

The City is indifferent about which party wins in May

The economy is where the election will be won or lost. Who says so? The main parties' manifestos and the plethora of campaign posters. Labour's posters have been more focused, pinpointing the 22 tax increases since 1992. The fact that Labour would have been forced by the same circumstances to have raised taxes by a similar amount is neither here nor there.

Meanwhile, the Tory posters have failed to catch the imagination as in previous campaigns. Posters of a sitting lion had the self-defeating effect of ensuring that any readers could see even the Tories thought Labour had changed, by blazing New Labour across the screens. This has been followed by a too clever for its own good poster, "Tony and Bill". Either it is trying to draw a similarity between Tony Blair and the so-far hugely successful Bill Clinton, or it is suggesting Labour is sitting on many uncosted spending commitments. But so far Gordon Brown has done a very good job convincing the public and the City he will be anything but a generous Chancellor, thus shedding Labour's tax and spend image. And

the bigger any Labour majority the greater the chance he can stick to his tough spending plans.

Perhaps the only Conservative poster to keep one's attention is their latest, "Britain is booming. Don't let Labour ruin it!". But is it true? The first part is not. Even though the economy is in relatively good shape it is an exaggeration to claim it is booming. And, indeed, judging from how often Britain's booms soon become busts, it is not necessarily the correct image to portray. Far better if the poster had said, "Britain is blooming". For there are encouraging signs that Britain is following in some of America's recent steps, enjoying healthy non-inflationary growth. But it is far from a boom.

Contrasts are found throughout the economy. This is no truer than the distinction between the service sector, where earnings have recently improved and business is buoyant, and the manufacturing sector whose continued recovery has been blown off course by a strong pound and fears of higher interest rates to come. The distinction is particularly noticeable in

investment plans. Manufacturing investment remains weak. In the fourth quarter of last year it was £2.9 billion and, although it was little changed throughout 1996, investment was 8% lower than at the end of 1995. By contrast, investment in the service sector was £8.4 billion in the final quarter of last year, almost three times as high as in manufacturing and 10% above a year earlier.

Already there are concerns that the strength in the service sector will trigger a rise in inflation. This has prompted the financial markets to expect interest rates to rise, whoever wins the election. Even though Britain's track record suggests the need to be cautious about inflation the markets are worrying too much. Inflation will remain low, limiting any rise in interest rates.

Before the last election it was clear devaluation and tax rises would be on the agenda, whoever won. No dramatic shift in policy is imminent. But there is a need for whoever wins the election to ensure that economic policy remains geared to achieving balanced growth. Both main parties are already committed to keeping

fiscal policy tight, in order to reduce the budget deficit, and to curb domestic demand so that it does not grow too strongly for the economy's own good. In this case, monetary policy does not need to be tightened. In fact, the manufacturing sector needs no further rise in interest rates, which in turn would allow the pound to weaken slightly, helping exports and judging from its recent disappointing performance, manufacturing requires direct tax incentives to boost investment.

Both major parties are advocating similar macroeconomic policies, although Labour's planned utilities tax will be used to reduce youth unemployment. As the Conservatives have found in the last five years, even the best laid plans can be blown off course. To avoid such a similar scenario, Labour needs continued economic growth. Despite the spins put on their manifestos, there will be similar constraints on either parties' monetary and fiscal policy. Significant policy differences will be focused on micro-economic measures.

Will Labour ruin it? Judging from their current promises, the answer is no. "Labour

isn't working" is the campaign poster that is often remembered for having most electoral impact, in 1979. But a poster I remember as effective was in the 1987 campaign. Walking across London Bridge I saw three Conservative campaign trucks, displaying huge advertising hoardings. All carried the same poster, showing a soldier standing, arms up, in the surrender position. The poster read, "Labour's defence policy". Very effective.

Today a similar poster could have a pinstriped, bowler-hatted City gent, with broly raised and the wording would be, "Labour's economic policy". It would symbolise the fact that Labour's economic policy has shifted completely. Hence the City is now indifferent about who wins the election and, in fact, fears a hung parliament more than an outright majority for either side. It is not economics that will decide who wins the election. By shifting policy, Blair has taken economics out of the political debate.

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