

# The twin deficits

The UK is currently running a large state deficit, with the government spending maybe £350 bn more than its tax income this year. Last year we also ran a £100bn balance of payments deficit. Whilst this fell sharply during the global lockdown and big hit to world trade, it is picking up again as world trade recovers.

Allowing a huge deficit for just this year by the state is affordable, as interest rates are near zero and at the same time the Bank of England is buying up £250 bn of the state debt for taxpayers. The US, the Euro area and Japan are all doing the same. It's still not a good idea to waste any of the money so borrowed, nor to think this is a long term answer to our economic challenges.

More serious is the balance of payments deficit. This now stems from two main causes. The first is the persistent large trade deficit with the EU. Our surplus with the rest of the world does not manage to get anywhere near offsetting all of this.

The second is the now persistent deficit on investment income account. Because for the last few decades we have imported so much more than we exported to the continent, we have had to sell companies, properties and shares to foreign buyers to raise the foreign exchange we need to pay for all the European imports. As a result we have changed from a country with a large surplus on our overseas investments prior to joining the EEC/EU into a country with a large deficit in investments, owing overseas investors much larger sums in interest payments and dividends than they owe us.

In future blogs I am going to return to the question of how once out of the single market and customs union we can reduce our trade deficit with the EU and stem the need to keep making our investment position worse by having to sell our assets. It is not a good economic model to be dependent on the goodwill of foreigners to buy your food or electricity, relying on foreign supply and on foreign finance to do so. The balance of payments has to balance, so if we import too much we have to sell off the country's assets to pay the bills.

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## New advisers

As the Prime Minister looks for new advisers he needs a select cast who will help him develop and communicate his strategic vision of our country and our future as we leave the single market and customs union and learn to live with the virus.

He needs help to build more bridges with Ministers and backbench MPs and to shape the resources and powers of government for a distinctive and positive approach to the future. There is plenty of talent and experience on the backbenches which needs enthusing and mobilising in many ways.

There are three immediate priorities, which have to be tackled together and are critically interlinked. The first is to secure a clean exit from the EU, with or without the preferred free trade deal, with no more slippage. Indeed, there will not be a free trade deal of an acceptable kind unless the clear resolution of the UK to just leave is believed by the EU.

The second is to put in place a full range of approaches to the virus as we await further breakthroughs from medical science, so we can live more normal lives and get the economy back to work whilst protecting the vulnerable and limiting the spread of the disease. I have often commented here on the initiatives we need to extend or develop to winnow down the impact of this virus.

The third is to do everything we can to promote and sustain recovery. We need more and better paid jobs, more and more profitable small businesses, more home grown food and home produced goods.

The Prime Minister needs to appoint those advisers who he thinks best meet his needs. He also needs to continue to take advice from leading members of the Cabinet who should also enjoy his trust .

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## [UK GDP up 15.5%](#)

The third quarter figures for UK growth were a record – up 15.5%. So far so good.

That was not nearly enough. It was the direct result of the large collapse the previous quarter under lockdown, and the efforts of the Treasury to get the housing market moving with a Stamp Duty cut and the restaurant trade working with generous special incentives.

If we look at the IMF forecasts for 2020 growth around the world we see a much better outlook for the USA, at minus 3.5% for the whole year, compared to the main European countries clustered either side of 10% down for the year. Their forecasts are not going to be that wide of the mark, looking at the latest third quarter figures. They see Spain down 12.8%, Italy 10.6%, France and the UK both down 9.8% and Germany down 6%. All but Germany have been very badly damaged by the virus and by the economic measures taken to counter it.

So why has the USA done so much better? After all its own virus death rate is similar to the UK's and considerably higher than Germany's. Large parts of

the USA escaped full lock down, which helped. More importantly the Fed put in a much bigger boost than the Bank of England or the ECB which helped a lot. The US has many more of the large and successful tec corporations which boomed on the back of us all moving to an on line world for so many things. Old shops in Europe closed temporarily or permanently whilst people went shopping with Amazon.

The UK government needs to learn from the US experience. President Trump's tax cuts helped. The deregulations helped. The technology clusters helped. Above all a very responsive Central Bank that promised to do whatever it needed to save the US economy and the world turned things round from their decisive interventions at the end of March.

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## [Change at No 10](#)

The decision of the two Vote Leave advisers to move on must not get in the way of an early end to the talks with the EU and a clear decision to leave without a bad Agreement. Only if the EU has removed its demands for our fish, to control our laws and to impose their Court as part of an Arbitration system is it worth continuing talks about a Free Trade Agreement.

I have always urged the UK to prepare for No Deal, as it was always possible the EU would fail to deliver the Free Trade Agreement that is in their interest. They promised one in the Political Declaration then failed to propose one.

No Deal has always been better than a bad deal. It seems the EU only wishes to offer a bad deal, so let's get on with leaving the single market. Weak UK negotiating under the previous government where Parliament was determined to help the EU not us made getting a good deal less likely. We now need to enforce the sovereignty clause in the Withdrawal Act.

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## [My speech during the debate on Remembrance, UK Armed Forces and Society, 11 November 2020](#)

**Sir John Redwood (Wokingham) (Con):** Today, we remember all those who died in war. As we peer into the gaslit world of the great war or seek to look behind the blackout curtains of 1940s Britain, we realise that we follow two

generations of giants.

Many families have fathers and mothers, uncles and aunts, grandfathers and great grandfathers who died in battle that we might live in peace. They died in great fear of tyranny and their immediate circumstances that we might be free. They died for our country, so we can be proud of what they did. Some may seek to use powerful new search-lights of history to change the picture they want to see or to play this down, but nothing can change who they were, what they did, nor the principles they carried to victory.

Today is a day for patriotism: that quiet, confident patriotism that characterises our country at its best; the patriotism that comes from being at peace with what those generations did and with the causes they fought. Our country does not go in for brash, aggressive nationalism, asserting ourselves by doing down others.

The unknown soldier was rightly honoured by king and country all those years ago in recognition that the world war was an immense strain on all, at home or at the front.

It required the most enormous super-human efforts of everyone. The whole country was at war, not just the armed forces and the politicians. The best way we can be true to their memory is to enjoy the freedoms they left us. We can best pursue the path of peace with vivid memories of how, after war ends, the talking begins to reconcile the differences. We must learn from the failure of the great war to end the European conflict. We can best uphold the sacred candle of free speech, turning conflicts into exchanges of passionate words, not bombs and bullets. We can best uphold the right of everyone to a vote and a voice in a democratic society and uphold the right of small as well as large states to self-determination.

So let us vow today that, in this precious debating Chamber we enjoy, we will work to ensure that we will seek to talk and vote our way through our differences. Let us pray our country is not called again to perform the heroic and brave tasks we remember today. Now that states have so much greater power to kill and harm people than they did even a century ago, let us trust in democracy and freedom.

We have had to fight far too many wars. Today, we need a strong defence to keep us safe and to increase the chances of peace. The great war did not turn out to be the war to end all wars, though that was the promise. That was the hope of many in our nation, so let us today vow to find a way to bring us nearer to that most crucial of ambitions.