

Does the government create wealth?

Published: March 9, 2026, 7:04 am

People are often told that only the private sector creates wealth and that government simply wastes taxpayers' money.

That claim is everywhere in modern political debate. It underpins austerity. It justifies privatisation. And it shapes how people think about the economy.

But it is wrong.

In this video, I explain what wealth really is and how it is actually created. Wealth is not just private profit. It includes infrastructure, education, health, security, and social stability.

Historically, public enterprise built much of modern Britain. Local government created the systems that allowed private enterprise to function: sewers, electricity networks, public transport, housing, and water systems.

I also explain the money myth that underpins many of these arguments. In a modern monetary economy, government spending creates money first, and taxation later helps manage inflation. Public spending can therefore increase national wealth rather than destroy it.

The real issue is not public versus private. The real issue is whether economic activity meets social need and maintains the capital on which our society depends.

If we want a better economy, we need to rebuild public enterprise and reject the myth that only private companies create wealth.

https://www.youtube.com/watch?v=CupapOCZt_8?si=IJIUJAWK89f3yQ4B

This is the audio version:

https://www.podbean.com/player-v2/?i=4n2fd-1a637ce-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Who creates wealth in the UK economy? Is it the private sector? Is it the public sector? Is it a mix of both? The question is important because people keep on telling me that only private companies create wealth. They say that the government destroys wealth. They say the government wastes taxpayers' money. They say markets are always efficient and the government is not, and all of these stereotypes are wrong.

The false assumptions are everywhere throughout these claims.

They're based upon the assumption that money is scarce.

They assume that taxpayers fund government spending.

They assume, as a result, that private spending is always better than public spending because taxpayers, they argue, have to sacrifice money to the government when in fact they don't because the money that the government claims back by way of tax was created by them in the first place.

They assume markets deliver optimal outcomes.

Every one of these assumptions is ideological, but not factual.

So, what does really create wealth, and what is wealth in reality?

Wealth is useful goods and services.

Wealth is infrastructure.

Wealth is education, health, and security.

Wealth is social stability and trust.

Wealth is then not just private profit.

Even GDP clearly counts public services as output. So, before anybody begins to argue about this, we already have the clear acknowledgement in the economics that is put forward by neoliberals, that the state can produce wealth.

So, the idea that public activity cannot create wealth is absurd.

We have to then ask the question, how is wealth really created? Wealth is created when labour and resources are organised productively. That can be done by private firms, public enterprises, the government, cooperatives, and communities. The issue is not ownership. The issue is always about organisation. This is basic political economy going right back to the era of Adam Smith. There is nothing surprising about this. All that is surprising is that people claim that only private firms are useful when it is very obvious from just looking around us that there is a much bigger story to tell.

What is more, the evidence is very clear. Public enterprise built modern Britain. Just look at the history of local government in this country.

Local governments built sewers, schools, hospitals, council housing, gas, electricity, and water systems and tramway and bus services to create the towns and cities of the UK between the 1880s and the 1930s, and indeed a lot longer than that because they still did some of those things right up until the 1980s.

Victorian and Edwardian municipal enterprise built the infrastructure that made private enterprise and all the things that followed from it possible in this country. Without public investment, particularly local public investment, capitalism would never have functioned in the UK.

The lesson? Well, that is that public enterprise does create the platforms on which private enterprise exists.

Private firms depend on public systems: roads, courts, and contract law, education systems, health services, energy grids, and research funding. Even Silicon Valley grew from publicly funded research. So, the idea that only private firms create wealth, literally, completely ignores reality.

Then look at the money myth. The argument says government spending uses taxpayers' money: private spending is therefore always more efficient. But in a modern monetary economy, we know, government creates money first, tax controls inflation later, and public spending mobilises idle resources to put them to use to deliver full employment and prosperity for everyone. This is just sectoral balance accounting. Government deficits are, as a result, always private sector surpluses. As a matter of fact, then, public spending can and does increase national wealth.

What is more, we also know that markets are not automatically efficient. Markets often underinvest in long-term projects. They ignore public goods. They create monopolies, and they exploit labour and the environment. That is why railways, water, and energy were municipalised or nationalised in the first place. Efficiency depends on goals and not ideology. And profit is not an efficient goal because its measurement ignores so many costs.

So, what happens when the myth of the private sector is shattered? Look around Britain now. Privatised water companies are dumping sewage. Energy firms are extracting monopoly profits. Rail services are collapsing in many places, particularly in the North of England, because of underinvestment. Outsourced public services are failing.

These are not efficient outcomes. They are rentier outcomes. They destroy wealth. The myth is holed below the waterline.

In that case, the real issue is not public versus private. It is: does the activity meet social need, and does it maintain capital, whether that be financial capital, physical capital, environmental capital, human capital, or social capital? All of those must be maintained if our society is to continue. Does it, in other words, build resilience and well-being because they are fundamental to everything that we are about? This is what a politics of care demands.

So what are the consequences of believing this myth that the private sector is always right? If we believe that we privatise essential services, we underinvest in infrastructure, we weaken local government, and we accept inequality. And then people wonder why Britain has stopped growing because we have believed the myth, and we've got the consequences. That is the problem we face.

So what should we do? We need to rebuild public enterprise. We need to rebuild municipal energy and transport systems. We need to create more public housing, probably under council control, because housing associations have failed us. We need public banks, and they should be regional. We need local authority investment. We need public ownership of natural monopolies. This is not about ideology. This is about how Britain was actually built.

What to conclude then? Wealth is created by people working together. Ownership is a choice. Markets are tools. Government is always the organiser of last resort, and the government is always the underpinning of real wealth; without it, there can be no private sector. If we want a better economy, we must reject the myth that only private companies create wealth, and we must build a politics of care that values public enterprise again.

That's what I think. What do you think? There's a poll down below.

Poll

[poll id="343"]