

Funding the Future

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In this morning's video, I explore an idea I first wrote about in my book, *The Courageous State*, in 2011. I suggest that there is no such thing as a state economy. Nor is there a private sector economy. There is always a mix of the two. The cappuccino is the perfect metaphor for that fact.

<https://www.youtube.com/watch?v=i5GgQj6Za9k?si=bVcFjFxxZZysMiwsz>

The audio version is here:

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The transcript is:

A cappuccino can be a really good way of explaining how the economy works.

I should mention at the start of this video that I am not a fan of cappuccinos. Putting milk in coffee is, in my opinion, committing some form of sin. But let's move on from that and talk about the cappuccino itself.

The cappuccino is a coffee made up of two fundamental components. One is an espresso coffee made by, one would hope, a good barista, or maybe in a good coffee machine, and put in the bottom of the cup.

On top of that is added hot frothy milk and then, if it's to your taste, you can add some

form of sprinkle on top. That can be chocolate, it can be nutmeg, whatever you wish. The point is that those three components together go to make up the cappuccino.

So why do I think that's a good metaphor for the economy?

In my opinion it is because the espresso represents the role of government spending in the economy. There is no economic activity that takes place that is not in some way supported by the government. Whether that is simply by providing the legal system that ensures the contract can be fulfilled or whether it is providing the infrastructure that enables the two parties of the contract to come together, or whatever else it might be, the government always has a role in the creation of any form of economic activity.

The hot frothy milk is the private sector role in the economic activity that we're looking at. Again, there is almost no economic activity that takes place inside any economy that does not have a private sector input. Even if we look at something that appears to be very much government related, that is still true. For example, the government will buy in a load of IT services, or it might just be paper, or whatever it is that it requires to make sure that it can deliver its part of a service.

So together, there will always be a mix of government spending and private sector spending to create an economic activity in the economy.

And what do the chocolate, or nutmeg, or whatever else represent? Well, in some cases, we do add a bit of froth to whatever it is that is created within the economy. That is particularly true of those things that are subject to excessive advertising. The car that has every bell and whistle on it. The new iPhone that has got every feature that you'll never look at on it, and whatever else it might be, they've got that froth on the top.

And the froth on the top is deeply confusing to many people, because when they look at the economy as a whole, they think that the froth on the top of the economy is what defines the private sector as being great.

What they forget is that in practice, underneath any frothy coffee, which is, let's be blunt, what a cappuccino is, (and if you doubt me, go and check what it is in Welsh, and you'll find that's what it is in Welsh) - that frothy coffee is made up of an espresso and hot milk and maybe some sprinkles on the top.

The point that I'm going to now make is the important one. You cannot drink those components separately. When you have a cappuccino, you will inevitably mix together the espresso, and the hot frothy milk, and the sprinkles on the top, and they become a unified whole.

That's the way we also consume things in our economy. It isn't the state who makes any one thing that we consume, or the private sector. It is the combination that will always work. And that is why I think the idea of the cappuccino is so important.

But it doesn't even end with that metaphor that I've just created. The metaphor can be extended.

For example, the cup in which you have the cappuccino is the state. It is the thing that contains the economy. And I think that's really important.

How do we define the economy in that sense? And why do I choose the state as being the appropriate description of the cup? Because the state sets the boundaries for the use of a particular currency, and that's why I think that particular metaphor makes sense.

So, what's the spoon? The spoon is the government. The government creates the environment where government expenditure and private sector expenditure can come together. And it creates the laws that enable that interaction. So, I think the spoon that will invariably be supplied by a cafe with your cappuccino, whether you want sugar or not, is important as well.

But suppose you do want sugar. Well, that has a role too. The sugar is what makes the mix palatable. Because sometimes the mix is a bit unpalatable to some people for all sorts of reasons. There's too much private sector, there's too much state sector for some people's taste. There will always have to be, in that situation, some degree of compromise that makes the mix palatable to sufficient people. And the sugar is the metaphor for that.

We could even go a little further, although I'm probably going to stop quite soon. The saucer is, for example, the social safety net. It stops anyone falling outside the scope of the economy by mistake. So, that, too, is involved in this idea of cappuccino and the economy.

We could go into macroeconomics: we could discuss the role of the barista, the recipe, the whole cafe, where you might buy this and so on. Let's leave it for the moment.

My point is a simple one. We have to understand that there is no such thing as a pure private sector economy. There is also no such thing as a pure state sector economy. There is no advantage to either of those things either. It is in the mix of the state and the private that we end up with what is good, and without either of them it is very rare that anything could happen.

That's why I find it intensely frustrating to be told that the private sector is always better than the state sector. It isn't. They must work in combination.

And it's why I've never been a socialist of the form who believes that everything must be owned by the state as a means of production. Because I don't see any way in which that works.

So, cappuccino is a way of describing the mixed economy; the economy in which we all

live and work, and which most of the time, most of our politicians will try to ignore, as if it isn't the thing that they're actually dealing with, when day in, day out, it's the mixed economy that meets our needs.

The cappuccino metaphor will either work for you, or it won't. I don't guarantee, either way, what the outcome will be in your case. But if it helps, and it helps explain why putting the two sectors together makes whatever it is that we need, then it's a useful metaphor. And I believe it works.