

## We need a cappuccino economy

Published: January 13, 2026, 1:25 am

---

I read two articles on economics, the left, and the need to embrace real and co-ordinated economic reform yesterday. The first was by [Danny Blanchflower](#) in the New Statesman and the [second by Stewart \(Lord\) Wood](#) in the Guardian. Danny is one of John McDonnell's advisory team. Stewart was a key adviser to Ed Miliband.

I saw some negative feed back to both articles on Twitter. The reason was that both clearly accept the role for markets. As Danny put it:

*The new Labour leaders are not economists and are going to have to learn fast. They will have to accept the realities of capitalism and modern markets, like it or not.*

Stewart expressed it differently:

*If we want to reform the way our market economy works — to channel the public's anger about Google, Fred Goodwin, energy company profits, zero-hour contracts and inequality into real change — we need answers that match the scale of the problems.*

The implication is obvious in both cases: they both see markets as a continuing part of our economy, and so accept private ownership of companies.

For the record, so do I. That's what belief in a mixed economy, which I have often made clear I have, means.

And in practice my desire for tax reform would be largely meaningless if I thought that we should have no private ownership or wealth: tax is almost irrelevant when the ownership of the entire surplus from an activity already belongs to the state. By implication tax justice necessarily embraces the mixed economy.

It's how we think about that economy that matters in my opinion. My problem with too much of the politics we have had is its ability to build artificial divides. The neoliberal logic that markets are good and states are bad is just wrong because clearly each has merits and weaknesses and the real world choice is to use the right one at the right time.

Undoubtedly errors have been made in that process of choice in the past. I very much doubt that the UK government did need to own British Leyland. Equally, it does need to own our railways. Car manufacture is not a natural monopoly; from the very onset of the railway era it was recognised that they always had that characteristic and had to be regulated to prevent abuse.

The first aim of economic reform is, then, to simply get this narrative of necessary and appropriate partnership between the public and private sectors into normal discourse. It is not, and never will be, the case that one is inherently better than the other. It is actually the case that to get the best out of the economy you need both.

I often explain this using the metaphor of a cappuccino. The espresso on the bottom is the state. It shapes and moulds the whole thing. If it is good, then pretty much the whole thing will be, and vice versa. The frothy milk is the private sector that builds on the foundation of the state. And on the top is some chocolate or nutmeg which is the thing we all see, and because in real life this represents the frivolities that feature in Sunday colour supplements we think that the private sector, that almost always produces them, is the source of the fun things in life when in fact without the state, and the mundane functions of the market, they would not be possible.

A cappuccino stands or falls as a whole. It's hot frothy milk without the espresso. It is just an espresso without the milk. Both are acquired tastes for some. But many think the compromise - with the fun bits on top - is best. My observation of cafe life suggests that (and I drink a lot of coffee - always black, I admit, but read nothing into that: metaphors have their limits).

Let's, again, not push the metaphor too far, but the task we face is to actually find politicians who, like a skilled barista, can blend the right product for our economy that delivers the appropriate mix of state and private where each recognises the role of the other and is willing to support the role the other has to play.

Paying appropriate tax does, of course, fit into that.

The quid pro quo is that the private sector can, when it accepts and fulfils its obligations, make reasonable demand on the state which many would support, for things like appropriately trained people, for example. This is what partnership is about.

The problem in our current economy is that we do not have politicians who are, as yet, showing those barista skills. Far too few understand the role of the state. We have too frothy an economy as a result that is too volatile to be durable. And we also have a private sector that is refusing to recognise it is even in partnership. The result is quite reasonable anger from many about what it is doing: Google please note.

My aim is for a cappuccino economy: one where state and private sectors both flourish because each is allowed to do what it does best. We're a long way from being there

right now. And in my opinion that's because the espresso is too weak right now.