

FINANCIAL TIMES – 07 LUGLIO 2025

Roots of the British malaise lie in a sick economy

di Martin Wolf

The UK suffers from three failures: failing politics; a failing state; and a failing economy. Of these, the last is much the most important. I am not arguing that these failures are significant by global standards: UK politics is still relatively decent and democratic; the state is relatively competent and effective; and, not least, the British still enjoy a relatively high standard of living. The problem is that the economy does not provide a rising standard of living or the expected quality of public services at politically acceptable levels of taxation. The state is also unable to ameliorate the painful trade-offs this reality has imposed. Finally, the politicians cannot confront the choices they face, as we have seen with Keir Starmer, most recently over welfare reform, but also over the questions of tax, spending and economic reform raised in the 2024 general election.

Numbers tell the story. According to the Living Standards Review 2025 from the National Institute of Economic and Social Research, real disposable income per head rose by just 14 per cent between the third quarters of 2007 and 2024: it had risen 48 per cent between the third quarters of 1990 and 2007.

According to the IMF, the trend growth of GDP per head in the UK had been 2.5 per cent a year from 1990 to 2007: then, between 2008 and 2025, it was just 0.7 per cent. This reduction of 1.8 percentage points in the growth rate was the largest in the group of seven high-income countries (plus Spain). In the second period, only Italy has grown considerably more slowly than the UK. As a result, UK GDP per head in 2025 is forecast to be 33 per cent lower than it would have been if the 1990-2007 trend growth had continued. This is the biggest shortfall among all these countries.

All of this is rooted in the most important collapse of all, that in productivity growth. According to the OECD, real output per hour rose by a miserable 6 per cent in the UK between 2007 and 2023. This was the same as in France and (again, above Italy). But in the US the rise was 22 per cent. In the Eurozone as a whole it was 10 per cent.

The UK's stagnant productivity is a big worry. When economies cease to grow, everything becomes zero-sum: more for one group of people means less for others. The problem is even greater if demographic change increases the number of beneficiaries of fiscal transfers relative to that of productive taxpayers. The overwhelming questions in politics become how to contain the discontent when much of the population has stagnant real incomes, how to manage the public finances, especially during shocks, and how to get the economy growing again.

These are tough questions. This is partly because the most important of all, namely, what to do to raise economic growth, is so hard to answer. Nobody expected such a large and widespread fall in trend growth in high income countries as has happened since 2007. Even the US has suffered a significant decline in growth of GDP per head in the post-2007 period. But the decline in the UK's growth rate is quite exceptional.

More fundamentally, while economists have some ideas about the sources of economic growth, these amount to much less than precise knowledge. This is partly because both the nature and impact of technological progress is so hard to foresee. Today, for example, some think artificial intelligence will transform productivity for the better. Others most definitely are sceptical.

Indubitably, a serious government would be devoting vast intellectual resources to the question of how to raise the growth rate. None has, including this one. A starting point, in my view, must be recognition that the Thatcher experiment failed: it did not transform the underlying performance of the economy for the better. This must now be admitted. Too much of the post-Thatcher performance was unsustainable. This was, in good part, because it was the fruit of a global credit bubble, in which the UK was a leading actor.

My hope is to devote future columns to how a new growth strategy might work. But, before that, it is crucial to recognise the political responses we have been seeing since 2010. By and large, these have fallen into two categories: charlatanism and timidity. The charlatans pretend that something simple — Brexit or huge unfunded tax cuts — will deliver. The timid have been relatively responsible. But they have been unwilling to admit the scale of the economic and political challenges they confront and then make hard choices.

Keir Starmer is not a charlatan. But he has not been prepared to take on the burden of leadership that current conditions require. I sympathise. But his timidity will not work.