My view on .... the mixed economy

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And

My View on … The Mixed Economy

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This post is part of an ongoing series in which I set out my views on significant issues in economics, political economy, politics, taxation, and accounting. It should be read in that context. It provides an overview of a position that I have developed over many years of writing and analysis, rather than a comprehensive treatment of the subject. If you would like to explore these ideas in more detail, the reading list at the end of this post provides a good place to start.

The whole View On series is available here.

Introduction

We live in a mixed economy. So does every other country on earth. There is no economy anywhere, now or at any point in recent history, that has been run entirely by the state or entirely by private markets. Every transaction, every wage paid, every product sold, depends on a combination of state and private activity working together, whether we notice this or not. And yet you would be hard-pressed to find a British politician prepared to say so. Our political debate proceeds as though we must choose between markets and the state, as though one must always yield ground to the other, when the plain truth is that we have always had both and always will. In what follows I want to explain what a mixed economy is, why it is the universal condition of every developed economy on the planet and not some peculiarly British compromise, what the state contributes to make markets possible in the first place, and why our politics nonetheless behaves as if none of this is true.

What a mixed economy is

A mixed economy is nothing more or less than a partnership between the state and private enterprise. It does not require that the state formally owns private enterprises, nor that private enterprises acknowledge any direct contractual relationship with government. What it requires is an implicit recognition, on both sides, that each depends on the other to succeed, and that each does what it is best suited to do.

I have found over many years of writing about this that the easiest way to explain the idea is through the metaphor of a cappuccino. The espresso at the bottom of the cup is the state. It underpins everything else, and although it is barely visible once the drink is made, without it there is no cappuccino at all, only frothy milk. The milk itself is the private sector, built on top of that foundation. The chocolate or nutmeg sprinkled on top, the visible, enjoyable extras that we associate with a good life, are the products of private enterprise, and we tend, as a result, to credit the private sector with creating all the things we enjoy about modern life. What we forget is that none of that froth would exist without the espresso beneath it holding the whole thing together.

Push the metaphor further and the saucer becomes the social security system that stops people falling out of the cup altogether, the barista is the skilled workforce that society must continually train and retain, and the cafe itself, along with its coffee machine, represents the physical and legal infrastructure, the roads, the courts, the currency, without which no economic transaction of any kind could take place. Most people I have ever put this to instantly recognise the world it describes. It is the world they live in. And yet there is no dominant economic theory in use today that describes this economy honestly. That absence is close to the root of the confusion in our politics.

This is how the world works, not just Britain

It would be easy to think of this as a specifically British argument, a plea for a particular kind of consensus politics associated with the period after the Second World War. It is not. From around 1945 until 1980 there was a broad international commitment, across most of what was then called the developed world, to the idea that the state and markets should work together. Universal healthcare, public education, social housing, and a social security safety net were built during this period precisely because there was cross-party acceptance that markets alone could not deliver these things, and that the state had an essential role to play alongside private enterprise in creating shared prosperity.

That consensus broke down from the late 1970s onwards, for reasons that had as much to do with the economic shocks of that decade, the move to fiat currencies no longer backed by gold, and the political exploitation of both by a new and assertive strand of economic thinking, as it did with any failure of the mixed economy itself. Neoliberal politicians and economists began to argue that markets alone, freed from state interference, would deliver superior outcomes in every sphere of life. The result was a wave of privatisation and deregulation that swept through Britain, the United States and much of the rest of the world, and which persists in the rhetoric of our politics even now, long after the practical failures of that approach have become impossible to ignore.

But the underlying reality never changed. Every economy in the world, from the most socially democratic Scandinavian state to the most avowedly market-oriented economy in the United States, remains a mixed economy in practice. Even in the command economies of the old Soviet bloc, there were markets of a kind, for personal property, if not for the means of production itself. A purely private economy, stripped of all state involvement, has never existed and could not exist, because the basic infrastructure that markets depend upon, the currency in which prices are set, the courts that enforce contracts, the police that punish fraud, the regulations that prevent monopoly, all of it is provided by the state.

This is why the failure to talk about the mixed economy honestly is not just a British problem but a global one. Wherever you look, politics is dominated by a rhetoric of markets against the state, individual responsibility against collective provision, private enterprise against public ownership, when the observable reality on the ground is a working partnership between the two that every citizen depends upon every single day. The gap between the rhetoric of politics and the reality of how economies function has become one of the most damaging features of contemporary political debate, because it prevents us from asking the only question that matters, which is how the mix between state and private activity should be managed for the benefit of the society it is meant to serve.

What the state contributes

It is helpful to set out precisely what the state contributes to this partnership, because so much of our political debate proceeds as though the state's role were marginal, a drag on economic activity to be minimised wherever possible, rather than the foundation on which private economic activity depends.

Markets require law. Property rights have to be defined and enforced, contracts have to be capable of being upheld, and disputes have to be resolved through courts that both parties trust. None of this happens spontaneously. It requires a state with the authority and the institutions to make and enforce law, and without it what we would have is not a free market but simple coercion, in which whoever has the most power takes what they want.

Markets require money. Every price is denominated in a currency that somebody has to create, and in the United Kingdom, as in every other country with its own currency, that somebody is the government. This is an area where modern monetary theory has done more than any other body of economic thought to correct the public understanding of how the state and the economy relate to one another. Government spending creates money, and taxation, rather than funding that spending in some mechanical sense, exists to manage inflation and to shape the distribution of income and wealth within society. A currency-issuing government does not need to behave like a household saving up before it can spend, because it is the government, through the central bank it owns, that creates the currency the rest of us use.

Markets require regulation. Left to themselves, markets tend towards monopoly rather than competition, because the natural incentive of any successful firm is to eliminate its rivals and then to extract a monopoly rent from its customers. It is regulation, imposed and enforced by the state, that prevents this outcome and keeps genuine competition alive. The same is true of financial markets, where accounting standards, audit requirements and disclosure rules, all creatures of state regulation, are what allow investors to trust the information they are given well enough to allocate capital at all.

Markets require participants who can afford to buy what is produced. This is something free market ideology consistently ignores. A market without customers able to pay is not a free market; it is an empty shop. Wages, employment rights, and a social security system that prevents people falling out of the economy altogether are not gifts handed down from a benevolent private sector. They are the product of law, collective bargaining and social security policy, all of which depend on state action, and without them there would not be enough purchasing power in the economy to sustain the level of private commercial activity that our current standard of living requires.

And markets require the state to think about the long term in a way that private capital, driven by quarterly results and shareholder expectations, structurally cannot. Energy infrastructure, transport networks, flood defences and the transition away from fossil fuels all require investment decisions with paybacks measured in decades, sometimes generations, and it is the state, not the market, that is capable of taking on that kind of horizon.

None of this is an argument against the private sector having a role. Private enterprise is very good at some things. It can innovate, it can respond quickly to changing consumer demand, and it can deliver efficiency in the production of goods and services where genuine competition exists. My point is a different one. It is that the private sector can only do any of this because the state has already built the conditions that make it possible, and pretending otherwise, as neoliberal politics has done for the past four and a half decades, produces bad economic policy because it starts from a false premise about how the economy works.

The neoliberal myth of the free market

Neoliberal economics, and the neoclassical economics from which it developed, rests on a set of assumptions about human behaviour and market structure that are, when examined honestly, absurd. It assumes that individuals are perfectly rational, that they possess perfect information, that markets tend naturally towards a stable equilibrium of maximum efficiency, and that competition is normally close to perfect, with new entrants able to challenge incumbents whenever a better product or a better idea comes along.

None of this describes the economy that any of us experience. We do not always make rational decisions. We very rarely have perfect information about the products we buy or the companies we work for. Markets in the real world are dominated by a small number of very large firms in sector after sector, from search engines to water companies to supermarkets, and the barriers facing any new entrant seeking to challenge them are often insurmountable. The theory that underpins the case for smaller government and deregulated markets is built on assumptions its own advocates would struggle to defend if pressed, and yet it continues to shape policy because it serves the interests of those who benefit from the current distribution of wealth and power.

The claim that free markets arise naturally, independent of the state, is perhaps the most persistent and the most damaging of these myths. Markets are not spontaneous phenomena that occur when government simply steps back. They are legal, institutional and political constructions, built and sustained by the state, and when the regulatory and legal infrastructure that supports them is removed, what results is not more freedom but monopoly, coercion and extraction. We saw this in the run-up to the 2008 financial crisis, when deregulated financial markets did not produce a more efficient allocation of capital but instead produced a systemic collapse that had to be rescued by exactly the state that neoliberal ideology insisted should stay out of the way. Nor did the underlying belief in the moral superiority of markets disappear afterwards. It has been repeated ever since, largely undisturbed by the evidence of its own failure.

What happens when the balance breaks down

Britain over the past four and a half decades provides a case study in what happens when the mixed economy is allowed to tip too far towards an unregulated private sector, encouraged by a state that has convinced itself its own role is to shrink rather than to govern well.

The privatisation of the railways, the water industry, and large parts of energy supply was carried out on the promise that private ownership would deliver efficiency, investment and better service than state ownership had managed. In practice, in case after case, what has resulted is fragmented and poorly co-ordinated provision, chronic underinvestment in long-term infrastructure, and the extraction of monopoly profits by shareholders and, in many cases, by overseas owners with little long-term interest in the health of the service they control. Water companies have loaded themselves with debt while paying out dividends and allowing sewage to be discharged into rivers and coastal waters. Rail franchises have collapsed so regularly that the government has repeatedly had to take one train operating company after another back into public control simply to keep services running at all. None of this reflects a private sector delivering what a private sector is supposedly good at. It reflects the predictable consequence of handing natural monopolies, which by definition cannot be subjected to real competition, to private owners whose incentive is to extract rent rather than to compete.

The public has noticed this, even where politicians have been slow to. Opinion polling for years has shown strong and consistent support, across age groups and well beyond the boundaries of any single political party, for returning water, energy and the railways to public ownership. That is not nostalgia for a bygone era of nationalised industry. It is a rational response to the observable failure of the specific model of privatisation that was pursued, and a recognition that some activities, because they are natural monopolies, are simply better run in the public interest than left to the pursuit of private profit.

At the same time, we should be equally wary of the opposite error, the belief, found at times on parts of the political left, that the answer is to eliminate the private sector altogether. I have never been persuaded by that position either. There is no serious political movement in this country, or in any comparable democracy, arguing for the abolition of private enterprise, and rightly so. Private firms can innovate, respond to changing demand and deliver efficient production of many goods and services in a way that a centrally planned state sector historically has struggled to match. The task is not to choose between state and market. It is to find, sector by sector, the mix that reflects what each is good at, and to have politicians willing to say so honestly instead of pretending that ideology alone can settle the question.

Answering the sceptics

There are objections to the argument I have set out here that deserve to be taken seriously, because they come from people who have thought carefully about these questions rather than from those simply repeating a slogan.

The first and most common objection is that talk of the mixed economy is just a cover for high tax, high spending government by another name, and that what I am proposing is a bigger state dressed up in more emollient language. I understand why this objection is made, but it misreads the argument. Recognising that markets depend upon the state for their existence is not the same as arguing for the state to expand without limit. The state's contribution I have described here, the legal system, the currency, the regulatory framework, the long-term investment in infrastructure, is not a matter of scale so much as of function. A state that performs these functions well can be entirely compatible with a vigorous and competitive private sector, and in fact the two depend upon each other precisely because each does what the other cannot. The question that matters is not how large the state should be in the abstract, but whether it is properly resourced and properly directed to do the things that only it can do, alongside a private sector that is properly regulated to prevent the abuse of monopoly power. That is a question of quality and of purpose, not simply of size.

The second objection, raised most forcefully by those who lived through the nationalised industries of the 1960s and 1970s, is that state ownership has already been tried and found wanting, that British Rail before privatisation, and other nationalised industries of that era, were characterised by underinvestment, poor management and industrial disputes that left services in a worse state than the sanitised nostalgia of some renationalisation campaigners now suggests.

There is real substance to this objection, and it should not be waved away. Nationalised industries in that period suffered from underinvestment imposed by a Treasury more interested in controlling public borrowing than in the long-term health of the industries concerned, and from a management culture that in some cases failed to modernise as quickly as it should have done. But the lesson to draw from that history is not that public ownership is inherently incapable of running services well. It is that public ownership, like private ownership, requires proper investment, competent management and a governance structure that gives those running the service the authority and the resources to do the job.

The comparison that matters is not public ownership in the 1970s against an imagined ideal of private provision, but public ownership done well, against the actual, observable record of privatised rail, water and energy companies over the past three decades. On that comparison, the case for a properly resourced and properly governed public alternative is a strong one.

The third objection is that emphasising the state's foundational role in markets risks understating genuine advantages that private enterprise brings, particularly around innovation, consumer choice and the discipline that competition imposes on costs and quality. This is a fair point, and nothing in the argument set out here denies it. Private firms competing for customers do have an incentive to innovate and to improve that a monopoly, public or private, does not automatically share. The argument is not that markets are without value. It is that markets can only deliver that value within a framework, of law, money, regulation and social security provision, that only the state can supply, and that pretending markets can do this unaided leads directly to the kind of monopoly abuse and short-termism we have seen in privatised utilities. Recognising the state's role is not an argument against competition. It is an argument for the conditions competition requires to function as its own advocates claim it should.

Conclusions

We live, and we will go on living, in a mixed economy. This is not a matter of political preference. It is a description of how every developed economy in the world works, and has worked for as long as any of us have been alive. The state provides the money, the law, the regulation and the long-term investment that make markets possible in the first place, while private enterprise delivers innovation, competition and the efficient production of goods and services within the framework the state creates. Neither can function without the other, and pretending that one could manage without the other has produced, over the past four and a half decades, a politics built on a fiction.

The consequence of that fiction has been real and damaging. Privatisation carried out on the promise that markets alone would deliver has left natural monopolies in the hands of owners extracting rent rather than investing for the long term. A political culture that treats the state as an obstacle to prosperity rather than its foundation has starved public services and public infrastructure of the investment they need, while doing nothing to constrain the genuine excesses of unregulated private power. And a rhetoric that insists we must choose between markets and the state has prevented the only conversation that matters, which is how the balance between the two should be struck, sector by sector, to serve the public rather than private extraction.

I do not believe the answer lies in abolishing the private sector, and I have never argued for that. Nor do I believe it lies in a return to an idealised version of nationalisation from half a century ago, uncritically applied. What I believe is that we need politicians prepared to say, honestly and without embarrassment, that the mixed economy is not a compromise to be apologised for but the only economic model that has ever worked, anywhere, and that our task is to manage the mix well rather than to pretend it does not exist. Until our politics catches up with that reality, we will keep making the same mistakes, handing natural monopolies to private extraction while starving the public investment that private enterprise itself depends upon, and calling the result, quite wrongly, the free market. It is time we stopped ignoring what is, in fact, right in front of us.

Reading list

Post

Date

What it covers

In praise of the mixed economy

9 March 2018

Introduces the cappuccino economy metaphor and the claim that almost everyone under 70 has always lived in a mixed economy.

The future of the mixed economy and fair markets is dependent upon tax justice

15 August 2017

Argues that cross-party consensus already accepts a mixed economy, and that fair markets depend on tax justice and regulation.

Keir Starmer needs to get up to speed on economics

13 January 2020

Sets out why declaring the free market model a failure need not mean hostility to the private sector, given the reality of the mixed economy.

The merits of a mixed economy

8 October 2020

Short video post stating plainly that political debate fails to reflect the reality of a mixed economy and the need to manage state and private relationships properly.

The cappuccino economy

9 May 2020

Develops the cappuccino metaphor further, with commentary on why politicians lack the barista skills needed to blend state and private activity well.

[We need a cappuccino economy]

29 January 2016

Early statement of belief in the mixed economy as compatible with tax justice, rejecting both market fundamentalism and state-only solutions.

[The cappuccino economy: a metaphor for our times]

11 February 2024

Restates the metaphor with emphasis on the interdependence of state and private sectors and the need for political leadership able to strike the right balance.

[A cappuccino is the perfect metaphor for the mixed economy]

6 September 2024

Video script extending the metaphor in detail, explaining why no economic activity happens without both government and private sector input.

[The mixed economy is vital, so why does no one talk about it?]

17 June 2025

Central source for the claim that mixed economies operated across most of the world from 1945 to 1980 and remain the norm everywhere despite political silence about them.

There are no free markets

1 January 2026

Sets out in detail why markets are legal and political constructions dependent on law, money, regulation and participants, not spontaneous or natural phenomena.

Free markets? Pull the other one....

30 June 2025

Argues that genuine free market conditions, such as no bailouts for failing firms, are never respected by those who invoke free market rhetoric.

Neoliberal economics is a work of fiction

6 May 2025

Examines the unrealistic assumptions of rational behaviour and perfect competition underlying neoclassical and neoliberal economics.

What I mean by political economy

20 October 2025

Explains that economics is a social and political practice rather than a neutral science, framing the case for seeing the mixed economy as a political choice.

Neoliberalism is the politics of destruction

16 February 2026

Describes how neoliberalism shrinks the state and transfers authority from

citizens to corporations through privatisation, outsourcing and financialisation.

Nationalisation would be cheap, easy, involve no cash payment and provide an immediate boost to the economy

30 November 2022

Uses the history of rail privatisation and the 1948 nationalisation precedent to argue that natural monopolies are better returned to public control.

Sometimes even the Tories have to admit that nationalisation is the answer

11 May 2023

Discusses a Conservative government being forced to take a failing rail franchise back into public ownership as evidence against privatisation dogma.

The public want nationalisation because nationalisation makes sense

1 October 2017

Analyses polling evidence showing sustained public support across age groups for returning water, energy and rail to public ownership.

Privatisation as the mechanism for dismantling the state

13 July 2015

Foundational argument that privatisation has functioned as a means of transferring state assets and revenue streams to private financial interests.

[Why the household analogy in economics is wrong]

11 August 2025

Explains the Modern Monetary Theory framework underpinning the claim that a currency issuing government is not financially constrained like a household.

[Economic questions: the Mariana Mazzucato question]

9 April 2026

Considers Mazzucato's argument that the state has always been central to creating markets and value, and what this implies for state investment policy.