Let’s Get Real About Purpose

MARIANA MAZZUCATO

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For too long, the value of economic activity has been measured purely by its price. By recognizing that value is created collectively by business, government, and civil society, it is possible to create a more purposeful type of capitalism.

Fink argued that companies’ excessive short-term focus was hurting their ability to create more value in the long run. Some prominent politicians – including US Senator Elizabeth Warren and (until Brexit torpedoed her policy agenda) British Prime Minister Theresa May – have also advocated a more inclusive and less predatory form of capitalism.

But despite these calls to action, little has changed. The financial sector remains self-obsessed and invests mostly in other parts of finance, insurance, and real estate. Companies also are overly financialized, spending more on share buybacks and dividends than on human capital, machinery, and research and development. And the buyback mania is getting worse, including at companies like Apple, where falling innovation is not unrelated to the failure to reinvest. Many businesses talk soothingly about corporate social responsibility, impact, and social purpose, but very few put these at the core of their operations.

Fink claimed that companies should instead focus on a broader group of stakeholders: “shareholders, employees, customers, and the communities in which they operate.” But this would require corporate governance structures that maximize stakeholder value, not shareholder value – and neither Fink nor other business luminaries seem willing to go down this “Scandinavian” path.

Real change means putting purpose at the center of how value is defined by firms, governments, and the economic theory that informs policymakers. As I argue in my new book, Adam Smith and Karl Marx made the objective conditions of production – the division of labor, machinery, and capital-labor relations – central to their understanding of value. In neoclassical economics, however, value is merely a function of exchange. Only what has a price is valuable, and “collective” effort is omitted, because only individual decisions matter. Even wages are seen as outcomes of people’s utility-maximizing choices between leisure and work.

In the neoclassical view, governments at best redistribute value created elsewhere. Furthermore, GDP doesn’t account for the value of essential public services such as health care and education. It does, though, account for their costs (teachers’ salaries, for example), so that civil servants cannot claim to be as “productive” as former Goldman Sachs CEO Lloyd Blankfein in 2009 infamously suggested his employees were.

Unsurprisingly, public officials, long accused of “crowding out” business, have internalized the belief that they should do no more than fix market failures. Yet the public organizations that put a man on the moon and invented the Internet did more than just correct market failures. They had ambition, a purpose, and a mission.

To get real about purpose, we need to recognize that value is created collectively and build more symbiotic partnerships between public and private institutions and civil society. In doing so, we must address three questions: what value to create, how to evaluate the impact, and how to share the rewards.

Paul Polman, the departing CEO of Unilever, has rightly tried to focus companies on creating value in line with substantial targets, especially the United Nations’ 17 Sustainable Development Goals. Of course, neither the public nor the private sector alone can meet all

169 specific targets underpinning the SDGs. But governments can use the goals to create initiatives that require investment and innovation from many public, private, and civil-society organizations. I advocated this approach in a reportthat has become a key part of the European Commission's Horizon program.

Similarly, companies evaluating their social impact should ditch fuzzy objectives and focus on concrete steps to help solve problems. Financial institutions would no longer evaluate their loans on the basis of categories of firms or countries, but rather in terms of activities that help fulfill specific missions – such as removing plastic from the ocean or creating more sustainable cities. Likewise, governments should give fewer handouts to companies and instead rely more on procurement and prize schemes to nurture corporate innovations aimed at achieving the SDGs. In other words, there should be less picking winners and more picking the willing.

Finally, companies must share the rewards as well as the risks of creating value. Business has benefited enormously from public investment not only in education, research, and basic infrastructure, but also in technologies like those powering today's smartphones. Governments could, therefore, retain more of the upside returns to cover the downside losses that risk-taking involves. For example, they could take equity stakes in companies like Tesla, which received a similar amount of support as the failed company Solyndra, or generate non-monetary returns by setting conditions on the prices of goods (such as medicines) that receive heavy public investments, and on knowledge governance (to ensure that the patent system is not abused). Similarly, conditions on reinvesting corporate profits would reduce cash hoarding and share-buybacks. To cite one famous example, when Bell Labs was formed, monopolies like AT&T were pressured to reinvest their profits. That courage has been lost.

A more purposeful capitalism requires more than just letters, speeches, and goodwill gestures. Business, government, and civil society must act together, courageously, to ensure that their walk is as good as their talk.