

From the Editor's Desk: Transitus

The State: Saviour or Enemy?

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Summary: *The state is often viewed as an evil force that can only damage in its quest to stay in power. Policies are labelled 'populist' and interventions as 'distortions'. Marianna Mazzucato's theory of the Entrepreneurial State challenges this widely held view. The article, though short, seeks to capture the essence of the theory and critically analyze it.*

Introduction:

Since the late 1950s, when the word 'market failure' first gained prominence, the government has been viewed as a villain juxtaposed to the market mechanism, which is portrayed as the protagonist of today's economic story. While some fiercely propagate the force of the invisible hand, this market-loving approach has received its fair share of criticisms. Marriana Mazzucato's theory on the role of the government as an innovator and entrepreneur has, to a great extent, changed the dynamics of the game, stacking the odds in favour of the government.

Once Upon A Time:

Our veterans have held close to their heart the belief that any (emphasises on any) intervention by the State leads to market distortions, hence, making the citizenry worse off in the State's show of benevolence.

"The great advances of civilisation, whether in architecture or painting, in science or literature, in industry or agriculture, have never come from centralised government."

-Milton Friedman, Capitalism and Freedom

This ideological enthusiasm is shared by many other economists who believe that the government should 'get out of the way' for it is nothing but a hindrance to innovation. The Government is believed to be notoriously inefficient, having fabricated a long drawn process susceptible to multiple points of failure,

facilitated by the un-informed and greed ridden bureaucracy.

It seems that Mazzucato's theory has ushered in a phase of letting go.

The Game Changer:

Mazzucato's theory, expounded in The Risk-Reward Nexus⁵⁹ and The Entrepreneurial State⁶⁰, hinges on her characterisation of the innovation process. The innovation process, as characterised by her, is uncertain (i.e. there is risk), cumulative and collective. While the former two are self-explanatory, the latter deserves a line or two. Collective is defined in two senses: First, when the government innovates, the taxpayers are collective risk-takers; second, even when a firm innovates it's not just the entrepreneur but all constituents of the organisation that are to be identified as risk-takers. Extensive case studies⁶¹ substantiate Mazzucato's argument for the State being the prime innovator. Neatly aligning all her arguments, she formulates the Risk-Reward Nexus (RRN) framework as an instrument to help study the asymmetry between risks and rewards. The major culprit, according to Mazzucato, that induces this incongruity is the financial market which allows certain players to extract more value than they create. The incongruity between risks and rewards then creates a domino effect and leads to the inception and perpetuation of inequality in the society and compromises the innovation process itself.

Having completed the diagnosis, Mazzucato delves into the possible treatments:

1. Resource Allocation; 2. Taxation; 3. Map/Reward the Division of Innovative Labour; 4. Distinguish between Productive/Unproductive Risk; 5. Direct Returns to the State

He Said, She Said:

Nothing new is accepted into the community without facing the wrath of the old & conventional. Following

the tradition, Mazzucato's theory is in for the treat as well.

Some scholars have questioned the very definitions proposed by Mazzucato, such as that of Public goods.

"Well, I think I'd prefer to think that it is philosophical trickery rather than an economics professor not actually knowing the definition of public goods."

- Tim Worstall, Forbes

"Ms. Mazzucato laments that private businesses are too short-termist. But governments also routinely make investments on the basis of short-run political calculations rather than long-term pay-offs."

- Schumpeter (Blog), The Economist

But if the theory has been criticised, it has also been praised and appreciated by many.

"Conventional economics offers abstract models; conventional wisdom insists that the answer lies with private entrepreneurship. In this brilliant book (The Entrepreneurial State), Mariana Mazzucato argues that the former is useless and the latter is incomplete."

- Martin Wolf, Financial Times

The Last Word:

After a thorough analysis, we, too, have reached a verdict. Although we stand in support of the theory vis-a-vis government participation and contribute our voice to the appeal for equitable distribution of rewards, we also have our doubts and apprehensions.

A major take away for us has been the emphasis laid on the point concerning taxation. The big-shot entrepreneurs and other private players have often raised hue and cry over the government not being "tax-friendly". Mazzucato, very sensibly, argues that when the State is funding the basic level R&D and providing the ground for innovation, where do we expect these tax cuts to come from?

Also, when she advocates direct returns to the State from all the major companies she very well puts forward the point that their products (for instance, the

iPhone) or the technology they use (Google's original algorithm) are nothing but a beautiful integration and application of the State lead innovation. However, we believe that while the government is surely an agent facilitating innovation, the degree of involvement can and should be questioned with respect to different countries and their stage of development.

Even though one might be able to appreciate Mazzucato's unflinching belief in the overall human asset/capital as she goes on to glorify the much neglected role of the employees, the outlook of employees being risk-takers is not only objectionable but also subjective to a great extent.

".....the key to successful innovation is the extra time and effort that employees expend interacting with others to confront and solve problems in transforming technologies and accessing markets, above and beyond the strict requirements of their jobs..."

- Lazonick & Mazzucato, The Risk-Reward Nexus, 2012

In the end a question that's left lingering and which intrigues us thoroughly is that would these workers have taken the risk to 'invest' their labour in an uncertain process had they not been guaranteed a wage?

Well, irrespective of the verdict you may reach, Mazzucato has definitely provided us with an ingenious way to look at inequality and society today.

REFERENCES

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