

BOOK REVIEWS

Book Review: *Questioning the Entrepreneurial State: Status-Quo, Pitfalls, and the Need for Credible Innovation Policy*

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Questioning the Entrepreneurial State: Status-Quo, Pitfalls, and the Need for Credible Innovation Policy

edited by Karl Wennberg and Christian Sandström

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The reemergence of industrial policy has been a major theme in public discourse on technology, innovation, and growth over the last fifteen years. A prominent contributor to this discourse is Mariana Mazzucato, whose book *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (2013) has become a touchstone for policymakers and academics who claim that governments, not markets, should guide innovation. Austrians will likely scoff at this idea—and not without justification. Yet the growth of research alleging to prove the superiority of public over private investment shows clearly that once-established truths about entrepreneurship and the market economy are again being seriously questioned. Responding to these “innovation revisionists” demands nuanced theory and careful empirics, and these are exactly what Karl Wennberg and Christian Sandström aim to supply in this edited collection of papers “questioning the entrepreneurial state.”

I do not have the space to summarize every contribution in the volume, so I will instead begin with some general description before focusing on the chapters and themes that are likely to be of particular interest to scholars in the Austrian tradition. Several of the chapters draw explicitly or implicitly on Austrian research, and those that do not will still be valuable for anyone wanting to learn more about the overarching debate about government and innovation. The contributors include many major scholars in entrepreneurship and innovation policy research, and it will be obvious to readers familiar with their writings that they often use their chapters to apply or extend ideas they have previously developed elsewhere. Around half the authors (including both editors) are Swedish, and many chapters examine

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Swedish experience and evidence. This seemingly narrow scope makes sense, though, given that Sweden is often suggested as a case study of successful innovation policy (13–15).

This is a long book, totaling nearly 370 pages comprised of seventeen chapters and a substantial editorial introduction. The topics covered and methods used include the development of new theories and critiques; empirical studies of innovation in universities, startups, and sustainable energy transitions; and discussions on how to craft sensible, evidence-based innovation policies. Throughout the volume, there is a healthy skepticism toward state-led innovation policies and funding initiatives, many of which are shown to be flawed, wasteful, or counterproductive. Crucially, however, the book is not solely negative: Overall, it strikes a useful balance between critiquing the entrepreneurial state and offering positive market-based alternatives to it.

My intuition is that most people will not read this book cover to cover but will dip into it for insight into specific arguments or empirical examples. This is not a criticism; however, using the book this way is more difficult than it needs to be due to some production issues. Specifically, the chapters are not numbered and there is no index. This makes locating specific content more difficult than it should be.

Editors Karl Wennberg and Christian Sandström explain in their introduction that the notion of the entrepreneurial state is essentially tailor-made for twenty-first-century governments (3–5, 10). A series of economic, financial, political, and health crises since the late 2000s has generated uncertainty and weak growth in many countries while also stoking fears of climate change, inequality, and other “grand challenges.” Supporters of the entrepreneurial state allege that these evils can be met only through government intervention, especially through an expansive industrial policy. Naturally, the idea of wise technocrats who can transform the world if only they have the courage to take the reins of industrial policy is appealing to politicians and bureaucrats everywhere. The purpose of the present book is to serve as a “warning” about the dangers of using grand public schemes to tackle major world problems (6).

In contrast to the overweening entrepreneurial state, Wennberg and Sandström propose innovation policy guided by six principles: neutrality, transparency, moderation, contestability, legality, and justifiability (11–12). In practice, “innovation policy should not be about schemes for public-private collaboration, technology-specific large public investments, or targeted support schemes for specific types of innovators or firm. Instead, innovation policy needs to be inverted. Instead of giving active and specific support to firms or technologies that are deemed to contribute to certain grand challenges, it needs to be passive in focusing on general conditions and incentives, while also actively dealing with interest groups” (15). This approach to defining good policy is generally adopted and applied in the

theoretical, empirical, and policy-oriented chapters that follow. The six principles are often phrased in different terms by each team of authors, but the gist is the same.

Sinclair Davidson and Jason Potts offer an Austrian-style critique of calls for regulating big tech platforms. They invoke Mises to respond to the conventional criticisms of advertising that Mazzucato et al. often regurgitate (29–30). They also raise useful criticisms of the recent “hipster antitrust” movement (32–34). One point in their argument that I believe deserves particular attention is their discussion of rent, a topic that has been almost completely neglected by Austrians since the pioneering works of Fetter, Rothbard, and others. Davidson and Potts show that Mazzucato et al. rely on the fallacious classical theory of rent to argue that modern tech giants extract rather than create wealth (25–28). This misunderstanding is rooted in cost-of-production theories of value and misguided nineteenth-century notions of land. Once these are replaced with the simple subjective theory of value and the idea of entrepreneurial decision-making, the claim that tech giants are simply exploiters falls apart. Even setting aside this problem, Mazzucato et al. still fail to justify their call for regulation since they imply that exploitation by tech platforms is minimal (31). In any case, the application of Austrian ideas about rent to these contemporary debates is welcome and will, I hope, inspire other scholars to undertake similar research.

The chapter by Saras Sarasvathy is likely to interest Austrians working in entrepreneurship and related disciplines. Sarasvathy originated the “effectuation” approach to entrepreneurship, which contains some parallel ideas to those emphasized in Austrian economics. In this chapter, though, Sarasvathy takes on the formidable task of using the logic of effectuation to weigh the pros and cons of states versus markets. More than the book’s other chapters, it is unclear why this one was included. As a critique—even a theoretical critique—it is likely to be ineffectual (pun intended), because it is highly abstract and does not cite or quote any research on the entrepreneurial state. If anything, the chapter leaves a wide scope for potential state action to guide the market. It does argue that there are often cases where effectual entrepreneurs outside the state need to kickstart the innovation process, which is unlikely to happen effectively through government alone. And it raises other valid points about the limits of public policy, presented in the garb of effectuation. Still, the chapter ultimately embraces a cautious “it all depends” approach that neither critics nor advocates of the entrepreneurial state are likely to find groundbreaking.

In their chapter, Nicolai Foss, Peter Klein, and Samuel Murtinu approach the entrepreneurial state from the perspective of “ownership competence.” This chapter is theoretical, yet the authors take the time to review a range of theoretical and empirical literature consistent with their critique. They argue that, rather than in terms of incentives or property rights alone, government’s

role in innovation policy should also be considered in terms of its ability (competence) to judge which assets to own, when to own them, and how to own them—in other words, its ability to be entrepreneurial. Markets are powerful mechanisms for matching ownership rights to individuals with the greatest abilities. Governments, on the other hand, possess no such mechanisms—quite the opposite. The chapter thus applies a novel theoretical framework to a high-profile debate about public policy. But it also draws implicitly on several key themes of Austrian economics that deserve to feature more prominently in such debates: ownership, economic calculation, capital goods combinations, bearing uncertainty, using judgment under varying institutional conditions, and so on. The chapter by Dan Hjalmarsson on local support systems for innovation draws on ideas about entrepreneurial judgment similar to those developed by Foss and Klein.

Johan Larsson examines the “missions” that are supposed to motivate the entrepreneurial state. This chapter will likely appeal to fans of Hayek’s work on the use of knowledge, which is referenced here several times. Larsson points out that states trying to be entrepreneurial lack the usual incentives and limitations on failure faced by market entrepreneurs. Most importantly, governments bear little or no uncertainty and face few if any consequences for their decisions. They also lack even the most basic methods of appraising the value of different investments or of assessing the costs of the alternative private investments that are crowded out by government spending. These themes are repeated and applied often in the book’s empirical chapters, which also include numerous references to Hayek, especially his ideas on spontaneous order, market discovery, and local and tacit knowledge.

As mentioned above, the other chapters are mostly either empirical studies or proposals for better, more market-driven innovation policies. They are replete with fascinating and sometimes infuriating examples of the pitfalls and waste associated with public innovation subsidies and similar ventures. They span a variety of companies, industries, and countries, from wind farms in China to ethanol in Sweden. There are several other chapters that are not explicitly related to the book’s titular critique but nevertheless provide fascinating insights into different aspects of entrepreneurship and innovation. These include Siri Tjerssen’s chapter on the growth of university bureaucracy and how to fight it and Anna Brattström’s chapter on entrepreneurship as a cultural ideal.

One thing missing from the collection, in my opinion, is a systematic exegesis of Mazzucato’s initial book on the entrepreneurial state and the literature it spawned. This would have been useful to set up the theoretical and empirical chapters and to avoid the inevitable straw man accusations that are sure to come from defenders of the entrepreneurial state. In fact, there is

relatively little direct engagement with Mazzucato et al. in the volume: The individual chapters mainly criticize them indirectly by showing the failings of the entrepreneurial state in specific settings and exploring alternative policies.

Still, this collection is an easy recommendation to anyone interested in the big or small questions of entrepreneurship, innovation, and the entirely predictable consequences of government attempts to manage them.

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