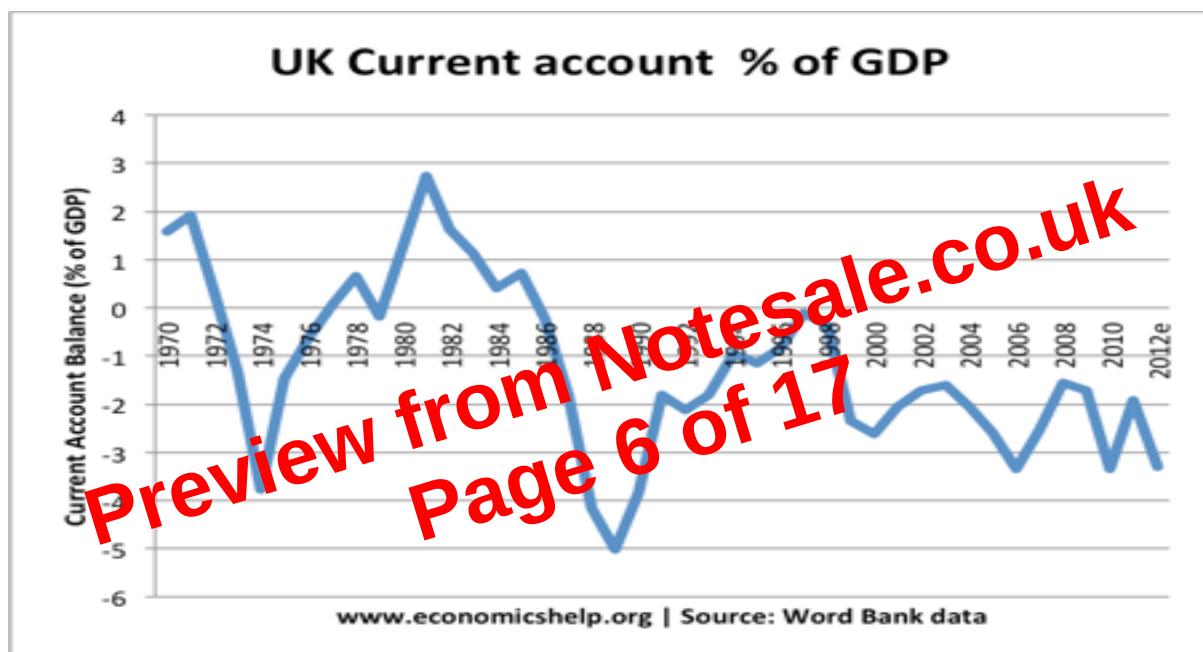


WHY DOES THE UK ALWAYS RUN A CURRENT ACCOUNT DEFICIT?



1) High Exchange Rate

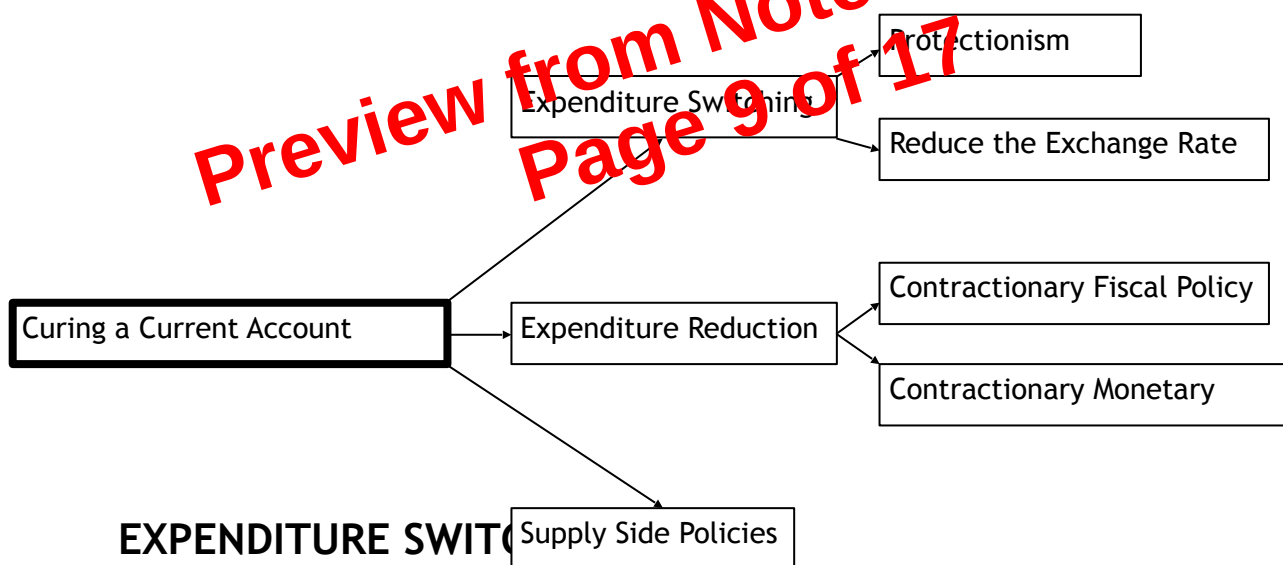
For a long time it was believed that the pound was over-valued. This meant that the UK was internationally uncompetitive. Foreigners trying to buy our exports found our currency too expensive, so bought from our rivals instead. When we were considering buying, the pound was so strong that imports seemed cheap in comparison to domestic goods. The pound was strong because the UK was traditionally seen as a safe place to put money. In addition, interest rates tended to be high in an attempt to combat traditionally high inflation rates, so hot money flowed in.

EVALUATION - despite the 25% devaluation of the pound since 2007, our deficit has actually worsened, so this doesn't look to be the case. On the other hand, the worsening deficit may be more to do with the collapse of the Eurozone (that is now

HOW DO WE SOLVE THE CURRENT ACCOUNT DEFICIT

Remember - all of these arguments could be reversed for solving a surplus, but that is unlikely to come up as a question.

In short, if the problem is that we buy too much from foreigners and don't sell them enough, the solutions involve buying less from them, and selling them more.



EXPENDITURE SWITCHING

This is when the government does things to 'switch' what people are spending on, i.e. switch people in the UK from buying imports to buying domestically, and switch foreigners from buying from our competitors (or themselves), to buying from us. Such switching can be done in two ways:

- 1) Protectionism ('Direct Controls')