



Book

A call to arms to change capitalism

In *Mission Economy: A Moonshot Guide to Changing Capitalism*, Mariana Mazzucato captures the post-pandemic zeitgeist: science has hopefully conquered COVID-19, and government had a central role in the victory—from investments in basic science that enabled the rapid genomic characterisation of SARS-CoV-2 and the development of COVID-19 vaccines, to contributing to the financing of the mass production and deployment of the vaccines. Now, many countries are in the process of starting to plan for pandemic recovery. In the USA, for example, the administration of President Joe Biden aims to redress huge and long-standing deficits in infrastructure, reduce childhood poverty by an estimated 50%, and aggressively move forward with the green transition.

Mazzucato, a leading progressive thinker, applauds government taking a more active role so that it can address key challenges such as climate change and pandemics. In *Mission Economy* she argues that government success, and societal progress more generally, requires a commitment so strong it's like a moonshot—or many moonshots. And chief among the moonshots is to change capitalism itself.

The term moonshot evokes a once-outlandish ambition—putting somebody on the moon. Yet in a remarkably short time after making that commitment, the USA did just that. Mazzucato sees the Apollo missions in the late 1960s not only as a metaphor that urges us to increase our ambitions, but also as a guide to how we as a society might achieve the other moonshots we need here on Earth. As in her earlier deservedly influential book, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths*, Mazzucato argues that government has a much bigger role to play than just tweaking the economy here and there, preventing abuses of monopoly

power, regulating finance, or curtailing pollution. The state has a crucial role in promoting innovation—indeed, she attributes a large fraction of the key innovations to government. One only needs to think of the part government played in developing the internet and funding so much of modern medicine to appreciate what it has done.

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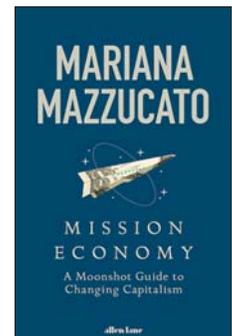
In *Mission Economy* Mazzucato reminds us of the government's continuing role in innovation, citing, for instance, its investment in Tesla, which has become one of the most valuable automobile companies in the world. This is true too elsewhere in the world. Mazzucato cites the role of the South Korean Government in developing high-definition technology, and the UK Government's role in that country's position in the aerospace industry.

This view of the positive role of government to solve global challenges even within our capitalist society is part of a long tradition, especially

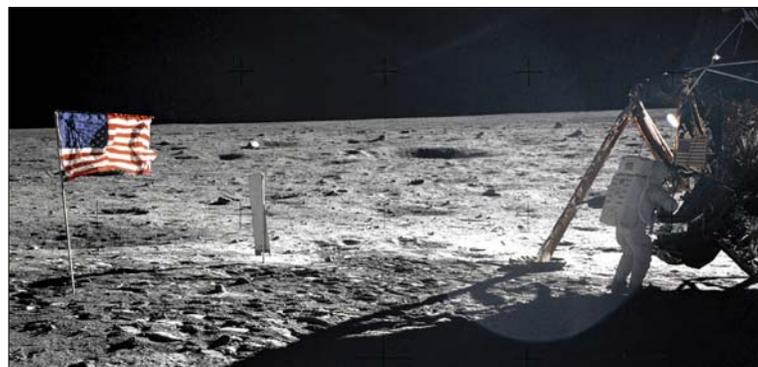
in developmental economics. From Alice Amsden's early work on South Korea and Robert Wade's on Taiwan, to the World Bank's study on the East Asian Miracle, scholars have focused their attention on the central role of government in development—the developmental state. Similarly, scholars such as Richard Nelson, Christopher Freeman, and Bengt-Åke Lundvall, in their discussion of national innovation systems, have emphasised the key role of government.

Given her belief in the state's crucial role in driving science and innovation, it is understandable that Mazzucato should disparage much of mainstream economics, which gives primacy to markets and keeps the role of government to a minimum. Such mainstream economics embraces the view that government shouldn't be picking winners. That approach ignores the leadership role of the government in helping shape public purpose, and even its pivotal contributions in support of development and science and creating an inclusive society.

Of course, critics of government point to the instances in which government has backed losers. But these critics, not surprisingly, ignore the many failures in the private sector. Indeed, in the private sector such failures are praised as evidence of risk-taking—nothing ventured, nothing gained. But exactly



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the same argument applies to the public sector: if there were no failures, it would imply that the government was not taking sufficient risk. What matters is the average return, and in research and development (R&D), a few big successes like the development of the internet and the discovery of DNA can make up for a lot of failures. The average return on government R&D is in fact far, far higher than returns on private investments. As Mazzucato points out, government has often (as in the case of Tesla) not been smart about ensuring that it appropriates for itself and the public the full upside, but that's a very different matter from picking winners. In a particularly inspiring passage in the book, she writes:

“What if government, instead of being viewed as cumbersome while the private sector takes the risks, bears the greatest level of uncertainty and reforms its internal organization to take such risks? Imagine the transformation: from a bureaucratic top-down administration to a goal-oriented stimulator of new ideas from the ground up. Imagine government transformed across the board, from how procurement operates, to how research grants are made, to how public loans are structured and costs and budgeting are understood—all to fulfill public purpose. If we could think and act in this way, we could realize a new vision for sustainable cities or inspire business investment in the social infrastructure and health-care innovations required for a new understanding of well-being, or tackle the greatest challenges of our time such as climate change and health pandemics.”

Having been in government and advised governments, this is a vision that I've seen before. The challenge is to bring it about. Just willing or wishing it—or clearly articulating it—is not enough. There are political and economic forces at play, and without tackling them, it will be hard to realise this vision. It might, for instance, have been helpful if Mazzucato had more fully explained why we need government in the arena of innovation.

Producing knowledge is very different from producing steel: there are important benefits to society that accrue from research and innovation that are not appropriated by researchers and those who finance them. Consequently, as the great economist Kenneth Arrow showed almost 60 years ago, markets are not efficient in either the production or use of knowledge. The failures relate both to the levels of investment and the direction of research—we need more research on saving the planet and less on trying to replace unskilled labour.

Still, in a complex 21st-century economy, government can't do everything. Mazzucato recognises this and discusses, for example, partnerships between the private and public sectors. But it is essential to know why and when we can't rely on markets if we are to put markets and government in their proper places, and, for me, Mazzucato is not sufficiently attentive to the body of economic research devoted to these questions. Nor does she seem to fully appreciate how hard it is to make public-private partnerships work effectively: too often, they involve the private sector taking the profits and the public sector bearing the losses. As she herself observes in the book, the US Government took the losses in its investment in Solyndra, but didn't get the upside on Tesla. Designing good contracts in the presence of deep uncertainties is hard enough; but the battle between the corporate and public sectors, with a legion of highly paid corporate lawyers trying to outsmart understaffed and underpaid government lawyers, is an unfair one. It would be nice if business was dedicated to public purpose, but that's not the nature of capitalism. It's easier to reform their rhetoric than their practice. Of course, today they proclaim their good citizenship, and when it doesn't cost too much, they may even behave well.

Mazzucato largely overlooks the hard choices society necessarily has to face. Economics is supposed to be the science of scarcity. Disconcertingly at times, she does not seem to recognise

that resources are limited and we have to make these hard choices. True, too often during the past 40 years, during the era of neoliberalism, the economy has been run in ways in which scarce resources—most importantly labour—are far from fully employed. Even capital often seems to have been underutilised, with Ben Bernanke, former Chair of the Federal Reserve, talking in 2005 about a savings glut.

But that era may be coming to an end, at least in the USA. That's been made clear by the country's massive spending in response to COVID-19, some 25% of gross domestic product, to be followed—if the politics work—with trillions of dollars more for infrastructure, creating a green economy, R&D, and tackling poverty. Labour markets are likely to tighten and interest rates might well rise. Even if in the long run this spending is for productive investments—eventually increasing supply—resources now are limited. Should we spend more of our limited resources putting people back on the moon (as the USA is now preparing to do) or should we try to eliminate childhood poverty? Should we ensure that all our citizens have adequate nutrition and access to health care? As a society, we have to balance current consumption versus future consumption—how much to invest; and we have to balance what is done within the various sectors of the economy. Whatever that decision, the public sector will have limited resources. It can't do everything. It will have to make choices, some of them unpleasant. Like it or not, once we get to full resource use, a dollar spent now putting another person on the moon is a dollar not spent on these vital needs.

Mazzucato castigates the debate some 60 years ago when some argued that resources spent sending a man to the moon might have been better spent in other ways, including fighting poverty. It seems as if she believes that if we had only had the will, we could have been successful in both moonshots. As it was, we did succeed in putting a man on the moon; poverty, however,

is still with us. Whether spending more money or having a better-managed programme along the lines of the moonshot would have ended poverty can be debated. I believe more money, even with an imperfect programme, would have made a difference. I may be among those with the narrow vision that Mazzucato criticises. When I was in the Clinton administration, I was not convinced that the space programme was the best use of our scarce dollars.

Mission Economy is, above all, about setting public aspirations higher. 40 years of denigrating the role of government in the USA and Europe has not only undermined the capacity of government, it has also undermined what we expect of government and society. We, as a society, will do better if we set higher goals for ourselves. Mazzucato inspires optimism about the ability to prioritise public purpose in national and global economies. But it is not enough. It is one thing—and a big thing—to solve complicated technical problems, such as how to put a man on the moon. It's quite another to solve complex social and political problems, especially in a society in which there is neither agreement about how society and the economy function nor what makes for a good society. Mazzucato, of course, recognises this. 44 years ago, Richard Nelson, in his book *The Moon and the Ghetto*, asked precisely this question: why is it possible to put a man on the moon and not solve the hard social problems our society faces? But the impediments are as great today as they were then.

Take what should be a no-brainer: how to ensure that everyone in the world has equitable access to COVID-19 vaccines. Low-income and middle-income countries (LMICs) are facing massive shortages. The International Chamber of Commerce projected losses of US\$9.2 trillion, as much as half borne by rich nations, if LMICs do not get access to vaccines. By early April, 2021, more than 38 million doses had gone to more than 100 economies. This may sound like a lot until one sees that the USA administers

somewhere between 2 million and 3 million doses daily. And there is the risk of SARS-CoV-2 variants, some of which are more virulent and have created some uncertainty about the efficacy of COVID-19 vaccines against them. Globally, there is a COVID-19 vaccine shortage and most vaccine doses are going to the rich countries. Clearly, it should be possible to ramp up production, but one of the main barriers is intellectual property rights. If the World Trade Organization (WTO) waived these rights, it could make an enormous difference. Yet some high-income countries long resisted initiatives at the WTO supported by more than 100 countries to waive intellectual property rights. It took a truly concerted global campaign to get meaningful negotiations on the waiver to even begin. The fact that President Biden's administration now backs the initiation of discussions on a temporary waiver suggests that there may be victory in this "moonshot". But the playbook is very different from the earlier achievement in the voyage to the moon—and we are not assured of success.

That short-sighted corporations focused on the bottom line are willing to sacrifice so many lives to increase profits shows there's a lot to do to create capitalism with a human face. That it is so hard to make quick progress on what should be a relatively uncomplicated problem underscores that changing capitalism is far more difficult than putting someone on the moon. Changing capitalism—like so many of the other moonshots our society should aim for—requires more than just aspiration. We know that corporations should think more long term, they should focus on more than just short-term profits, and they should do a better job of managing risk. But changing their behaviour entails more than telling them what they should do.

What the world needs is a pragmatic agenda for how to bring these changes about, including in the laws that govern the economy and a rebalancing of the roles played by the market, the state,

and the other societal institutions; and a political strategy to make it happen. A necessary condition will be a change in politics because we won't be able to undertake the multiple moonshots we need without public revenues to prepare for the next pandemic, to address climate change, and to eliminate childhood poverty. To get that revenue, we'll need to increase taxes on corporations and upper-income individuals, along the lines of Biden's recent proposals. But with money's heavy influence on politics that's going to be hard. That's why in the USA the right to vote and the influence of the wealthy have moved centre stage. People on the political right, who have a vision of a society markedly different from Mazzucato's, are doing what they can to suppress voting rights and strengthen the influence of money. On the political left, progressives see this as a pivotal moment in which politics could change and from that, much else could follow, including the economic system. A new economic system wouldn't be the capitalism we've become accustomed to—with banks engaged in predatory lending, pharmaceutical companies pursuing profits, food and beverage companies pushing products that can lead to childhood diabetes, and coal and oil companies destroying the environment. It would entail a broader set of institutional arrangements, with cooperatives and not-for-profits working alongside private firms of every size and governments at every level.

This change in our society is a moonshot—one that will require the input of our entire society. I see *Mission Economy* as part of that process, an awakening of the possibilities of what might be, including the roles that an emboldened state and a reformed market might play. Less a guide to changing capitalism and more a call to arms. It comes at the right time.

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