The pandemic has exposed deep inequalities and injustices, and opened up fears and resentments. It is hard to argue that free enterprise is working. Is it time to tear up our traditional thinking on the economy and replace it with a value-based approach? / By RUTH KELLY

Adding value to capitalism

OVER THE past year, so many of us have had our beliefs fundamentally challenged. If the financial crash in 2008 proved an insufficient trigger for change, the stark social divisions exposed by Brexit and the fragility of a global system laid bare by the coronavirus crisis have transformed the way we think about the world.

Instead of being relegated to the bottom of the social hierarchy, the workers in our hospitals and care homes, on our streets and in our supermarkets, have become the front-line heroes, battling against an existential threat. We have started to place much more value on resilience – in the health service, in our labour market and in our lives – as we struggle to cope with new and unpredictable demands. We value our neighbours and our communities more. In economics, too, what we value, how we measure it and what economic goals we are aiming for as a society have suddenly come to the forefront of debate, popularised by economists such as Kate Raworth and Mariana Mazzucato.

Indeed, the concept of "value" formed the centrepiece of former Bank of England governor Mark Carney's recent series of Reith Lectures and seems even to have reached as far as the Vatican. Pope Francis, in his recent book, *Let Us Dream*, cites both Raworth and Mazzucato as voices that are "signs of the times", calling for us to use the current moment of crisis to "think big, to rethink our priorities – what we value, what we want, what we seek – and to commit to act in our daily life on what we have dreamed of … and for a new approach to economics, which puts 'the poor and the planet at the heart of new thinking'". So, is it time to tear up our traditional thinking on the economy and replace it with a value-based approach to economics in what is becoming known as "Common Good Capitalism"?

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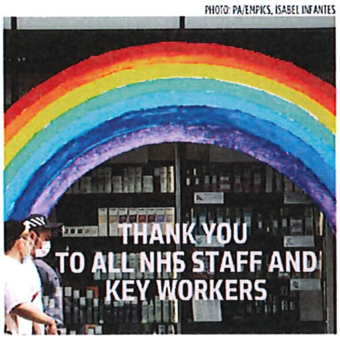

Ruth Kelly: 'Workers in our hospitals and care homes … have become the front-line heroes, battling against an existential threat'

It is certainly hard to argue that things are all right as they are. Our experience of the pandemic has exposed deep inequalities, not just in income and wealth, but in health, in education, in digital access and between different racial groups. The day-to-day experience of many we value most in the labour market has been seen to be unpredictable, insecure and poorly paid. So both Raworth and Mazzucato come to this debate with a clear call for action: to reform capitalism and reject the concept of economically rational actor *homo economicus*, concerned only with maximising their own utility, set out in basic economic textbooks.

At face value, Raworth and Mazzucato seem to have much in common. They both argue for fundamental reform of finance, reject short-termism in business, and call for a larger role for government-funded regional and national investment banks to invest in long-term infrastructure. In that sense, both seem to be in the mainstream current of left thinking on economics. But they have fundamentally different objectives: Raworth calls for Western developed economics to jettison economic growth as a target and live within environmental limits; Mazzucato, by highlighting the state's role in innovation, is asking us to reimagine the state as the driver of economic growth.

RAWORTH, IN her ambitious and well-written book, *Doughnut Economics*, is probably the most radical, following in the slipstream of environmental economists such as George Monbiot. Understanding the power of images and narratives to shape thinking, she captures the idea of a "just space" where people live sustainably and well, through the image of a doughnut: those living in this just space fall between the inner ring, representing the "social foundation of wellbeing that no one should fall below" and the outer ring, which is the "ecological ceiling of planetary pressure that the economy should not go beyond". She draws inspiration from two leading heterodox economists.

The first, Hyman Minsky, became famous after the financial crisis, as his work on how the financial system could generate shocks through its own internal dynamics seemed to be able to explain the build-up to and the mechanics of the crash. The other, Thomas Piketty, in his best-selling *Capital in the Twenty-First Century*, distinguished between two types of households: those who own capital – such as land, housing and financial assets which generate rent, dividends and interest – and those households that own only their labour, which generates only wages, showing that over time the returns to capital have tended to grow faster than the economy as a whole, leading to wealth becoming ever more concentrated in the hands of a few. Raworth takes these analyses to argue that governments' continuing emphasis on economic growth would, if left unchecked, keep us on the path towards environmental degradation and ever-increasing social inequalities.

Raworth has a number of fascinating key insights. First, she is undoubtedly right that policymakers need a much fuller understanding of human anthropology than provided for by simple economic models – needs and desires are not limitless, or at least don't have to be.

Ruth Kelly, left, is a member of the Council for the Economy which oversees Vatican finances. She was an economics correspondent for *The Guardian* for four years in the 1990s, MP for Bolton West from 1997 to 2010, and held a number of cabinet posts and ministerial positions in Labour governments in the administrations of both Tony Blair and Gordon Brown, heading up the departments of education, transport, and communities and local government. In the latter role she was also the women's minister. At the age of 36, she was the youngest woman to sit in a British cabinet. Between 2015 and 2020 she was pro-vice-chancellor for research and enterprise at St Mary's University, Twickenham.

Any individual – or even society – has the ability to stand back and say "enough is enough". She is also right in calling out the measure of economic growth, GDP, so often resorted to by both policymakers and pundits as a proxy for wellbeing. It completely ignores the contributions made by unpaid labour in the home, by our shared resources (such as the digital economy or our public spaces – sometimes referred to as "the commons") and by the state to our overall wellbeing. Nor does it account for whether growth is "sustainable" or not, as we do not account for the depreciation of natural assets in our system of national accounts. Instead of obsessing with GDP growth, Raworth argues that we should rather seek to create a matrix of different indicators to monitor our nation's and our world's wellbeing: mortality, educational attainment and the like.

The analysis that Raworth provides is strong. I would agree with her if she had stopped at analysing what does not work in society and the economy today, and hadn't entered into the world of predictions and prescriptions. Suggesting that Western countries should ignore GDP growth altogether and concentrate on other human goods, largely because of future environmental constraints, leads to an unnecessarily harsh – and politically inconceivable – recipe. I think she is wrong in her implication that the world economy is a zero-sum game: economic growth in developing countries does not necessarily mean a decrease in growth in those that are developed.

WHAT MATTERS is what *type* of growth we pursue: it is much easier to imagine growth being sustainable if based on the use of IT and big data than if it is based on manufacturing. She is also too dismissive of the power of economics and the possibility that technology will be able to make a real difference to tackling environmental problems such as climate change, as prices change over time to reflect the scarcity of natural resources and incentivise innovation. "Green growth in high-income countries is nowhere on the horizon: it is time to go green without growth instead," she claims. In this, she follows a line of thought that can be traced back through the debates about the Club of Rome's 1972 report, "The Limits to Growth", all the way to Thomas Malthus, who predicted that the world's population growth would inevitably be constrained by the availability of food supplies. Raworth is optimistic about the future, calling for economics to be reformed through a systems perspective, and for business activities from their inception to be designed to be both distributive and regenerative. She draws on a vast number of examples of what this means – from alternative currency systems in informal settlements in East Africa, to Swiss time-banking for a sharing economy. Impressive as these may be, though, they seem too small-scale and particular to their contexts to provide a model for a wholesale rejigging of the world economy.

Mazzucato, for her part, also attacks GDP, as currently defined, but from a different angle. Like Raworth, she criticises the implicit assumption that value cannot be created by caregivers, by goods that are traded but not priced and, in particular, the fact that the measure does not capture any value creation by the state. She calls for us to throw open the debate on what is meant by economic "value" beyond what is seen in the price of goods and services.

Unlike the theories of Aristotle, Adam Smith, David Ricardo or Karl Marx, she notes, modern neoclassical economists tend to rely on a *subjective* rather than an *objective* theory of value. Value is in the eye of the beholder, not in the sweat of the labourer, or, as she says, *price* equals *value*. For Mazzucato, in a better measure of the nation's wealth, out would go financial services from our measure of a nation's wealth and in would come a significant chunk of government spending.

In many respects, Mazzucato is right. Never mind being a poor proxy for wellbeing, GDP is a poor measure of wealth being generated in the economy. All the transactions included in our definition of GDP are measured as the prices paid for them in the market, when these are available, or a sum of everyone's incomes in the economy. Her particular bugbear about GDP though is that in standard definitions, government's value is simply the sum of public sector wages – no more, no less. Much of her work attempts to show that the state is of fundamental importance in driving innovation and wealth, emphasising, for example, the role of US government support in the success of big American tech companies, such as Apple, alongside private enterprise. In a return to big government, she argues that the state should be active in aiming to create "public value" across society and the economy. In *Mission Economy: A Moonshot Guide to Changing Capitalism*, she encourages us to apply "the same level of boldness and experimentation to the biggest problems of our time" as was applied by the United States when in 1962 it set out to land a man on the moon before the end of the decade.

ACCORDING TO Mazzucato, rather than starting with the presumption that societal preferences (for example, a reduction in inequality, an increase in NHS resilience or a desire to tackle climate change) will be revealed in the marketplace, she wants us to reverse the traditional formula with the state creating what she calls "missions" for wider private sector action. A mission could involve many different challenges: in the case of, say, "citizen health and wellbeing", these could range from air quality to teenage health to loneliness to tackling dementia. It seems hard to argue with wanting the government to focus on difficult and complex challenges which go to the core of our wellbeing. But as Alberto Mingardi, the Italian economist, has pointed out, Mazzucato's vision is very bold

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in that she claims that government intervention is not only "propitious" but actually "necessary" for innovation to emerge.

One of Mazzucato's weaknesses is that her empirical evidence for the importance of the state in fostering innovation is weak. As Mingardi has highlighted, it is difficult to establish the state's role by looking at evidence, as she does, from only the last 50 years – a time during which government expenditure expanded from about 10 per cent of GDP to more than 40 per cent in virtually all Western democracies. In many respects, it would be surprising if that scale of public investment hadn't produced some innovative ventures along the way. What is not clear is how Mazzucato can account for the Industrial Revolution during the nineteenth century, which it would be hard to claim was fuelled by government spending. She also ignores the role consumers play in a market economy, overlooking the fact that innovation is not just about technological progress for its own sake, but rather about meeting the needs of individuals in society.

A better question, perhaps, would be to ask whether government is the "best" stimulator of innovation, or whether business and private individuals could do better with the same amount of money available. But Mazzucato is right to open up the debate on value, and how value is expressed and measured – both in the marketplace and in the public realm. Even mainstream economists are now questioning whether the boom in financial services, for example, in the run-up to 2008, really contributed to economic growth.

IN MY VIEW, the problem with economics really comes when economists overstep the mark, or when economic deliberations are applied uncritically, without reference to the prevailing institutions, culture and norms. In simple terms, the problems arise when we become a "market society" rather than a "market economy", and when the price of a product or service comes to be equated with its value.

Both Raworth and Mazzucato are keen to emphasise that markets are necessarily "embedded" in institutions and society, shaped both by regulation, norms and culture.


Kate Raworth, left, and Mariana Mazzucato

The importance of social norms is a point underlined by Mark Carney in his lectures and in his new book, *Value(s): Building a Better World for All*.

A more nuanced reading of Adam Smith and Milton Friedman than sometimes portrayed by free-market critics suggests they understood this point clearly. Carney quotes Friedman's paean to shareholder value, which he notes includes an often overlooked caveat: "A corporate executive's responsibility is to make as much money as possible, while conforming to the basic rules of society, both those embedded in law and in ethical custom." While Raworth and Mazzucato are light on how "ethics" and "morals" should be restored to economic thinking, Carney argues that they are central to making capitalism deliver for society.

In Carney's view, the answer to the price/value debate lies not in ditching markets, but in creating the right institutions in which they can thrive and the right human values to support their efficient operation. Carney concentrates his critique of capitalism on what he describes as "the tragedy of the horizon", particularly critical to the battle against climate change, a battle at which he has now placed himself at the head.

This "tragedy of the horizon" means that people undervalue the impact of their actions in the future – put simply, they tend not to care about the future, until it hits them. Given that the catastrophic impacts of climate change will fall largely on future generations, the only way forward is to start behaving differently, valuing the future more strongly today.

But there is a note of optimism. Carney argues that during the crisis of the pandemic, people's deeper values have been revealed, ones that have not been reflected in market economies to date. "The values of economic dynamism and efficiency have been joined by those of solidarity, fairness, responsibility and compassion", he says. And for those concerned with the prospects for action on climate change, he argues that society is beginning to place greater value on sustainability, which is "a pre-condition for solving the climate crisis".

Carney attempts to deal with this "tragedy of the horizon" by bringing the work of legal scholar Cass Sunstein and of economists Tim Besley and Torsten Persson to the table. Their work shows, he says, that the recent upsurge in support for green causes, particularly among the young, could have a snowball effect, with consumer demand catalysing investments in green technologies and greening the political environment in a self-reinforcing cycle. In the end, prices would better reflect society's desire for greener products and more sustainable approaches, helping society's efforts to tackle climate change. "That," he maintains, "is how values drive value."

FOR ALL his emphasis on values, Carney does not refer to his Catholic faith or its influence on his thinking in his series of lectures. A less well-known economist, Mary L. Hirschfeld, is more explicit about the influence of Catholic theology on her thinking in *Aquinas and the Market: Toward a Humane Economy*.

In her view, *homo economicus* also has to be rejected as too simplistic and as having too one-dimensional a notion of human beings. Instead, she argues that we should return to a two-tier world, as painted by Aquinas, in which humans can be driven by their emotions and passions but are also capable of guiding those passions in the light of reason's apprehension of the true and the good. So *homo economicus* and simple economic models are useful to analyse basic choices, but of little relevance in situations where humans choose to act according to their higher reason.

In this more sophisticated understanding of the world, the question of how to think about the two-tiered nature of human reason is central, as is concern about the impact culture has on the balance between the two tiers and our ability to think about how the culture shapes our ability to pursue genuine human flourishing. And finally, while empirical research informs economics, it could never substitute for philosophical and theological discussions about the human good and human happiness.

In short, capitalism may need to be reformed, but ultimately it is we, the stakeholders, the makers and the takers, who must change if we are to move in the direction of a more just and sustainable economy.