Macro Policy Conflicts
There is a consumption led consumer boom in the UK, largely due to the positive wealth effect of house price inflation and availability of credit. There is rising CPI inflation and the deficit on the UK’s current account of the balance of payments is growing.
There is persistent inflation at 4%, however unemployment is rising and both producer and consumer confidence is low. The interest rate is set at 0.5% and the government deficit is around 8% of GDP.

Oil prices are set to rise as OPEC has announced a tightening of oil quotas for its members. There is a downturn in the UK manufacturing sector, with significant structural unemployment in the Midlands and the North.

Full employment exists, and there is a government budget surplus. But public services are failing and the government manifesto pledged to increase spending on health, education and transport in real terms. Inflationary pressure is threatening to overshoot the government’s inflation target.
The Sterling exchange rate is rising, but domestically there is falling aggregate demand and rising structural unemployment. International competitiveness is falling, causing a downturn in the manufacturing sector.

Large firms have plenty of cash reserves but both producer and consumer confidence is low. Small firms are finding it difficult to access credit, and so are consumers. The budget deficit is large and Sterling is strengthening against trading partners’ currencies.

Welfare dependency is rising however poverty is on the increase. Pensioners are living longer and require more health care spending. The government has recently lost its AAA rating and must make significant interest payments on both the existing and new borrowing.