The UK's missing Sovereign Wealth Fund

What if the UK, instead of handing over its EU Budget Contributions to Brussels, had invested the cash in a British Sovereign Wealth Fund? That fund today be worth £380 billion extract from Global Britain Briefing Note No 77 by Anthony Scholefield

The financial crisis has brought neglected accounting matters, such as fiscal burdens, deficits and the debt total - that is to say, the fiscal condition of the British government - to the centre of politics. Indeed, the Coalition specifically stated in its Agreement: *The deficit reduction programme takes precedence over any of the other measures in this agreement.*

Debate over the economics of EU membership rarely takes account of the impact on the fiscal health of the Her Majesty's Government (HMG). In fact, the true costs of EU Budget Contributions which the UK has made to Brussels every year since 1973 have had a major impact on the health of government finances and thus on the (annual) UK deficit and the (cumulated) amount of UK national debt.

The calculations in this study are that UK Contributions to the EU Budget between 1973 and 2010 totalled £380 billion in 2010 values, around 42% of the UK national debt at March 2011 [1]. By 2014, at projected 2014/15 values, the total is estimated to be in the region of £550 billion [2]. Had the £380 billion at 2010 values been invested in a British Sovereign Wealth Fund, instead of being spent on and by the EU, that fund would today have been approximately the same size as the world's two biggest sovereign wealth funds, those of Abu Dhabi and Norway.

For the purposes of analysing the fiscal condition of HMG, the appropriate definition of the "UK Contribution to the EU Budget" is: The UK Gross Contribution to Brussels less the Abatement - The explanation of why this is the appropriate definition is given at Appendix I below.

To arrive at a meaningful total for the cost of the UK's EU Budget Contributions over the 38 years between 1973 & 2010 it is necessary to render each year's figures in "real" or "present-value-in-2010" terms see Appendix II.

One way of illuminating the true cost of the UK's EU Budget Contributions is to consider what would have happened if those contributions had still been levied on the British taxpayer, but, instead of being handed over to the EU, had been invested in a British Sovereign Wealth Fund (SWF).

A SWF is a state-owned investment fund, invested globally with the objective of maximising long-term returns. The proceeds are used to increase the welfare of the state's citizens, by paying them pensions or (for example) in funding infrastructure. The SWF's assets remain the property of the investing government.

UK's Direct Contribution to EU Budget 1973-2010

Gross Contribution £252,730
Abatements (UK rebate) £72,258
Gross less Abatements £180,472
(In real terms - via GDP deflator index) £267,186
(In real terms - via share of GDP index) £378,570

Appendix I: The abatement is the permanent (but varying) reduction in UK Gross Contributions secured by Prime Minister Thatcher in 1984. The European Commission pays a proportion of the *UK Contribution less Abatement* back to private-sector entities (e.g. farmers) and for infrastructure projects chosen by the EU (e.g. by-passes) in the UK. Those payments do not end up in HMG's hands and do not mitigate HMG's "tax take" or deficit or national debt. Thus, for the purposes of the analysis of HMG's fiscal position, since the Commission's payments to British farmers, other private-sector entities and EU-mandated infrastructure projects do not return to the credit side of HMG's income and expenditure account, they must be ignored.

Appendix II: The problem with simply adding together 38 years of annual contributions to the EU Budget is that it would be adding "apples to pears": a pound sterling in 1973 bought much more in "real" terms than a pound sterling in 2010. Inflation & economic growth mean that the contributions made in earlier years appear much smaller than they actually were at the time.

Re-computing historic figures involves stripping out inflation, and capturing the change in values due to economic growth. There is no one correct way of doing this, but in the box shown, the *share of GDP index* (as recommended by the University of Illinois for updating figures of such magnitude) is used to take account of inflation and economic growth. To show the impact of inflation alone, see the effect of applying the *GDP deflator index*. The figures are computed using the website operated by the Economics Department of the University of Illinois at Chicago. (www.measuringworth.com)

1. £905 billion at 31st March 2011: Office for National Statistics, www.ons.gov.uk/ons/rel//psa/public-sector-finances/march-2011/index:html
2 In March 2012 the Office for Budget Responsibility, in *Economic & Fiscal Outlook Table 2,* forecast *UK Gross Budget Transfers to the EU* of £13.0 billion (out-turn) in 2010/11, £12.6 bn in 2011/12, £12.0 bn in 2012/13, £13.5 bn in 2013/14 & £14.7 bn in 2014/15. The OBR definition of *UK Gross Budget Transfers to the EU* is after deducting the Abatement. It is assumed that the £380 billion estimated value of the UK Sovereign Wealth Fund in 2010, and the OBR's estimates of the values of yearly transfers subsequent to 2010 set out above, will increase at a compound annual rate of 5%.