Inclusive and sustainable growth. A mission-driven multi-stakeholder approach

Mariana Mazzucato

ABSTRACT: This paper is about how to learn from past experience and how to move towards the new forms of capitalism that must be at the heart of a mission-driven system, in which the big issues of our time such as the digital divide, health systems and climate change are central, and how to work together to address them. This paper is about how to design a production system that is collective, but more importantly one that properly distributes the rewards, rather than the dysfunctional way we currently do it, which is to socialise the risks and costs and then privatise the benefits. I have had the honour of working with policy makers around the world to bring the notion of challenge, purpose and mission-drive to the heart of public policy design. This paper is also about systemic change, about what it really means, about how we understand the economy, about how to produce differently.

KEYWORDS: Public economy, Entrepreneurial state, Public innovations, Social economy.

ECONLIT DESCRIPTORS: P13, Q13, L31.


Author: Mariana Mazzucato, Professor of Economics of Innovation and Public Value, Founding Director of the Institute for Innovation and Public Purpose at University College London. Excerpt from the talk given on 15 June 2022 in Valencia, at the 33rd CIRIEC International Congress.
1. Introduction

I learned it in Ken Loach’s films. My name is Joe and I’m an alcoholic. So unless we really admit our problems and really delve into them, the addiction will continue. And the addiction we currently have is that we have a very problematic way of doing capitalism.

I am going to talk about how to learn from past experience and how to move to the new forms of capitalism that need to be at the heart of a mission-driven system, where the big problems of our time, like the digital divide, health systems and climate change are central, and how to work together to address them. On how to design a production system that is collective, but above all that distributes rewards appropriately, rather than the dysfunctional way we currently do it, which consists of socialising the risks and costs and then privatising the benefits.

I have had the honour of working with policy makers around the world to bring the notion of challenge, purpose and a drive toward the mission to the heart of public policy design. So this is what I want to talk about. I am also interested in talking about systemic changes, what they really mean, about how we understand the economy, about how to produce in a different way. That is why I am so inspired by this region of Spain, which has a cooperative movement with a long history. Cooperatives are designed in a specific way. They have a legal structure behind them. In the work “The Code of Capital” (Pistor, 2022) by Katharina Pistor, she discusses the existing legal foundation under the current dysfunctions of capitalism, what new legal foundation we need if we are going to talk seriously about collective intelligence, collective economy, public purpose, public value.

I would like some of the recent interesting experiments around the world, such as those happening in Valencia, which are trying to counteract this trend by doing production, distribution and consumption differently, to stop being small, isolated experiments and become systemic.

2. A COVID-19 moment

I would like to talk about this, in this moment that we can call a COVID-19 moment, a moment that brings a lot of lessons. Ideally, we should all be reflecting on the lessons learned to avoid getting it wrong next time, which will be very soon. Because we will have more viruses and more health pandemics, because we are killing the planet. And as the permafrost melts, new viruses will appear. So, not only do we have to stop destroying the planet, but we also have to ensure that we are ready for the next time, because we haven’t learned our lessons.

Have we learned about the vaccination problem? The vaccine is not the mission. Vaccinating the world is the correct mission. We are facing what Dr Tedros, the head of the World Health Organisation, calls “vaccine apartheid”: a very strong term referring to the fact that 80% of vaccines are hoarded by 10% of countries, which by definition is bad for us from a selfish point of view, because we are facing a health pandemic. If some parts of the world are not vaccinated,
the virus mutates and strikes again. So we should be selfishly concerned about how to ensure that everyone is vaccinated, not only through stronger health systems, but also by ensuring that we govern the production of health innovation in a less dysfunctional way.

We should have learned from how ill-prepared we were with personal protective equipment, which is very basic in relation to what health workers need. We were very ill-prepared in this respect and, in most countries, we did not deliver to health workers, who we call essential workers and applaud them in a very condescending way, but then continue to underfund the socio-health structures in which they work.

We should have learned about the digital divide because during the first, second and subsequent lockdowns, many students worldwide did not have access to their right to education, a human right that should also become a legal right. Have we reduced the digital divide in the last two years? No.

We were, again, very ill-prepared, even in advanced industrialised countries like the United Kingdom, which arranged to outsource that testing and tracking capacity to Deloitte. This outsourcing, this constant outsourcing of the capacity of public institutions, has been disastrous. In fact, I am writing about this in a new book that will be entitled “The Big Con: The History of Consulting”. But, have we learned how important it is to bring that experience home, to invest in the dynamic capacities of public institutions that can then deliver and implement radical and urgent measures during a health pandemic? No.

The health pandemic occurred at the same time as the climate crisis. The latest IPCC report (www.ipcc.ch) revealed that we have literally seven or eight years left before the climate change problem becomes irreversible. That is very little time. Yet at the G20, 56% of the recovery funds destined for energy companies went to fossil fuel companies. Just one year before the impact of COVID, more than €55 billion was subsidised to polluting sectors of the economy in Europe. Therefore, we are not acting properly or quickly.

We now also have a geopolitical crisis. With it we are massively increasing military spending, and this is very depressing. Of course, it is right to help Ukraine, but we actually had a long period in which we managed to reduce military spending globally to a much lower percentage than it was before, which, in many countries, in theory, opened up a fiscal opportunity to invest in areas such as health systems, public education or sustainable transportation systems. Therefore, we must be extremely cautious about the extent to which the excuse of military spending now emerges and becomes another reason for austerity.

I will come back to these financial issues shortly. What I want to underline is that we seem to be stuck, going from crisis to crisis that are interconnected with each other and what I want to argue is that it is impossible to simply fix our way out of this system.
3. Why a profound change in capitalism is necessary

Before going into the solutions, I will offer an overview of why a profound change in capitalism is necessary.

I think one of the strengths of your work here at CIRIEC is that, in talking about the social economy and the collective economy, you deal with something that the famous historian, sociologist and economist Karl Polanyi talked a lot about: that markets are outcomes. Markets are outcomes of, for example, how we organise our administrations. He said that the free market was an outcome of the public administration that forced it into existence. There is nothing natural about the so-called free market. We know that there are no free markets. There are all kinds of subsidies even in the supposedly most neoliberal countries. But the market and the economy is a result of all the decisions we make in different civil society organisations, in business, in the public sector. In terms of governance, how they interact, in a parasitic way, in a symbiotic way, in a mutualistic way, designed with collective intelligence, or not, will determine the market outcomes we get. We should never confuse market with business. Sometimes people talk about the State or the market. No, the market is an outcome of how we design state institutions and business organisations. Therefore, in thinking about the profound change that is needed, we have to go to the heart of how we have decided. There is nothing inevitable, nothing indeterminate, about how we have decided to structure different organisations.

I don’t have time to go through the different issues here. Just as an overview, I will say a few words about the finance sector, as addressed in my book “The Value of Everything” (Mazzucato, 2019). We continue to create money in multiple ways. The financial sector has provided a lot of loans, money as debt that is being bought by people. So, despite everyone’s obsession with public debt, the level of private debt relative to disposable income, in many countries, has returned to the level it was at the time of the financial crisis. And that is what caused the financial crisis. You would think that this would be on the front pages of the Financial Times, or that governments running for election would be saying “this is my strategy to stop the next financial crisis”. On the contrary, we have all these aid-for-purchase schemes in our COVID-19 recovery policies. We give more loans to countries that are having problems, increasing their debt, even if it is public debt, but also loans to small companies increasing their private debt.

A second problem lies in the fact that a large part of the capital does not go to the real economy but rather goes back to the financial sector, financing itself. This is largely a corporate governance problem that is also reflected in terms of falling business investment. Where do the profits that are generated in a collectively produced system go? The Internet, GPS, the touch screen, all these innovations that I wrote about in my book “The Entrepreneurial State” (Mazzucato, 2014) came out of mass collective investment. These technologies came out of public funds. How can we ensure that we share the benefits of these mass collective investments and not allow them to be siphoned off?
Additionally, this kind of value extraction, where money is siphoned out of the system through an ultra-financed form of corporate governance, is one of the main causes of inequality. Workers’ wages have not risen in line with productivity growth. Their efforts have not been rewarded because of this extraction problem. Therefore, the link between corporate governance and inequality is what worries people when they argue that maximising shareholder value is a decision that should be questioned. This is why there is the substance-free discourse on stakeholder capitalism, stakeholder value and purpose. One example is Larry Fink, the head of BlackRock, an investment management firm, who wrote a letter to 500 CEOs saying: “We need to rethink business. We have to give back to communities, to workers. Value creation can’t just be for shareholders”. But we are not seeing the change. Production, distribution and the way we work collectively are not really changing. I just mentioned the pandemic, the vaccine. If this is not a formidable opportunity to work together differently, when will it be?

A third big problem is that governments have been “hollowed out”. I am not talking about Reagan or Thatcher; that is the old way of attacking government, which was to say: “My God, state, get out of the way, let the market decide”. We have abandoned that stupid way of thinking. Progressives now talk about the role of government as important; they assume the stance of “don’t get out of the way”. But this is the real enemy. Stay but fix such a market failure and then get out of the way. I would rather someone said get out of the way than stay in the room and patch things up here and there. Why? Because those patches end up justifying the current system, they end up allowing it to thrive because we are actually correcting it. A child who falls and hurts their knee and then has a plaster put over it will stop crying. For Greta’s claim to be realised, we have to shout out loud, not put a patch over it.

This extends the idea that the market works, but from time to time it “screws up” due to positive externalities, such as not enough investment in clean water, defence and R&D (research and development), so government intervention is needed. If there is a negative externality, the government intervenes, it imposes a carbon tax. If there is asymmetric information, for which Joseph Stiglitz won the Nobel Prize, the government steps into the funds of small and medium-sized enterprises. If there is a demand failure, the government steps in and makes counter-cyclical investments. These are successive patches that justify the system. It will be impossible to achieve the sustainable development goals if we continue to patch things up like this, if we continue to allow corporate governance to work as it does, if we continue to allow 80% of funding to go back to financial, insurance and real estate entities.

4. The solutions

I will now focus on the proposed solutions, which appeared in my last book, which is almost like a recipe book on how to do it.

I must say that if I was to write the book again, I would have an extra chapter on the cooperative due to the question of ownership and how production is produced in a pre-distributive way. The cooperative gets the conditions right from the start, so it doesn’t have to correct the
mess afterwards, in the form of redistribution. There is no better model than the cooperative model. It is not a perfect model, but it is a very interesting model for learning about when something works and when it doesn’t work. It is a benchmark for changing the economic model.

In the book “The Entrepreneurial State”, I focus on public investment. Everything that makes my iPhone smart was publicly funded. It is the same with the internet, GPS, the touch screen and Siri, but it is also true for health and energy. Solar power and nuclear fusion required huge, high-risk public investment in the early stages to get them off the ground. In the case of solar and wind, there are now a lot of private sector companies, but they came later. So, that kind of risk distribution, which should have subsequently become a better distribution of rewards, didn’t really happen because the narratives that we had, or have, of who creates value and wealth are very biased. There is no good recognition of who creates value in the system. There is a self-serving bias.

In Mission Economy, I give answers on what to do. The city of Valencia seems to have been inspired by this. How is it possible that we went to the moon and back in the 1960s? Honestly, because the aim was not just to go to the moon and back. It required the involvement of 400,000 people and many different sectors, such as nutrition, electronics and software, not just the government. How is it possible that we did that and now we cannot even produce personal protective equipment during a health pandemic?

The real challenges we have today are not technological but societal, underlying the Sustainable Development Goals (SDGs). They are “wicked” challenges or problems that require not only technological change, but social change, regulatory change, etc.

A central element about the moon landing is the kind of explicit level of directionality. It was a goal that could really be answered with a yes or a no answer. So, did we get to the moon and back by a certain time? You can say yes or no. What about climate change, how do you transform it into specific targets, into targets that require the involvement of many different sectors? It is a problem that requires a profound transformation in many sectors and a comprehensive approach to governance.

Now, the current language of politicians talks about facilitating and incentivising the private sector. That is the opposite of what Kennedy said. He said, “we’re doing it because it is difficult, let’s embrace the difficulty”; he didn’t say, “let’s make it easier for somebody to get up there”. It is about embracing uncertainty, risk and experimentation, trial and error. You learn from it. You get up and you do better.

Can civil servants do that? No, as soon as you make a mistake, you’re on the front page of the newspapers. Instead, venture capitalists can boast that “we made all these mistakes”. Like Kleiner-Perkins, a big venture capital firm, which invested in Genentech and then made billions on it. Before that, they made a lot of mistakes. And they like to talk about that because it shows that they take risk, that it is venture capital. So, on the one hand, we are mythologising venture capitalists and yet we are not allowing that level of trial, error and failure to happen in other parts of the economy.
How do we share the risks, the rewards, the difficulties? How do we deal with uncertainty together, without trying to make something easier for someone else? It is about achieving a complete mindset change in organisational design, but also about changing the tools to be more “outcome-focused”, as well as symbiotic partnership.

First of all, they took a lot of risks. They had no idea how to get to the moon. There were different ways, but they literally had to imagine, experiment and accept the difficulty. They reached lunar orbit eventually, but along the way, they failed and failed again and again. The Apollo 1 programme ended with the death of three astronauts.

The necessary change in organisational design. How are we going to get to the moon, they asked, if we cannot even talk to each other when we are in two or three buildings? In that space challenge, this problem was noted in that they could not hear what was being said in the module from the Mission Control room. What did NASA do? Did it say... we work in departmental, bureaucratised silos and we don’t know what we are doing, so let’s leave it and outsource it to the private sector? No.

They changed the organisational design to be mission-oriented. They changed the organisation with different project managers, each with their own teams, but all of them in continuous communication, thinking together, holistically. They imposed more flexibility and agility on NASA as a result of this huge failure. They reorganised, whereas today we are so used to using the word bureaucratic. Bureaucratic is not a bad word. We can have bold, attractive and creative bureaucracies, or we can have really boring, vertical, isolated and inflexible bureaucracies. So, what needs to change? Bureaucracy itself.

Although the ultimate goal was clear, there were many other intermediate goals along the way. So, what does it mean to have a challenge, the space race, and turn it into a mission? Getting to the moon and back, but getting many sectors involved so that it is not just one big project that can be developed, but also involving different sectors, with successive problems linked to the projects that had to be solved along the way, which are actually the ones that led to economic growth.

How can we formulate today, in the framework of the Sustainable Development Goals, specific missions, while involving as many different sectors as possible, so as to generate technological spill-over effects, but also social and organisational spill-over effects?

This requires rethinking what the problems are and using industrial strategy, procurement policy and innovation policy to refocus on the problems and reach targets that can actually be answered with a yes or no.

Another key element was public-private collaboration. They designed this collaboration or partnership to include issues such as no excess profits. Not in the sense that there are no profits, of course you can still make profits, but not in excess. The question is, what is the fair profit to be made if we share the risks and rewards? NASA understood this and established that they are not allowed to make a profit, contrary to what is happening today. For example, in the space sector there is the case of Elon Musk who received 7 billion from the US government and never said thank you. Let alone share the rewards. His three companies, SpaceX, Tesla and Solar City, received huge amounts of subsidies in their early days, when it was difficult.
They also soon realised that the way they designed things like public procurement, where the government is the buyer, had to be very careful. They are concerned about designing procurement differently. They said that the cost-based form of procurement was not working. They turned it into a more challenge-oriented procurement, that is, fixed-price with incentives for constant improvement in quality and innovation.

Another key issue is funding. In wartime, like the Second World War, money comes out of thin air. For major social problems, however, we say there is no money. It is even said that if you spend more on education, you have to spend less on health. How do you make sure that the money is really outcome-oriented, that it is designed with conditionality? That is the challenge that we have and that, unfortunately, we are not learning from. That was one of the things that NASA made very clear.

Public intelligence, of the administration, is another crucial element. This is a quote that came from the head of procurement, Bracket: “we have to keep investing in our own intelligence”, because he saw that NASA was already outsourcing its intelligence, not just to Mackenzie but to other consulting firms, and he said that if they kept doing that, they would be captured by them. So, in order to have collective intelligence and collaborate on the big problems of our time, all organisations need capacity and intelligence. By contrast, our public institutions have been drained of this capacity due to this outsourcing. And that is a serious problem that people are not paying attention to.

I think the European recovery, whatever it is, the two billion should have been conditional, not just on climate and digital, but on capacity, on intelligence. Unless you invest in local, regional and national capacity or intelligence, all this money is going to go to incapable organisations.

I focus on government simply because it is the weakest link right now, but it is also the most important. Government must set direction, it cannot micromanage. It needs as much bottom-up experimentation as possible, but without a direction, without a vision, we are lost. Anyway, even assuming they have a vision, unless we have the capacity and intelligence to do it, it is simply not going to happen.

Taking these actions requires collaboration. How do you collaborate with the different players in the economy if you do not even understand your world, if you do not have the capacity to think, for example, on digital platforms, because there is nobody in your government who is competent and has an idea?

5. The idea of missions

The idea of missions starts with challenges that don’t need to be invented, they are the Sustainable Development Goals. You have to turn them into specific missions, you have to get the different sectors involved.
In a report I wrote recently for the United Nations, we looked at how COVID showed us that those parts of the world like Kerala in India, Vietnam, Rwanda and Togo did better than other parts of the developing world, but even better than the developed world, thanks to the investments they made in areas like building trust between the academic world, business and government, but also in other very specific areas like the necessary learning and coordination and capacity to govern data and digital platforms because of the “infodemics”.

Another key point is the design of financial institutions. I helped Scotland set up a new public bank with this idea of missions at the core, because we need committed and patient funding, not like some public banks, which only give aid to certain sectors. It is committed money that is patient over the long term and conditional on the receiving sectors transforming in the right direction. But that kind of conditionality is not usually done. Goldman Sachs called Portugal, Italy, Greece and Spain “pigs”. It is terrible, but in Europe during the financial crisis we had only the conditionality of austerity for the bailouts to happen. So, Spain cut its publicly funded R&D by 40% after the financial crisis to fit the deficit criterion. That does not foster long-term growth.

If there is no mission, if there is no vision, no new capacity on the ground, no new ways of doing procurement, no new ways of designing industrial strategy and no new conditionality, it will be a missed opportunity.

Greater participation is also key. It is very interesting to note how, in Sweden, the idea of a fossil-free welfare state has taken hold in very specific places such as in the school meals strategy. In this country, school meals must be healthy, tasty and sustainable, which means that the entire supply chain of the meals has to change, to be much more cutting edge, to create not only deliveries to the contracted companies, but also the school children have been involved in the design of the meals and this becomes exciting. This goes back to the cooperative model that I think your own organisation (CIRIEC) here at the conference is addressing. It is about having a cooperative model for missions to bring empowerment of people, to nurture their capacity to participate in this from the beginning rather than just reacting afterwards.

It has been great that our institute has been looking at what is happening here in Valencia, trying to inform it. It is about new ideas, not only to consider and interact with the European missions, but also to ask how we can build on the history of, for example, cooperatives, to do production differently. Cooperatives are also new forms of ownership, new tools on the ground with that conditionality. They are a new way to really produce better. Doing capitalism differently means that all the elements I have raised go to the heart of the system. That participation, I think, is one of the most important things.

If we don’t know how to make the social contract really different rather than just “symbolically” different, we are in big trouble.

Thank you.