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The Value of Everything: Making and Taking in the Global Economy

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The Value of Everything: Making and Taking in the Global Economy by Mariana Mazzucato (2018). Penguin London, UK: Random House UK. 358 pp. ($24.99 hardcover).

The Value of Everything: Making and Taking in the Global Economy challenges the prevailing mainstream neo-classical school of economic thought that perpetuates a system that has exacerbated the wealth and income gaps between those that make and those who take. Mariana Mazzucato takes aim at the stars of free market capitalism and exposes the formal and informal accommodations that permit a few to control wealth created by the many. The two underlying themes that sew together this story are not unfamiliar. First, how value is conceived and measured matters. Second, the perception that government only extracts value is mistaken; Mazzucato argues that government can and has contributed to creating value.

The book opens with a fitting epigraph, "The barbarous gold barons – they did not find the gold, they did not mine the gold, they did not mill the gold, but by some weird alchemy all the gold belongs to them." (p. 1) The epigraph is attributed to "Big" Bill Haywood, one of the founders of Industrial Workers of the World (IWW), a.k.a. the Wobblies. The IWW was a radical organization advocating socialist beliefs during the first decades of the 21st century. In an effort to promote workers as a single class, the IWW sought to combine industrial worker with tradesmen. The essence of Mazzucato's book is that the weird alchemy that baffled Haywood persists more than a century later and extends far beyond the barbarous gold barons.

The opening chapters of the book introduce and frame the argument. The first chapter presents the treatment of value in the history of economic thought. The concept of value is examined through the lenses of Mercantilism, Physiocracy, and Classical Economics. Mazzucato presents extended review of all three schools of economic thought culminating with the Theory of Value espoused by the Classical school. A thoughtful presentation of Marx's challenge to capitalism based on exploitation of labor illustrates a longstanding concern with value extraction by the few despite creation of value by the many.

Chapter 2 examines the implications of the emergence of the Marginalists and the assent of Neoclassical economics as the prevailing school of economic thought. Mazzucato argues that the transition from objective economic theories of value to subjective theories of value undermines the traditional analysis of rents noting that rent under the Classical paradigm reflected income from "nonproduced assets" (p. 73) like patents and licenses that grant monopoly power to owners. In contrast, the Neoclassical school models income in terms of productivity, so the Classical concept of rent is rejected by the Neoclassical formulation because, in effect, "there is no space for rents, in the sense of people getting something for nothing" (p. 73). The distinction is noteworthy as price and income emerge as the unquestioned measures of value.

Chapter 3 examines measurement of national wealth. The chapter opens with an epigram from *Mismeasuring Our Lives* by Stiglitz, Sen and Fitoussi (2010), "What we measure affects what we do; and if our measurements are flawed, decisions may be distorted." (p. 75). Stiglitz, Sen and Fitoussi embrace and then extend the adage that what gets measured gets done. They imply that futile policy is ill-conceived, at least in part, due to the ineffective measurement of GDP. In later chapters, Mazzucato examines in detail how the financial sector is accounted in the measurement of GDP and the deleterious implications of the elevated treatment.

Gross Domestic Product (GDP) was developed as a measure of economic production. Measuring GDP required rules to determine what to include and exclude from the calculation. A convenient example of the challenge considers how expenditures to correct the adverse environmental impact of production contribute positively to GDP as a measure of output. Similarly, the health expenditures associated with smoking cigarettes contribute positively to GDP through outlays to treat cancer, heart disease and related respiratory ailments. Despite these obvious absurdities and more specific to the argument of Mazzucato, the calculation of GDP relies on market prices. The implication is that non-market activity is omitted and market prices distort the traditional concept of value. Her greater concern questions the relegation of government solely as a consumer of economic output. Government expenditure appears in the Expenditure Approach to calculating GDP, but government is excluded from the Income Approach to calculating GDP. While wages and interest accrue to workers and capital, respectively, reflecting contributions to production; there is no accounting of the role of government as a producer or creator of value. The implication of the omission, Mazzucato contends, is a persistent perception that government does not create but merely extracts value.

The opening chapters of the text effectively establish the tone for the remainder of the book in which Mazzucato supports her thesis. Chapter 4 begins with a lucid discussion of the challenges and inconsistencies associated with national accounting to measure the contribution of the financial sector. However, the thrust of the chapter examines the role of deregulation in elevating the financial sector from financial intermediary to acknowledged value creator. This transformation in perception is contrasted with the criticisms leveled by Keynes and Minsky, who both warned of threats to the economy of an unregulated financial sector. Mazzucato describes the monopoly power exhibited by banks in their ability to create money through extending credit. Moreover, she demonstrates how derivatives and securitization facilitated trading for profit without creating anything of value. This chapter concludes with an introduction to the emergence of shadow banking and the relationship between debt and income inequality.

Given the orientation of the author and the review of the history of economic thought, this reviewer anticipated discussion of the writings of Thorstein Veblen that never came. Inclusion of Veblen's discussion of finance and credit would inform the century-long evolution of the dominant role of finance in economic affairs and the collective psyche that culminated with the global financial crisis of the early twenty-first century. The chapter does not suffer from the omission. Inclusion would, however, lend support to the argument by revealing the long history of observation of financial manipulation devoid of value creation. Perhaps more importantly, Veblen provides a narrative of the transition from a production orientation traditionally associated with "captains of industry" to the financial mindset of the subsequent "businessmen" centered in midst of the industrial revolution of the late nineteenth century and early twentieth century.[1]

Similarly, the discussion of value seems too generous to the mainstream approach to assessing value. Certainly, the author must agree that some consumption delivers little value despite payment of a price by buyers. The idea of wasteful ("conspicuous") consumption dates back to Veblen (1899).[2] One-half century ago, Dr. Seuss introduced us to the *Thneed*, "a fine something that all people need!" (p. 24)[3] The entrepreneurial Onceler wreaks havoc on the Edenic landscape to produce *Thneeds* simply because people will pay something. There is, of course, only a fleeting relationship between the price and value of a product. If the price is "too" low or "too" high the

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[1] *Veblen, Thorstein (1904). The Theory of the Business Enterprise. New Brunswick, New Jersey: Transaction Books.*

[2] Veblen, Thorstein (1899). The Theory of the Leisure Class. New York, NY: Penguin Books.

[3] Dr. Seuss (1971). *The Lorax*, Random House.

value varies based on the number of units sold. Is a drug less valuable because the patent expires and generic alternatives sold at a lower price allow more people to benefit from the drug? Do premium priced products such as automobiles and clothing represent more value simply because the buyers of these products have an abundance of income or access to credit? It would seem that a basic car and simple clothing deliver more value to persons lacking access to reliable transportation or suitable attire than an additional car or pair shoes provides an individual in possession of many. The measured criticism of the author seems calculated, perhaps in an effort to gain acceptance of her book from a broader segment of the market.

In chapter 5, Mazzucato explains how the oligopolistic financial sector extracts value via fees consistent with entrenched monopoly power. She extends the presentation by noting how the financial sector, notably investment banks and commercial banks, benefits without incurring much risk. Indeed, these financial players do not participate in risk taking associated with research and development or product development. Rather, investment banks only engage the risk takers once financial success is imminent. While participating in initial public offerings, investment banks extract value at the very moment the risk takers get rewarded.

Chapter 6 shifts the focus away from the financial sector to traditional corporations formerly dedicated to production of goods. Readers are likely aware of the importance of financing in the auto industry and the significant contribution of GE Capital to the financial performance of the parent company. As expected, Mazzucato laments focus on short run results at the expense of the long run. As part of this discussion, she cites research quantifying the magnitude of corporate purchases of company shares and considers implications of the financial strategy that employs profit to purchase shares rather than to invest. Here the book would benefit from an historical review of the emergence of finance and economic decline. Long before the practice of stock buybacks, mid-eighteenth century Holland and early twentieth century Britain witnessed declining manufacturing and the ascendency of finance. As Veblen noted a similar transition has been underway in the US since the late nineteenth century. Wolman and Colamosca (1997) revisit this history and declare that "industrial capitalism has been replaced with finance capitalism."[4] (p. 143) As expected, the chapter concludes with an appeal to transition from a shareholder orientation to a stakeholder orientation that includes more equitable participation of workers in the distribution of the monetary rewards of the corporation. Among the benefits of a stakeholder focus is an expected decline in income inequality.

In perhaps the most provocative chapter, Mazzucato addresses the concept of the innovation economy that celebrates and more importantly rewards individual entrepreneurs. The thesis is familiar: innovation does not emerge from a vacuum, but rather is the result of the effort and investment of many. In support of this contention, Mazzucato distinguishes cumulative and collective innovation. Cumulative innovation refers to the incremental contributions of predecessors whose discoveries ultimately culminate in an innovation; while collective innovation refers to the societal contribution underlying innovation. To illustrate collective innovation, Mazzucato argues that government funding of basic research and provision of essential financing have contributed to the infrastructure underlying the success of firms in the celebrated technology sector. Moreover, the government often incurs the risks that firms are unwilling to tolerate. Despite the significant role of government, the public seldom receives access to the innovation at little to no cost. Indeed, consumers often face monopoly pricing due to network effects of the

[4] William Wolman and Anne Colamosca (1997). *The Judas Economy*. Basic Books.

product and patents granted by the government. The consequence is that a relative small group of financial interests and founding executives derive the benefit at the expense of the people that the government serves.

Mazzucato questions why it is that tax payers who foot the bill and bear the risk are not entitled to compensation or any benefit. Why do users have to pay to access the Internet that exists due to government investment? Moreover, why are pharmaceutical firms afforded patents for drugs that the firm did not develop? In the end, Mazzucato argues that the distribution of risks and rewards is distorted in favor of the few and at the expense of the many. She concludes the chapter with a compelling outline of the public discourse needed to affect meaningful change. She emphasizes the importance of discussing the rate and direction of innovation. As part of this proposal, Mazzucato argues that patents need to be viewed as incentives to innovate where innovation is desired rather than as rights to limit production and innovation. The implications for public policy are extensive.

In 1950, K. W. Kapp published *The Social Cost of Private Enterprise* in which he introduces the concept of *Social Costs*.[5] Kapp challenges the idea that competition leads to socially efficient allocations of resources. Rather, he argues that competition promotes pursuit of profit by shifting cost to society. Swaney and Evers (1989) assert that Kapp distinguishes social costs from externalities by noting that *externality* implies that the third party cost is exceptional rather and incidental rather intrinsic and systemic.[6] Mazzucato engages *social costs* at various times in the book and ought to mention the contribution of Kapp, especially after distinguishing *cumulative* and *collective* innovation and lamenting, rightly so, that behavior of (technology) firms that reap where they do not sow.

The penultimate chapter addresses the undervaluing of government as a creator of value. In this chapter, Mazzucato contends that for too long government has been viewed, at best, as a facilitator of market activities and, at worst, as a drain on resources. She further contends that the psyche of government workers has adopted this perspective. The consequence is, of course, that government workers do not seek to innovate or to create but rather choose only to exist out at great cost (foregone opportunity) to society. Neither depiction is easily reconciled with the purpose and benefits of bureaucracy articulated by Max Weber[7] or the observed capture of the administrative and legislative capacity of government by commercial and financial interests. Here again, however, Mazzucato evokes Keynes, whose idea that government policy can reduce the depth and duration of economic recession embodies the role of government as a facilitator rather than as a creator. Keynes, of course, argued for more than only counter-cyclical fiscal and monetary policy. He advocated for government involvement in industrial planning and income redistribution. Nearly one century later, only the counter-cyclical policies persist, although government redistributes income to some degree. Indeed, for nearly half the twentieth century, the UK and USA governments moved further away from involvement in economic affairs by outsourcing services once the domain of government. In sum, the attitude that private sector production is preferred to public sector production is fully integrated into the psyches market-based societies.

[5] K. W. Kapp (1971). *The Social Costs of Private Enterprise*. New York, NY: Schocken Books.

[6] James Swaney and Martin A. Evers (1989). “The social cost concepts of K. William Kapp and Karl Polanyi,” *Journal of Economic Issues*, 23(1): 7-33.

[7] Max Weber (2013), *Economy and Society* eds. Guenther Roth and Claus Wittich. Berkeley, CA: University of California Press.

Reimagining and recognizing government as a creator of value rather than simply a provider of public goods is the great challenge.

Mazzucato's argument that government can be an active contributor to economic well-being is not foreign to readers. Her perspective is shared by many. The author does not break new ground, but she does a very good job advocating for a larger role of government as an economic actor. Her contention that government can create value is reasonable. Unfortunately, the book seems to ignore why government is not viewed as a creator of value and why government is perceived to be an extractor of value from those who produce it. Indeed, the same short run focus of firms that she admonishes is similarly present in democratic politics. To secure re-election, politicians are not inclined to favor long-term public investment over projects with more immediate payouts to constituents. While she presents examples of government success, she does not explain why or how the perception of government persists.

At a press conference near Chicago in 1986, Ronald Reagan now famously stated, "I think you all know that I've always felt the nine most terrifying words in the English language are: I'm from the Government, and I'm here to help."[8] Mazzucato not so innocently observes the decline in confidence with government in the latter half of the twentieth century. The reader will immediately concluded that perception of government changed in the US with the election of Ronald Reagan and in the UK with the election of Margaret Thatcher. That these two politicians could rise to office and affect change must be due to some dissatisfaction experienced by the voting public. Any analysis of the shift to the political right in these countries must consider the domestic economic conditions of the times. In both the USA and the UK foreign competition and inflation were impacting working families. Government was not seen to be helping but rather contributing to the problems. Reagan and Thatcher captured the psyche of their respective electorates by challenging and then reducing government as the source of security, all the while reasserting the necessity of individualism.

The pendulum would swing the other way with the election of Bill Clinton and the assent of Tony Blair. Clinton openly challenged the Reagan perspective and embraced the idea that government can be part of the solution to problems. Alas one of the most ambitious initiatives of the Clinton administration was promotion of a public-private partnership to increase home ownership.[9] The seeds of the crisis that would threaten the financial stability of nations around the world were planted. The devastating effects of the financial crisis and the subsequent recession would once again inspire cries for increased government involvement, particularly in the form of regulation. However, it might be noted that regulation is difficult when the government is a "partner" in the venture.

Mazzucato embraces the potential of government and presents numerous opportunities for government to positively impact value creation through more effective regulation, tax and patent policy. One glaring omission was a proposal to prohibit political appointees or high level bureaucrats from joining firms or industry groups they once regulated. When government is captured by industries, the effective regulation is less likely to serve the intended purpose. Similarly, Mazzucato omits any discussion of what government can do and cannot do well. Unlike firms motivated by survival and profit, government has little external pressure to evolve or to

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[8] https://www.reaganfoundation.org/media/128648/newsconference2.pdf. Accessed July 12, 2021.

[9] https://www.washingtonpost.com/archive/politics/1995/06/06/clinton-pushes-homeownership-strategy/f256ec84-dbf2-4a2d-b487-2882fa157da3/

change. Given the inertia of government, what can it do to promote the creation of value beyond tax and regulatory policy? In the end, the author makes compelling arguments; however, the book is incomplete. There is insufficient explanation of how the situation has come to be as it is or how to achieve the author's desired outcomes. Unless we know why and how we arrived where we are, it is difficult to understand why the situation must change and what the change ought to be. These omissions ought not dissuade any reader from this decidedly thoughtful and purposeful scholarship.