leader, Mr Clegg has pared back his party's manifesto themes, especially its spending commitments, realising that the fiscal situation made a more extensive list of promises impractical and incredible. He has an important ally and asset in Mr Cable, his Treasury spokesman, who emerged with more credit than most politicians from the financial debacle.

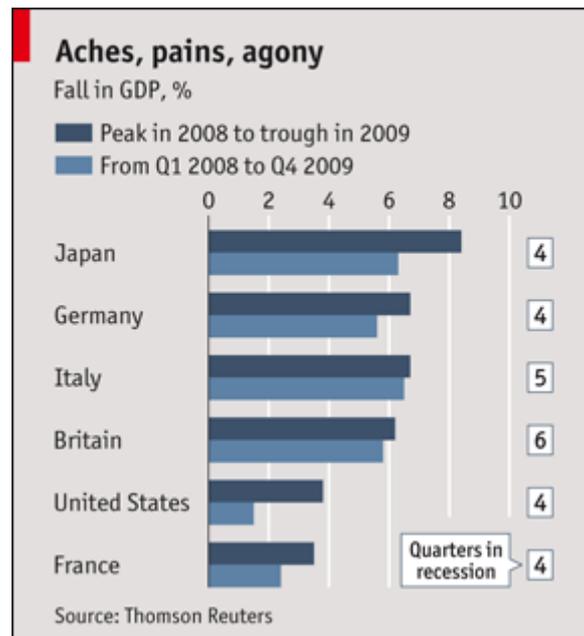
The Lib Dems are the principal victims of Britain's first-past-the-post electoral system. In the 2005 election, when they were buoyed by their opposition to the Iraq war, they won more than a fifth of the votes, but less than a tenth of the seats. (Mr Clegg's scepticism about the British deployment in Afghanistan—the Liberal Democrats seemed for a while to be on the verge of advocating withdrawal, thus emulating their 2005 position on Iraq—has softened since Barack Obama authorised the Afghan "surge".) Replacing the current voting system with a proportional one is a priority for the Lib Dems, along with wider political reforms.

But it is possible that Mr Clegg could exercise power of sorts without it. Conventional wisdom has it that the Lib Dems will struggle to hold on to their 63 seats, some of which may be captured by the resurgent Tories. Perhaps; but even if their numbers drop, Mr Clegg's MPs may hold the balance of power if neither Mr Cameron nor Mr Brown emerges from the election with an outright majority in the House of Commons. It seems unlikely that Mr Clegg would enter into a formal coalition with either. But he may enjoy more influence over government than any Liberal leader in Britain since before the second world war.

### **The feel-bad recovery**

*The question is whether, in difficult times, a dubious record is better than no record at all.*

ECONOMIC management was Labour's trump card at the elections of 2001 and 2005, but it will not be in 2010. Instead of arguing about what went right, the parties will cross swords about how things went so wrong. There will be claims and counter-claims about how the financial crisis and recession were handled, and who is most capable of ensuring a real recovery. But, as in a dispute among heirs to a disappointing legacy, the parties are fighting over an economy whose prospects have dulled after the great fall (see chart).



When David Cameron became the new Conservative leader four years ago and set out his stall, he took for granted an economy that would deliver the goods. The proceeds of growth would be shared between higher public spending and lower taxes. He concentrated his efforts on communicating warmly about social and environmental themes.

Gordon Brown, then chancellor of the exchequer, thought so too. He had put an end to boom and bust, he said on more than one occasion. Both main parties were caught on the hop by the banking crisis, soon followed by economic meltdown and fiscal catastrophe.

Mr Brown argues that Britain's economic stability was genuine. GDP grew without a break, by an average of 2.9% a year (per person, by 2.4%) in Labour's first decade in power. Inflation was low and steady as the Bank of England, freed by Mr Brown to set interest rates in order to hit an inflation target, deftly steered the economy. The subsequent 6.2% decline in national output from the first quarter of 2008 until the third quarter of 2009 was caused, Mr Brown says, by a global recession induced by a worldwide financial crisis.

His critics have a different version. Puffed up by his apparent success in presiding over a long run of growth, Mr Brown ignored the steam coming out from under the economic bonnet. He did not heed the warning signs as household savings fell, a current-account deficit persisted and a budget shortfall emerged. He failed to do anything about the dangers arising from the housing-market bubble and the build-up of private debt. Indeed, he made his own contribution to derailing the economy through pushing public spending up too fast and too long.

Mr Brown's vainglory about his ten years as chancellor will haunt him in the campaign. His briefer record as prime minister since June 2007 will come under scrutiny too. Mr Brown presents himself as a battle-hardened veteran who has earned his spurs battling financial crisis and recession. He (eventually) took the bold step of nationalising Northern Rock, the mortgage lender that was the canary in the banking coal mine. It was he who led the way to the global banking rescue in October 2008 by force-feeding weak banks with extra capital. His government brought in a fiscal stimulus and authorised the Bank of England to pursue "quantitative easing"—injecting money into the economy by buying financial assets, mainly government bonds. Mr Brown says that his activism has worked in cushioning the downturn and setting the economy on the path to recovery. Unemployment in particular has risen less than once seemed likely.

This is more awkward ground for the Conservative opposition to contest. True, they backed the banking rescue and quantitative easing. On the other hand, they opposed both nationalising Northern Rock and pumping in fiscal stimulus to fend off an even direr slump. They also took a while to adapt their good-time economic message to the language of public austerity. The Liberal Democrats, with Vince Cable speaking on Treasury matters for them, were quicker to see what needed to be done on Northern Rock, as well as the broader implications of the banking crisis.

Oppositions, condemned to talk rather than act, often struggle to impress the electorate on matters of economic management. Voters cast their ballots mostly on the government's record. But the important issue is what the different parties can offer in future both to sustain a recovery that got off to a modest start, with output rising by 0.4% in late 2009 after six quarters of recession, and to rebuild an economy that has had a huge spanner thrown into its works.

The biggest and most important battle is being fought over fiscal policy. It is the Tories who have talked toughest about cutting the deficit, with the Lib Dems close behind and at times more sensible. But all three main parties' fiscal positions are converging (see Back to basics). And other differences on economic policy are smaller than they would have voters believe.

Inflation-targeting will continue and the Bank of England will be in charge of hitting the number regardless of who is in Number 10. Although the Tories would disband the Financial Services Authority (FSA) and put the central bank back in charge of banking supervision, financial regulation will be tougher and more focused on "macroprudential" risks, such as asset-market bubbles and excessive credit growth, whoever wins the election. Even if the FSA retains its current role, as Labour plans, the regulator and the central bank, together with the Treasury, will co-ordinate their activities far more than they did before Northern Rock exposed the flaws in the split "tripartite" system.

Despite these nuances in policy, the broad picture will be much the same with any of the main parties at the helm. The economy must be weaned off the exceptional support, both fiscal and monetary, it has received during the recession. The tougher the budgetary tightening that lies ahead, the easier monetary policy can be, with the base rate staying longer at or close to its all-time low of 0.5%, and possibly more doses of quantitative easing.

Even if this delicate balancing can be accomplished, Britain's medium-term economic prospects are uninspiring at best. Whoever takes charge will inherit an economy laden with debt. British households are the most indebted (relative to disposable income) in the G7 group of big developed countries. As they now reduce those loans, they will rein in their spending. British banks are also under pressure to reduce their balance-sheets for prudential reasons. That will weaken the recovery if it starves businesses of credit, although larger firms should be able to raise money in the capital markets.

With private consumption and government spending restrained, a sustained recovery will have to come from other sources. Over the next five years or so net trade—exports less imports—and private investment must drive growth.

Britain has managed such a switch before, most recently in the mid-1990s, after the pound fell steeply on its expulsion from the European exchange-rate mechanism. This time sterling has fallen even more, by a quarter in trade-weighted terms since mid-2007, which suggests that an export-led upswing could occur again. But Britain is not alone in trying to rebalance its economy this way. And about half of its exports go to the rest of Europe, which is struggling with its own slow growth.

So export-led growth is not assured, and some think the economy's ability to grow may have been permanently impaired by the financial crisis and deep recession. Past experience suggests that banking crises inflict a lot of harm, but also that some economies get off more lightly than others. The Treasury has lopped 5% off its estimate of the underlying productive capacity of the economy, which looks reasonable. But it thinks the economy can expand from this lower level at the same pace as before, 2.75% a year, and that is optimistic. The National Institute of Economic and Social Research, a think-tank, reckons that trend growth is now 2.4% a year. And some economists think it could have fallen to around 2%.

One important reason to expect slower growth is fewer immigrants. During the boom years, a big influx of working-age foreigners helped to increase Britain's overall output. But with unemployment high and the pound low, Britain is no longer as attractive a destination and some migrants are returning home. In any case both main parties are committed to restraining immigration.

With the longer-term prospects darkening and a question-mark over just how big a role financial services will play in future, the search is on for new sources of economic dynamism. Lord Mandelson, Labour's business secretary, has one answer to this. He thinks the state should play a more active role in fostering opportunities for British firms, especially those arising from the shift to a low-carbon economy and advances in the life sciences. The Tories are also flirting with industrial policy. But the state's record at picking winners has not been inspiring.

Jobs will remain a big worry. The fact that unemployment has risen less than expected—from 5.2% of the labour force before the recession to 7.8%, on figures out in March—has its downside. As firms have held on to workers during the economic downswing, they will probably be slow to hire more in an upswing that anyway looks likely to be lethargic. And the public sector, which has been a haven during the recession, will be shedding staff.

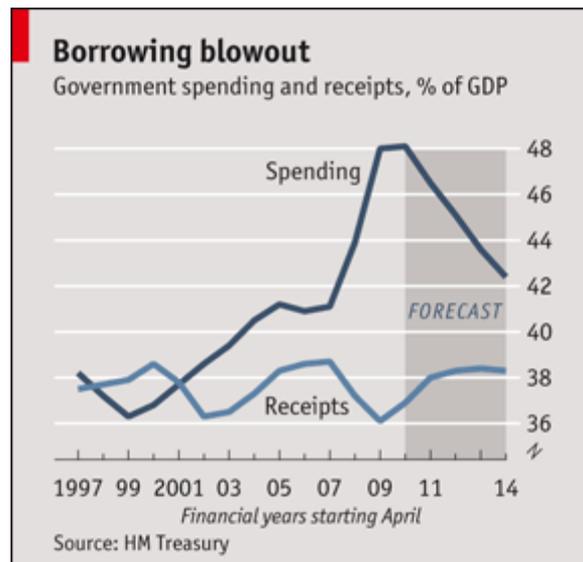
As politicians peddle their wares on the campaign trail, trying to come up with a line that offers hope for the future while recognising the grim realities of the present, Britain's economic prospects are as uncertain as they have been since the war. If recovery does take hold, there is plenty of room to grow because of the amount of spare capacity (even if potential output has taken a hit). But expansion built on net trade rather than consumption, and coupled with continuing fiscal contraction, will feel very different from the heady years of the debt-fuelled boom. Whatever party comes to power, all that Britain can sensibly expect during the next parliament is a feel-bad recovery.

## **Back to basics**

*Britain must learn to live within its means. But how, and how fast?*

THE most pressing piece of business for any new government will be coming up with a credible plan for restoring fiscal sanity. For the past year investors and credit-rating agencies have been living in a state of suspended disbelief as Britain's public finances have deteriorated vertiginously.

In 2007-08, the year before recession hit, the budget deficit was £34 billion, equal to 2.4% of GDP. By 2009-10 it had risen to £167 billion, or 11.8% of GDP—the highest since the second world war—and it is likely to stay close to that this year (see chart).



Britain's position looks dire compared with other big economies. According to the IMF, its deficit as a share of GDP will be the biggest among the G7 countries in 2010. Some of the borrowing will go away as the economy recovers. But on the Treasury's latest projections the Institute for Fiscal Studies (IFS), a think-tank, reckons that spending cuts and tax rises worth around 5% of GDP are needed to put things right.

The parties differ on when and how to start. Both Labour and the Liberal Democrats want to wait until 2011, arguing that an early start could derail the recovery. Although Alistair Darling, the chancellor of the exchequer, has introduced a new 50% top rate of income tax on high earners this April, the real retrenchment is to begin next year and carry on until 2016-17. Among his revenue-raising measures is increasing national-insurance contributions from April 2011. But on spending his account lacks crucial detail (the Lib Dems have been more specific). And his timetable is anything but urgent, leaving the deficit at 4% of GDP in four years' time. That figure would have seemed worryingly high before the crisis.

By contrast, the Conservatives want to get going this year since they fear that delay could imperil Britain's credit rating and thus push up interest rates. George Osborne, their Treasury spokesman, has talked tough about reducing the deficit, and says he would hold an emergency budget within 50 days of the election. But as the Tories' poll lead has shrunk, Mr Osborne has changed tack. He will cut spending by £6 billion in 2010-11, he says, but will use the savings in future years to pay for a reversal of most of Labour's planned national-insurance increase. The Tories' real workout, beginning in 2011-12, would end in 2015-16, a year earlier than Labour's.

Under both parties spending will bear the brunt: two-thirds of Mr Darling's proposed squeeze (until 2014-15, at any rate—the rest is blank) and four-fifths of Mr Osborne's. Under Labour total expenditure would stay roughly the same in real terms in the four years after 2010-11. But as interest charges rise because of more borrowing, and welfare budgets also increase at their usual rate, even a standstill in total spending implies cutbacks elsewhere.

So painful times lie ahead for the public services, which account for nearly 60% of total spending. The IFS says that Labour's plans, for example, imply cuts of 12% by 2014-15. The outlook is particularly bleak in areas such as defence and transport because both the main parties want to shield some politically sensitive services from real cuts, as well as to keep raising the (small) overseas-aid budget. The Tories have said they will ring-fence the NHS. Labour would protect almost all health spending and increase the bulk of spending on schools by 0.7% a year in 2011-12 and 2012-13. Taking these pledges into account, other

departments could see reductions of 14% by 2012-13, says the IFS. The Lib Dems have refused to exclude the NHS from cuts.

One approach would be to slice into the welfare bill, the single biggest item of public spending at nearly 30% of the total. But since much of it goes to poor people, this would be tricky. A solution might be to means-test payments such as child benefit which go to all income groups now. But that would be a hard sell politically, and Mr Osborne, for one, ruled it out last year.

The idea of raising taxes is also difficult to stomach. Labour's tax measures will raise revenue by just over 1% of GDP, according to the IFS, although the new top rate of income tax may yield less than expected. The Tory plan to reverse most of the rise in national-insurance contributions will still leave taxes rising substantially. The Conservatives also propose raising the inheritance-tax threshold and giving a tax break to married couples, although these measures should cost relatively little. The Lib Dems, for their part, envisage a revenue-neutral reform that would take those earning £10,000 or less a year out of income tax altogether.

Yet tax increases greater than those Labour plans will almost certainly be needed to plug the fiscal hole. One widely canvassed measure is to push up the main rate of VAT, a consumption tax, from 17.5%. If it rose to 21%, this would bring in an extra 1% of GDP. Another might be to introduce a carbon tax.

After so big a fiscal blowout, regaining credibility may require more than a deficit-reduction plan. Labour has enshrined in law a commitment to halve the budget deficit by 2013-14, although the Treasury requires no extra powers to cut borrowing. The Tories would set up an independent Office for Budget Responsibility to keep the chancellor's feet to the fiscal fire.

Despite the differences of detail, whoever wins will preside over a long parliament of fiscal austerity. And it will be longer and more austere than anyone now dreams if the hole that has to be filled in the public finances turns out to be even greater than the Treasury says.

## **Firefighting**

*Tame the City, yes, but don't extinguish it.*

LIKE an arsonist who has lit a fire, then jumped into his fireman's kit to put it out, Gordon Brown claimed in December 2008 to have "saved the world" from the financial inferno (charitable folk will deem it a slip of the tongue). Yet a decade earlier, it was he and his party who set up the new system of regulation whose tolerance of excess had let the fuel mount up.

When the new Labour government of 1997 made the Bank of England independent to pursue monetary policy, it dismantled its powers of bank supervision. These went to a new super-regulator, the Financial Services Authority (FSA).

The FSA developed "light-touch" regulation into a fine art. Although the central bank was still meant to be the guardian of financial stability, it had surrendered the ability to relate that to the behaviour of individual banks. In theory, the Bank of England, the FSA and the Treasury were to deal with crises together, according to an ill-defined "tripartite" arrangement. In practice, no one spotted the trouble building up at Northern Rock, a go-go mortgage bank, and no one handled it well when it hit in August 2007. The crises that followed were dealt with more expeditiously. In October 2008 (and again the following year) the government poured capital into the washed-up Royal Bank of Scotland and Lloyds Banking Group. But the regulatory system was hardly a roaring success.

This matters, because the role of finance and the City is one of the big questions hanging over this election. Banks everywhere made mistakes. But Britain's banks are larger, relative to the underlying economy, than most. And the City is still home to some of the world's most cutting-edge markets and practices.

One of the hallmarks of New Labour was a relaxed attitude toward making money. Tony Blair cultivated City folk, who also gave generously to party funds and pet projects. They were more suspicious of Gordon Brown's meddling tendencies. But he too courted the City and commended to others the unobtrusive regulation that made its effervescence possible. Bank assets doubled between 2001 and 2007, to more than £6 trillion.

In the good times financial services contributed 8% to national output and, directly and indirectly, almost 14% of the government's total tax take, on figures from PricewaterhouseCoopers, an accounting firm. But when disaster struck, the banks required colossal amounts of taxpayers' money to keep going. Despite this, they are failing to support the economy by lending as much as politicians thought they would. And, though some in the business lost their jobs (if not their pensions), many did not lose even their bonuses.

Britain's financial sector is now dominated even more than before by a few big banks which must surely be considered "too big to fail". A future government has the choice between keeping the system roughly as it is and changing it radically. The risk in cutting the banks down to size is that tax revenues and jobs might diminish too, as well as any chance of getting taxpayers' money back from the rapid sale of the state-owned banks. The risk in not hacking the banks back is that another financial crisis might blow up, and this one could find the Treasury empty.

Against that background only one party, the Liberal Democrats, suggests root-and-branch change. The Lib Dems' Treasury spokesman, Vince Cable, has called for the big banks to be broken up, and for those in state ownership to be forced to lend more to credit-hungry companies.

Labour's rhetoric has become more incendiary in response to popular anger over bankers' perceived greed. But the government has chosen not to interfere much with the running of even the banks it owns. It has, however, proposed a new Council for Financial Stability to pay more attention to "macroprudential" risks. The FSA is also to get powers to monitor largely unregulated firms such as hedge funds and rip up bankers' job contracts if they might encourage reckless trading. Consumer protection would also be strengthened.

One might expect the Tories to roll over and play dead on City matters; David Cameron's father, after all, was a stockbroker. Yet in one respect they are bolder than Labour. They want to abolish the FSA, shift supervision of banks and other financial institutions to what they see as the safer hands at the Bank of England, and create a consumer-protection agency. But since the proposal was aired in July, worries have emerged in the Tory camp as to how the change would be implemented, and how costly and disruptive it might be.

The substance of regulation is in any event more important than who does it, and Britain is keen that any serious changes be implemented internationally. Both big parties agree that banks must hold more capital. Both agree that they must prepare a "living will"—a plan for their orderly wind-up if they get into trouble. Both are sceptical about American proposals to forbid banks to trade on their own account or invest in hedge funds (though the Tories have hinted that riskier activities should be separated from retail banking). And both big parties are open to an international call for a levy on banks to pay for the risks they pose to the system.

For voters who know something is wrong but can't quite make out if anyone is right, the differences come down broadly to this. Labour offers more of the same; the Conservatives would rearrange the deckchairs; the Lib Dems would shake up the system but haven't really said how. It's a choice, if not a great one.

## **Rebalancing act**

*With the City in the stocks, all parties want to revive the spirit of manufacturing. It is a long shot.*

THERE is little dispute, going into the election, that the British economy needs a bit of rebalancing. As the government retrenches, it will have to be the private sector that pulls the country out of the doldrums. But financial services have taken a hit, so manufacturing looks ever more attractive. After a couple of decades in which successive governments seemed to believe that making things was best outsourced to lower-cost countries, a lesson has been learned, mostly from Germany: that high-value manufacturing in a well-networked, developed country can still beat rivals in industrialising nations elsewhere.

Can manufacturing possibly regain the share of GDP, almost 24%, it had in the mid-1980s, now that it has shrunk to just over 12%? No, but it could grow. The Labour government has tried to wrench the rudder round by talking up the successful parts of it: those related to the life sciences, plastics, electronics, carmaking, weapons, aerospace and pharmaceuticals.

Any incoming government will have the same objective. There are four levers to pull: incentives (in the form of grants, coinvestment or subsidies); taxation (which can be skewed to favour investment, research and development, or certain industries); education (tipped, again, in favour of science and technology, and of manufacturing skills in general); and improving regulation. Each party insists that its levers will work best.

The Labour government responded to the financial and economic crisis by launching a bunch of measures in January 2009 to help companies. These included guaranteeing bank loans to small firms, letting cash-strapped companies defer tax payments and subsidising the exchange of old cars for more eco-friendly new ones. A promise of £2.3 billion in assistance to the motor industry lay dormant until this March, when £650m was doled out to GM, Ford and Nissan.

The biggest failure, though, has been in the attempt to convince banks, even those in which the government has a big stake, to lend to firms. Figures from the Bank of England show that bank lending to business, except for property lending, fell in the last nine months of 2009. Though bankers insist that demand is not there, anecdotal evidence suggests the opposite, and business investment fell by 19% last year. These do not seem ideal conditions to foster the rebirth of manufacturing. All three parties have talked about ways to fill the gap left by the reluctant banks. The budget on March 24th promised more funding, especially for smaller businesses, and higher targets for lending by the banks that are partly under state control.

Lord Mandelson, the business secretary, thinks government should be more active in helping British firms, particularly high-tech, high-value-added and creative enterprises. Such assistance would include steps to plug financing gaps that can hinder smaller firms and start-ups, together with arrangements to bring university research and businesses closer together. The Tories are also keen, and say they want Britain to become Europe's leading high-tech exporter (Germany might have something to say about that). Sir James Dyson, an entrepreneur and author of a report for the Tories on Britain's exporting future, urges more tax breaks for research-intensive high-tech start-ups.

The problem with tax breaks and other subsidies, however, is that they complicate the tax system and distort incentives. More prosaically, and perhaps more realistically, all British companies, whether in manufacturing or in services, would benefit from clearer, more predictable taxes and streamlined regulation.

Businessmen blame Labour for fiddling around hyperactively with both these things. Small businesses more than most find it hard to function with proliferating requirements to do with health and safety, flexible working and the like. Though the government did cut the corporate-tax headline rate from 30% to 28% in 2008, it is now discussing controversial proposals to extend its tax reach over foreign subsidiaries controlled by British-domiciled companies. Even more irritating, to some, are the recent increase in the top rate of personal-income tax, adjustments to tax relief on pension contributions and a one-off 50% tax on bonuses. Such moves have unsettled business bosses, and a few have headed off overseas.

George Osborne, the shadow chancellor, says that he wants to tackle both tax and regulation to make Britain a more competitive proposition for companies. He would cut corporation tax further, to 25% (although this would be funded by cutting some allowances). The Liberal Democrats also want to reduce the corporate-tax rate, paying for it by removing "complex reliefs". And both opposition parties would overhaul the costly Regional Development Agencies, which seem to do more for their overpaid bosses than for firms.

Will the Conservatives again be seen as the party of business they were once axiomatically taken to be? For all the seductive talk of rebalancing the economy, of reviving manufacturing, of supporting the creative industries, high-tech start-ups or whatever, the best thing that any new government can do for enterprise is to restore the public finances and stop dominating the credit markets. That, more than anything, would help the private sector become the engine of the economy it is meant to be.

## **Back to the barricades**

*With money scarce, helping the poorest will be harder.*

WORRIES about social divides in Britain go back a long way. In 1845 the Tory Benjamin Disraeli wrote of "two nations"—the rich and the poor—in the same year that Friedrich Engels, collaborator of Karl Marx, published an essay on the condition of the English working class. Nowadays David Cameron speaks of mending a "broken society", Gordon Brown of delivering "a future fair for all".

At the heart of this divide is a degree of continuing, rather concentrated poverty, made worse by an education system that is failing to help people climb out of it. An important issue in this election is what sort of society Britain aims to be, and whether state-mandated redistribution from rich to poor (as Labour increasingly espouses) or energising families and the "little platoons" of civil society (the Tory mantra) is the best way to get there.

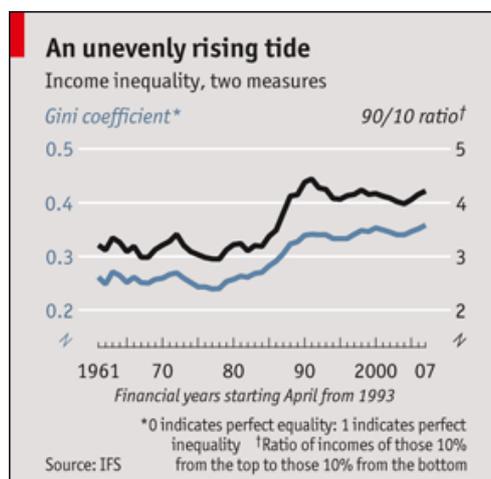
Among the ambitions of New Labour at its newest was to reduce poverty, especially among the young and the old, without soaking the rich. So child benefit, which is paid to all mothers, was retained, while poorer parents also received the child-tax credit. Similarly, the basic state pension available to rich and poor workers alike was maintained, but poorer pensioners got a top-up credit. A pledge not to raise income-tax rates featured in all three of Tony Blair's election manifestos, and was totemic in his rebranding of his party.

That was phase one. After the banking crisis, in a no less totemic move, Mr Brown brought in a new top rate of income tax at 50%, from April 2010. Labour justifies its U-turn on its 2005

manifesto pledge by arguing that the rich (who are also getting less tax relief on pension contributions) should shoulder the cost of the crisis. It proudly says that its income-tax rises will affect only the top 2% of earners.

Mr Brown's anti-rich policies have yet to show up in the figures, but his anti-poverty drives have been less effective than he hoped. The number of poor pensioners (those living on less than 60% of median income) fell until 2005-06, but has risen since then. A target to halve the number of poor children between 1998-99 and 2010-11 will be missed by miles.

This has implications for inequality, which is greater in Britain than in countries like France or Germany. On one measure, the Gini coefficient, which looks at distribution overall, income in 2007-08 was shared out more unequally than at any time in the past 50 years (see chart). On another, the ratio of the incomes of those 10% from the top to those 10% from the bottom (the "90/10 ratio"), inequality was higher than in 1997. The trend has been even more notable at the very top of the scale.



Labour has been rowing against a powerful tide as high earners have raced ahead. That tide may be turning as rewards in the City become less egregious. But the extreme contrasts in prosperity in most cases lie not between those with jobs but between the employed (especially full-timers) and the workless. The most telling indictment of Labour's record is that more than 5m people—14% of the working-age population—get out-of-work benefits.

In an era of public austerity, raising employment will have to be the main way to tackle poverty. Labour has already been moving in this direction. Single parents can no longer stay on benefit until their youngest child is 16, as they could until recently. That age is being brought down in stages to seven.

After a decade of drift the government is also trying to get more of the 2.6m people on incapacity benefit—up to two-thirds of whom may be able to work—into jobs, and to make it harder to claim the allowance in the first place. The Conservatives say they will be even tougher in involving private firms and paying them according to how many claimants they get back to work.

The three main parties agree that the state-pension age must rise (though the Tories want to move faster than Labour or the Liberal Democrats). If it does not, decent pensions will become unaffordable as people live longer and baby-boomers retire in bulk. The parties are also at one on re-linking the basic state pension to earnings rather than to slower-rising prices. Otherwise more people will be sucked into the means-tested pension credit, which discourages saving for retirement.

The other big problem for an ageing society is personal care for the elderly. Labour is now proposing a taxpayer-funded care service for all, though not in the next parliament, whereas the Conservatives prefer a voluntary insurance scheme.

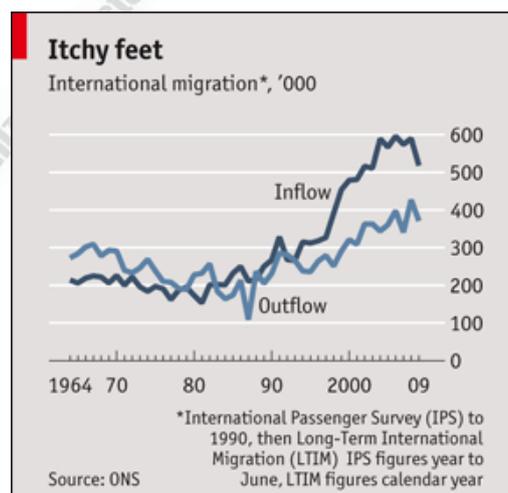
When times were good, most working Britons did not mind if some of their taxes were used to curb poverty. But according to the latest British Social Attitudes survey, a big annual poll, support for redistribution has been waning. With tax increases looming for most people (not just the top 2%), voters may draw the line. However socially unfair inequality may be, higher taxes will feel personally unfair, and that will almost certainly be the more powerful political sentiment.

### Who would live in a place like this?

*Big promises on migration will be hard to keep. But great British traditions such as binge-drinking might be tackled.*

VOTERS in this year's general election are a more numerous bunch than in 2005, when they last went to the polls. Britain's population keeps rising—to over 61m, according to the latest estimates. Much of this increase is directly or indirectly down to immigration, a hot topic in this election as it was in polls past. But the reasons for worry, and the arguments for and against it, have changed.

Labour has presided over the single biggest intake of immigrants in British history. Since 1997, 5.6m people have come to stay for a year or more (though most years over 300,000 emigrated too—see chart), and 1.6m, mainly from developing countries, have been granted permanent right of residence. Swelling the numbers were citizens of the eight central and eastern European countries that joined the European Union in 2004; Britain was one of only three old EU members to allow them to come to work without restrictions. As more than a million arrived in four years, Poles became the single largest foreign national group in Britain, up from the 13th largest.



White, and mostly uninterested in seeking citizenship, the European influx is different from the South Asian and Caribbean mass migrations of the past. The multicultural tensions that were so acute in 2005 and 2006, after the Islamist attacks in London, seem to have abated. Rather than emotional arguments about race and culture, immigration more recently has provoked more pragmatic complaints about jobs—that foreigners are elbowing Britons out—and the strain on public services.

The impact of the newcomers on the labour market is disputed. Polish turnip-pickers have indeed made life harder for unskilled Britons, but they have created new jobs too, by allowing turnip farmers to expand and recruit more white-collar (often British) staff. There seems to have been some downward pressure on wages at the bottom end of the job market, but on one estimate they have fallen by less than 1%: the national minimum wage means that pay for people over 22 cannot legally go below £5.93 per hour, and many of these jobs were on that baseline already. The low-paid, outdoor, tiring jobs that Poles and Lithuanians have often taken are not ones that the long-term unemployed in Britain seemed wild about turning out for. Had Britain not imported the workers, it might have had to export the jobs.

But although immigration is ebbing, as the economic downturn and sterling's weakness make Britain less attractive, the issue has lost none of its salience. The notion that Britain is an increasingly crowded place—its population set to hit 70m in the next 20 years, mainly because of immigration—worries many. In office Labour opened the door to foreigners for a host of reasons (all defensible individually) without pausing to consider the impact on the existing residents. Though the economy grew overall, there is little sign that wealth per person increased much as a result.

Early in the New Labour years, social and economic liberalism were popular, and an immigration policy encompassing both was more or less accepted. But that mood is changing now that economic prospects are bleaker. Public housing, already in short supply, is one irritant. Poorer British-born whites, who have become a bit more likely of late to cast their vote for the far-right British National Party, feel discriminated against in housing as in no other area. In 2001, 15% of whites thought their race held them back in getting accommodation. Now 24% think so. Education is touchy too. In Norfolk, for example, where many east Europeans are employed in agriculture, parents complain of a sudden influx in their children's schools of pupils who cannot speak English. Immigration deserves a far more serious public debate than it has received to date.

Politicians are not immune to this change of mood. Yet for all the political heat it generates, immigration is not something that British governments can do a great deal about. Workers from outside the EU make up just one-fifth of all immigrants when students (who pay valuable tuition fees) are excluded. Fewer than 30,000 people sought asylum in Britain in 2009. Most unskilled non-Europeans (other than relatives of British residents) are banned already, so it is the well-qualified, well-paid ones who would face exclusion if controls were tightened.

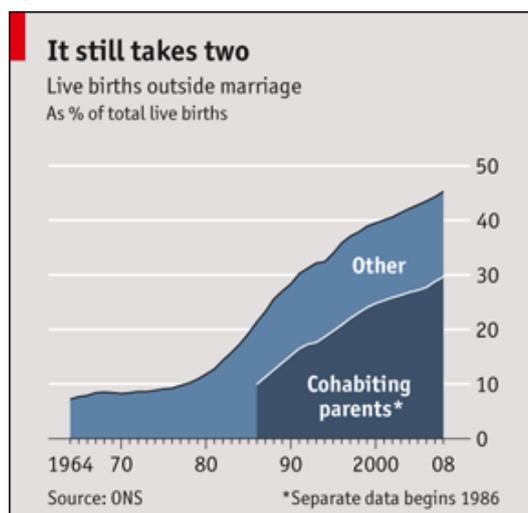
The Conservatives' proposed annual cap on the number of immigrants runs squarely into this problem. So does Labour's heavily promoted new "points-based system", which is supposed to select more desirable immigrants. The main difference between them is that the Tories would place an absolute limit on annual non-EU inflows, a task made near-impossible by the time-lag in the publication of reliable statistics on migration. The Liberal Democrats, among others, are sceptical about the merits of such a cap. Their home-affairs spokesman, Chris Huhne, pointed out recently that imposing a national limit would fail to ensure that immigrants go to the parts of Britain lacking labour rather than to overcrowded bits such as London.

One useful thing the government could do is gather better information about migration. The Lib Dems' call to improve recording of those leaving the country would be a good start. Labour wants to go much further, with the introduction of ID cards (which the Conservatives and the Lib Dems oppose, both because of their expense and because they think they infringe personal liberty). Some non-European migrants are already required to hold ID cards, and a sceptical general public in various parts of the country is being offered the chance to do so too. Lamely, one of the arguments ministers now use in favour of the multi-billion-pound scheme is that it will help young people prove they are old enough to buy a drink.

Meanwhile, in Tunbridge Wells

Those who blame immigration for the changing face of British society forget that Britons themselves have changed dramatically. It is not so much that Britain is “broken”, as tabloid headlines and Tory sound-bites would have it. The image of a place overrun by binge-drinkers, feral youths and incompetent single mums misses the improvements in teenage pregnancy rates, smoking and most sorts of crime, for starters. It also ignores a less quantifiable softening of social attitudes towards, for example, gays and ethnic minorities.

But Britain is changing, and fast. Under the next government, it is possible that children of unmarried parents will become the majority in maternity wards (see chart). This is of great concern to the Conservatives, who want to support marriage through the tax system, and officially of no concern to Labour or the Lib Dems, who say that all committed relationships should be treated equally.



The Tories plan to tempt couples down the aisle with a tax break, perhaps allowing married couples to pool their tax-free personal allowances. This would make couples with one working partner better off but leave couples in which both partners work, or in which both are jobless, untouched. In practice, the policy is likely to be applied only to couples with young children, such is the miserable state of the public finances. It looks regressive: of the 3.9m children living in poverty only 11% would be in line to benefit. Even if their parents all got married at once, only 15% would be included.

Stronger families might improve all manner of other problems including teenage drinking and drug-taking, or so the Conservatives hope. Labour took a liberal approach to drink to start with, paving the way for 24-hour licensing (which in practice has meant some pubs staying open past midnight, rather than closing at 11pm). It is now rowing back. Bars have been asked, gently at first and now rather crossly, to cut back on promotions that encourage binge-drinking. Off-licences have had an easier ride and are now in the sights of the Tories. If the Conservatives win, shops stand to lose their licences more easily and supermarkets could be banned from selling alcohol for less than it costs them. No party in Westminster has yet adopted the policy that is being proposed by the Scottish National Party: introducing a minimum price for each unit of alcohol.

Treatment of drug abusers may also change, and fundamentally, depending on who gets into power. Labour has pumped money into treatment and increased the number of addicts going into rehabilitation. Britain's drug-treatment regime is excellent by international standards. But those who go through it seldom come out drug-free; rather, it has become the norm for heroin addicts to be “maintained” on prescriptions of methadone, a replacement drug that is not

much better for the patient's health (though it stops them stealing or prostituting themselves to buy from dealers).

The Conservatives want to switch tack, diverting patients from methadone to abstinence and getting them clean once and for all. A noble aim, with just two problems. The vaunted success rates for the abstinence approach are based on the current intake of selected volunteers, so if the scheme is extended, expect its effectiveness to diminish. Secondly, good abstinence treatment is intensive and expensive, and the Tories seem not to be putting in more money. Being a social reformer at a time of budget cuts is going to be hard.

## **How to catch them, and where to put them**

*Reforming the police and easing prison pressure will be big jobs for the next government.*

IN A country where crime has been falling for 15 years, it is not obvious why law and order should figure much in the election. But though total offending is estimated to be about 45% lower than it was in 1995, crime will still be talked about on the campaign trail. All parties are keen to capture the law-and-order vote, and they have come up with different strategies for doing so.

One is fibbing. Both Labour and the Conservatives have earned themselves official rebukes from the statistics watchdog for massaging crime figures. Downing Street was ticked off for rushing out figures on knife crime which had been taken from an incomplete pilot study, whereas the Tories were caught out comparing recent violent-crime figures with an earlier series that had been measured differently. Voters should treat any claim cautiously.

Questionnaires by the Home Office show that people have in fact become quite a lot happier with the crime situation in their local area, but that worries about the national crime rate still run high. This partly reflects the steady diet of horrific stories featured in the national media. But is there any truth in the idea that the number of the most serious crimes has got worse? Although violent crime has gone down a lot, most of the fall has been caused by a drop in domestic violence. Street hold-ups, which are more visible and more frightening to the public, are still about as common as they used to be.

Some policemen reckon that organised crime, such as drug- and people-trafficking, has been given a relatively easy ride over the past decade, as the plods have been focusing on the extremes of terrorism and petty anti-social behaviour. Labour's invention of the Serious Organised Crime Agency in 2006 has helped a bit, but SOCA is small and hardly merits the comparisons with America's FBI made before its launch. Yet the most serious forms of violence do not appear much more common than in the past: gun crime, already lower than in most of Europe, has been pretty flat, and gun killings have been falling lately. It is hard to stand up the idea that Britain overall is getting more dangerous when the homicide rate is at its lowest in 19 years.

Labour and the Conservatives have both made "anti-social behaviour" a big part of their campaigns. In office, Labour elevated this sort of low-level nuisance—comprising everything from graffiti to noisy neighbours—from a matter for the council to a problem for the home secretary. The introduction of the anti-social behaviour order (ASBO), a civil sanction that can result in a jail term if breached, has proved popular with voters and with the press, though the regime's effectiveness is doubtful. When Gordon Brown arrived in Downing Street it appeared that Labour might have lost its enthusiasm for the ASBO scheme. That seems to have

changed, however: Alan Johnson, the home secretary, has indicated that he wants more ASBOs to be given out, after Labour feared the Tories were catching up with them on law and order.

At the opposite end of the criminal spectrum, terrorism and ways of dealing with it appear to have slipped down the political agenda of late. Perhaps more than any other subject, fear of terrorism is driven by events. Britain has been lucky not have suffered a serious terrorist attack since the London bombings of 2005, though a steady stream of foiled plots and near-misses provides a constant reminder of a lurking danger. And an old menace is stirring again in Northern Ireland, which has seen an increase in dissident activity.

Yet counter-terrorism legislation has provoked some of the most ferocious battles of the current parliament. It dealt Tony Blair his first-ever parliamentary defeat in 2005, when he tried, and failed, to give the police the power to hold suspects for up to 90 days without charge. Mr Brown managed to get a bill permitting 42-day detention through the House of Commons but it was derailed in the Lords.

The Liberal Democrats have consistently opposed such measures. More surprising, the Tories have taken a liberal view, opposing prolonged detention. There has even been talk of a bill to reverse some of Labour's counter-terrorism measures should the Tories win power. Civil liberties in general have become a fault-line in this election, though it is not one that most voters seem particularly interested in.

In any event, reshuffles on the Tory front-bench have left it looking a bit less libertarian than it did a couple of years ago, and the party's rank and file are as crusty as ever. But the truth of the matter is that whatever is in any party's manifesto would probably be thrown out of the window in the event of an atrocity. Debate evaporates in the face of a real attack, as was seen this year when some British airports introduced compulsory "electronic strip-search" scanners following the Christmas underpants plot.

What comfort can politicians offer voters against the not-so-terrifying tide of crime? All three major parties have made the time-honoured election promise of putting more bobbies on the beat. Only the Liberal Democrats would actually recruit more policemen (3,000 of them, they say); Labour and the Conservatives both want to get more coppers on to the streets by reducing the paperwork that currently keeps many indoors. Given the money lavished on policing under Labour, it is probably time for reform rather than more resources. The number of officers has already risen by over 14% since 2000, and by 27% if one includes police "community-support officers", a cheaper variety of neon-clad patrolman introduced in 2002.

All parties agree that the paperwork and centrally-imposed targets designed by Labour to drive up standards must be reduced, to eliminate the perverse incentives that they created. The Tories would like to abolish the form that officers must fill in when they stop someone to search or question him; details would be speedily radioed back to the station instead. The police themselves are making some efforts to get a bit leaner: the head of Scotland Yard recently announced that officers in London would walk the beat alone, rather than in pairs, in order to increase the number of patrols.

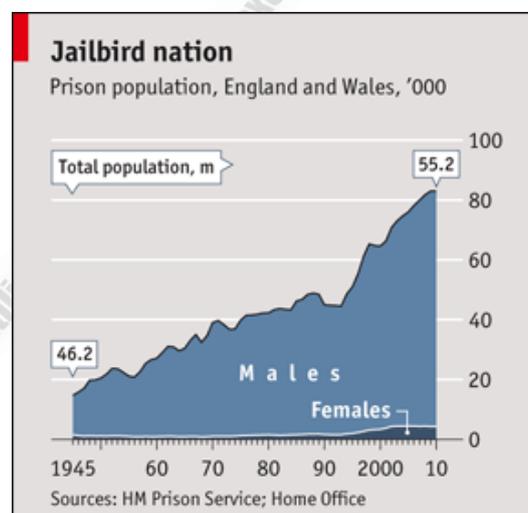
A bigger political question is to whom the police should answer. At the moment chief constables report to the home secretary, a powerful but distant figure, and to their local "police authority" of assorted community worthies, which keeps a closer eye but is essentially toothless. This set-up, created to give more power to Whitehall to fight local corruption, has resulted in top-heavy governance that confines police forces in a straitjacket devised in London.

The Conservatives would change this by replacing police authorities with directly elected "police commissioners". Commissioners would boss police forces around as police authorities are supposed to do now but with far more clout, derived from their vast constituencies. There are 43 police forces in England and Wales so each commissioner would have a direct electoral legitimacy greater than any of the area's 569 MPs. The system has already been given a high-profile whirl of sorts in London, where the Tory mayor, Boris Johnson, became chairman of the Metropolitan Police Authority in 2008, before relinquishing the post in January of this year.

Labour's plans look tepid by comparison: the government has decided against any form of direct election to police authorities, for fear of politicising the forces. The Lib Dems have opted for a mishmash: in areas where the police-force boundary is the same as the local-council boundary, the council would become the police authority; elsewhere the authority would be partly elected and partly appointed.

No one seems to have the stomach for a bigger shake-up, such as amalgamating some of the police forces, an idea that has been repeatedly floated but abandoned in the face of opposition from the police themselves. Instead, the government has persuaded forces to start sharing resources (rather than each having its own helicopter-maintenance people, for instance) and doing procurement together. Whoever gets into power next should press ahead with this.

The trouble with catching criminals, however, is that you have to put them somewhere. The man who holds the keys to Number 10 will inherit a bulging prison system. The jail population has expanded rapidly under Labour, just as it did under the Conservatives (see chart). Overcrowding had become so acute that, until recently, some prisoners were being released 18 days early, to free up space. In February the government announced that it would stop the practice in April, matching a Tory election pledge (and perhaps leaving an incoming Conservative government with an immediate prison crisis to battle).



The Tories have ambitious ideas about prison reform, which will be difficult to achieve given their promise to make budget cuts sooner rather than later. Plans to sell old prisons (which often occupy prime sites in the centres of towns) to finance the building of bigger, better, out-of-town jails were hit for six by the financial crisis and its impact on property prices. But the policy is still in place. Adding extra jail spaces will reduce overcrowding, so prisons should be better at rehabilitation. That, in turn, should cut re-offending and thus the jail population, the theory goes.

But another Conservative plan is a heck of a gamble: scrapping the current sentencing regime, under which many offenders are automatically released on licence after serving half their sentence, and making lags "earn" this early release instead. Those who don't play ball will

occupy a cell for twice the time that they currently do, potentially adding vast numbers to the jail population—and to the cost to the taxpayer. But not all of these pledges will survive the budget cuts that the next government, whatever its colour, will have to make.

## Showing the flag

*There are big choices to be made about Britain's role in the world.*



WHEREAS Britain's government is the main force in shaping the domestic realm, it is just one actor on a crowded world stage. Foreign affairs and defence may therefore be the toughest area of policy to forecast. Tony Blair famously began his premiership by speculating that his might be the first generation never to fight a war. He ended up waging five.

And yet a glance at the Labour Party's manifesto of 1997 suggests that foreign-policy plans can survive contact with messy reality. The manifesto promised more participation in the European Union, new controls on the arms trade, greater foreign aid and an "environmental internationalism". All of this came about—as did, for better or worse, the overall vision of a restlessly active Britain, driven by values as well as interests.

Indeed, if the post-war era has been one of decline in global profile for Britain, the past 13 years may come to be seen as its Indian summer. In the myriad fights against terrorism, rogue states, poverty and climate change, Britain was a big player—but at often heartbreaking cost. The wars in Iraq and Afghanistan, which have claimed hundreds of British lives, remain unpopular. And the country's ability to pay for projections of power—even of the "soft" kind, such as giving aid—has been ravaged by the economic crisis.

With a political culture shaped by centuries of globe-trotting, Britain is unlikely ever to renounce its world role explicitly for a quieter life. In an otherwise inward-looking continent, at a time of rising non-liberal powers elsewhere, this may be no bad thing. But Britain will need to be more resourceful than ever, boxing clever to preserve its influence. In other words, foreign policy will matter.

The biggest international worry under any government will be the Afghan campaign, now one of Britain's longest wars. The Conservatives and the Liberal Democrats have questioned the strategy there but neither has echoed the majority view in the country in favour of quickly ending the war. This is understandable, as the war (unlike that in Iraq) commanded broad political support when it was launched in the wake of the terrorist attacks on America in 2001.

The army certainly feels more confident about the mission, now that it has more men and better equipment in the field. It is greatly helped by America's commitment of tens of thousands of its own troops to Afghanistan—starting with Helmand province, the most violent

in the country, where underpowered British forces had struggled to hold the line alongside smaller Danish and Estonian forces.

General David Richards, the army chief and a former NATO commander in Afghanistan, is especially committed to the campaign and foresees some sort of British presence in Afghanistan lasting for years. The voters, though, may see it differently. Their patience will be tested by what looks likely to be another bloody year of fighting. Still, the political consensus is likely to hold at least until the middle of 2011, when America expects to start drawing down its troops. How many will leave, and how quickly, is unclear. Much will depend on whether NATO can show some real improvement in the coming months.

David Cameron's "liberal conservatism" is the latest attempt by a politician to say, rightly but banally, that the choice between the idealistic and pragmatic traditions of statecraft is a false one. In truth, the Tory leader leans towards the second. It is revealing that one of the Tories' few specific foreign-policy proposals—the creation of a National Security Council to co-ordinate the work of various departments—is about process rather than ends. Mr Cameron will chair the council but, in a sign of the strong role the Tories envisage for the Foreign and Commonwealth Office (FCO), the deputy will be William Hague, now shadow foreign secretary. Under Labour the department for international aid has grown in influence, its budget expanding as the FCO has had to close or shrink embassies abroad. It may struggle to enjoy that kind of power under the Conservatives.

Even on Europe, the one issue on which Mr Cameron is supposedly an ideologue, pragmatism prevails. His party's Euroscepticism causes consternation in European capitals but he is a moderating influence. Many Tories wanted him to promise a referendum on the Lisbon Treaty (a repackaging of the unloved EU constitution) even after it had been ratified. He refused.

Still, Europe is one of the few international issues that sharply divide the parties. Labour makes the case for a problem-solving Europe. It wants an EU-wide agreement to match its own target for reducing carbon emissions, for example, and says that anyone serious about making European economies more competitive must fight for the decade-old Lisbon agenda of reforms. Mr Cameron agrees with much of this, but not with the rights and regulations imposed by "social Europe". He wants to repatriate some powers from Brussels, though few fancy his chances.

After seeing voters grow more Eurosceptic under the most pro-European government ever, even the Lib Dems (the most Europhile party) are glad that no integrationist drive looks likely to emerge for some time. Much of Europe wants tougher regulation of the financial sector, though, and guarding the City of London from this will be harder now that Britain no longer holds an economic brief in the European Commission. As for the single currency, Mr Brown has little interest in joining, Mr Cameron is flat-out opposed and the Lib Dems' Nick Clegg is supportive.

The state of Britain's relations with America continues to grip the political class as much as those with Europe. In reality, the relationship fluctuates little: it is rarely much closer than under Mr Blair, or much cooler than at the turn of the 1990s, when the first President George Bush turned to other European powers. The preoccupation with just how "special" Britain's relationship is with a country that will always be its most important ally is odd. A richer field of diplomacy in years to come may be Britain's relations with emerging non-Western powers, including states such as Turkey, South Korea and Chile. The Tories, keen to look beyond Europe, say this will be a priority for them. They frequently, if nebulously, talk about using the Commonwealth as a way of cultivating links with the likes of South Africa. Labour makes less play of it.

All the main parties are pledged to hold the first strategic defence review since 1998. They insist that it will be informed by foreign-policy priorities and real-world threats. In practice it may become a cost-cutting exercise. Even before the economic crisis, some reckoned the defence-equipment budget was overcommitted to the tune of £35 billion. No party has promised to preserve defence spending.

But what to cut? The army argues that future wars will look much like Afghanistan: “asymmetric” struggles fought against weaker opponents, often via proxies. That implies giving priority to “boots on the ground”, and to equipment such as helicopters and drones, while “taking risk” in, say, air defence. The navy and the air force counter that there are threats beyond Afghanistan, and that state-on-state wars cannot be ruled out. This means preserving high-end fighter jets and warships.

Given the uncertainty, a future government will want to keep a bit of everything—a deployable army, a blue-water navy, a deep-strike air force and top-notch special forces—and so may hollow out a bit of everything. The number of new carriers could go down from two to one. Some favour giving up the nuclear deterrent. Not even the Lib Dems, the most dovish of the big parties, will go that far, but the Trident system may be pared back from four submarines to three. Whether such salami-slicing will save enough is questionable.

There will be promises to overhaul procurement procedures. But such reform is hard to do, in part because governments, in seeking short-term savings, often incur long-term costs by delaying or scaling back new equipment. One answer, suggested in a recent green paper, is greater collaboration with European countries, particularly France, on joint projects, pooling of equipment and developing different military specialisms. Certainly the old British argument against European defence co-operation (that it would undermine NATO) has weakened now that France, under a Gaullist president no less, has rejoined NATO’s military command. The Americans are also relaxed about it. The Conservatives are becoming more open at least to bilateral co-operation with France. The last attempt to achieve this, at the Anglo-French summit at St Malo in 1998, did not achieve much.

After defence, the most expensive item on Britain’s foreign-affairs bill is aid. Curiously, perhaps, in an age of austerity, all three parties back the existing target of spending 0.7% of GDP on international development by 2013 (it is 0.4% today).

Money spent on certain kinds of military operations can be counted as aid, however. And though no party calls for “tying” aid to the purchase of British goods, all of them promise new measures to ensure value for money. The Tories would concentrate aid on fewer countries and set up an independent watchdog to monitor how it is dispensed. The Lib Dems say that aid money is often badly spent because those receiving it are not consulted—though they are clearer about how to involve recipient governments than the needy people they (not always democratically) represent. Labour, pointing to the indifference to foreign aid of many Tory MPs and candidates, say Mr Cameron’s commitment to the cause will waver in office. The polls suggest that voters would not hold this against him.

As well as its unpredictability, foreign policy is distinguished by the broad agreement it commands in Westminster. Only on Europe are voters faced with a clear choice. This may change. External shocks in the past three decades pushed Britain into war: 9/11, Iraq’s invasion of Kuwait and Argentine aggression in the Falklands. A similar crisis could occur early in this decade. If there were a choice to be made over whether to join a military strike against Iran, for example, it could leave British politics as riven as the Iraq war did. Even a small, Kosovo-style humanitarian intervention somewhere would be contentious in a country tired of war.

But such speculation is the grimmest futurology. For the time being, politics, to a degree that some find heartening and others worryingly complacent, still stops at the water's edge.

### **A for effort, C for attainment**

*Labour's record on schools and universities is patchy. The opposition has promising, though unproven, plans.*

AFTER the economy, education will be one of the fiercest battlegrounds of the coming election. Tony Blair gave it top billing when his party came to power in 1997. Thirteen years later, despite the Labour government pumping money into schools and constantly changing the way they are run, British children remain ill-educated compared with their counterparts elsewhere, the poorest in particular.

Though British children of all ages now do better in national exams than they used to, much of that progress is illusory, the result of rampant grade inflation and relentless drill in exam technique by schools that are judged on their pupils' performance. Independent analyses and international comparisons are less flattering. A team at Durham University gives randomly selected children the same test each year—and finds little evidence that today's know more than their predecessors. In studies by the OECD, a rich-country think-tank, British 15-year-olds came well above the average in 2000, at eighth in mathematics and seventh in reading out of 27 countries. In 2006 they scored below the average in both, at joint 18th and 13th respectively. In science, at least, they remained above-average—but fell from fourth to ninth. The 2009 data are unlikely to buck the trend.

These disappointing results have come at considerable cost. Education is the third-largest area of government spending, with the lion's share going to schools (running education is devolved to the governments of Scotland, Wales and Northern Ireland, but the money comes from central government). The amount spent per pupil is now £5,850, twice what it was in 1997 even after taking inflation into account.

Some of the extra cash went on grandiose school buildings; more went on raising teachers' salaries and giving them all a half-day a week away from the classroom. A cannier government would have demanded reforms in return: summer tuition for stragglers, say, or an end to national pay bargaining. But Labour missed its chance. As with the bungled contracts struck with family doctors in 2003, costs soared without the taxpayer getting much in return.

Higher pay and the recession have made teaching more attractive: severe shortages, apart from in a few subjects such as physics, are now a thing of the past. But with teachers' pay still set nationally, better-off children in comfortable suburbs have benefited most. Tough schools stuffed with hard-to-teach children still struggle to find well-qualified teachers, one reason for a shameful gulf in attainment between the best- and worst-off.

Expensive too has been the mass hiring of classroom assistants: over 180,000 of them now grace the nation's schools, three times as many as in 1997. A recent study suggests this mums' army has been worse than a flop. Peter Blatchford of the Institute of Education in London found that these less-qualified staff work mostly with children who are already struggling, depriving them of teachers' attention, which means that they fall even further behind.

Able pupils have also been shortchanged. Labour has started and then wound down three schemes to stretch students in the top 5%, whether academically ("gifted", in the parlance) or

in music or sport ("talented"). Attempts to find some sort of talent in everyone, and teachers opposed to giving anything extra to those already doing well, scuppered each in turn.

Labour says that, should it form the next government, it would protect the schools budget. That will feel like famine after a decade-long splurge. So its new pledges are modest: individual tuition for children who fall far behind their peers in primary school, for example, and a guaranteed college or training place for every youngster who has been seeking work for six months. There is woolly stuff, too: Ed Balls, the schools secretary, says he will "ensure there is strong discipline and good behaviour in every school" and repeats his promise to rebuild or refurbish all secondary schools and half of all primary schools "in the coming years" (before the recession, this was meant to happen by 2020).

The academies programme, begun under Mr Blair to create a tier of well-resourced schools with some independence from local government, has proven popular, if pricey. Labour has exceeded its original goal of setting up 200 by 2011 (by contrast, there are 3,300 secondary schools in all in England). All three main parties promise to expand academies, though the Liberal Democrats would tinker with how they are run, and the Conservatives claim they would be truer to the original vision than Labour, which has recently removed some of academies' freedoms. And all three stand behind state-funded religious schools, though these are frequent flashpoints in Britain's various multicultural battles.

There is also broad agreement over directing more money towards the pupils most likely to do badly. In theory that happens now: money flows from central government to schools through formulae intended, for example, to recognise that poor children are tougher to teach. But these formulae are complex, and as the money passes through town halls some gets siphoned off to pay for school buses and the like. The result is a system in which schools in Leicestershire get half as much per child as schools in the City of London.

Mr Balls acknowledges that the current system "is largely based on historical allocations rather than present need" and says he would improve it. The Lib Dems and the Tories both talk of a clearer, fairer "pupil premium": extra per-capita cash for schools that take poor children. But with no more money in the kitty that could mean schools in rich areas getting less. That would be fair, but the articulate middle classes are unlikely to be impressed.

The Conservatives' plans to shake up schooling, presented by Michael Gove, the shadow schools secretary, are perhaps the most innovative of their policies. If they win, they promise to remove the decision on who gets to open new schools from the dead hand of local government. Parents, charities and other not-for-profit groups will be encouraged to create new schools that could be open by September. Funded by the state according to the number of children who attend, they will stand or fall according to their popularity with parents.

A similar scheme in Sweden appears to be working: results have improved more in places with lots of new schools—not only in those schools, but also in the state-run ones that had to raise their game to survive. And Swedish parents like choosing where to educate their little darlings. But in Sweden firms are allowed to run schools for profit; in Britain they will not be profit-making, at least at first. That could put a damper on things.

There are costs to the Tory scheme. If parents are to have genuine choice there must be excess capacity, and this is expensive. If many pupils leave mainstream state schools, more of the latter will become unsustainable as their rolls fall. That will be tough on those who remain to the bitter end—and the resulting job cuts and school closures will rile the powerful teaching unions. And though Mr Gove plans a vetting process to stop extremist organisations or people with "a dark agenda" from running schools, discouraging the well-intentioned-but-wacky will be harder.

The Lib Dems also say they are keen on supply-side reforms. But since they would leave local authorities in charge, that means little. They want to cut class sizes, which their schools spokesman, David Laws, thinks would take an extra £2.5 billion a year, and to get teachers to spend more time in the classroom and give after-school lessons to laggards. Persuading teachers without the usual inducement of higher pay will be a tall order.

Labour's education record is brightest when it comes to universities. Britain lures more overseas students than any other country except America. And British universities are the only European ones near the top of the two main international league tables. This is hardly Labour's doing: Cambridge, Oxford, Imperial College and a handful of others have long been world-famous. Some people in government, not least Gordon Brown, have indulged in sporadic populist ruminations over such institutions' supposed elitism. But Labour deserves credit for largely leaving universities to run themselves.

The government has also given universities lots more money, ending a long-standing tendency to stuff more students into lecture halls without providing extra cash. Its target of getting half of all young people to university by 2010 was missed, but not by a mile. And it has treated science well, spending on both high-quality facilities and the research that is done in them.

Some of the new money came from taxpayers, but some came from students themselves. Just weeks after Mr Blair entered Downing Street, a review of university funding commissioned by the previous Tory government recommended introducing university-tuition fees. He agreed, and six years later, though vehemently opposed by the left wing of his own party, let fees rise to a maximum of £3,000 a year. Another review will report soon after the election and is likely to recommend lifting that cap, probably to at least £5,000 a year.

Both Labour and the Tories are likely to support the move, though they are wary of saying so in the run-up to the election. Even the Lib Dems have postponed their once-totemic plans to scrap fees altogether, citing the parlous state of public finances.

Even so, higher education's fat years are about to be followed by a period of lean ones. Though boom and bust is no rational way to run laboratories or train scientists, any cuts to education will be felt mostly by universities, since schools are politically far more sensitive. And no party is likely to allow universities to recruit lots more students, even though more young people than ever want to go, rather than sit out the downturn on the dole. It would cost taxpayers a lot, even with higher fees, because students can borrow their tuition fees from the state on easy terms.

In February Gordon Brown described education as "a ladder to social mobility". That used to be true. But under Labour schools have failed to narrow the gap between Britain's haves and have-nots. Liberating more schools from state control could lift Britain from the educational doldrums. It certainly needs a boost.

## **Coping with austerity**

*Both main parties want the NHS to do a lot more with just a little more.*

THE National Health Service was at or close to the top of public concerns in the past three elections. In a hammy gesture on the eve of the 1997 poll, Tony Blair claimed that voters had just 24 hours to save the NHS. Thirteen years and many billions of pounds later, there are still big concerns about the quality of health care in Britain, though the economy has given voters something even bigger to worry about.

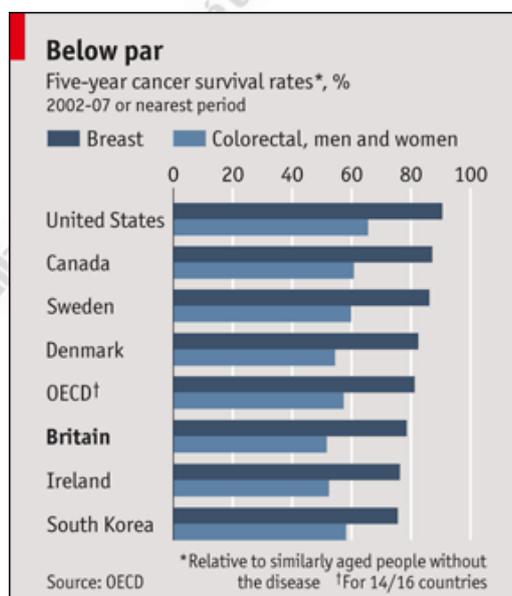
But if debate on the NHS seems oddly muffled it is because there is rough consensus about its immediate future (in England, that is, because devolved regions are free to do things differently). David Cameron has done his utmost to appear its friend. Although the Tories want to make changes, they will be in the direction favoured by Tony Blair of fostering competition to improve service. Whoever wins, the NHS will remain free at the point of use and financed by taxes. The state will still pay for over 80% of all spending on health care.

Though the Liberal Democrats do not rule out cutting the NHS budget, both the main parties see eye to eye about money. The NHS makes up nearly a fifth of public expenditure. The Tories have ring-fenced it from real cuts over the next parliament. Labour has said that, after a boost in 2010-11, "front line services" (95% of the NHS budget) will be protected from real reductions in the following two fiscal years.

The NHS is thus much better placed than most public services. But the pressures pushing up medical bills are intense. The new dispensation will feel harsh after a decade in which the health budget has grown by over 6% a year in real terms. That permitted the NHS to recruit a third more sta., purchase more pricey kit and increase the number of medical treatments. Drugs prescribed by family doctors (GPs) shot up.

Labour will make much of this record, and especially of its victory in the war on waiting. Interminable delays for non-urgent operations such as hip replacements are a thing of the past. Nearly all patients are treated within 18 weeks of their referral to hospital by a GP. Almost all those who need emergency services at a hospital are now seen within four hours.

Labour's opponents say that the quality of care still leaves much to be desired. Britain compares unfavourably with similar countries in survival rates after a cancer diagnosis, for example (see chart). Stroke care is relatively poor too. Many patients now worry, with reason, that if they end up in hospital they may get a nasty bug.



Such failures reflect managerial shortcomings rather than lack of money. The NHS can surely get more value out of its huge budget. Its doctors are now among the world's best paid. Productivity has been falling over the past decade, especially in hospitals.

David Nicholson, who runs the NHS in England, thinks that by 2013 the service could wring 15% out of its budget, meeting increased demand with the same real resources. But pay would have to be held down and the workforce cut by around 10%, say NHS-watchers. Some

district hospitals would have to close, or do less. The Tories have fought unpopular closures, but may have to allow them if they win.

Beyond money matters, is there a fundamental fight over the future of the NHS? Not really. In his second term Mr Blair drove through reforms to enhance choice and competition. But Mr Brown was never that keen on mixing markets with health care. Since he became prime minister, the bolder measures have petered out.

The Tories want to pick up the Blairite reforming mantle. They would reopen the NHS to competition from the independent sector by allowing it to bid for work on equal terms. The opposition parties also want to do something about the primary-care trusts (PCTs), the purchasers in the NHS internal market. The Liberal Democrats would have them locally elected to give them more clout. The Conservatives would give GPs much more of a say by reviving the 1990s system of fund-holding in which many GP practices had their own budgets for elective care done by hospitals.

The opposition parties would also drop Labour's heavy-handed performance targets, arguing that they demoralise staff, sap initiative and contribute to poor care. In fact the government has been moving away from them, though it is rebranding some as patient "guarantees". It makes much of a new "constitution" setting out patients' rights—in effect recasting what the NHS is supposed to provide anyway.

Both Labour and the Tories would use the payments system of the internal market to reward quality and penalise poor care. But they also want it to encourage productivity. A big question is what to do about the expensive and delayed plan to create electronic patient records.

Whether health care can really be enhanced, or even maintained, when money will be so tight seems a stretch. If services deteriorate, Britain may have to reconsider whether it is sensible to rely on taxpayers to pay so much of the bill. But that will be for another election.

## **Keeping the lights on**

*A looming electricity crunch could trip up a new government.*

ENERGY policy is unfamiliar territory for Britain's political parties. North Sea oil and gas provided three decades of plenty, allowing Britain happily to ignore a question that has made insomniacs of many other big-country leaders: how to keep the vital humours of any modern economy—oil, gas and electricity—flowing.

How different things look today. Production from Britain's bit of the North Sea peaked in 1999. The country was slow to build the storage and import terminals that other nations take for granted. A winter cold snap in 2005 caused a gas shortage: factories shut and the authorities came close to cutting off some households, too. More storage and more import capacity has since been built, but every winter sees jittery speculation that perhaps, this time, there won't be enough gas to go around.

As with gas today, so, perhaps, with electricity tomorrow. Elderly nuclear power stations and dirty coal plants must be shut down over the next five years. Without new capacity, reckons Ofgem, the energy regulator, demand will start to exceed supply around the time of the election after this one. Most providers seem intent on filling the gap with gas-fired generation.

But gas already provides two-fifths of the nation's power and most of its heating, and the prospect of becoming even more reliant on it makes many people nervous.

Complicating all this is climate change. Notionally, Britain remains committed to slashing its carbon emissions by 80% in 2050, compared with 1990 levels. But progress towards this goal has stalled.

Prodded by the gas shortages, fearful of a power crunch and constrained by its own carbon targets, Labour has abandoned its previous policy of benign neglect. A sharp political about-face has rehabilitated nuclear power. Energy (alongside climate change) was promoted out of the business ministry to become a cabinet-level post in its own right. The Infrastructure Planning Commission (IPC), a quango with the ability to force through important national projects over the objections of locals, is supposed to make it easier to build power lines, storage plants, wind farms and the like. Ministers have become more prescriptive in their announcements, specifying the number of nuclear-power stations they want built and where. Plans for a "green industrial revolution" unite the seemingly opposed goals of cleaning up the economy while encouraging growth, although so far the revolution exists more in theory than in practice. The government has not officially abandoned its renewable-energy targets, but few think that plans for 8,000 offshore wind turbines by 2020 stand a chance of being realised.

Greenery is important to the Conservatives, whether for branding reasons or because the party truly cares. Environmentalism was a big part of David Cameron's early efforts to "decontaminate" the Tory image (huskies figured in the new leader's photo shoots and the party's logo is now an impeccably eco-friendly tree). Mr Cameron's promise on March 18th to bring in an economy-wide floor price for carbon did much to revive his reputation for greenery, which had sagged as the economy slumped. Yet whatever Mr Cameron's personal views, his party sees environmentalism as an indulgent luxury: in a poll, Tory MPs ranked climate change as the lowest policy priority for a Tory government.

Securing supplies, on the other hand, has more appeal among the backbenchers. The Conservatives want mechanisms to force markets to provide a minimum level of gas storage and a minimum quantity of spare capacity in electricity generation. The Tories promise handouts to households for insulation, and hint at a "decentralised energy revolution" to break the monopoly of big power suppliers. They oppose expanding Heathrow airport, partly on environmental grounds, and support a north-south high-speed rail link for similar reasons. Like Labour, they talk up the economic opportunities that environmentalism throws up.

Again like Labour, the Tories favour new nuclear plants for reasons of both security and the environment—but only if they can be built without subsidy (which would be an historic event). Coal stations would be permitted if their emissions could be sequestered underground.

Suitably for the party that is the traditional home of the green-minded, the Liberal Democrats have cornered the market in rhetoric. Nick Clegg, their leader, calls for an effort "on the scale of the Apollo moon landings" to make Britain self-sufficient in energy and cut its carbon emissions.

The Lib Dems plan to insulate every home in the country and want to reform the market so that the profits of energy retailers do not depend on selling as much power as possible. What energy is sold will come from a hugely expanded renewable-energy sector, enabled by the construction of offshore power cables. But they oppose nuclear power, a position that puts them at odds with a fair number of environmentalists who have concluded, reluctantly, that a low-carbon future without nuclear energy is a pipe-dream.

Two elephants lurk in the darkening room. All the parties want lower fuel bills. But nuclear-power stations and wind turbines are expensive, so, whoever wins, higher bills for domestic consumers seem inevitable. Ofgem predicts that they will rise by around 60%, in real terms, over the decade to come. That will be hard for credit-crunched voters to swallow after years of cheap energy. More basically, Britain's vaunted liberalised-market model is looking ragged. Serious commentators are suggesting a return to varying degrees of state control. In this election, that question has been left hanging in the air.

## **Room at the top**

*But the Tories must climb a hill to get there, and the Liberal Democrats an Alp.*

THIS is an election that matters. Not because ideology divides the parties fundamentally, as it did in 1979. Not because a bold new Zeitgeist dawns, as it did in 1997. Britain is on the rocks economically and its self-confidence is shot. Now if ever is the time for leadership, competence and integrity. What are the chances of getting them?

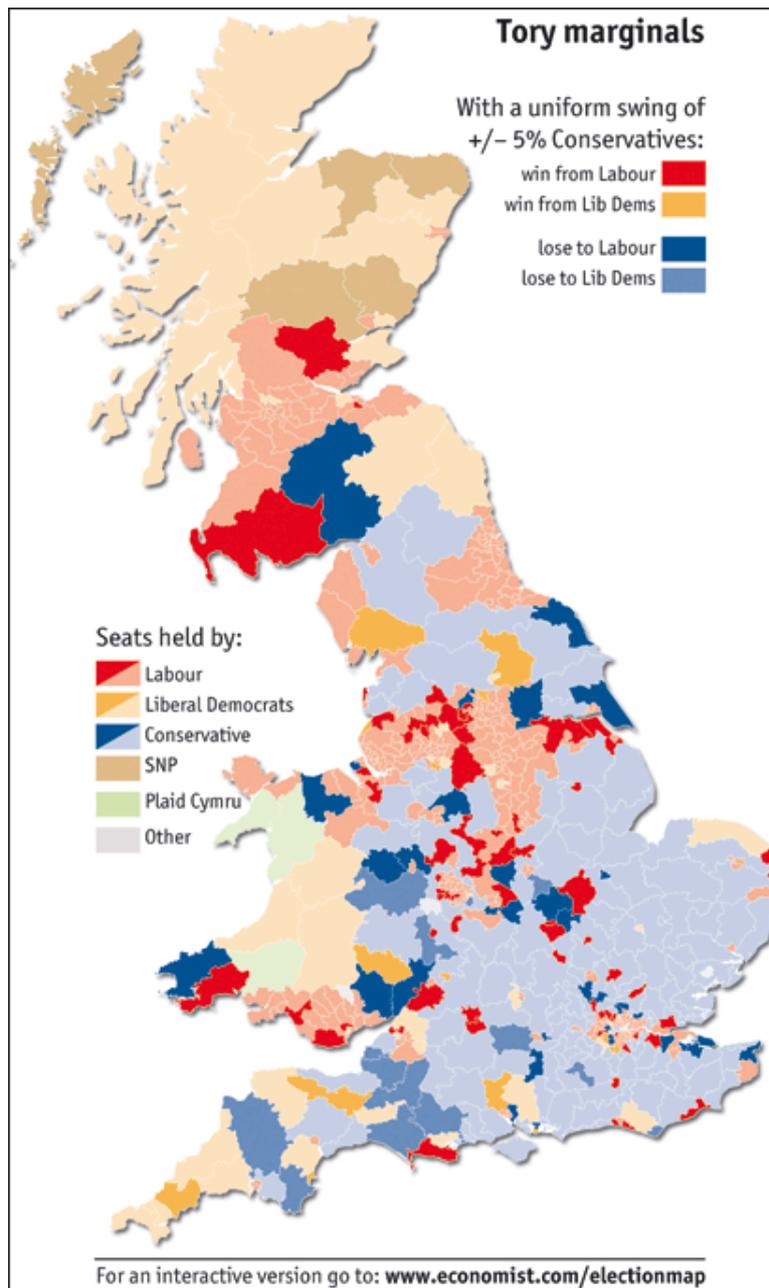
General elections are increasingly hard to predict. Gone are the days when they were basically a shoot-out between two big parties, with the others peering out from behind the bar-room door. In 2005 around one in three voters chose a party other than the main two (though under Britain's first-past-the-post electoral system, six of seven resulting MPs were still Labour or Conservative).

It is not just that the Liberal Democrats have attracted solid support, now hovering around 20%. The share of smaller parties—including the nationalists in Scotland and Wales, the Greens, the anti-Europe UK Independence Party and the pro-white British National Party—has grown too, from under 6% in 1992 to over 10% in 2005. Some polls now put it at 12% or more (though this could shrink on the day). So the two main parties need to beat each other by a wider margin than before to control the House of Commons.

That is harder for the Conservatives than for Labour. Tories are scattered, they turn out to vote more and the seats they win tend to be larger than Labour's, so a lot of Tory votes are "wasted". Rounding the numbers, in 2005 Labour emerged with one MP for each 27,000 votes cast and the Conservatives with one for each 44,000 (the Liberal Democrats fared worst, with one for each 97,000). The bias against the Tories will be less this year, as most constituencies in England and Wales have had their boundaries redrawn. But winning is still uphill work for them.

A year ago the Tories had a double-digit lead over a ragged and squabbling Labour Party. The election seemed theirs for the losing. But as the economy improved so did Labour's prospects. In the last week of March, a poll of polls showed the Tories on 37% and Labour on 31%.

If voters in every constituency voted just like that, and third parties stayed roughly the same, the Tories would emerge with 283 seats and Labour with 273, using the formula devised by Colin Rallings and Michael Thrasher of the University of Plymouth. The Tories would be the biggest party but without the 326 seats they need to command an overall majority in a 650-member Commons. (Had the Tory and Labour votes been reversed, the latter would have had more than enough votes for an overall majority.)



The Conservatives say they are polling better in the marginal constituencies they have targeted (see map for the seats they could most easily gain—or lose). But they need a national swing from Labour of 1.6 percentage points (ie, more than a three percentage-point lead) to rob Labour of its overall majority, 4.3 points to become the largest party and 6.9 to gain an overall majority, assuming no big change in support for other parties. It is not impossible: Labour managed a 10.2% swing in 1997. But it had a far bigger lead going into the vote than the Tories do today, and some of that movement has already been reversed in 2001 and 2005. The largest swing from Labour in Tory history was 5.3%, in 1979.

So civil servants have been dusting off their manuals on what to do in case of a hung parliament, and the Lib Dems elaborately refuse to set out the terms on which they would co-operate with either main party in a formal coalition or an informal alliance. The last time a general election failed to produce a clear winner, in February 1974, a minority Labour government paddled around for eight months before holding another election, which it just managed to win. What followed—economic chaos, IMF intervention—is a dispiriting precedent. It is not surprising that investors and credit-rating agencies view the prospect of a hung parliament with alarm, fearing that the lack of firm leadership will delay fiscal retrenchment.

In fact, this need not be the case. All three parties accept the need for austerity. Of the ten largest fiscal retrenchments carried out by OECD countries since the 1970s, seven were pushed through by coalition or minority governments. But voters may well hesitate to vote for third parties.

If, that is, they vote at all. Turnout has fallen from around 84% in 1950, a post-war high, to 61% in 2005 (a little higher than in 2001), even though postal ballots have been made pathetically easy. And hanging over these elections is an anti-politics mood of some magnitude.

The parliamentary-expenses scandal is far from the only reason, but it is a big one. Dissatisfaction with how MPs are doing their job rose by eight points, to 44%, over the past year, according to a survey by Ipsos MORI for the Hansard Society. Only 19% of people consider Parliament one of the three most influential institutions in their life, down from 30% in 2004, and the importance of the prime minister is rated even lower.

Yet against a rather bleak backdrop, there is everything to play for in this election. The economy and the budget are the central issues, and how they are tackled will do much to shape society over the coming decade. The parties must now define their policies and defend them, for the first time in publicly televised debate. This newspaper will express its view in the week before the election.

**Fonte: The Economist, Apr.7<sup>th</sup> 2010. Disponível em: <[www.economist.com](http://www.economist.com)>. Acesso em: 14 abr.2010.**

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