

# Book Review: The Value of Everything: Making and Taking in the Global Economy by Mariana Mazzucato

*In The Value of Everything: Making and Taking in the Global Economy, Mariana Mazzucato explores the concept of value today, showing how value extraction is now more highly rewarded than value creation. This is a meticulous and insightful analysis of value in the economy that will help to reopen the debate into 'the value of everything', writes Wannaphong Durongkaverroj.*

If you are interested in this book review, you may like to listen to a podcast [here](#) of Mariana Mazzucato's LSE lecture, 'The Value of Everything: Making and Taking in the Global Economy', recorded on 23 April 2018.

**The Value of Everything: Making and Taking in the Global Economy. Mariana Mazzucato. Allen Lane. 2018.**

Find this book: 

Looking at the things around you, do you think they have some value? If the answer is yes, is it simply because they have a price in the market? If the answer is still yes, then *The Value of Everything: Making and Taking in the Global Economy*, authored by Mariana Mazzucato, is essential reading.

'Value' used to be a primary tenet in economics. It essentially originates from the cost of production and determines the price of things. Nowadays, everything that can fetch a price in the market has value accordingly. Scarcity and preference become key factors in getting the price right; as a result, price determines value. With this insight, Mazzucato points out that value can be easily used and abused by capitalists operating in numerous sectors.

Mazzucato discusses value by focusing on three sectors: finance; innovation; and the public sector or government. For the financial sector, there is the changing role of the financial sector from mobilising resources (and being viewed as an unproductive sector) to generating its own revenue and profit (and hence being seen as a productive sector and vital ingredient of the country's GDP). Since the 1970s, the financial sector has expanded rapidly due to financial deregulation. New and complicated financial instruments (think of securities and derivatives) have become widespread. Based on this, Mazzucato argues that actors in this sector get rich by capturing value from other sectors through several ways, such as interest differentials and expensive transaction costs, rather than by creating value. Furthermore, when companies in non-financial sectors are controlled by private equity and venture capital firms, such companies' apex aim is not to produce new things but to maximise the value of shareholders through share buy-backs resulting in higher earnings per share, as well as other short-term rather than long-term investments.

Regarding the innovation economy, Mazzucato explains that there are three key characteristics of innovation processes we should keep in mind: cumulateness (where innovations are the fruits of long-term investments building on each other for many years); uncertainty (where most attempts to create innovation fail); and collectiveness (where innovation involves different people in different jobs and sectors). Value extraction in an innovation economy takes place in several ways: for instance, through the patent system, controlled by governments, and high-priced innovative products. Even though the core benefits of patents are to provide short-term protection and to encourage knowledge diffusion, patents are also used to prevent innovation because of extended coverage of products, longer periods of protection for the patent holder and patent hoarding. Additionally, firms often justify the high price of their products by asserting that they take risks and invest heavily in innovation (i.e. pharmaceutical products). Consumers thus pay a price that does not reflect collective value creation.

As we can see, governments also play a pivotal role in creating value. It has created fundamental technologies (such as GPS) that can be developed further for commercial reasons by the private sector. However, government is always viewed as an unproductive sector. Mazzucato believes that government should become an active value creator rather just a facilitator of the real economy or a spender during crises.



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In this book, Mazzucato provides a meticulous and insightful analysis of value in the economy. She eloquently explains a change in the understanding of value and how it affects the way we see things. As entrepreneurship and innovation are vital components of the economy in the present day along with the growing importance of the financial sector, this book is timely in that it helps us distinguish between value creation and value extraction and gives a new lens through which to look at economic phenomena. However, I have the following comments to make.

I agree with Mazzucato's argument that the debate about different theories of value has vanished from economics. Looking at how economics is currently taught, value is commonly seen as price multiplied by quantity. In economic research, even though the word 'value' appears, for example, in the term '[global value chains](#)', a value-added of all activities needed to produce goods, its analysis starts from a completed distribution of wages and rent in total output. The question about the actual value arising from the factors of production is not raised. This significantly limits our ability to criticise the current market system and for us to design a better alternative. However, other than scarcity and preference regulating market price which, in turn, affects wages, some countries use a minimum wage system. Even though a minimum wage is used to sustain a sufficient standard of living, it sometimes limits value instead of reflecting the value of labour. To fix this, governments might need to rethink how to form a minimum wage system that truly rewards value creators. Ultimately, income inequality can fall.

In explaining the role of finance, Mazzucato seems to focus on rich, large-sized firms, which is appropriate because [such firms](#) have the power and resources to seek rent through lobbying or appropriation of existing assets. To be clear, a fast-growing financial sector triggers value extraction among these firms. However, the author seems to ignore its role in helping small- and medium-sized enterprises (SMEs) (and also startups) to access [finance](#) and raise the capital required to join the dynamic market. In the case of less developed countries where [SMEs](#) are ubiquitous, it is questionable that value extraction outweighs value creation, and that more financial regulations are required. As SMEs are less likely to obtain bank loans, their power over the market or the possibility of rent-seeking behaviour from them may be limited.

Mazzucato's view about value extraction in the financial sector can be extended to analyse the coordination between commercial banks and other sectors (e.g., tourism, healthcare and retail). There exists a [privilege](#) for those who hold a bank's credit card. At first glance, this practice sounds fine as a familiar marketing strategy as it can reduce transaction costs in making payments. It also boosts GDP from advertisements (think of billboards) and the production of credit cards, and competition among a few banks may increase market efficiency. Unfortunately, this is another form of moving existing money around, resulting in emboldening the power of a few rich banks without creating new products in the real economy. Also, this indirectly triggers monopolies in the market.

When value extraction is masquerading as value creation, we can end up praising and rewarding non-productive activities while ignoring productive sectors. As a result, GDP rises although an economy does not make anything new and people do not feel better off. Prosperity is thus concentrated in the hands of the rich few, and inequality tends to rise. If it is a value creator that deserves a higher proportion of national income, it is now time to reopen the debate about the 'value of everything'.

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*Note: This review gives the views of the author, and not the position of the LSE Review of Books blog, or of the London School of Economics.*