



THEME 03

# Does the future belong to Keynes and Mazzucato?

ECONOMY

SOCIETY  
AND CULTURE

TECHNOLOGY  
& INNOVATION

In the past year, Keynes made a comeback into the soul of European economic policy. First intended to keep the economy going, then with a view to establish a sustainable and inclusive economy in the future. In order to facilitate the latter, Keynes was modernized with the mission-oriented innovation policy of economist Mariana Mazzucato. Together, they provide a substantial economic policy framework for governments to combat the “wicked problems” of the 21st century.

## Our observations

- Because of the coronavirus crisis, for the first time in twenty years, poverty is on the rise again. Depending on the severity of the economic crisis, an estimated [150 million people](#) will join the ranks of those living below the poverty line, making the sum total nearly 10% of the global population. A wealthy continent such as Europe, despite there being more social security than elsewhere, is [no exception](#) to this trend.
- In the past, crises have sometimes been great equalizers: In wartime, equity and capital evaporated more quickly than gunpowder. This does not apply to the coronavirus crisis, which has only [exacerbated](#) social and economic inequality in several ways.
- CO2 emissions decreased by 8% in the past year and we're unlikely to ever again reach the global peak levels of 2019. The main concern is now whether emission levels will be reduced [fast enough](#), and which part of the population will “bear the brunt” of the decreased emission rates.
- With the coronavirus as a tipping point, governments are now striving for a more active role in the economy to deal with the abovementioned “wicked problems”. In the course of the year, aid packages came to be accompanied by recovery packages meant to correct the unbridled neoliberalism of the past years. These recovery packages are largely made up of investment funds with a lot of reference to mission-oriented innovation policy, which [gradually seems to be gaining ground in Europe](#).
- The recovery plans and investment funds are crystal clear in one respect: sustainability is the main goal. The German government devised a green recovery plan of [130 billion euros](#) which focuses mainly on hydrogen. The French government, unwilling to lag behind, presented a [100 billion euro](#) plan soon after, of which 30 billion is reserved for the ecological transition. And recently, regulations on spending the European recovery fund of 672.5 billion euros were tightened, so that a significant percentage of the subsidies and loans would have to be used for sustainability purposes. The same applies to the Dutch growth fund of 20 billion euros, which initially incurred much [criticism](#) for the gray and traditional economic set-up of the investment fund, but has now become much [greener](#).

## Connecting the dots

Economists generally disagree. Put two economists in a room and you'll get three opinions, the old economic saying goes. The consensus among economists about the global aid policy of governments was therefore surprising. Economists have rarely been this unanimous in their agreement on the necessity of government intervention. Moreover, with the financial crisis still fresh in our memories, [central banks](#) are asking governments not to start phasing out financial aid too soon. The rising government debt has been taken for granted so far; the fear of long-lasting economic stagnation unequivocally takes precedence over the fear of inflation. Initially, the emphasis was on keeping the economy going. Now, we're becoming concerned about the future. The government wants to stimulate economic growth as well as realize societal goals such as reaching sustainability and social justice at the same time.

This will be one hell of a job. Classical Keynesian undifferentiated innovation policy is no longer the solution, as not all innovation is good and not all consumption is wanted. Keynes needs an update. The neoclassical economic idea that innovation is ultimately best judged by the market, is abandoned in the innovation policy of economist Mariana Mazzucato. Her ideas include a preceding process of elimination by civilians and the government, who join hands in formulating ambitious societal goals, or "moonshots" as Mazzucato likes to call them.

In Europe, in part because of the coronavirus crisis, Mazzucato's ideas have gained much momentum. Following the Green Deal, governmental aid packages often contain clear references to mission-oriented policy, with social justice and sustainability as the most prevalent missions. These societal missions are ambitious and this is precisely the [point](#), according to Mazzucato, so that passion will return to government policy, which otherwise is at risk of becoming uninspired and providing a culture with little direction. Yet, the economic reality presents a challenge for European policy makers. Mission-oriented innovation policy is a three-fold struggle in which crises from the past, present and future influence each other.

The legacy of the past is a financial system in which capital is (too) profitable. Indeed, private savings abound: in the year of the coronavirus, European savings accounts and nest eggs were amply stocked. Moreover, central banks are copiously adding to the money supply with their extensive buy-back programs. Because of this, collecting money isn't the problem, but, eventually, this money should be flowing into the real economy, which has been an issue for over a decade. The way the financial system is organized ensures that returns on stocks and capital are often more interesting than risky innovation. It speaks volumes that in the year of the

coronavirus, more young people opened a [private investment account](#) than ever before, and house prices merrily kept on rising during the crisis. Speculation counters innovation and discourages companies from making daring long-term investments.

The legacy of the present is simply the economic damage of the current crisis. Inequality has increased in many domains. The crisis greatly [divides](#) society, resulting in clear winners and losers. Consequently, we're witnessing increasing resistance against some forms of public spending, especially where climate policy is concerned. Economists therefore advocate a joint approach to reaching sustainability and economic equality. Their approach boils down to higher (environmental) taxes for the upper class, and tax exemptions or financial compensation (e.g. for road pricing) for the lower and middle classes to restore their disposable income. According to economist Dirk Bezemer, tax and wage measures should be in [one and the same package](#) as sustainability laws, otherwise, the intended acceleration of the green transition in Europe would be completely unrealistic.

Our "legacy" for the future is the advance we've taken on this future and the necessity of growth to be able to pay this back. With sufficient economic growth, government debt becomes lower in relative terms and tax income rises, so that it becomes easier to pay interest charges without this affecting other expenses. And it's not just government debt that makes economic growth desirable. The future pension costs and increasing healthcare costs of an ageing population, make economic growth essential to Europe. Economic growth is thus very desirable, but to what extent are economic growth and societal missions reconcilable? This is a controversial question, especially as regards sustainability. Too much emphasis on quick recovery in the form of a single-minded focus on economic growth would have disastrous effects on, among other things, absolute emission rates. Yet, an economic downturn, is not the time to experiment with economic paradigms that do not center around growth. The fact that societal missions are still mostly framed as [interesting investment opportunities for growth](#) is exemplary of the dilemma governments face. Innovation, it is still felt, is mostly meant to be interesting economically, and only to benefit society by derivation.

Thus are government policy-makers forced to struggle with the legacy of a financial system marked by perverse incentives, with the economic downturn of the current crisis, and, finally, with the considerable loan we've taken out from future generations. If Mazzucato's ambitious mission-oriented innovation policy is to have any chance of success, this threefold legacy will have to be taken deathly seriously.

## Implications

- There are risks involved in a more active role for government. If we fixate too much on the promises made, we'll lose sight of the fact that in the past decade, many companies have become too dependent on the government, with dire effects on innovation. Economic renewal requires the creative destruction of old and lumbering companies that should not be able to keep getting handouts from the government or obtaining debt obligations at extremely low cost. Economists have long feared the rise of zombie companies, that are all too eager to look to the government for bailouts. Like unbridled neoliberalism, this "[sunflower capitalism](#)" (i.e. these companies turn to the government as a sunflower turns to the sun) creates the wrong conditions for innovation.