

What is the path to a better future after the pandemic? Pope Francis has praised the work of an economist who argues that capitalism must reinvent itself if it is to survive. She sets out her case / By MARIANA MAZZUCATO

A mission to save capitalism

PHOTO: PA/PIKSELL, ARMIN DURGUT



Smog envelopes Sarajevo, capital of Bosnia and Herzegovina, one of the most polluted cities in Europe

CONVENTIONAL wisdom portrays government as a clunky bureaucratic machine that cannot innovate: at best, its role is to fix, regulate, redistribute; it corrects markets when they go wrong. According to this view, civil servants are not as creative and risk-taking as the entrepreneurs of Silicon Valley, and government should simply level the playing field and then get out of the way – so the risk-takers in private business can play the game.

We cannot move on from the key problems we face until we abandon this narrow view. The reinvention of contemporary capitalism calls for a new narrative and new vocabulary for our political economy, using the idea of public purpose to guide policy and business activity. This requires ambition – making sure that the contracts, relationships and messaging result in a more sustainable and just society. And it requires a process that is as inclusive as possible, involving many value creators.

I call this different way of doing things a mission-oriented approach. It means choosing directions for the economy and then putting the problems that need solving to get there at the centre of how we design our economic system. It means designing policies

that catalyse investment, innovation and collaboration across a wide variety of actors in the economy, engaging both business and citizens. It means asking what kind of markets we want, rather than what problem in the market needs to be fixed. It means using instruments such as loans, grants and procurement to drive the most innovative solutions to tackle specific problems, whether those be getting plastic out of the ocean or narrowing the digital divide.

The wrong question is: how much money is there and what can we do with it? The right question is: what needs doing and how can we structure budgets to meet those goals? This is a huge task. We live in an era in which capitalism is in crisis and a flawed ideology about the role of government has infiltrated our expectations of what it can do – and thus what other actors can do in partnership with government. But a time of crisis is exactly the moment to reimagine what type of society we want to build, and the capabilities and capacities we need to get us there.

Does this mean rethinking government or rethinking capitalism? The answer is, both. Changing capitalism means changing both how government is structured and how business is run – and how public and private

organisations interrelate. Driving governance structures of organisations, and relationships between organisations, through a notion of “purpose” is the key to a mission-oriented approach. Indeed, for many years there have been calls for corporate governance modes to be more “purposeful” and move away from shareholder capitalism to stakeholder capitalism.

The problem is that, notwithstanding these calls for change, not much is changing. This is not only because the change needed must go to the very core of business models and value chains, instead of being treated as an afterthought; it is also because a renewed sense of purpose must go to the centre of the relationship between organisations in the economy, not just inside business. Change comes from reimagining how different organisations and actors in the economy co-create value. And because government activity – direct investments, indirect subsidies, tax and regulations – lies at the centre of nearly all relationships, rethinking government means rethinking capitalism.

EVEN BEFORE the Covid-19 pandemic hit in 2020, capitalism was stuck. It had – and has – no answers to a host of problems, perhaps most crucially the environmental crisis. From global heating to biodiversity loss, human activity is eroding the conditions necessary for social and environmental stability. Under current mitigation policy commitments, global surface temperatures are on track to increase by over 3°C relative to pre-industrial times – a magnitude that is widely accepted to have catastrophic outcomes. Species extinction has increased 100 to 1,000 times the background extinction rate, leading some scientists to announce that we are witnessing the sixth mass-extinction event.

Rather than having a sustainable growth path, capitalism has built economies that have inflated speculative bubbles, enriched the already immensely wealthy 1 per cent and are destroying the planet. In many Western and Western-style capitalist economies, real earnings for all but a few have barely risen in more than a decade – exacerbating the inequalities between groups and regions despite high employment levels.

Difficulties are also being experienced in authoritarian, state-capitalist societies. Today,

China, the leading authoritarian economy, remains weighed down by inefficient and heavily indebted state industries, a banking system with huge “zombie” loans, an ageing population, and the massive task of shifting the economy away from excessive export dependency and towards greater domestic consumption. A central planning model is not likely to be one that will be able to take on the bold reforms to public and private collaboration that are required.

THE COVID-19 crisis has revealed just how fragile capitalism really is. People working in the gig economy have no security. High levels of corporate debt – partly taken on to pay dividends, buy back companies’ own shares and indirectly boost senior executive pay – have left many companies with little to fall back on. Their strategy of relying on attenuated global supply chains to cut costs and reduce the bargaining power of their on-site workers proved to be an Achilles heel when the pandemic disrupted production globally and created fierce competition for even basic items, such as face masks. Some governments, particularly those of the UK and the US, had outsourced so much of their capacity to the private sector and consultancies that they were not able to manage the crisis properly. This led to deadly blunders, as governments faced shortages in basic PPE and failed to set up enough testing for their populations.

The ultimate irony was that governments long wedded to austerity abruptly switched their affections to public spending, borrowing and creating deficits on a scale that would earlier have caused ideological apoplexy, as they struggled to do “whatever it takes” to keep their national economies alive. Hammered under the twin blows of a collapse in output and a collapse in demand – largely induced by the government to suppress the virus – the Thatcher-Reagan model of the economy and society has broken down, and the global economy is wrestling with an historically severe depression.

A sluggish global economy, which spells particular disaster for developing countries and the less well-off in developed countries, has exacerbated social and political tensions that have been intensifying for decades. For far too many people, life feels precarious, either because they are in debt or their savings at most cover one month of rent.

THE BALANCE of power has shifted away from workers and towards employers – for example, the relationship between an Uber driver and Uber as a multinational corporation is deliberately designed to shift risk from company to worker – and this, along with other cost-cutting practices that have reduced labour’s negotiating power, is one of the reasons why the ratio of profits to wages has reached a record high in the last decade.

Others live hand-to-mouth on zero-hour contracts. Even when they have regular work, many people still depend on welfare to make ends meet.

Yet it is the low-paid and disregarded workers – rubbish collectors, postal staff, hospital cleaners, care workers, bus drivers – upon whom society came to depend most during the Covid-19 crisis, not corporate bosses, financiers and residents of tax havens. Long-standing political rifts have grown wider: between nationalism and internationalism, democracy and autocracy, efficient and inefficient governments. A deep sense of injustice, powerlessness and distrust of elites – especially business and political elites – has eroded faith in democratic institutions. The global, multilateral system painfully constructed after World War Two and the broadly liberal, open values it embodies are under unprecedented strain. National salvation has trumped international cooperation, much to the delight of “strongmen”, demagogues and authoritarian regimes that can ride a tide of populism and exploit a climate of fear. To add to all of this, governments have continued to procrastinate in properly tackling the climate emergency. We can do better.

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 organisation 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 fulfil public purpose. If we could think and act in this way, we could realise 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.

On 16 April 2019, Greta Thunberg gave a speech to the European Parliament, calling for “cathedral thinking” to tackle climate change: “It is still not too late to act. It will take a far-reaching vision, it will take courage, it will take fierce, fierce determination to act now, to lay the foundations where we may not know all the details about how to shape the ceiling. In other words, it will take cathedral thinking.”

When they built the cathedrals that are among Europe’s most magnificent cultural achievements, the medieval master builders took chances that would drive a modern architect out of business. Nobody knew how much it would cost to build a cathedral or how long it would take. But these were mis-

sions with a purpose – to demonstrate the glory of God through creativity – and they brought together many different sectors of society: clergy, craftsmen, nobles, rulers and ordinary people. Today, the cathedrals are still with us.

GOVERNMENT can build the cathedrals of mission-oriented innovation in the twenty-first century if it is recast with courage, dynamic competency, leadership, resilience and creativity. But this means strengthening systems and the underlying forms of collaborations. Indeed, as is well known, many workers died building the great cathedrals. Having societal challenges drive modern innovation means embedding equity, fairness and sustainability within our systems of public health, public education, public transport. The social infrastructure that enables businesses to work and compete globally must be imagined and designed in this way from the outset. And the relationship goes both ways. For public systems to work and be part of a healthy social fabric, we need a different type of private sector with which governments can interact. Government alone, no matter how ambitious and mission-oriented, cannot pursue a better path if it does not have a more productive relationship with business – and if business itself is not more long-term-minded and purposeful.

To change capitalism, we must change the inter-relationships between government, business and civil society, especially the underlying power relationship. There are a variety of different forms of capitalism, and we have the wrong one. We know from the past that public and private actors can come together to do extraordinary things. Fifty years ago, going to the moon and back required public and private actors to invest, to innovate and to collaborate night and day for a common purpose. Imagine if that collaborative purpose today was to build a more inclusive and sustainable capitalism: green production and consumption, less inequality, greater personal fulfilment, resilient health care and healthy ageing, sustainable mobility and digital access for all. Small, incremental changes will not get us to those outcomes. We must have the courage and conviction to lift our gaze higher – to lead transformative change that is as imaginative as it is ambitious.

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