

The mixed economy is vital - so why does no one talk ab...

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The mixed economy isn't flashy, but it works. In a world of market failure, it's time to rebuild the balance between state and private enterprise.

https://www.youtube.com/watch?v=lrQh0_BTneQ?si=_YN5t3qyMVjN3hN0

This is the audio version:

https://www.podbean.com/player-v2/?i=92g9f-18da6ff-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:

Sticking up for the mixed economy is really hard. After all, how do you get excited about something that just works, which is what the mixed economy does?

How do you get passionate about something which is functional?

But I think we should.

I actually believe it's vital that we begin to talk about the importance of mixed economies again, because the world of politics is dominated by narratives that pretend that the mixed economy doesn't exist, doesn't work, and is, if anything, harmful, and all

of that is nonsense. We need to give a shout-out to something which is fundamental to our well-being, and that is the mixed economy.

So why do we need to talk about this now? Well, fundamentally, because free markets have very clearly failed us. We had a commitment to mixed economies in most of the world from around 1945 until 1980, during what has been called the post-war era. During that era, we had a consensus that if the state and markets worked together, we would produce the best outcomes for the world.

And then we had a backlash. The backlash happened when we began to introduce fiat currencies, which are those which are not backed by gold, but just by the promise of a government.

And most particularly, we had a backlash when the world had no idea how to handle the consequences of conflict in the Middle East and the 1970s, and the resulting economic crises that flowed from it.

Those were exploited by neoliberals, and they promoted the idea that we should prioritise markets as the solution to all known problems, in all economies, the world over.

But the fact is, this hasn't worked. What we've seen is that crises have developed, which have revealed deep structural weaknesses in the world's market economies.

Those have led to things like financial meltdowns in 1987, in 2008, maybe in 2000, although by and large, we avoided most of the harm from that one. And of course, we had another one in 2020, which was Covid-related, but where markets would have failed by themselves.

So what we need is a framework that delivers for people. And people have realised that markets aren't that. And if there's one thing that we can be sure about now in the world of economics and politics, it is that people realise that what we had did work and what we have now does not work. So for that reason, discussing the mixed economy at this moment is something that's really important.

We need to have a mixed economy, again. We need to prioritise it. And in the process, what we need to talk about is how the instruments of social democracy that were created after the Second World War - universal healthcare, education, housing, social security, a safety net as a -consequence - and all those other things that lifted people out of the poverty which had been their fate in the 1930s and created prosperity for so many from the 1950s onwards, can be delivered again. Because, as a consequence of neoliberal politics, the commitment to those things has been abandoned, and we've paid a heavy price for that.

People want those things back.

They don't want unfettered markets.

Those political parties that have shown themselves to be committed to those unfettered markets are now paying a high price for it.

That includes the Democrats in the USA, who have not been able to stand up for what they used to do, which is social democracy, and the Tories in the UK, who are basically in a state of collapse because when people realise that all they have to offer is more market solutions, people have rejected them.

So what we want, and what people clearly want, is this mixed economy, even though we don't talk about it.

So, what is the mixed economy? Let's be clear about our terms here. A mixed economy is nothing more or less than a partnership between the state and private enterprise.

It doesn't mean that they have to be formally in partnership. The state doesn't have to own private enterprises. Private enterprises don't have to recognise that they have a direct contractual relationship with the state. But there is an implicit relationship where each side knows they are dependent upon the other to succeed. And they do that by each of them doing what is best suited to their aptitudes.

And so we look at things that are effective, and we look at outcomes, and not just an ideology, as a way to decide how we will manage the economy.

And the reality is that markets and states do rely on each other. Both contribute to prosperity and stability, and they aren't even rivals. They're actually collaborators in common purpose when you stand back and look rationally at what goes on in the real world in which we actually live, and will continue to live, because there is no way on earth that we are going to cease to live in a mixed economy during the rest of my life, your life or those not yet born.

Neither the state nor markets work on their own. That's a simple, straightforward statement of fact, and I don't care what ideologues say, there is no alternative to the claim I've just made. We need this combination. And yet politics has been dominated by proponents of either markets or the state, and, of late, just of markets, because proponents of the state have almost entirely disappeared.

So, what is the role of the state? The state is absolutely essential because it provides the infrastructure and rules within which markets can operate. Without rules, markets can't work. It's a bit like trying to play football without rules. It just can't happen, because if one side has 15 players and the other has only got nine, and one side recognises an offside rule and the other doesn't, you don't get a fair outcome. You cannot get competition. And so the state, by setting the rules of competition, actually facilitates markets so that they can deliver of their best.

At the same time, the state has to recognise that markets will fail. That's because they are completely unable to account for things called externalities. That is the consequence of private sector transactions for the world at large, which can't be reflected in the price mechanism that we pay for whatever it is that we get.

So, for example, tobacco companies can supply toxic products and not have to account for the consequences for ill health. So we apply taxes to correct for that, and we do the same with regard to carbon, and alcohol, and gambling, and so on. This is the state correcting for market failure, and it has to do that increasingly because the number of market failures we're seeing is, of course, growing; climate change being the biggest one of all.

But the state also exists to do something that markets are very poor at, and that is to think about the long term. The way in which corporate decision-making has developed means that anything that happens in the longer term, 15-plus years' time, is basically ignored when they come to making investment decisions. But so much that we now need is actually based upon long-term decision making with consequences arising well after 15 years' time. So the state is best able to do those things, whether it be the provision of transport infrastructure, or energy infrastructure, whatever it might be, including, of course, defence against flooding and defending us against climate change.

The state, in other words, prioritises people and not profit.

It prioritises the long term, and not just the short term.

And it prioritises society, and not individual gain.

The role of markets, on the other hand, is, of course, to actually undertake commercial activity, and there's nothing wrong with that. We need commercial activity. I'm very happy for markets to be able to produce products that I want. They can brew my beer. They can bake my bread, they can do whatever it is that they want, so long as it is safe; in other words, so long as they undertake these activities within the rules that society lays down to make sure that everyone is protected.

They can also drive innovation.

They can drive efficiency, and they can deliver these things, if they can, because that is the way they will increase their profits, and they have that incentive.

They can even create diversity in dynamism in services, and that will, over the long term, result in better outcomes for most of us.

But this, as I've already pointed out, can only happen within guidance and boundaries.

Markets must be accountable for the externalities of their activities, and as a consequence, what we also have to be aware of is that markets are very poor at care,

at healthcare, at education, and even housing, particularly for those for whom market access is very hard.

The theory of markets, on which the claim is made that they produce optimal outcomes for the allocation of resources within society, is based upon the assumption that everybody has equal access to resources. But the simple fact is that this is not true. We know that the vast majority of the people in many countries have very few, if any, savings at all. And we know that income distributions are horribly skewed in favour of a few, with the majority earning not a lot. So, if markets are going to exist, the state has to make sure that people have access to them, which is precisely why the state does, for example, need to run progressive taxation systems, because unless there were progressive taxation systems, and benefit systems, markets would in fact fail because there would be a lack of customers for them to actually be able to sell things too.

So, markets are dependent upon the state because the state is an enabler. It builds the capacity on which markets can be built. It lays the foundation for business success. It ensures resilience in times of crisis, and it provides what markets cannot deliver in the long term, whilst correcting for their failures and protecting those who would otherwise not have access.

We've lost many of those things over the last 45 years. Neoliberalism has destroyed the understanding of the importance of all those things. The result is that we have a situation where the world is fragmented. Decades of privatisation have weakened the balances within our economy, and the public interest has become an afterthought.

We can rebuild.

We can deliver a system where states and markets can cooperate.

We can drive the public interest to ensure that investment in services and the infrastructure that we need is there so that markets can operate in the long term.

We can build real partnerships serving real needs, and we can do all that within an environment of care.

This isn't about choosing sides. It's about talking about what is pragmatically possible and proven to work. And that's what mixed economies are. They are the way in which we face shared problems by finding shared solutions. A mixed economy is how we work together, and that is an economy that puts people first.