

[Transcript] The Realignment / 353 | How the Consulting Industry Warped the Economy, Infantilized Government, and Weakened Business with Mariana Mazzucato

Marshall here. Welcome back to The Realignment.

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Lots of great stuff, really appreciate the support, and of course, these episodes will always remain free. On today's conversation then, Marianna Mazzucato is one of the most interesting economic policy thinkers in the business today. Her previous books include *The Value of Everything*, *Making and Taking in the Global Economy*, *Mission Economy*, *A Moonshot Guide to Changing Capitalism*, and *The Entrepreneurial State*, *Debunking Public versus Private Sector Miss*. Her latest book, *The Big Con*, really brings together all of her previous work through the lens of analyzing the negative role that the consulting industry plays in the public and private sectors. Zooming out though, the episode isn't really just about one industry or one sector dominating the other or not existing at all in the cases of consulting. Marianna thinks that the public and private sectors both have huge roles to play in resolving big issues. You could see our conversation's really interesting discussion about Tesla and government loans after the 2008 financial crisis. And of course, there's even a role for consulting there too. The position's a little more nuanced than you'd think from the book title. The key really is separating the myths from the facts and understanding how all these different forces lock together. So this is a really great conversation and you guys are going to get a kick out of it. Be sure to check out all of the other great things we mentioned previously. And of course, huge thank you to Lincoln Network for supporting the podcast work.

Marianna Matsukato, welcome to The Realignment.

Wonderful to be here with you.

I want to start with something you and your co-author, Rosie Collington, write at the start of the book. You describe a situation where both the private and the public sectors, broadly speaking, are hyper short termists. They're not focusing on ambitious projects. And this is a broad story we could tell over the past 50 years. Could you make this state of affairs in the public sector and the private sector tangible for listeners? Like how are they experiencing both ends of short termism?

Okay. So first of all, I mean, why this matters is that we have so many problems globally, whether they are the ones around climate change, around health systems, around the digital divide, which is huge. And all these problems require lots of different actors in our economic system to work together to solve the problem, both different types of state actors, the public sector, private actors, which might be small firms, large firms, but also sometimes philanthropies, like if you think of the work of certain foundations in the health landscape. And the real question is, A, are they well governed individually? And B, do they know how to work together? And that's what I've been talking about actually for some time in my other books as well, that I think that we've gotten stuck in thinking

that the role of the public sector at best can fix market failures. This is how economists try to sound smart, market failure theory. So the idea that, for example, when you have too little private sector investment in something, whether it's a defense system or clean water, basic research and development, the public sector should fill the gap of that problem. Or if the private sector is doing something bad like pollution, the public sector should tax it away by correcting for what's called negative externalities. So that's a problem because it means you're always in reactive mode. It means that by design, not by coincidence, you're always kind of too little too late, and also kind of in worrying mode, and you don't actually have a real incentive in insourcing your capacity, in other words, investing in your brain. Because if you're just a fixer, you just basically need to know how to put bandages here and there. So there's, again, no real reason you should become dynamic and flexible and agile and so on. And the private sector is worried about its quarterly profits. It's trying to maximize its shares. It's why we have this obscene amount of money being spent on areas like share buybacks. Over \$6 trillion, that's \$12 zeros, have been spent in the last 10 years by large companies, including Pfizer, Exxon, just buying back their shares to boost their stock prices, stock options, and executive pay. Now, some companies maybe do less of that. If you look at Apple under Steve Jobs, actually, they reinvested most of their profits back into design and production. Not surprisingly, under Steve Jobs is when we got most of the innovation in Apple. Tim Cook made this one of the key aspects of his business model, the share buyback phenomena. Anyway, so that's like a short termist business model that is, again, basically just rewarding shareholders with very large dividend payouts, share buybacks, obviously investing in areas like marketing, innovation, and so on. But on trend, what we see is that in large corporates, we have business investment actually falling over time, and a lot of their profits get financialized in the ways that I just gave as an example with the share buybacks. And their relationship is increasingly between the state and the private sector. So that's kind of third point, right? The governance of the public sector, the governance of the private sector, and then the governance of their relationship. That relationship, if you were a biologist, you would describe it sometimes as a parasitic ecosystem, not a symbiotic one. In other words, that we've just gotten stuck into this idea that government is there to facilitate business, to enable it, to de-risk it. So there's lots of subsidies and guarantees, bailout programs during a COVID pandemic that move money from the state to the private sector with very little conditionality attached in terms of making sure that that money, for example, A is not used for share buybacks, B improves working conditions, C requires, say, green supply chains, and so forth. The CHIPS Act right now in the US is a good example actually of how to do things differently. That's the case where we have a large 300 billion public program that is embedding or at least is trying to embed some conditionality. It doesn't mean it's a perfect arrangement, but at least it's not just kind of a giveaway. And what the book suggests, and sorry, interrupt me when you want because I can just... No, no, this is an amazing summary. So please keep going. It's the format. As you can tell, I care about this stuff. So in the book, this book, because in the other books I wrote, the entrepreneurial state and mission economy, I kind of tackled different parts of this problem. But in this recent book, which is called The Big

Con, how the consulting industry has weakened our businesses and fantasized our governments and warped our economies, we look at what the role, the kind of key problem is with this outsourcing phenomena that I kind of alluded to when I was talking about government, that when you don't see yourself and when others don't see you as key to the economic system and you're there just fixing

it, you kind of start believing that and you start thinking others are going to do things better, they will be more efficient, the private sector is more innovative. And so yes, we need the public sector to set the rules of the game and to fix problems here and there. But the real innovation, the capacity, the capability, the creativity is in the private sector. So it's not surprising that there's been this really high level of outsourcing, not only to consultants, also to companies in the UK, these are companies like Circo, G4S, Circo also works in the United States, the whole Obamacare, the digital side of it, a large portion of that was actually outsourced to companies like that, including Circo. So what we say is that by doing that, you slowly become stupid, right? So you don't know how to ride a bike by not riding the bike, you have to fall off, you have to do it. So learning by doing. So the more that the center of the doing is done by others, the less learning by doing we have in government. And so it becomes a chicken and egg problem, you become a bit more inertial, incapable, but also insecure. And the more than you actually require others to come in and kind of do the job that you should be able to do based on investments within your brain. But also the consulting industry, which is what the book is about, loves this situation, because the more incapable government is, the more contracts they will actually be earning to do what in theory a capable civil service should do with advising on the side, not at the center. And this last point is important, because we're not so much against consulting as an activity or advising. We're worried about it when it's happening by an industry, which first of all, often doesn't even have the capacity or the expertise in the area that they're coming in to advise on, but also where the business model has a fundamental conflict of interest, meaning if there's no incentive to make the other organization you're advising or consulting stronger, because then you won't get the next round of contracts, then we have a problem.

And second, if it's not transparent who you're working for beyond that organization, you might actually also be damaging democracy, because citizens should know whether the same consulting company that is advising a government on say climate change is also advising all the fossil fuel companies on how to make even greater profits with their existing business model. So that kind of lack of transparency.

So I have a million different follow-ups that are going to go in no particular order.

Yeah. So firstly, let's zoom in on the CHIPS Act points. This is the broad federal government support, solid conductors, manufacturing, it falls into this domestic resiliency category folks are interested in. Could you make clear what the differences between the conditionality in that case is, and quite say like the airline industry during COVID? I know there was talk about how there were requirements for childcare. That was a specific thing that came up in the news recently, but what does it actually look like on the conditions placed?

Yeah. I mean, on what happened with airlines in the United States, I'm less aware, but I can give you examples just globally. In France, the finance minister in COVID, during the COVID bailout in France, put conditions attached to the support that the airline Air France was getting,

but also the automobile producer Renault was getting, they had to commit to lowering their carbon emissions in the next five years in order to be eligible for getting bailed out. So they received the money right away, which of course they needed because airlines weren't flying, so it wouldn't make sense to wait five years to give them the support. But the idea that actually this wasn't just going to be a giveaway, that they had to be part of the solution to redirecting the economy to being more inclusive, more sustainable, was part of that deal. Whereas in the UK, same program, we decided that it was a good idea to have no conditions attached, which is very typical here, how we worry so much in the UK about being, in quotes, business-friendly to not risk having businesses fly away. And we gave \$600 million to a company called EasyJet, one of our local low-cost airlines, no conditions attached. And the point is we can do capitalism differently. There's no one way that the state should be operating. And the fact that we have these very different types of models, including by the way, incorporate governance models, we're in some parts of the world, you have labor unions sitting on the board of companies, so in Scandinavia, but also in Germany, and other parts of the world, meaning most American, actually all American companies, I think not one of them have labor unions on the board. You know, this just means that there's a lot of granularity and decision-making and strategy that we can have in how we choose to govern a company, how we choose to govern a bailout program.

And what's refreshing, I think, with the CHIPS Act, is that on the one hand, it's about competitiveness. We don't want the US to be overly reliant on one part of the world, in this case Asia, on producing our chips that are so important for the digital modern economy. On the other hand, instead of just saying, okay, here's an excuse to give a lot of subsidies and guarantees to a particular industry just because it's considered a key industry, the idea that that support is conditional on those firms becoming better firms in terms of how workers are treated, in terms of how supply chains can be used to render more green, so more sustainable, our production system, and in terms of how we can make sure that those same companies become less financialized, so don't use the profits that are generated from what is basically a collective ecosystem in terms of value creation just to buy back shares. And the CHIPS Act currently is being accused, I've seen in the papers in the US, of confusing innovation policy with social policy because they have conditions in there also in terms of workers, in terms of working conditions, but that's completely the wrong way, I think, to think about it. What we should be doing is embedding, and everything government does, whether it's procurement, grants, loans, bailout programs, some level of direction. Otherwise, the risk is that we're just putting money into the system and actually maybe solving one problem in one place, but creating it in another. I'm really curious, right-leaning members of the audience, I know because this show is called The Realignment, we're interested in how the right and left are reconceiving economics,

I definitely think right-leaning members of the audience are going to be sympathetic to the idea of attaching conditionality to bailouts. I think they would be concerned about the social policy aspect, so can you kind of, as much as you can be empathetic, think of how you can maybe disaggregate or articulate the difference between just big government, right, in the sense of like it's

the job of the government not merely to like look at this specific issue, but say we have these longer-term objectives that may be unrelated directionally, because I think that's just where a right-leaning person would be confused, so can you help them kind of unpack that?

Sure. I mean, first of all, when I wrote the entrepreneurial state back in 2013, which had this, I think the kind of theatrical trick I used was to say, if you don't like what I'm saying in terms of a proactive state, then throw out your iPhone, because everything that makes your iPhone smart and not stupid was actually government finance, the internet, GPS, touchscreen, Siri.

I was surprised that actually you use the word right-wing or conservative audience in the U.S. really liked the book, and the reason they liked the book is that there was an appendix, or actually there was an appendix in the first version, eventually it was all kind of put into the chapters, but I kept repeating the point that we should stop wasting also government money. The appendix in the early version actually had all the ways that governments waste money, because it ends up just, for example, increasing profits, but not actually investment. It doesn't create additionality. Even money going to small-medium enterprises, why are you funding companies just because they're small? How about funding those small ones that are willing to work with you towards solving really difficult challenges? The Apollo program, by the way, was very important in terms of also using procurement policy to really funnel in all sorts of innovative bottom-up solutions by businesses, small, medium, and large, that were required for all the homework problems that were needed to get us to the moon and back, and that's what got us camera phones, foil blankets, home insulation, software from industry, but from publicly set problems, and many of those were also co-financed by the state. I think what they liked about the book, though, was that it wasn't just spend, spend, spend, throw public money at problems, and the state was getting bigger and bigger, it was also about how do you work with business in a much more dynamic way, also helping those businesses that are going to help you get to the moon and back, but also save money on all these other programs, and I can make a whole list of programs for you that are public programs that have no effect whatsoever. Just to say, I'm just putting it out there because it's all about the how, it's not just about big government, small government. In this case, I think there's, how do you say, this wrong dichotomy between innovation policy and social policy. If you think of social policies like, say, strengthening our public education system, which gets at least narrated in terms of a social policy, it can become part of your innovation policy, not only because it's important to have as many people well educated in our country so they can become future innovators as opposed to defunding a public education system,

where those especially less well off and don't really have an alternative, so they basically just get marginalized, but also because how we build schools, how we build hospitals, how we build a school meal program can actually not only serve students by having, for example, free school meals, but if within that government gets smart and embeds conditionalities coming back to the example with the CHIPS Act and does what Sweden has recently done with their school meals, where school meals have to be healthy, tasty, so not just IKEA meatballs and sustainable, those characteristics of healthy, tasty, sustainable school meals all of a sudden become characteristics of the procurement process, which then means that the businesses that are procuring in the school meals have to innovate, they have to invest, they have to become greener, for example, if the meals are going to be sustainable and helping us create a stronger, not a weaker planet,

it means the whole supply chain going even back to agribusiness in some ways has to transform, and that's for a public program, a school meal program, so I think there's no program in our welfare states, and I use the word welfare state as Europeans do, meaning all those public programs that are central to strengthening our social fabric, public health, public education, public transport and so on, they can all be used as levers for investment, innovation, new solutions in the business community, and new ways for public and private to work together in just as ambitious ways as we did when we got to the moon, and a public transport system that is fully accessible to people with disabilities requires innovation, you know, by those who know how to deal with ramps and all sorts of other things, a sustainable mobility program means that we need to think of not just the transport sector, but all sorts of different sectors, including those who are creating the new materials for construction of those transport systems, it means that we should also be moving differently in all sorts of alternative ways, whether it's bikes and so on, so that's not about handouts and subsidies, that's about opportunities for investment and innovation, and the more the government can create a direction for those opportunities, the more they will create expectations in the business community of where those future opportunities lie, and that can catalyze investment, and ultimately a multiplier effect, you know, Keynes talked about the multiplier, so for every dollar of public investment, how much does the economy grow by, well, that doesn't happen just by waving your wand and making an economic formula, it happens by these rounds of spending, but also by the inspiration of those on the ground, and I always remind people that the moon landing was 400,000 people, lots of different private sector entities and nutrition materials, electronic software, as I said before, a very active public leader, so NASA, but it wasn't top down, I mean, obviously the mission was top down to the moon and back in a short amount of time, but the smart thing they did was precisely designing procurement away from what they had previously done, which wasn't working, which was a cost plus model, towards a more challenge oriented model, a fixed price model with incentives for innovation and quality improvement, and so interestingly, the thing that got us to the moon was not just the great technology, but literally a new political economy of the policy itself, a new design of the procurement policy, and we somehow forget to do that for our social problems, we think about things like that for the Defense Production Procurement Act, which as you know, Biden used for COVID, and we have to wait for COVID to happen where millions of people are dying to get smart about how we do outcomes oriented procurement, or a war DARPA always uses, the research agency in the Department of Defense always uses outcomes oriented procurement, but for our social problems, we don't, so I think there's a real loss of growth opportunity by making this false dichotomy, let alone the loss of directing our economy to be more inclusive and sustainable. I was really interested in your opening answer about this idea of how you need to learn via falling off of the bike, so then it seems like the key story here in terms of a case study and how destructive consulting could be, could really just be the Obamacare website debacle, because toxically, it fed into this cycle of we'll see Obamacare, the government couldn't even do the website, therefore, government therefore bad when actually

it was a consultant to your point, so thinking back to that 2013 era policy disaster, implementation disaster, what did we learn from it? Someone fell off a bike. Unfortunately, not much, unfortunately, not much, because what we see is there's continued failures. This is what the book talks about, that on the one hand, the government's employing the consultants, we could argue that they're doing it and I think it's true, because they're so risk averse and they prefer that someone else fails and they don't, because a venture capitalist can brag about failing, but civil servants can't, like front page of the Daily Mail or whatever newspaper likes to blame government for everything, so we don't welcome experimentation and embracing uncertainty in the public sector as much as we do in the private sector, but having said that, when the consulting companies failed, they're actually not really held accountable. We had in the UK a complete scandal where during COVID, precisely because of the dynamics you just described, government thinking that it doesn't know how to do stuff, we outsourced to Deloitte test and trace, so Deloitte, one of the large consulting companies that we look at, was earning over \$1 million, actually \$1.3 million a day for the contracts, but failed miserably. The test and trace system in the UK did not work well. We did actually have a very successful vaccine rollout that wasn't outsourced, that was done by our local national health service, the NHS, and it was done through a decentralized network of GP practices. Did we learn the lesson from that? Are we funding more today in investing in-house and the capabilities of our NHS workers? No, they're all on strike on the streets because they're being underpaid and underresourced. Is Deloitte continuing to get contracts? Yes, McKinsey and so on. McKinsey also failed massively in its performance with Australia's climate policy. They were later accused of having, basically, used very problematic models. Does that mean McKinsey is no longer being hired globally to help governments or businesses become green? No, they're getting contract after contract. Unfortunately, because the ideology is so, so strong that government is not innovative, that government is just there to set the rules of the game, then please get out of the way. Even when we see the successes in government or the failures in the consulting industry, we don't actually say, okay, this means we need to fund more of these kinds of platforms or systems in government that we've seen have succeeded, but we need to invest in them so we get the next generation of talented people working in those systems and we don't decide to not fund the consulting companies after they fail because we continue to have this kind of image that they, yeah, they might fail, but at least they're making the system more efficient, even though we again see over time in so many cases that we review in the book that it would have cost government much less had they done it on their own. Here's what I'm trying to understand here.

I'm sorry, can I just say one thing because if you realize there's something I said could be misunderstood, the book actually isn't about government doing anything on its own. It's all about collaboration. It's all about how we need proper government, proper business, even some advising on the side, working together on the challenges that we have. So what we actually focus on is the evidence that by overly consultifying government, by overly not investing within its own internal structures, we are slowly dumbing down government or making it so fearful that it doesn't even then work well with business. So here's what I'm trying to understand here. I entirely get the dichotomy between private

sector innovation and, you know, cludgy, horrific, you know, bureaucracy in government. I totally get looking at the SpaceX privatization of space, look at what these tech entrepreneurs can do, look at Steve Jobs can do. These are really revered figures in Western societies. Like, that said, like, I don't think anyone reveres consultants. I think among my generation of cohort, I'm 30, I think of consultants as meritocratic, top tier grade kids who aren't particularly ambitious and need to chill for two years before they go to get their MBAs. So like, where's this idea of like, we need to bring in these consultants to fix things coming from because I just don't see, you can't get what I'm talking about. I don't understand. Yeah, but you obviously circle in very nice quarters, as one would say, because actually the evidence shows that they're incredibly successful at attracting top students from some of our top global universities, right, whether it's the Ivy Leagues in the US or, you know, Oxford, Cambridge and so on in the UK. So the fact that, so the question is, why are young people who actually evidence also shows really care about things like climate change being also I don't want to say conned into because the book is how we're all being conned. It's not just obviously students going into these jobs, but why are they being in some ways fooled of working in these organizations that are presenting themselves as purpose oriented, dynamic and innovative when actually there's very little expertise in the areas that they're advising on. So you're not even getting that satisfaction of all sorts of great learning say about climate or whatever it may be. There's a lot of cut and paste going on, which we know from the interviews we did with young people working in these, by young, I mean, you know, the 25 to 35 year olds are working in the companies they themselves are disillusioned by the fact that there's a lot of this cut and paste going on from one country to another or from one business to another because don't forget that we also look at how businesses have become overly consultified because to get some difficult decisions accepted by the board, it's nice to just kind of rubber stamp it with, you know, McKinsey or KPMG, well stamp. And so it's interesting, isn't it? Because I think, I mean, I experienced this during COVID. I was on a commission in Italy for COVID. I'm Italian, American and UK, three citizenships. You've been using, you've been using we a lot, and I couldn't tell if it was like a royal we. No, globally, we are speaking people who are screwed. Yeah, we, well, sorry, we, so I was born in Italy, grew up in the United States and have been living in the UK for the last 22 years. So, but and I have three citizenships and I've got kids who were all born here, but speak English with the very local London Amy Winehouse accent. But somehow when we go back to New Jersey, they slip into a Bruce Springsteen accent. I had no idea. And they speak Italian fluently, so it's great. And our dinner table is very confusing because the same sentence will have a lot of different weird words. Yeah, so that's the we, but I actually use it, I'm actually using we in the sense that I think we humans better have a planet to live on. And if you read the scientific data, climate change, global warming is quickly becoming irreversible. We humans better find a way to be more prepared with the next pandemic because we don't solve it globally and vaccinate the whole world. The virus comes back to bite us in other parts because it replicates if everyone is not vaccinated. And so there are these collective problems. So actually, the we is a serious we, we need to solve our collective common problems collectively. And if part of that collective

is weak states, weak administrative kind of ability to implement policies, so we might have great policy ideas. But if you can't implement them, because you've, you know, again, made your own administrative capacity very weak, then we're in trouble. We're in trouble because in some parts of the world or some parts of our country or some cities and so on, will, you know, not be part of that solution and be, you know, part of the, well, part of the problem. But just coming back to the young people, I want to rephrase my question to make a little clearer. I guess what I'm really getting is I don't understand as excited because the thing is I came up in DC. And in DC, and I'm sorry, I'm definitely offending some listeners here, DC is not where top tier consultant grads at McKinsey and those places go. It's a second and third tier location given the type of work that you tend to be doing there. This is at least how it's interpreted amongst peer group.

So what I'm really getting here at is I just struggle to see where consultancy fits within like the like 1990s, third way neoliberal imagination. Because once again, I get a Republican saying, we don't need to fund NASA because Elon Musk is awesome. Look at SpaceX. I don't see the equivalent of a Elon Musk of consultancy, where you have all these people saying like, man, the consultants, they're just so awesome. If we're not going to merely reduce the size of the government, we're going to outsource things to them. Here's this story by which we get there. That's more what I'm trying to kind of understand here.

No, no, I totally get what you're saying. And I think you're absolutely right. I'm just trying to unpick the weirdness, which is also in your question, right? Like you're actually pointing your finger exactly at this dilemma, which is how can we have been fooled to believing that this is the right way to govern a system? And just coming back to your point about DC for a second, I often point to the fact that after the financial crisis, when the US, unlike Europe, decided to have a proper stimulus program, so \$800 billion, and it was supposed to be green directed.

And Obama was quite clear about the green bit. It then didn't happen, the whole Tea Party stuff, you know, the fights, whatever. But it was quite an ambitious program while we were doing austerity in Europe. And it's not a coincidence that Steve Chu, a Nobel Prize-winning physicist, agreed to become the head of the Department of Energy. So you have a Nobel Prize-winning

physicist deciding to leave Stanford to become a civil servant. And that's because what Obama was talking about was really ambitious. And it was an honor for someone to, you know, leave a top university, Nobel Prize-winning guy to become a civil servant, not paid, you know, as much as you would be going to top companies and so on. But it was an honor. And so the more we dismiss the role of government, the less we're actually making it an honor, to work in government, or exciting to work in government, because you're not allowed to do anything exciting, but just fix stuff. So that, of course, affects the talent pool.

And I'm not saying that we don't have smart, you know, intelligent people in government, we do. And often they're heroes because they are on lower pays than they could get in McKinsey, Google, Goldman Sachs, and they are, I genuinely believe, many civil servants that truly go to government because they believe in public purpose. But the more we dismantle what government institutions are for, or constantly blame them, like even in the NASA SpaceX example, where so much evidence that, you know, that Elon Musk would not have been able to do what he's doing today without those early investments, like the Tesla guaranteed loan, which, by the way, was the same amount of money that Solyndra got, but everyone remembers Solyndra and forgets

that

Tesla was part of that same point. Could you, actually, my audience is young enough that no one remembers Solyndra. It's a very 2009 controversy. Could you, because it's actually a very important

story. I always go off on tangents, but I'm sure you'll bring me back. But sure, I've actually written quite a bit about this. So in that same period that I just mentioned, when C2 comes in, runs the DOE, one of the first things they did was also to set up ARPA-E. So as I mentioned before, DARPA funded the internet, the idea that if we were going to have a green revolution in the US, we also needed the equivalent institution for energy. So ARPA-E, someone called Aaron Majumdar, was asked to run it. He later ran Google's energy program. So during that period, the Department of Energy had a guaranteed loan program to help fuel innovation in the business community around renewables. And they ended up giving a 500 million guaranteed loan, guaranteed by who? The taxpayer,

to Solyndra, a solar company, which then failed. It became a big story about government not knowing

what it's doing, classic basket case. Government, why are you bothering investing in companies and so-called picking winners when all you should be doing is funding a bit of maybe hospitals, a bit of roads, but please get out of the way. Research, market failure stuff.

Yeah, exactly. All the market failure stuff. But if that was true, as I said before, none of the technology in our iPhones would have been invested in by government if they were just supposed to set the rules of the game and fix market failures. And in fact, in that same portfolio of investments with guaranteed loans, the US government had given close to 500 million, was about 465 million to Tesla, for the Tesla S car, which of course did very well. And everyone believes that was a pure Elon Musk success. So first, there's that issue, which is why is it that when government fails, big stories get written up about it. When it succeeds, we pretend it's a private sector success. But on top of that, the real dysfunctionality of that program, I think was that how it was set up was that the government said to basically Elon Musk, if you don't pay back the loan, we want 3 million shares in your company. Now, why would you want 3 million shares in a crappy company that doesn't pay back its loan? What they should have said is if you pay back your loan, which they did in 2013, the loan was taken out in 2009, we get 3 million shares. The price per share went from 9 to 90 in that period. So that difference, 90 minus 9 multiplied by 3 million would have more than paid back, not only the cylinder loan, but the next round of investment. But that's what I argue in the entrepreneurial state, requires a whole new mindset, not about the state just picking sectors to fund, but picking a direction, then having a portfolio and being an investor first resort, not nationalizing those companies, it's not that they should have owned Tesla, but getting a bit back, so not just covering the downside, getting a bit back on the upside, using that innovation fund, which also, by the way, makes you less reliant if you believe that government requires taxes to fund stuff. There's a whole debate about that. Well, let's just pretend, even within that narrative, that you need that by having an innovation fund, which gets some of the upside back from those government investments. It also makes government more stable, right, that you don't have to have this boom bust kind of way of thinking in terms of their own budget. But so why was I talking about this? Yeah. So that kind of idea, which, by the way,

in Israel is quite common, they have this thing called Yosemite, which was a public investment, sorry, a public venture capital fund, critical to their own ability to create really dynamic startups, or in Finland, they had a Citra public investment fund. These funds exist out there, these successes exist, like the iPhone example that I gave, but we somehow haven't told stories about it. We also haven't learned from them because all these programs also have problems, right? So only by paying attention to something and admitting that it's there, can we also learn how to do it better. That's why we have great business schools, like Harvard Business School. All they do is case studies on the private sector, which is why we then get some great learnings from it. What actually happened in IBM in a particular decade? How did GM set up a multi-divisional company to resist inertia and bureaucracy? We believe that the private sector creates value, so we also invest in our own learning to understand what happened that was good, what happened that was bad, how can we do it better next time. With government, we're just stuck to thinking that big bureaucracies kind of suck, they're slow, they're inertial, so we need them to move around the paperwork, to regulate, to redistribute, to administer, but value creation is assumed to be just in the business sector. And so the bigger question I think is why do businesses use consultants so much? That's a different answer. But why do governments use consultants so much? It's because the ideology that value creation is only in business has really, I think, dismantled the ability of government even to believe in itself. And you mentioned new labor or the third way. We have a whole chapter in the book about that, because it's sort of anti-intuitive. When I say ideology, you might just think neoliberal or kind of conservative ideology. This was actually ideology also coming from the left that with the kind of Tony Blair, Bill Clinton, third way idea that no government is important. It's not the Thatcherite-Raganite thing, but we need efficient government. We need net present value, cost-benefit analysis, we need delivery teams, and they kind of took away what should have been a purpose-oriented and a public value-oriented way to justify and evaluate government towards one that was basically based on private sector kind of delivery and static efficiency metrics. So the next thing is they need someone to help them achieve those very static ways of thinking about efficiency and the consulting industry shows up at the door saying, we'll help. It's so interesting because hearing you articulate this, I really come to understand, and maybe this isn't true, but this is just intuition that the phenomenon you're describing is like a deeply center-left 1990s one in the sense that it's very much like if the era of big government is over, we're responding to that underlying political dynamic. What is the way by which we can accomplish these like broader goals that we would share as center-left people while also recognizing that. And I think that also explains to your point why a lot of the young people who are attracted to consulting under this framework would actually believe that this is a means by which you can accomplish like good important like public goals. I think two last questions because you have a hard out. I'm fascinated by the idea, not the idea that the true fact then that Selindra and Tesla come out of basically the same bucket at a literal level. So it seemed to me the problem and just I was first getting active in politics in 2009. So I just really remember how much Selindra was like a battle flag of the Tea Party right. What would you take off your political economist hat and just think about

politics? How should governments discuss failure in the way that VCs talk about failure? Because like to your point, I've had Mark Andreessen on the show. I would never say Mark Andreessen. You funded this one company in 2013. I should be really, and it failed. I should be skeptical of you now 10 years later. That'd be insane because we have a framework that like VCs about making home runs and you're not always going to like make that home run. What language?

I mean, they brag about that. Every country couple of times I talk about says, yeah, yeah, that was successful. But hey, to get there, I had to fail eight or nine times.

And that's actually more or less the statistic. Like every success is about eight or nine failures.

But we allow it in the private sector. We don't allow it in the public sector. And we say, oh, but that's because it's taxpayer money that you're working with someone else's money. But it's like, hold on a second. You know, if we go back to the point that all our problems require public and private investment, especially the big wicked challenges of our time, let's not forget, we've all signed up to the Sustainable Development Goals, those 17 goals that the UN, but every country is signed up to. How are we actually going to achieve them unless we experiment, unless we actually try new things? That whole idea of again, using outcomes-oriented

procurement, that's not easy. You need to try it. You might then learn how to organize that better. And NASA itself just coming back to the moon landing because I wrote that book called Mission Economy and Moonshot Guide to Changing Capitalism. They learned from their failure. The Apollo 1 program was a massive failure. Three astronauts died, but they learned from that. And one of the things they learned on the back of that fatal day when Gus Grissom, one of the astronauts, said, how are we going to get to the moon if we can't even talk between two or three buildings? Because those three astronauts, when they died in the lunar module, which blew up and they died burnt to death,

they couldn't hear what was being said in mission control room. So Gus Grissom was complaining about that. NASA learned from that failure and changed its bureaucracy. It was very siloed, very top down. The different departments weren't talking to each other. And that DARPA type, NASA type model of having these different project managers trusted with their kind of dynamic teams, but in constant communication with each other is exactly what we don't have in our government bureaucracies, where you have all these different departments of health, of the environment,

of education that don't work together, they're siloed. And we've just started to think that that's just normal. That's just how big bureaucracies are. But NASA learned from its failure and actually even changes bureaucracy, let alone the kind of technological learning that we know we need in terms of that kind of riding the bike example. But the question you asked, first of all, government made different mistakes. It didn't actually apply that portfolio mindset to the Tesla investment. So we just covered the downside of Cylindra, didn't get a share of the upside, but also the marketing, the narrative, the storytelling wasn't there. When Cylindra did fail, you didn't have government saying, oh, yeah, right, okay, but we have a portfolio here, and we're going to cover that failure also with the profits or whatever, the rewards, if you want, that we'll be getting from the successful ones. And hey, by the way, this Tesla success was part of that portfolio. But the same thing with the Obamacare, when they were attacked for meddling in people's healthcare, Obama didn't have a narrative. He used the

classic social democratic, even though in the US you don't use that word, excuse, which is a good excuse or not excuse narrative. He said, yeah, but there's 60 million people uninsured. And of course, governments, it's government's role to ensure them. What he should have said is, what meddling, where'd you get that word from? We created 75% of new molecular entities with priority rating, which are the most radical drugs, the ones that are actually new and not me too once, through taxpayer-funded National Institute of Health Financing. So just last year, \$42 billion US dollars went towards drug innovation. The prices of those drugs don't reflect that. The intellectual property rights don't reflect that. So we've gotten used to governments just putting money in to fund drugs, medicines, and not make sure that the citizens actually have access to those drugs. In fact, many people in the US die not because they're sick, but because they can't access the drugs. So instead of just saying we need an insurance program to cover people to buy those drugs, he should have also said, and those drugs were co-created by us. So of course, if we're going to invest in those drugs, those medicines, we better make sure that government is truly purpose-oriented with that money and make sure that people who have also helped fund it have access to it. But that requires a co-creation narrative, not just a redistribution narrative. And that's one of my theses, and I've been going around to Latin America as well on this, that progressive governments need to get much more active and smart on talking about wealth creation and not just wealth redistribution. Because there's nothing to redistribute if you're not creating. And if the narrative of who's creating continues to be so siloed and ideological, then you're going to have a very hard time getting those smarter policies that socialize both risks and rewards. So you've got two minutes to your heart out. So what you take this as long as you want to go, let's just sum this all up. We've got a private sector, we have a public sector, and we have a quasi-private consulting industry. What does the proper balance? Because once again, your point isn't that throw us all out. What does sum up, what does the proper balance between these three actors look like? Yeah. So first of all, they have to work together. I literally cannot think of any challenge. Think of the digital divide, reducing the digital divide to zero. So every young person in the future continues to have access to their human right to education during a lockdown because there's going to be more viruses coming our way. That cannot be solved by one actor. So that's the first thing. The second thing is what each of one of those actors does, the public and the private, will be different. You might have a division of labor to think of the climate challenges that we have. They're not all doing the same thing. But if that division of labor is not clear and you have one side just being asked to de-risk the other side, that's the problem. And if then you have an intermediary who's coming in and fueling off and benefiting from this problematic narrative that one side is a bit rubbish and all the creativity is another, that's a problem. So really the solution is that both the public and private sector are needed. They both need to be smart and capable so investing in their brains. And if we have advising, it should be on the sidelines. But by people who actually know what they're doing. So you need a climate expert. You might need, which by the way, lots of climate experts consult, nurses consult, doctors consult, headteachers consult, right? But based on their academics consult, based on their 20-year research on something. So really what we're talking about is an industry that has been consulting and making money from a fact that you have a very weak actor, often government, but also weak relationship between

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government and the private sector. And in the private sector, because they are so short-termist and financialized, a lot of these problematic practices, which we trace in the book, like downsizing the 80s or the share buyback schemes, but also the sexy stuff today like climate action, has to get then rubber stamped by the consultants in order for it to be accepted by the board or to get by, say, the workers who might just be told, oh, but this is the right thing to do because an outside expert told us it's the right thing to do. So we need much more courage in the private sector to take ownership of their decisions. We need more ability, capability, capacity, resources in the public sector. And the advisors at that point, the consultants would be on the sideline, based on expertise, helping that process to happen, not at the center, actually doing what capable and long-run minded businesses should be doing together. That's an excellent place to end. Thank you so much for joining me on The Realignment. Thank you very much. I enjoyed it. Hope you enjoyed this episode. If you learned something like this sort of mission, or want to access our subscriber exclusive Q&A bonus episodes and more, go to realignment.supercast.com and subscribe to our \$5 a month, \$50 a year, or \$500 for a lifetime membership. Great. See you all next time.