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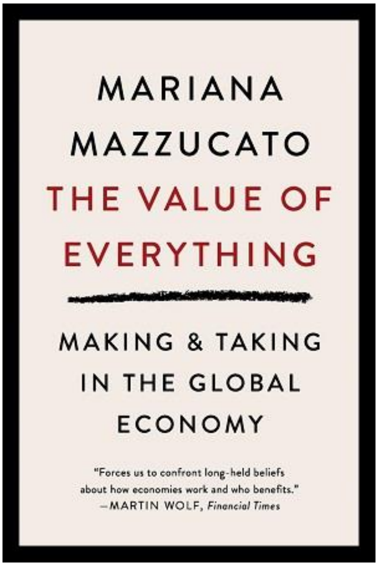
# Book Review of Mariana Mazzucato's 'The Value of Everything: Making and Taking in the Global Economy' by G Venkatesh

Divided into 9 chapters, and bolstered by a 16-page long elaborate bibliography (testimony to the exhaustive research on which this book is predicated) which readers may wish to delve deeper into, **Professor Mariana Mazzucato**'s book is a rewarding read for anyone and everyone interested in economics – of the sustainable and welfare-enhancing kind (Jeremy Bentham's greatest welfare of the greatest number). Quite aptly, the author is Professor of 'Economics of Innovation and Public Value' at the University College London (UK). *[Mazzucato has indicated at different junctures in the book that the term 'public value' is found in philosophy but almost lost in contemporary economics].* At the outset, let me state and promise to prospective readers that you do not need to be academically-inclined to benefit from spending some hours reading this book. Rather, reading it may tempt you to become so, and that is surely something to prize!




This review, organised in nine sections, draws readers into each chapter, by picking out thought-provoking, sometimes-bemusing and enlightening observations made by the author who is in favour of smarter, more inclusive and more sustainable economic growth in the years ahead – in other words, not just 'growth' but 'development' and 'progress' – mirroring on an individual level, a focus on not just the corporeal / physical, but also the mental, intellectual and spiritual aspects of 'growth'.

## A brief history of value

Quoting Adam Smith from The Wealth of Nations, in the epigraph to the chapter, the author sets the tone for an exposition of the evolution of the value theory (and thereby differentiation of 'productive' from 'non-productive'), from mercantilists to physiocrats to classicals to the marginalists (or the neo-classicals).

While the mercantilists associated trading and the accumulation of gold (via trade surpluses) with value creation, the physiocrats (prior to industrialization) accorded all importance to 'terra firma' – land and thereby its owners – which yields original value in the form of natural resources, biotic and abiotic. The classical economists – during and post-industrialisation - emphasized that value creation was actually done by the labourers in industries, with Marx throwing light on the inevitable conflict between capital (the rich owners of industrial outfits, and investors) and labour (the producers of value who were often underpaid for their efforts).

The author, in her deft exposition of the 'what', 'why', 'when', 'where', 'who' and 'how', enlightens readers about how value has been defined and redefined over time, subject to macroscopic trends, and opinions put forth by philosophers, economists and political scientists who were verily products of their times. Readers are thus also made aware of the fact that theories are necessarily subject to change, till they manifest as laws – immutable and universal – someday. Value theory is one such, and whether there will be a 'Value Law' in the future, is something to ponder long and hard over.

## The rise of the marginalists

While the classicals deemed that the amount of labour put in, determined the value of the output, and thereby the price to be charged for the same in the marketplace, the author describes how the neo-classicals turned this relationship on its head. They claimed that the price was set in a 'perfectly-competitive marketplace' based on the preferences (marginal demand or marginal utility in other words) of consumers and any likely scarcity of the resources needed for production (marginal supply, characterised by a marginal cost of production). This price determined value, making a pricier good more valuable and any service which received a monetary payment (wages, salaries, royalties, rents, dividends, interests, fees etc.) productive. Economists like Pigou identified internalities (value-generating latent output which were not interpreted as benefits) and externalities (value-destroying environmental damages for instance, which were not considered as costs) were identified, and sought an adjustment in the market-price-to-value relationship.

The author observes that the government, quite unfairly, was deemed to be non-productive (though necessary) by all of them, with the classical economist David Ricardo adopting the most extreme viewpoint in this regard, and the marginal theory entrenching the idea that all collectively produced value is derived from individual contributions.

## Measuring the wealth of nations

Measurement is a prerequisite for good management. In the third chapter, GDP or the Gross Domestic Product, as a measure of the 'wealth of nations' is lucidly and elaborately discussed, providing readers who may have wondered how precisely this is measured, with all the knowledge they need.

'National accounting' as the exercise of GDP-determination is christened, interestingly was among the interests of the philosopher Voltaire, the mathematician Lagrange and the chemist Lavoisier. The author labels national accounting as a social convention which is shaped by common sense and computational convenience, while wondering why unpaid domestic work (which adds a lot of value – a so-called Cinderella issue) and the informal economy are kept out of the analysis. The finance sector (a bugbear, if one may) finds mention here, as something which was first deemed to be unproductive – by the physiocrats and the classicals – but now finds a share in national GDPs; and a conspicuously increasing share at that! Whether GDP, as we know it and as it is currently measured and used as an indicator for decision-making, is a good-enough representative of economic growth has been, and will be, debatable. 'Growth' however implies a mere increase, while it is 'development' and 'progress' – the holistically-interpreted quality of growth in other words – which ought to be in the forefront.

## Finance – a colossus is born

The change in status of the finance sector which Marx had categorised as a necessary 'circulation sector' – public and private banks, asset management firms, hedge funds etc. - from unproductive to productive happened during the economic crisis of the 1970s, when it had to be accorded the status of a 'growth hormone' or a 'breather-of-life' into economies. Indeed, the diversion of some of the value-added by the borrowers, in the form of dividends and interest, represented 'unearned income' through an extraction of value – in other words, decreasing the retained profits which could be invested back into increasing/sustaining productive activities in the economy.

Mazzucato discusses, *inter alia,* derivatives, securitization, and futures trading, and questions the 'short-term thinking' adopted by the 'impatient' finance sector to make a 'fast buck', instead of investing in long-term economic growth (which she believes public banks are more likely to do). The 2008 subprime mortgage crisis serves as a good case study to prove how the actions of a few, led to a 'butterfly effect' and triggered a near-global crisis, reminding economists of John Maynard Keynes who had emphasized that governments as 'lenders, spenders and employers of last resort' could play a potentially game-changing role, to tide over economic crises.

## The rise of casino capitalism

Financial intermediaries who 'circulate' or 'distribute' value in the economy include, in addition to those named in the previous section, pawnbrokers, payday lenders, peer-to-peer lenders, mortgage lenders, mobile payment systems and the bond-trading platforms set up by money market funds. Casino capitalism or money-manager capitalism (to quote Hyman Minsky), when a fledgeling, had irked Winston Churchill. This fledgeling spread its wings and of late, has been registering rates of growth greater than the real productive economy.

The author, in her capacity as a pedagogue, elucidates the modus operandi of hedge funds, venture capital, passive & active investment managers, credit default swaps, and private equity. She is of the view that the finance sector often overplays the risks it supposedly exposes itself to, to justify the high returns which accrue to it.

## Financialization of the real economy

Maximising shareholder value, (MSV, or in other words, increasing the earnings per equity share, and thereby, the dividends payable to shareholders), which Jack Welch, former CEO of General Electric, termed as the dumbest idea in the world, has managed to drive performance and decision-making in the private sector. This entails augmenting the profits, and when MSV is pursued blindly, firms resort to cost-cutting which may happen through retrenchments (resulting in unemployment and underemployment), turning a blind eye to externalities (not spending voluntarily on environmental sustainability), and misusing monopolistic advantages by over-pricing their products, while raising the salaries of executives who enable the maximisation of the shareholder value.

The author points out that the public/socio-environmental value – value for workers, consumers and the environment - is hereby damaged, while 'skyrocketing rewards for a lucky few (executives in private firms and institutional investors and their clients) who treat the economy as a 'casino to gamble in', have been widening the gulf between the 'haves and the have-not's'. [Detailed social life-cycle assessments of value-chains in economies, will reveal a whole lot of hotspots, created by plutocrats and their nexuses with the finance sector]

## Extracting value through the innovation economy

Innovation, which is cumulative (decades of hard work), collective (numerous stakeholders in the fray) and uncertain (serendipitous and subjected to various types and sources of risks), is the new force in modern capitalism, unleashing the Schumpeterian 'creatively-destructive' forces once in three decades or so. While venture capital has certainly contributed to the innovation economy, by stepping in cleverly at the 'point where investment looks more of a sure bet' and extracting a good chunk of the value subsequently created, it has demonstrated self-serving short-termism. The author questions patent-trolling, upstream patenting (patents on the knowledge behind innovations), and strategic patenting, labelling these as parasitical and blocking innovation; and points out that the true value-based pricing which pharmaceutical companies are supposed to follow, is actually much lower than the market price they charge for new drugs. Network effects – scale and scope – emerging thanks to innovation and acquisitions, which lock in consumers (Google and Facebook, for instance) tend to take economies further away from the idealistic perfectly-competitive free market of the neo-classicals.

## Undervaluing the public sector

The author refers to governments as 'actors which have done a lot (producing value in the economy) for which they have not been given due credit'. Well, governments must stop being looked upon as lenders, spenders and employers of last resort, and mere reactive fixers of problems. The proactive risks taken by governments as 'patient' investors in projects which have resulted in numerous innovative technological advances in the 20th and 21st centuries – the Internet, GPS, SIRI, touchscreen displays, Google's algorithm, fracking, innovative drugs etc. - must be recognized and rewarded adequately. 'Risks' indeed, as the author reminds readers. For every Solyndra which crumbled, there was a Tesla which succeeded. Big government or small, is not the question here…but how effectively the public sector utilises its funds to add 'public value' (social, cultural, environmental, moral and economic) is what matters. Why, asks the author, is the value added by publicly-owned firms not credited to governments, but clubbed together with that of the private sector? Food for 'valuable' thought!

## The Economics of Hope

This is a short chapter which can be looked upon as a summary in which the author gives take-home messages and recommendations, some of which can be listed hereunder:

- 'Value', which once lay at the heart of economic thinking must be revived. Value extraction must not be permitted to masquerade as value creation
- The financial sector which undeniably motors the economy, must be compelled to focus on long-term investments by using clever policy tweaks.

- GDP must be redefined to include unpaid services which are left out as unproductive currently
- Both government failures and market failures need to be acknowledged and fixed. Markets need to be co-shaped to achieve public value for the common good
- Stakeholder value must take precedence over mere shareholder value
- Economists must think more like biologists than physicists and be inspired by 'mutualistic eco-systems', and policymakers must be bold enough to broker deals that create symbiotic public-private partnerships.

A longish review, perhaps, but yours sincerely only hopes that it has served the purpose – to motivate readers to get hold of a copy of Mariana Mazzucato's *The Value of Everything*, in which the author has 'stirred a new debate putting value back at the centre of economic reasoning', and derive utmost value from reading it. Let John Maynard Keynes' 'multiplier effect' take over thereafter…After the mercantilists, physiocrats, classical economists, neo-classical economists, and monetarists, it is time for a new class to evolve – let us call them 'economists of hope'.

## Venkatesh Govindarajan

Venkatesh, born in Chennai on 13-1-72, is currently Associate Professor at Karlstad University in Sweden. He has two Master's degrees (Mechanical Engineering from India, and Industrial Ecology from Germany) and a PhD in Industrial Ecology (from Norway). He speaks, reads and writes English, Norwegian, Swedish, Hindi, Marathi and Tamil. Venkatesh has published four volumes of poetry1, four e-books, and over 100 scientific journal publications; crosswords, and articles of various genres in magazines around the world. He sketches in his spare time, likes singing, and is a cricket aficionado/connoisseur. Venkatesh lost his wife, Varshita, to cancer in early 2020, and has been devoting himself to charitable causes in her honour since then.