

Why this economist thinks government intervention is a good thing

By Paul Waldie

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Mariana Mazzucato is part of a new wave of economists—passionate, outspoken and determined to make the case that governments have an important role to play in the economy. The Italian-born Mazzucato, who is a professor of the economics of innovation at the University of Sussex in England, has gained notoriety for her book *The Entrepreneurial State: Debunking Public vs. Private Sector Myths*, which argues that we enjoy the iPhone and many other such innovative products courtesy of early government funding. We met in a pub near her home in north London.

What is Canada doing right or wrong when it comes to research and development?

Canada is skewed in two ways. It over-relies on indirect incentives for companies through different types of tax credits. And Canada skews it in terms of sectoral composition. So the areas of expertise, especially in terms of innovation and R&D spending, are in very few sectors.¹ It's not distributed across the whole economy and it's too concentrated on the extractive area of the economy. And that would be fine as long as the profits generated from that area were being reinvested back into new potential opportunities of the future. But they're not. It's quite static and it's inertial.

Why don't tax breaks work?

In general, tax incentives tend to work only if they are complemented by direct policies which have already increased what Keynes called “animal spirits” in the business sector—actually getting them interested, excited, and having expectations about future growth opportunities in a particular area. Historically, every country from Israel to the U.S. to China has always been led by public investments which directly create a new landscape. The

business community reacts, gets interested. And then if you add some tax breaks, that will increase the marginal spending but it won't make them do what they wouldn't have done anyway. So that's [why we need] additionality, getting firms to do what they would not have done anyway. In countries like Canada, there is too much reliance on indirect tax breaks that just make the companies richer. The point of policy is not to increase profits, it's to increase investments.

What we have heard over the years is governments are not supposed to pick winners.

That's complete bullshit because that shouldn't be the question. Everything that is interesting has been picked. The example given in my book is every technology that makes our iPhone smart, and not idiotic, was picked. The Internet was picked, GPS was picked. Touch-screen display was picked by the CIA. Siri was picked by DARPA.² So the real question is, How did that picking occur? By “picking,” what I mean is active strategic decision-making on particular technologies, companies and sectors.

Can the government do that?

These cases have tended to occur, when they were successful, not because [people] were interested in that particular technology in and of itself. There was a mission. Going to the moon is what actually got us almost all of the technologies that we have. That was a very big problem which, when broken down into 400 problems, [produced] these technologies. Energy policy in Germany is not just about offshore wind or solar, it's about transforming the entire economy in a green direction to get zero carbon emissions.

Many governments are moving away from austerity and toward stimulating economic growth by spending on infrastructure projects. Is that the right approach?

This is not about the panacea of infrastructure. It's ridiculous if you think about it. All these smart, smart people in the IMF—once they finally admit that austerity was shit and it was very damaging, what's their solution? Infrastructure.³ These people have PhDs. Can they not come up with something more interesting than spend a bunch on bridges and roads?

What do you think about Brexit?

A massive, massive disaster. I just can't believe that the people who engineered it

haven't been put in prison. It's so obvious now that they were lying. Think of it: If Coca-Cola lied with advertising campaigns like that, they'd be in prison. All these civil servants are going to be spending decades unravelling something that was not the problem. The real problem in the U.K. is low productivity, very high inequality and a lack of serious planning around industrial and innovation policy. That had nothing to do with Europe. Brexit is just going to take away huge amounts of government resources that could have been spent thinking about what it really means to increase productivity. As well, it just really makes things complicated.

¹ Canada's spending on R&D as a percentage of gross domestic product has fallen steadily in recent years to 1.6%, below the OECD average of 2.3%.

² The Defense Advanced Research Projects Agency, or DARPA, was created by the U.S. government in 1958 in response to the Soviets' launch of Sputnik.

³ In its World Economic Outlook report in April, the International Monetary Fund said monetary policy was not sufficient to spur economic growth, and it called on governments to spend on infrastructure.