A question of value

Who creates value? Who extracts value? Who destroys value? If we mistake those who do the second or third for those who do the first, we mistake those who do the second or third for those who do the first.

Many advanced western countries, in particular the US and Britain, have already reached that state, according to Mariana Mazzucato. The consequences of this, including social inequality and declining growth, are already visible, argues the author, a professor at University College London and sometime advisor to political parties and international institutions.

We need to change course, she insists, in this challenging and stimulating book. Among other things, we need to rethink the relationship between markets and governments; make a clear distinction between creators of wealth and those who merely extract it; embed collective ambitions, notably a shift to a greener economy; and spend on the future, instead of embarking on a sterile and counterproductive austerity.

The book is a successor to The Entrepreneurial State, in which Mazzucato argued that governments have played a powerful innovative role in the modern economy. The book’s big point is that it is far too easy for those operating in the market economy to get rich by extracting economic value from those who sold it, not by adding to itself.

An obvious example is the way the financial sector generated a huge increase in household debt in years leading to the financial crisis of 2007-08. But there are many other examples, such as the extractive industries, which have made huge profits at the expense of the environment and indigenous peoples.

Mazzucato notes that many of the most transformative technologies — such as the internet and the global positioning system — were developed in the public sector. The book is a call for a new age of innovation and entrepreneurship, one in which governments play a more active role in driving economic growth and social progress.

For believing in the pervasiveness of selective and rigged markets in actual market economies, as opposed to simplistic models of them. Nevertheless, she does make a crucial point: what we value is a social decision and some of what we now value — such as financial services — is more a justification for value extraction than a plausible source of additional value.

What is not measured does not count. But what is measured does. Mazzucato offers the reader an account of how value is attributed to the activities of building, its added economic value is currently measured by the cost of "financial intermediation services" (indirectly measured) — in other words, by the spread between the cost of borrowing and the rate of interest on lending.

The bigger the spread, by assumption, the more value banks are supposedly creating. This is to confuse a cost with a benefit.

In Mazzucato’s view, the evident failings of our economies are a consequence of our inability to distinguish among activities that create, redistribute and destroy value. This, in turn, embeds value extraction (such as pharmaceutical companies that charge whatever the market will bear) is to be excluded from the market, says Mazzucato, who might have been able to help create value and encourage policymakers to believe in the market, such as the UK’s flawed financial initiative, are necessarily superior to ones introduced governments.

What I would have liked to see far more, however, is a probing investigation of why households, not governments, value and value. The US government, for example, has played an extraordinary role in innovation and development, through the National Institutes of Health. Yet how far has this really relevant to countries with more limited economic and scientific resources? How can we ensure that governments do add value rather than merely extract and waste? In her enthusiasm for the potential role of the state, the author significantly underplays the significant dangers of governmental incompetence and corruption.

Nevertheless, the book has three significant strengths. First, Mazzucato pushes us to get away from the simplistic creed that markets are always good and governments always bad. Second, she offers the left a positive goal of prosperity—inducing innovation rather than a sterile and ultimately destructive politics of resistance and redistribution. Finally, she forces us to ask ourselves what values society and how to create an economic and social order that promotes that. The book itself adds value by forcing us to confront these points.

Martin Wolf is the FT’s chief economics commentator.