Booked: Valuing the world, with Mariana Mazzucato

By Kate Aronoff
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In her new book, economist Mariana Mazzucato explodes the myth that wealth is created solely by a select few trailblazing entrepreneurs, and lays out how our collective innovation can be put into the service of a more equal economy.

If someone's rich, does that mean they're productive? In her latest book, *The Value Of Everything: Making and Taking in the Global Economy*, economist Mariana Mazzucato, director of the Institute for Innovation and Public Purpose at University College London, unpacks a few hundred years of economic history to explode the myth that wealth is created solely by a small pack of trailblazing, billionaire entrepreneurs. Innovation, she argues, is a collective process. And as CEOs skim billions off of share buybacks, the people and institutions who help feed their profit margins—from blue-collar workers to public-sector researchers—may not be getting the credit and cash they deserve. Making a fairer and more equal economy in such a context will mean not just redistributing wealth, but reassessing who society's wealth creators really are. It's to that end that Mazzucato invokes Industrial Workers of the World founder Big Bill Haywood: "The barbarous gold barons do not find the gold, they do not mine the gold, they do not mill the gold, but by some weird alchemy all the gold belongs to them."

Building on arguments made in her 2013 book, *The Entrepreneurial State: Debunking Private vs. Public Sector Myths*, she makes the case that navigating out of some of the world's most pressing crises—from inequality to climate change—requires dissolving that alchemy, rethinking some of the assumptions baked into neoclassical economics and setting goals for the economy other than simply growing GDP.

Last month, *Dissent* editorial board member Kate Aronoff spoke with Mazzucato by phone about rents, Marx, Elon Musk, and more.

Kate Aronoff: To lay some groundwork for the book, can you briefly describe what you mean by rent-seeking? Who is doing this in 2018, and how have perceptions of rent-seeking—and what sorts of activities are considered productive and valuable—changed over time?

Mariana Mazzucato: I use the term rent extraction it in the way that classical economists like Adam Smith, David Ricardo, and Karl Marx do, as unearned income. That can take two forms. Either doing nothing but charging people for it—think of a troll under a bridge—or financial intermediation activities. Those don't often play a very important role, but, because the financial industry has grown, have actually come to outpace the rest of the economy in the US and the UK. They might provide short term finance, or literally just intermediation activities which potentially could be eliminated. But they're not necessarily improving the quality of the goods and services provided.

The other, easier way to explain rent-seeking is that there's a disproportion between what is being extracted and what is actually being done. One example would be the private equity industry and venture capitalists. VCs tend to come in long after others have taken early risks.

Profits are often the outcomes of collective activity. The state itself is often providing high-risk finance, and workers take on huge risks in companies by accepting lower wages

early on, thinking that they actually have a lifelong career that may or may not actually pan out. This kind of collective risk-taking process isn't reflected in the way that profits are shared. Profits are at record levels, but are distributed mainly to large shareholders and not to the stakeholders who created the wealth.

Aronoff: You talk a lot in the book about national accounts, and how these sort of screwed up notions of value find their way into them. Could you just lay out how these ideas get reflected in, say, GDP?

Mazzucato: Even before you had GDP, you always had politicians interested in trying to capture the degree to which a country is or is not growing, in quantitative measures. In the book, I show a table that I call the first spreadsheet ever, where the physiocrats are trying to understand the total output being produced. But they're also interested in the reproduction of the system. They lived in an agricultural society, where if the returns on the farm products being produced weren't then plowed back into producing more farm products then the economy would eventually dwindle. They argued that if the money started to be siphoned out through through value extraction—paying for wars or for the King's clothing—that would hurt the system.

And so you've always had this concern for how much value is being produced. What people focused on—whether that be farm labor or something else—reflected the time in which they lived. GDP, which is a relatively recent measure, has gone through different evolutions in terms of exactly what it includes.

Modern economic thought—which you can argue began at the end of the 1800s—introduced the very confused idea that the only things that are valuable are things that have a price. This is a huge revolution in economic thought, because in classical economics it was theories of value that determined price. In GDP we don't make any value judgements. We just say that what has a price must be valued and we have to capture that value, whether it's cars or services or the parts that are creating cars that have prices. We include that into our measurement, which creates all of these distortions.

If you marry your cleaner, for instance, GDP goes down because you were paying that person and then when you marry them they're still cleaning but you're not paying them. Pollution increases GDP because you have to pay people to clean it up. These kinds of problems are very well-known and we all teach them when we teach macroeconomics just to get students interested in this strange thing.

But the really basic problem with GDP is that by not making value judgements, we confuse rents with profits. If we don't know the difference between value creation and value extraction activities—the kind that are charging prices or earning fees, and hence are included in GDP—we risk passing off anything included in GDP as value creation. In the process we reward those activities, so it becomes sort of a feedback loop: because they're valuable, we consider them valuable and they will be valued by society so policymakers will try to increase those activities, and that then also increases those activities' share of GDP.

Aronoff: That's not exactly what you would hear in undergraduate macroeconomics courses. How does the economics discipline itself need to change to tell the story you lay out in the book?

Mazzucato: There is a whole movement in economics, led by students around the world, called Rethinking Economics. First off, there should be new curriculum. And it shouldn't just be more user-friendly. What's happening in many departments is that they're listening to students who are complaining that there's too much mathematics and saying, "Okay, fine, we'll reduce the mathematics and make this more relevant and interesting by talking about climate change, racism and poverty."

What I think would really be important would be to teach that there are different theories. The history of economic thought is not taught in most economics departments. They only read modern neoclassical economics.

That history should be taught as a history of alternative analytical paradigms. It's quite striking that if and when any alternative to the neoclassical tradition is taught, it's passed over as, well, this is what this guy thought and then this guy said that and then this happened—as opposed to there being different ways of analyzing an economic system that are equally rigorous.

Aronoff: Do you see yourself as coming out of a particular tradition in economics?

Mazzucato: I would say Schumpeter, Keynes, and a little bit of Marx. Schumpeter for his focus on innovation as a key driver of the economy and really understanding how it comes about. Keynes because of his emphasis on the important role of government. And Marx in his emphasis on distribution. The profit share is very high right now, and that means the profit to wage ratio is high, so the the wage share is low. Marx tried to link that to changes in the structure of production.

People often depict Marx as being super deterministic. Similarly to Schumpeter—who took a lot from Marx—Marx's real focus was on understanding capitalism, always with a focus on distribution, inequality, and the reproduction of the system.

Aronoff: Often when the left talks about economics there's a focus on redistribution and big, universal benefits—that social spending should be directed toward education, healthcare, and increasingly things like a federal job guarantee. Why do you think it's important to contest definitions of "productivity" and "investment" and "innovation," which to many on the left tend to sound like right-wing buzzwords?

Mazzucato: First of all, I believe the left has really lost its way in focusing too much on redistribution, and not enough on its own theory of value and of who the wealth creators are. Even Tony Blair—after the Labour Party and Ed Miliband lost the 2015 election in the UK—wrote an article saying that he thought they lost because they hadn't embraced the wealth creators. I just thought, my God, someone who led the Labour Party is calling only business the wealth-creators. If we don't have theories of wealth-creation, then the politics often becomes boring. It's much sexier to talk about how taxes are going to redistribute that wealth.

What I try to do is show how all that wealth that is often assumed to have been created by the famous entrepreneurs of Silicon Valley is an outcome of a deeply collective process. But the two things have to go together, because if you have an unstable system because of inequality it would also be hard to produce wealth because you'll have strife. But you'll also have people who are not reaching their potential because they're not well-paid or happy at work, and so can't be part of the innovation system.

That's why I think it's really important to have both a Keynesian and a Schumpeterian approach—the Schumpeterian focus on where innovation comes from and the Keynesian focus on how to distribute it, but not just to distribute it for the sake of it but also because that will ensure the income is better spent in the economy. The marginal income earned by a very rich person will probably just go into their golf course, as opposed to actually being spent on areas of the economy that could increase the multiplier effect.

Aronoff: Plenty of major companies today and their CEOs purport to have missions that serve the public. Facebook isn't just harvesting your data, it's connecting people. BP is "beyond petroleum." Is corporate social responsibility incompatible with modern corporate

structures, and the kind of incentives that financialization has introduced?

Mazzucato: When you look at corporate social responsibility (CSR) and things like social impact funds, some of the biggest social impact funds got money from hedge funds and private equity—a hugely extractive part of the economy. They put it in funds which try to do good. That's similar in companies. They might have a value chain that is problematic and engaging in things like share buybacks, but then put money in some sort of charitable giving pot. That's not a good way to get companies to do good. I think it's much more powerful if it's done through the value chain, and an attention to how they distribute that value amongst those that actually created it collectively. That requires a much more stakeholder-focused governance model rather than one that maximizes shareholder value.

Labor, government, and companies will all be at the table and they will together decide how to govern the investments of the company, maybe in new training or in new types of factory equipment that will actually increase the growth of the company which will later be redistributed in the form of higher wages. That's very different than the shareholder value maximization model, which completely dismisses the fact that there is a collective group of risk-takers. That model assumes that the shareholders are the biggest risk takers.

Government takes risks. Workers take risks. So no, I don't believe that CSR is the way. You can have a functional value chain where you are paying your workers well and distributing rewards in ways that aren't just increasing your profits. If on top of that you also put your profits to good use, that's fantastic. But unfortunately CSR tends to appear to be an excuse for continuing on the status quo in terms of how value is created.

Aronoff: You talk a lot about the power of the state in shaping markets. What does the idea that the government should only intervene to tweak markets get wrong?

Mazzucato: How we talk about governments and markets is very problematic. In traditional economic theory, governments are just fixing market failures. And I talk about governments—if they're actually well organized—as different types of public institutions in society. I see them as co-creators of wealth. They co-create and co-shape markets, not just fix them. Regulation is even a problematic phrase, because it sounds like the market is just there and created by others, and the government is just there to regulate it and make it a bit more stable. Redefining markets is central to what I believe we should be doing, and that leads to very different types of policy.

Aronoff: Are there any places where you think the private sector simply shouldn't play a role? What's the balance?

Mazzucato: There are two issues. Whether it's public or private ownership, a key problem is how public and private meet, right? So in the UK—take the railways. Forget for a minute whether they should be public or privately owned. If you are going to privatize them, you better get the contract right. In exchange for what he got in the contract to buy the public railway system, [Virgin CEO] Richard Branson—who bought the rails—should have been forced to promise that he would invest in the rail system and make it more efficient and more green. Whether it's water or energy, companies should be made to invest profits in, for example, renewable energy, but also in methods that will improve the product itself and the value to the consumer. In the drive for outsourcing and privatization, these contracts have been written problematically.

Then the question is, should some areas be fully public? Well sure, those areas which are absolutely fundamental. I believe medicine is one of them. Essential medicine like vaccines are a human right. It's very hard to apply the

profit model there. Instead of companies just trying to charge a lot of money in order to recoup their cost, you could have the government set a prize for any company that wants to come in and produce this drug that will solve a certain disease, and lay out the metrics for evaluating whether that drug is what we're looking for. That's in fact how the government has often funded the military, where there's always been a very strong sense of what role the government needed to play in order to go to war even as they got private companies to create bombers or tanks.

I think the old debates of privatization or nationalization give us an excuse not to ask the more difficult questions, which have to do with these contracts. It doesn't mean that some areas might be nationalized or some fully privatized, but it's really how that happens that matters.

Aronoff: You lay out the development of how the private came to be seen as good and the public came to be seen as bad. On the left, there's kind of an inverse of that sometimes—where public is good and private is bad…

Mazzucato: Exactly. In the UK, the current debate coming out of Corbyn's team is precisely that we need to nationalize everything. Things have gone wrong, so he thinks the solution is nationalization because government is good. Well, really? There have been many cases of government not investing properly, not being managed properly, and not being able to bring in top experts. So it all depends.

What really matters in both the public and private sectors is internal governance. Precisely because the private sector is respected as a value creator, questions about how to create value, be innovative, and restructure internally so you can take risks long-term are debated more. Business schools, I would argue, exist because we've admitted that business creates value, and so they have things like strategic management classes, decision sciences, and organizational behavior, which are all about getting managers to think outside of the box and worry about becoming too bureaucratic.

We might think the public sector is bureaucratic but it doesn't have to be. Some bureaucracies have been quite creative and able to think outside of the box. You only get that if you believe in the public sector, so there's been a self-fulfilling prophecy: we don't believe in it but we also don't make it more interesting. We don't question it. So we become lazy, and say "public good, private bad." Well, "public" can be quite bad if it becomes slow, inertial, and easily captured by different political forces.

Aronoff: It's not a monolith, either. In the United States, a lot of important innovations have come from the military. What does an approach to innovation policy look like that doesn't orbit around defense? How can it be really democratic?

Mazzucato: What's interesting is that the U.S. has bodies like the National Institutes of Health (NIH) in health and ARPA-E in energy, so it's not just the military. But they don't actually apply a mission-oriented approach to health or energy. In the military, DARPA was part of a mission-oriented approach and lined up with procurement policy that was all about getting certain types of solutions to a problem. With the NIH, the actual mission of what it is that the government wants the NIH to help solve—which would include Medicare and Medicaid on the demand side—has been much more dispersed. That's exactly why there's this dysfunction where pharmaceutical firms can charge extremely high prices for drugs that were publicly funded by the NIH. The military would never do that. They get things downstream to reflect the public contribution.

Today you need to talk about climate change, which has a concrete goal of bringing down emissions.

So you can devise missions that are decidedly relevant, bold and ambitious, but in social areas—whether it's around providing care to the aging or around climate change. A carbon-neutral city will require innovation in mobility, nutrition, and how we build houses—all sorts of different areas. At the bottom of that are questions about how to transform government instruments—whether it's equity, grants, state banks, loans, tax credits, or prizes—in ways that really crowd in different solutions.

We know that innovation is driven by experimentation. And so if you just say this is the mission and this is how you're going to do it, in a very top down way, that's going to create a very static system that won't survive. That was the Soviet way, which didn't work. I say pick the willing, not the winners.

Aronoff: I'm wondering what you see as the right role for someone like Elon Musk.

Mazzucato: Or Steve Jobs. They are very important. It's not that they're not important. So, Steve Jobs, for instance, was very important in putting together existing government-funded technology in new ways. Everything that's in your iPhone—from the internet and the touch screen—was publicly financed, and he put it together using complex design and took calligraphy classes. That story is well known.

The problem is that in the book on Steve Jobs, there's not one page, one paragraph, one sentence, one little word, on the public investments that went into making Apple successful. It's similar with Elon Musk. He got $5 billion—that's a lot of money, nine zeros—from the U.S. government. But you don't hear that in his public statements.

He is much less radical about this than Peter Thiel, who wanted entrepreneurs in Silicon Valley to secede off the coast of California so they didn't have to pay taxes. But Elon Musk has fallen prey—as others in that part of the world have—to pretending that government is just there to do basic stuff and then they're the *real* entrepreneurs. In reality, so many of the risks taken in his different areas—space with SpaceX and energy, with SolarCity and Tesla—were actually taken on by an entrepreneurial investor: the government.

That's not so much to criticize Musk as to criticize the government for being naive. If you're going to give Tesla a $465 million guaranteed loan—which is just a bit less than they gave Solyndra—why should taxpayers come in to save Solyndra because the loan was guaranteed, and not get a share of Tesla's rewards from the same loan? If government is going to be an active innovator and co-creator of value, then why not really set those investments up as a proper portfolio? No venture capitalists would think of doing what the government does, which is just to take on the downsides without getting a share of the upsides. Getting a share of the upside isn't just to line the pockets of bureaucrats. Any VC guy will tell you that it's inevitable to fail along the way to success, and you have to be able to fund both.

You also have to rely less on taxpayer money. When the government does fight a war, they don't rely on taxpayer money. They just print money and go to war. You can create money. Now, you don't want to do it endlessly and get inflation, but government has all sorts of levers it can use when it cares about something. When it does care—say, about winning a war—it gets smart about that issue, but not when it comes to more social issues.