

Dealing with the deficits

The UK has been running a substantial balance of payments deficit for many years. The main origin of this is the large balance of payments deficit on trade account with the EU, which has persisted throughout our time in the single market and is partly related to its asymmetric construction in ways favourable to continental agriculture and industry and against UK services. In the twenty years before we joined the EEC our balance of payments on current account was roughly in balance. During our time in the EEC up to the completion of the single market in 1992 our current account was typically in modest deficit. After 1992 in the single market our current account deficit ballooned to £40bn to £90 bn a year. Under Labour in their later years the UK also ran a budget deficit which became enormous with the banking crash. Since 2010 the budget deficit has been brought down from 10% of GDP to under 3%. The balance of payments deficit has stayed at around 5%.

I am more worried about the balance of payments deficit than about the budget deficit. There are only two ways we can finance the overseas deficit. Either we have to borrow money in foreign currencies, or we have to sell more and more of our assets to foreign interests. So far this has proved relatively easy, as foreign investors have found UK assets attractive. They like our property, technology companies and the rest. Our markets are particularly open allowing them to buy up businesses and real estate.

Where we borrow to sustain our excess consumption of European imports we run currency risk of having to repay in a foreign currency that has got dearer against sterling. Where we sell more assets we forgo future profits and dividends, and may see the foreign buyer transfer some of the economic activity elsewhere if they wish to help their home production at the expense of a former UK competitor.

This is why stopping EU payments is doubly important. If we stop all the EU payments but spend all the money saved at home we still make a big reduction in the external deficit as this is money which no longer has to be sent across the exchanges to overseas. Every pound we save on net contributions is a pound saved from the balance of payments deficit. I would like the Treasury to be more concerned about the government's role in boosting the external deficit, and keener to bring it down.

The Treasury does want to cut the budget deficit. That too is easier to do if we cut the amount we are sending abroad. If more of the overseas aid money was spent on the wages of UK public sector who go to help abroad, and more on UK supplies and equipment which we give to the aid recipient, the aid budget would be less of a strain on the balance of payments. If more of the actual costs incurred by our military and NHS in helping abroad was properly accounted as aid spending that would help the general budget. If more people who come to the UK for asylum were given housing and other financial support as part of the overseas aid budget that too would assist in cutting the overall deficit.

The Treasury needs to tighten up on the money spent abroad, as it imposes a double strain on our accounts.