

Why is our economy fragile?

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War does not just test armed services. It tests economies.

Right now, the UK is discovering how fragile its economic model has become. Decades of de-industrialisation, reliance on imports, financialisation and extreme inequality have left the country dangerously exposed to global shocks.

When supply chains break, when energy prices rise, or when geopolitical tensions escalate, the consequences hit the UK economy very quickly.

In this video, I explain why Britain's economic fragility is not an accident. It is the result of policy choices made over the last forty years.

I also explain why a sovereign government has far more capacity to respond to crises than politicians often admit, and what Britain could do to rebuild economic resilience.

Because the real question now is simple: will we redesign the economy for resilience, or continue with a model that collapses when shocks arrive?

<https://www.youtube.com/watch?v=Aaj0EmM8tzE?si=Jk2RMQNGGNF6cavm>

This is the audio version:

https://www.podbean.com/player-v2/?i=psi4v-1a6bdcf-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

When war breaks out, countries discover very quickly how resilient their economies really are.

We're discovering that in the UK right now. Look how long it has taken to get a single warship to sea in this country.

But the truth is that's not the only problem we've got. The UK is also highly economically fragile right now. That's not because we are poor or because we lack skills or because we lack resources. We are fragile because of how our economy has been designed over the last 40 years, and that design has left us dangerously exposed to external shocks. That's what I'm talking about here.

The first problem we have is simple. The UK depends very heavily on imports. We import a very large proportion of our energy. We import a huge amount of our food. We import manufactured goods, and we import many of the components used in British industry. That means that when global supply chains are disrupted, as they are now, by war and in the past, by sanctions or by shipping problems, the UK feels the shock very quickly. Energy prices rise, food prices rise, transport costs rise, and inflation appears very quickly as a consequence. In other words, we are structurally exposed to global shocks.

The second problem we have is that Britain has hollowed out its productive capacity. Over decades, we have lost large parts of our manufacturing sector. As a result, we have weakened everything about our supply chains. We have instead become heavily dependent upon financial services, property speculation, consumption funded by debt. These sectors may generate profit, but they do not provide resilience when the world becomes unstable. In a crisis, our country needs to be able to produce what it requires, and we have chosen not to.

In addition, our energy system has become fragile. We were at one time energy independent, and we did not learn the lesson and the benefit of that. We are now heavily dependent upon imported gas, and gas is used not only for heating, but also for electricity generation. So when global energy prices rise as they are at present, the UK economy absorbs the shock very quickly. Electricity prices rise, business costs rise, food production costs rise, and households face the consequences. This is not inevitable. We could have gone much more heavily for renewable sources of supply. It is the result of policy choice that we are now in crisis.

Then there is the fact that we have tolerated extreme inequality in the UK, and that is another reason for our fragility. A very large proportion of the population in the UK has very little financial resilience at all. Millions of households have minimal savings. They cannot make it to the end of the month without dipping into borrowing. Many are already struggling with housing costs, energy bills and food prices. That means only a relatively small economic shock can push larger numbers of people into real hardship. An unequal society is not resilient; it is brittle. When pressure arrives, it cracks quickly.

Perhaps the most serious problem of all that we face, though, is ideological. For decades, the British political class has said that government must limit deficits, government debt is dangerous, and markets must always come first. As a result, when crisis arrives, governments hesitate in this country. They worry about bond markets. They worry about fiscal rules. They worry about political narratives about debt. But in reality, a sovereign government that issues its own currency always has the capacity to act when it is necessary. The constraint is not money. The constraint is real resources, labour, energy, food, and infrastructure, and these are precisely the things that Britain has neglected.

So let's be clear. The UK economy is not fragile because of fate. It's fragile because of choices. Choices to de-industrialise. Choices to depend on imports. Choices to tolerate inequality. Choices to prioritise finance over production, and choices to limit the role of government in protecting economic stability.

War exposes all of this. It is forcing us to confront realities we would rather ignore, and what it reveals about Britain is this: our economic model has prioritised efficiency, profit, and financialisation over resilience, but resilience matters, and most particularly, it is what matters now, because when shocks arrive, whether from war, pandemics, or climate change, economies that cannot adapt quickly suffer.

The good news is that this is not irreversible.

Britain could rebuild domestic production.

We could invest in energy independence.

We could strengthen our supply chains.

We could reduce inequality.

In other words, we could design an economy that is built to endure uncertainty rather than one that collapses whenever the world becomes unstable.

And in an era like the one we are now entering, that may be the most important economic choice that we can face.