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The UK's Missing Sovereign Wealth Fund

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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 would today be one of the biggest in the world

The financial crisis has brought neglected accounting matters, such as fiscal burdens, deficits & 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.*¹

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 & 2010 totalled £ 380 billion in 2010 values, around 42% of the UK national debt at March 2011². By 2014, at projected 2014/15 values, the total is estimated to be in the region of £ 550 billion³. 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.

The Computation

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. The detailed calculation is set out in [Appendix II](#) below.

Sovereign Wealth Funds

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.

A Sovereign Wealth Fund (“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.

[Appendix III](#) lists some of the bigger SWFs with estimates of their assets as of September 2011. It can be seen that the theoretical British SWF postulated in this study would be one of the largest in the world, approximately the same size as Abu Dhabi’s or Norway’s.

A (theoretical) British SWF valued at £ 380 billion in 2010 would have been enough to pay off 42 % of the UK’s national debt in that year.

THE UK'S DIRECT CONTRIBUTIONS TO THE EU BUDGET 1973 TO 2010

This table shows gross contributions minus negotiated abatements (UK rebate)

YEAR	A (£)	B (£)	C (£)	D (£)	E (£)
	Gross contributions	Abatements	Gross contributions less abatements	Gross Contributions less abatement in real terms (via GDP deflator index)	Gross Contributions less abatements in real terms (via share of GDP index)
1973	181	0	181	1,660	3,540
1974	179	0	179	1,430	3,090
1975	341	0	341	2,140	4,660
1976	463	0	463	2,520	5,350
1977	737	0	737	3,530	7,310
1978	1,348	0	1,348	5,780	11,600
1979	1,606	0	1,606	6,010	11,800
1980	1,767	98	1,669	5,230	10,400
1981	2,174	693	1,481	4,160	8,430
1982	2,862	1,019	1,843	4,820	9,560
1983	2,976	807	2,169	5,380	10,300
1984	3,201	528	2,673	6,340	11,800
1985	3,925	227	3,698	8,290	14,900
1986	4,493	1,701	2,792	6,050	10,500
1987	5,202	1,153	4,049	8,330	13,800
1988	5,120	1,595	3,525	6,820	10,700
1989	5,587	1,156	4,431	7,990	12,300
1990	6,355	1,697	4,658	7,800	11,900
1991	5,807	2,497	3,310	5,200	8,060
1992	6,738	1,881	4,857	7,360	11,400
1993	7,985	2,539	5,446	8,020	12,100
1994	7,189	1,726	5,463	7,920	11,500
1995	8,889	1,207	7,682	10,800	15,300
1996	9,133	2,412	6,721	9,160	12,500
1997	7,991	1,733	6,258	8,310	11,000
1998	10,090	1,377	8,713	11,300	14,500
1999	10,287	3,171	7,116	9,090	11,200
2000	10,517	2,084	8,433	10,700	12,600
2001	9,379	4,560	4,819	6,030	6,800
2002	9,439	3,099	6,340	7,730	8,600
2003	10,966	3,560	7,406	8,830	9,480
2004	10,895	3,592	7,303	7,330	7,650
2005	12,567	3,655	8,912	10,100	10,400
2006	12,426	3,570	8,856	9,760	9,720
2007	12,456	3,523	8,933	9,636	9,270
2008	12,653	4,862	7,791	8,140	7,920
2009	14,106	6,336	7,770	7,990	8,130
2010 (estimated)	13,700	4,200	9,500	9,500	9,500
Totals (in billions)	252,730	72,258	180,472	267,186	379,570

Yearly figures shown in millions.

Source: 'Gross Contributions and Abatements' from HM Treasury, *European Community Finances*, July 2009, quoted in *Library of House of Commons Briefing*, SN EP/8614 (28th October 2010) – for all figures up to 2009. 2010 from *QBR March 2011 Economic and Fiscal Outlook*. Columns 'D' and 'E' based on website measuringworth.com

Note: Small revisions continue to occur to previous years.

Appendix I:

Why the UK Gross Contribution to Brussels less the Abatement is the appropriate definition

Every year HMG pays over a cash contribution to the European Commission in Brussels, which manages the EU Budget. The amount due is struck after deduction of the “abatement”, the permanent (but varying) reduction in the UK Gross Contribution secured by Prime Minister Thatcher in 1984. The *UK Gross Contribution less Abatement* is funded from HMG’s tax revenues, and thus impacts HMG’s deficit & national debt.

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 & expenditure account, they must be ignored⁴.

Appendix II:

Calculating the “UK Gross Contributions less Abatement” in “real” 2010 values

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 this study, at the table above, Column E, 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, Column D gives the effect of applying the *GDP deflator index*. The figures are computed using the website www.measuringworth.com, operated by the Economics Department of the University of Illinois at Chicago.

Appendix III:

Examples of Sovereign Wealth Funds

There are at least 50 SWFs in existence today, some having been created in the 1950s. A number belong to Gulf and other Middle Eastern states rich in hydrocarbons such as Abu Dhabi & Saudi Arabia. Others belong to Norway (also hydrocarbon-rich), Singapore, China, Chile, New Zealand and individual Canadian provinces such as Alberta & Quebec. Abu Dhabi’s SWF is probably the biggest, at £392 billion, followed by Norway’s (£356 billion) & Saudi Arabia’s (£ 325 billion)⁵.

References

1. “The Coalition: our programme for government” (page 35), 20th May 2010, www.cabinetoffice.gov.uk/news/coalition-documents
2. £905 billion @ 31st March 2011: Office for National Statistics, www.ons.gov.uk/ons/rel//psa/public-sector-finances/march-2011/index.html
3. 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 bn (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%.
4. Note that, for the purposes of economic analysis – as distinct from fiscal analysis – of the UK economy, it *would* be appropriate to take into account payments from Brussels to UK private-sector entities.
5. US Dollar amounts converted to £ at £ 1 = \$ 1.60.

Global Britain

Lord Stoddart of Swindon
(*Independent Labour*)

Lord Pearson of Rannoch
(*United Kingdom Independence Party*)

Lord Willoughby de Broke
(*United Kingdom Independence Party*)

Lord Harris of High Cross (1924- 2006)
(*Cross-Bencher*)

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