

# Effect of fiscal policies and economics on elections



With parliament officially dissolved and British politics moving into a strange period of last-ditch campaigning, gruelling television debates and outrageous publicity stunts (Nick Clegg driving his big yellow bus across the UK and George Osborne making a pizza). It is officially the general election period. Until the House of Commons reforms after May 7th, no member of the public has a representative in parliament. The role of an MP no longer exists. Whilst there are many issues voters take into considerations when deciding to vote, this essay will identify and comments on three economic issues most likely to influence the outcome of the upcoming general election. Furthermore, it will focus on the three main political parties: The Conservatives, Labour and the Liberal Democrats.

One of the biggest deciders of general elections is the government's fiscal policies. Fiscal policy involves the government adjusting the levels of taxation and government expenditure in order to influence the level of economic activity. The purpose of such economic tool is to encourage economic growth in a period of a recession, keep inflation low.

Fiscal policy has a huge effect on the difference between what the government spends and what is generated. Is it spending more than it is receiving or receiving more than it is spending? In recent years, the government have spent a lot more than it receives. Last year the UK's current budget deficit was 5.5% of GDP, the largest annual deficit since the modern records began in 19481.

The Conservatives have sworn to eliminate the deficit by 2018 and secure a budget surplus by 2019-20. They aim to achieve this goal by not increasing

tax whilst continuing on their spending cuts. They will increase the point at which you start to pay income tax (income threshold) from £10,500 to £12,500, the higher tax rate, 40% would commence at £50,000 instead of 41,900 and vowed that there will be no increases in VAT. Labour aims to reinstate the controversial 50p top rate of income tax for earnings over £150,000 whilst reintroducing the 10p rate by scrapping the married couples' Tax allowance in the bid to cut income tax for 24 million people. Like the conservatives, they have no plans to increase VAT or National Insurance contributions.

It appears as if the Conservatives want to remind voters of Labour's record of high borrowing in office, cautioning Mr Miliband's spending plans would mean increased borrowing harming the economy. Meanwhile, this is refuted heavily by Labour who believes that the Conservative plans will signify a return to 1930s levels of public services, causing social harm. We may have to look to external events. Could the latest act of the Eurozone crisis – deflation, quantitative easing, and chaos in Greece – work in the Conservatives favour here?

The second key economic issue is the unemployment rate. A person is categorised as unemployed if not only out of work, but also actively looking for work. There are two main measures of unemployment. One is based on a survey carried out by the office for National Statistics which shows the average number of people unemployed over a three-month period. This survey is conducted every month however a comparison takes place between separate three-month periods. The second measure is the use of claimant count supplied by the department for Work and Pensions showing

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the number of people receiving the Jobseeker's Allowance (JSA) in a particular month. The figure obtained by first measure is higher than the claimant count as many job seekers do not or cannot claim JSA and a change in benefits rules may move people onto JSA from other benefits.

When the international financial crisis hit, the unemployment rate was marginally over 5%<sup>2</sup> However it increased to 2.5 million or 8% towards the end of 2009 peaking at almost 2.7 million at the end of 2011, the highest level for 17 years. Unemployment has since fallen to 1.86 million<sup>3</sup>.

According to the ONS, the employment rate now stands at 73.3%, the highest rate recorded by the ONS since they began taking records in 1971. However, many of whom are in part-time work or in the rising zero-hour contract creating instability in people's income leaving them worse off especially young people.

The Conservatives have strongly vowed to introduce a ban on the zero hour contracts stopping people from taking jobs elsewhere as well as creating three million apprenticeships through benefit cuts such as withdrawing JSA from young people after sixth months unless they take part in community project. Meanwhile, labour vows to ban zero contracts as well as guaranteeing a job for the under 25s unemployed for over a year. Similarly with the conservatives, Labour aims to create many apprenticeships for young people. The Lib Dems have also chosen to focus on young

The unemployment rate is definitely an economic indicator that voters follow very closely. Although current figures imply that the number of employed people has increased, however living in a city with one the world's highest

cost of living such as London on a part time contract paying minimum wage may look positive to the prime minister. However to the individual in question, this is a problem as you cannot sustain a stable life with such income particularly if you are based in London. Consequently, Labour's policy of scrapping zero contracts is more likely to be favourable than the Conservatives lacklustre effort to deal with this exploitative contract.

The final key issue is the NHS. A BBC/Populus poll in January 2015 valued the NHS as the utmost significant issue among voter with many worrying about the decline of the health service. This highlights the government's failure in providing the health service. The National Health Service has become an international trademark. However, in recent years its efficiency has plummeted drastically. The NHS in England has missed its four-hour A&E wait target for the past three months (91.8% of patients were seen in four hours between January and March, below their target of 95%) This performance is their lowest level of performance for a decade<sup>3</sup>. In winter 2014; there were reports of treatment outside Croydon University Hospital due to overcrowding. The government's involvement in this market is perhaps causing inefficiency and leading to the misallocation of scarce resources. How can this government failure be tackled? Which party is going to be able to rescue a national treasure?

The Liberal Democrats have pledged to spend an extra £1bn for the NHS every year heavily focusing on mental health as it will be rewarded half. This is to be funded by making higher earners pay more tax on their share amongst other things. The Conservatives have been trying to avoid the subject as much as possible nonetheless they have also opted to increase its

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spending by putting an extra £2bn across the UK with promises to ensure that everyone shall be able to see a GP seven days a week by 2020.

Meanwhile Labour who introduced the institution in 1948 have a better relationship with the NHS will commit an extra £2.5bn a year, with the money coming from three potential sources- the new mansion tax, recuperating money by clamping down on tax avoidance from big corporations and introducing a new tax on tobacco companies.

All three main parties have chosen to increase their spending on the institution as a means of correcting this failure. However, is increased spending along going to increase efficiency. Providing more money could in fact cause whether inefficiency as the institution become complacent as they are aware that extra spending is a given. Nonetheless, the Conservative's effort to avoid this issue is counter-productive as it is giving Labour an edge. However, Labour's future spending plans are based on projected revenues. In other words, money which may possibly exist at some point in the future thus creating uncertainty.

In conclusion, although all three economic issues are very significant, fiscal policy is the most impact and will be the decider. The question all voters will be asking themselves is " Who do they trust with the government's money"? Do they trust a government that plans to restore the current budget deficit through further spending cuts? Do we trust a government that aims to achieve the same goal through increased spending? This is becoming as always a subjective judgement. Nonetheless, this general election is going to be the closest we have ever seen. I predict another coalition.