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### Economists are the cheerleaders of finance

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# Economists are the cheerleaders of finance

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Mariana Mazzucato, *The Value of Everything: Making and Taking in the Global Economy*, London, Allen Lane, 2018, 384 pp., £14.99 (pbk), ISBN 978-0-241-34779-9

As the subtitle of her new book suggests, Mazzucato aims to distinguish value creators from value extractors. This distinction between making and taking, between earning and deserving, between rent-seeking and value-contributing, is posited as crucial, yet it can no longer be made from within the paradigm of neoclassical economics, which has defined the distinction out of existence. Mazzucato shows this was not always so: classical economists did make the distinction, as did preceding economic schools such as the Physiocrats. This, however, is not a purely intellectual exercise; Mazzucato seeks to influence public debate, stating that “only by debunking ideas about value ... can a long-lasting solution be found” (213), the problem being that what the financial sector, pharmaceutical companies, and national account statisticians call ‘value creation’ is in fact typically the opposite.

Mazzucato’s debunking is as eloquent as it is informative, as relevant as it is interesting. The book-as-pamphlet, however, falls short of bringing a political solution closer, as the author brings to the fore a superficial understanding of how politics and political power work. *The Value of Everything* is a strange beast then: it is as good as economics gets, yet politically flawed nonetheless. But first, some words on Mazzucato’s economic exposé, which combines a history of economic thought on value with several case studies.

Despite their differences, Smith, Ricardo, and Marx all subscribed to the labor theory of value, in which the value of a product is determined by the total labor time required to produce it. This approach leaves open many issues (as labor time depends on technology, climate, education, health, and so on), but its main thrust is that value is objective and not necessarily reflected by, let alone equal to, price. In Marxian terms, the price of a product (the exchange value) might not (and in capitalist labor relations never will) equal the value needed to produce a product. This approach changed in the late nineteenth century, when economists like Alfred Marshall proposed that value was subjective, dependent on scarcity, and in turn determined by the interplay of consumer preferences (the demand-side) and production costs (the supply-side). The latter can be objectified but that doesn’t really matter as markets, by bringing

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together and equalizing supply and demand, reveal the price of products. And the going (market-clearing or equilibrium) price is, apparently, the value of the product, as producers would not accept prices below (production) costs, whereas demand would not absorb supply if the price exceeded the maximum willingness to pay of too many a consumer.

Mazzucato's historical account is informed and informative. She points out that modern economics has firmly held on to the debilitating neoclassical perspective on value and markets. As a consequence, profits are no longer related to exploitation, economists focus on individuals instead of classes, the concept of unearned income has disappeared, and capitalism is portrayed as "a peaceful system driven by self-equilibrating competitive mechanisms" (63). This intellectual history is complemented by case studies on national accounting, the financial sector, IT and pharmaceuticals. For example, GDP-statistics disregard value by assuming that anything that has a market price is productive. This excludes household work, ignores pollution, and makes the public sector look unproductive. What is more, national accounts equate the added value of banks to the markup they charge on interest rates. So, the more banks jack-up interest-rates through price fixing and lobbying, the more they seemingly add value. This epitomizes the ultimate catch-22 in modern economics: that "finance is valuable because it is valued, and its extraordinary profits are proof of that value" (141). Patents are another example of what Mazzucato views as a mix-up between value contribution and extraction. A patent is of course a state-granted monopoly, a monopoly that has lost all justification. Research costs of the pharmaceutical industry are less than both profits and marketing costs. And the real innovations come from public institutes anyway, with the private sector simply marketing them.

Mazzucato's aim is, as indicated, to challenge the massive taking of corporations. This is a noble goal, but at this point her analysis weakens. Without any motivation, Mazzucato assumes that the most important condition for change is a different narrative; the book is permeated by calls for radical thinking, a new vocabulary, a different conversation, new discourse, deeper understanding, and 'thinking big'. While discourse is important indeed, Mazzucato ignores the economic base and the accompanying power balance, jointly determining the theft-like business model of banks. The account then becomes naïve to the point of being flawed, when she states that "stories told about government have undermined its confidence" (233) and that "fear of government failure has convinced many governments that they should emulate the private sector" (250). She takes the state to be neutral, leaving aside the capital-state nexus at the neoliberal core of commodification, re-regulation and financialization. These processes could not have been pushed through without the active and permanent involvement of the state. This role has little if anything to do with confusion, and more to do with sustained deliberate action following the crisis of the 1970s and the triumph of organized capital over labor – a development which was not only assisted by the state, but also led to a form of political capture as the state responded to new sticks (the threat of outsourcing) and carrots (corruption-like revolving doors).

Mazzucato's belief that pointing out the incorrect reasoning of moneyed interests is a game-changer would be questionable in any case, but the sheer absence of any motivation for this stance undermines the seriousness of the book. That's a pity, as her economic analysis cuts through. And that, moreover, makes Mazzucato one of the few influential economists not acting as a cheerleader for private companies. This in itself is something to cheer about, though a serious analysis of the politics of contemporary capitalism would have been reason for even more cheers.