Let’s stop kidding ourselves we’re a rich nation and get real … the UK’s gone bust

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Britain depends on the kindness of strangers to get by in the world. It doesn’t have to be like this.

Research shows that without London the average income per head in the UK is below that of Mississippi, the poorest US state. Above, Canary Wharf seen from Greenwich Park.

Britain has its back against the wall to an extent unparalleled in its peacetime history. In all the other financial struggles we have faced – the currency crises of 1931, 1949, 1976 and 1992 – we could fight our way out by belt-tightening and devaluing the pound within a structure of secure trading relationships, anchored first by empire and later the EU.

Our international assets exceeded our liabilities by a huge degree. Our national debt was well structured, built on long-term bonds whose servicing requirements were always manageable. We retained great industrial strengths. We were fundamentally creditworthy. Even when the financial crisis broke in

2007/8, the low national debt meant the country could put its balance sheet behind its banks and bail them out.

None of that is true today. The UK has been living beyond its means in every way. Internationally, we are no longer a creditor nation. We depend on the “kindness of strangers”, in the famous words of former Bank of England governor Mark Carney, to support our currency, as our liabilities to foreigners exceed our assets by 30% of GDP and growing. Our fading industrial base produces permanent current account deficits, which since 2000 cumulatively exceed £1.5tn: rather than belt tighten, we have chosen to run up debt and sell our assets to foreigners in vast quantities to maintain our living standards. Nor do we have empire or the EU anchoring our trade. We are alone.

Our national debt has trebled in 20 years – its fastest growth since the Second World War – to over 100% of GDP. A few other countries have even more national debt, but ours has become very short term and vulnerable – a quarter of it is in inflation-linked bonds – to rising interest rates and inflation. Debt service occupies nearly 10% of all tax revenues: the highest in the G7. If a second financial crisis broke today, we could not put the public balance sheet behind our banking system without expecting a run on the pound.

Despite all this borrowing, Britain has become poor – our productivity is wretched and growth is paltry. It is not only that our average incomes per head are below most other western nations; strip out London and our poverty is even more marked. In another fascinating analysis by the FT’s John Burn Murdoch, he shows how stripping out the richest city in a rich country has a more devastating impact in Britain than doing the same in the Netherlands, Germany or the US. Lose London and the GDP per head in the rest of the UK is below the poorest US state, Mississippi.

For those at the bottom of our society, those low incomes translate into quasi-destitution: 2 million people report going without food for at least a day in any month. Malnutrition stalks our children – our five-year-olds are among the shortest in Europe. One in three children live in poverty. It is time to stop talking and thinking of Britain as a rich country. We are poor and living on the edge.

It was no surprise that the National Institute of Economic and Social Research's quarterly economic review last week was astonishingly sobering. The institute's director, Jagjit Chadha, and deputy director, Adrian Pabst, have been warning of this darkening picture for years. Output, forecasts NIESR, will not return to pre-pandemic levels until the third quarter of next year: five lost years, with a 60% chance of the outlook worsening with a recession.

Over the same five years, stagnant productivity and low growth mean that, cumulatively, household incomes for those in the lower half of the population will have fallen by 17%. Regions like the West Midlands, particularly economically linked to the EU, have been disproportionately badly hit (Ashfield Brexiter MP and Tory deputy chair Lee Anderson might like to take note).

The Tory party and its army of media cheerleaders are rightly despondent: they have been in power for 13 years and this is the result. They quest for a quick fix. Part of the attraction of first Brexit and then the Liz Truss pitch for the Tory leadership – restoring growth with huge libertarian tax cuts – was that they seemed to offer a way out true to the Thatcherite faith. Recall Truss-supporting Daily Telegraph columnist Allister Heath swooning over the budget cooked up by her and Kwasi Kwarteng as "the best I have ever heard a British chancellor deliver". It had to be reversed within weeks, and now the current chancellor, Jeremy Hunt, is grimly warning that Britain is in a low growth trap.

But only if we stick to the current mix of Gradgrind economic policies.

Britain has to start thinking of itself not as a rich industrial country but as a poor country facing first-order economic development challenges. Large parts of the UK are scarcely better off than middle-income developing countries, and on current trends are about to get poorer. As Chadha and Pabst argue, the response cannot be doubling down on policies we know have failed, notably tax cuts, which in any case are unaffordable. It is to do something novel: it is for a declining rich country to set about building a network of institutions and policies dedicated to development.

This will take decades of determined government, not least creating the capacity to act. On my list is the division of the Treasury into an Office of the Budget and an Economic Strategy Ministry; no more a veto on public investment and public action. Our £3.5tn pension fund industry must be reshaped to support risk and enterprise. Real financial muscle must be put behind the UK Infrastructure Bank and the British Business Bank. Education must be transformed, and training given the status culturally and financially that it deserves. Achieving net zero and levelling up must become national strategies off which we leverage new industries.

Nor can a great economy be built with a ravaged, fractured society: we need a reinvigorated social contract. To win the confidence of foreign investors, the plans must credibly lift investment; reassociation with the EU, showing seriousness of economic intent, is part of such confidence building. And so much more.

We cannot live with a decade of more of the same. Britain is extremely vulnerable to any mishap – a crack in the housing market, a crisis in the financial markets, another energy crisis. Above all, we have to light the fires of hope. Britain does not need to be the sick country of the west. We must act.