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Corbyn's bad adviser

What does Mariana Mazzucato stand for? And does industrial policy work?

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While Jeremy Corbyn's appointment Seumas Milne as Labour's new director of communications caused quite a stir, another controversial addition to his staff seems to have eluded the same level of public scrutiny.

In a way, Mariana Mazzucato, the British economist who authored "The Entrepreneurial State" (2013) and now advises Jeremy Corbyn, is an admirably honest person.

She openly admits to being engaged in what she calls "a discursive battle." She thinks government should do more than repair market failures; It should "shape and create markets," which means owning businesses. It should exercise "directionality," that is, it should decide which products and services are worth investing in, or at the very least "nudge" private companies to bet on some technologies instead of others.

Mazzucato is a powerful evangelist for industrial policy. This is more than a set of institutions that allow private initiative to flourish: It means that government should direct investment and "pick winners" to favor genuine innovation. She claims it worked well in the past and that we should therefore have more. But the evidence she produces is, at best, dubious.

For one, Mazzucato claims that industrial policy has succeeded, albeit in disguise. She studied the United States and came to the conclusion that government-sponsored industrial policy is ubiquitous there.

Yes, ubiquitous. She claims the U.S. government "picked winners" in the apparently unlikely case of the iPhone. Mazzucato rests her argument on the fact that Apple received seed funding, before its IPO, from Continental Illinois Venture Corp., which was, according to Mazzucato, a "Small Business Investment Company (SBIC), authorized by the Small Business Administration to invest in small businesses."

Apple also sold computers to government-funded schools. And it was government funding that allowed a young PhD student at the University of Delaware, Wayne Westerman, to complete his studies and go on to co-found FingerWorks, which "revolutionized the multi-billion dollar

mobile electronic devices industry.” We may add that Steve Jobs drove to the office on government-owned roads.

Does any of this really prove that government envisioned, and purposefully developed, the iPhone? That is hard to say. Mazzucato speaks about “directionality,” but what she is talking about are unintended consequences.

Her best arguments lie with a well-known storyline. The U.S. government invests a lot in military research. The “entrepreneurial army” produces technologies that, at a certain point, the private sector succeeds in turning to its benefit, embedding them in consumer products. The most notable example of that may be the GPS.

For Mazzucato, it’s only the technological side of entrepreneurship that matters. The development of products that consumers actually appreciate and pay money for has little significance. She considers the feedback mechanisms of the market to have zero importance. But innovation is not good per se: It is good insofar as it makes people’s lives better and easier.

Her disappointment with private investors seems to be that they are poor judges of technology. Indeed, they are not a grand jury of PhD engineers. They care about technology insofar as it sells. But this is a good thing, not a bad thing. A world of scarce resources is necessarily a world of trade-offs.

She also defends as “industrial policy” what in truth are the unintended consequences of various government policies. Not surprisingly, then, she has not considered examples of countries that are in fact proudly engaged in “directing” development — like her parents’ homeland, Italy.

And yet Italy has a strong record of an explicit and interventionist industrial policy. At some point, the government “directed” not just the production of steel and electricity, but also that of tomato sauce, gelato and panettone. It wasn’t free-market ideology that gave us privatization, but despair in government incompetence. The only innovative thing about government businesses were their novel experiments with corruption and inefficiency.

It’s easy to idolize government. You just need to focus on what it claims it will do, rather than what it actually does. Mazzucato and Corbyn are a perfect match.

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