

The cappuccino economy

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I am aware that we have been discussing the need for narratives to explain the economy on this blog in the last week. Much of that discussion has focussed on issues around money and the way that the government is funded. But there are other narratives that are also important, and almost as little understood.

One of those is the importance of the mixed economy. A narrative that I created in my book *The Courageous State* to explain this suggested that there is a necessary balance between the state and private sectors, each having a very real role to play in the economy. In this context I think the economy is a bit like a cappuccino.

The state is the cup. The productive economy exists within it for the purposes of this example. (Of course it extends beyond it, but that is for another blog; just think about the coffee shop if you want to anticipate the direction travel, and also imagine the saucer as the social safety net if you want to take the metaphor in another direction).

The espresso that goes into the cup first, and so appears to initially sit on the bottom, is the government. It is fundamental to the whole thing. Without it then the cappuccino is not a coffee. And if it is good then pretty much the whole thing will be, and vice versa.

The hot milk comes next and is the private sector that builds on the foundation of the state.

On the top is some chocolate or nutmeg, which is the thing we all see, and which we as a result think defines the cappuccino. This represents the bits of life that we tend to think most fun, because they're what we want when all the basics have been dealt with. And because the private sector produces most of these fun things we tend to value what the private sector does most when in fact none of these fun bits would be possible without the state and the mundane, and even rather boring things, that much of the market also does.

The cappuccino helps us understand that. The reality is that in practice a cappuccino stands or falls as a whole. It's hot frothy milk without the espresso. It is just an espresso

without the milk. Now I admit, both are acquired tastes for some: we should not ignore that. But the reality is that many think that the compromise — with the fun bits on top — is best. And most importantly, when drunk you can't tell the component elements apart. Each integrates to make a whole.

As I suggest is the case with a mixed economy: the parts are interdependent and make a whole and without each other that whole could not exist.

Let's not push the metaphor too far, but the task we face in our political economy is to 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.

I would suggest that we are short of those skills. Far too few politicians appreciate the fundamental role of the state. We have had too frothy an economy as a result that is too volatile to be durable. And we also had a private sector that is refusing to recognise it is even in partnership.

I might also add that those on the left who think we can do without the private sector get this issue just as those who despise the state on the right do.

My aim has always been 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 there are two reasons for that.

The first is that the espresso has been too weak for too long. We need an extra shot.

And on the other hand, shareholder capitalism has withdrawn all the resilience that companies have needed to survive the type of stress we're now seeing. It's as if they thought they could get away with semi-skimmed milk when full fat has always been needed to ensure that companies have the strength they need to be good employers, reliable suppliers and players for the long term able to fulfil their commitments to all in society.

You'll note that it's not one side that needs a boost right now: both do.

And if anyone wants to work out a script for that I'd be pleased to see and narrate it.