

BOOK REVIEW

QUESTIONING THE ENTREPRENEURIAL
STATE: STATUS QUO, PITFALLS, AND THE
NEED FOR CREDIBLE INNOVATION POLICY

KARL WENNBERG AND CHRISTIAN SANDSTRÖM

CHAM, SWITZERLAND: SPRINGER NATURE SWITZERLAND, 2022. 378 PP.

WILLIAM GORDON MILLER*

Arguments for the proliferation of the entrepreneurial state, a governmental entity with an explicit focus on directing innovation and entrepreneurial decision-making for society, have become increasingly popular as time goes on. The essays presented in *Questioning the Entrepreneurial State* challenge this idea, through a direct response to Mazzucato's (e.g., 2011, 2016, 2018, etc.) work calling for a more activist state in addressing various modern problems. More precisely, the book tackles the problem of the state not merely supporting innovation and entrepreneurship through creating a favorable environment, but instead making decisions about *what* entrepreneurial ventures to pursue.

* William Gordon Miller (gordonmiller@kings.edu) is the Assistant Professor of Management in the William G. McGowan School of Business at King's College in Wilkes-Barre, PA.



Rather than pursuing a simple policy of shoring up market failures, the entrepreneurial state attempts to take on the ownership role by solving elaborate and complex problems—climate change, global poverty, pandemics, etc.—without reference to issues of resource scarcity, opportunity costs, and realistic assessments of a particular problem’s overall relative importance. As Johan Larsson puts it in his contribution to the collection, the entrepreneurial state “departs from issues that it thinks needs solving” while real entrepreneurs “depart from issues they think they can solve.” In short, provided the alleged entrepreneurial and economic “wins” of putting a man on the moon or developing the infrastructure for the modern-day Internet, advocates for the entrepreneurial state claim that governments, both independently and cooperatively, should work to directly target what they perceive to be the greatest modern-day challenges.

The authors in this collection seek to address such claims theoretically, empirically, and practically. Building on a range of varying perspectives and case studies, the essays within *Questioning the Entrepreneurial State* take problems related to knowledge, incentives, and economic calculation seriously in debunking the idea that the state possesses the appropriate ability and/or motivation for tackling entrepreneurial problems in an economically responsible way. As the Austrian tradition holds, state actors suffer from an inability to engage in economic calculation due to a lack of profit and loss signals (*c.f.* Mises 1949, Rothbard 1962), even assuming benevolent motivations. Moreover, highly centralized actors often lack the tacit knowledge of time and place (*c.f.* Hayek 1945) needed to productively make economic decisions. Though it seems obvious from such a perspective that a state engaging in the entrepreneurial role would be doomed from the start, nevertheless, calls for implementing and growing the entrepreneurial state remain. As such, this book constitutes an excellent and much-needed academic response to this unfortunate ideology.

That said, some contributions hold with the Austrian tradition more effectively than others. However, this is likely both a strength and a weakness. Many Austrians, including myself, may scoff at notions that net benefits accrue when states keep themselves constrained to simply overcoming “market failures” by redirecting resources to real entrepreneurs, as some authors in this collection suggest. Economic profit and loss through the market provide

the only rational guide for resource allocation, and any perceived market failures signal imperfections of the real world, not insufficiencies in the free market itself. Furthermore, states oftentimes, if not always, exacerbate the very problems they attempt to solve. Regardless, not everyone holds to this view, and to the extent that this book incorporates a range of free-market views to combat the misguided notions of the entrepreneurial state, it provides a more comprehensive and compelling defense of traditional entrepreneurship vs. so-called “state entrepreneurship.”

The outline of the book proceeds as follows. Part 1 provides a short introductory essay. Part 2 dives into various theoretical perspectives that cast doubt on the effectiveness of top-down entrepreneurial planning. Parts 3 and 4 empirically highlight the failures of various initiatives of state-driven entrepreneurship. Part 5 looks to the future by empirically considering various policy alternatives to the entrepreneurial state. The following sections follow this format in reviewing the book as a whole.

PART 2. THE ENTREPRENEURIAL STATE: THEORETICAL PERSPECTIVES

Each chapter of this section highlights a different theoretical perspective, each of which illustrates varying reasons why the entrepreneurial state remains inferior to traditional entrepreneurship. In “The Entrepreneurial State and the Platform Economy,” Davidson and Potts critique the notion that online platforms generate little to no economic value of their own. Overall, the authors masterfully tackle economic fallacies from both the “hipster antitrust movement,” which fails to see the consumer benefits from economies of scale, and the allies of Mazzucato’s entrepreneurial state, who recognize the value generated by large platforms but fallaciously argue that returns to platform owners are purely rents rather than economic profits. As such, the chapter helps dispel the myth that platforms are exploitative and reorients our focus on the value generated by large platform ecosystems. In “An Effectual Analysis of Markets and States,” Sarasvathy applies her analysis of effectuation to the inherent uncertainty of the entrepreneurial landscape and explores why states are relatively ineffective at promoting value creation within this sphere. Overall, she offers some fascinating and valuable

insights from an effectuation perspective but still falls a bit short of understanding the importance of capital investment to the entrepreneurial process of resolving uncertainty, as discussed by Knight (1921), Mises (1949), Rothbard (1962), and Foss and Klein (2012).

In “The Entrepreneurial State: An Ownership Competence Perspective,” Murtinu, Foss, and Klein discuss their theory of ownership competence in conjunction with Pelikan’s (1989, 1993) theory of economic competence, showing how they are at odds with the idea of the entrepreneurial state. This article builds on some of the authors’ earlier work (Foss et al. 2021, Foss and Klein 2012) and it effectively demonstrates that governments lack the ability to figure out “(1) *which* resources to own (matching competence), (2) *how* to own them (governance competence), and (3) *when* to own them (timing competence).” Notably, this chapter carries a lot of weight from an Austrian perspective as it reinforces the importance of being able to effectively allocate resources through the profit and loss mechanisms experienced by ownership, rather than simple management. Finally, in “Innovation Without Entrepreneurship: The Pipe Dream of Mission-Oriented Innovation Policy,” Larsson expertly illustrates the important distinctions between fixing and creating markets and provides a compelling argument as to why we should favor the latter. While the author does do a fantastic job of explaining the value of bottom-up approaches compared to top-down approaches to entrepreneurship, he strangely seems to concede that, in the case of so-called “market failures,” states may still be beneficial by propping up R&D departments. This is problematic given that, by effectually picking winners and losers via resource allocation, states are still engaged in some level of entrepreneurial decision-making, which would make even this minimal action subject to all the author’s own criticisms regarding top-down planning. Nevertheless, Larsson’s argument is still highly compelling and thoroughly caps off an interesting survey of various theoretical perspectives questioning the entrepreneurial state.

PARTS 3 AND 4. THE ENTREPRENEURIAL STATE AND SUSTAINABILITY TRANSITIONS

Turning now to the large middle portion of the book, the focus shifts to an empirical examination of the problems related to current

manifestations of the entrepreneurial state. For example, in his chapter “Building Local Innovation Support Systems: Theory and Practice,” Hjalmarsson considers three notable incubators run by Umeå University in Sweden, taking particular note of the means by which they promote innovative and entrepreneurial activity. Given the lackluster empirical results relative to incubator objectives more generally (Ejermo 2018), he finds that any direct state support of such activities must address three fundamental problems: 1) the tendency to inevitably pick winners; 2) the potential for crowding out natural market entrepreneurship; and 3) the possibility of rent-seeking and subsidy entrepreneurship. Unfortunately, the author stops short of addressing *how* these problems might actually be addressed, and from a traditional Austrian perspective, this inevitably is the rub with most such efforts. In “Reducing Higher Education Bureaucracy and Reclaiming the Entrepreneurial University,” Terjesen documents the extensive degree of bureaucratization in higher ed (e.g., approximately 99 percent of universities considered overly bureaucratic by one measure) and suggests a large menu of options for reducing this overreliance on administrative bureaucracy. She does a phenomenal job of illustrating the sheer scale of bureaucratic costs in this sphere and provides several practical solutions already being implemented at various places in the country.

Brattström, in “Cultural Ideals in the Entrepreneurship Industry,” examines the role of entrepreneurship in producing and reifying cultural norms within an “entrepreneurial industry” (i.e., the industry built around promoting and facilitating entrepreneurship through incubators, accelerators, network events, etc.). Specifically, she looks at the entrepreneurship industry and culture developed in Sweden, demonstrating the oftentimes wasteful elements that have emerged in terms of sustaining a system that oftentimes demonstrates low economic productivity and promotes discrimination, both among entrepreneurs and the ideas that they ultimately promote. In sum, she offers an interesting and descriptive qualitative look into the negative ramifications that result when individuals are paid to be culturally entrepreneurial rather than productively entrepreneurial.

The next two chapters provide a bit of context around and a critique of the presumed effectiveness of state innovation policy. In “Evaluating Evaluations of Innovation Policy: Exploring Reliability,

Methods, and Conflicts of Interest,” Collin et al. highlight the tendency for consultants to provide evaluations that are very likely to be overly “rosy.” After presenting data on the correlations between the type and mode of evaluator, the authors make a compelling argument that various conflicts of interest likely bias the results of bureaucratic evaluations of innovation, further underscoring the importance of a profit and loss mechanism emphasized by a traditional Misesian approach. In “Do Targeted R&D Grants Toward SMEs Increase Employment and Demand for High Human Capital Workers?”, Daunfeldt et al. call into question a strand of the literature that remains relatively optimistic about the effects of R&D grants on a common proxy for perceived success—namely quantity and quality of employment. Leveraging the observation that many prior studies make an arguably faulty assumption that the difference between nearly accepted and accepted applicants for such grants are small, the authors employ some high-level causal techniques to show that the positive relationship between R&D grants and employment generally turn out within this context to be statistically insignificant at best and potentially negative at worst. Despite some issues with data visualization and presentation, this chapter further confounds the notion that the efforts of the entrepreneurial state are inherently beneficial. In short, an efficient policy does not necessarily equal an effective policy.

Moving on, in “Third Generation Innovation Policy: System Transformation or Reinforcing Business as Usual?”, Bergkvist et al. effectively illustrate through several small case studies how policies intended for systemic, or institutional, entrepreneurship end up as victims of regulatory capture. Instead of providing a means of uprooting existing systems, most of the grant funding gets directed towards large established firms that have little interest in biting the hand that feeds them. Moreover, even efforts rooted at promoting institutional change oftentimes demonstrate little effectiveness, as illustrated in Grafström’s “Less from More: China Built Wind Power, but Gained Little Electricity.” Despite a large increase in production capacity, China’s energy generation suffered due to relatively high levels of curtailment caused by massive inefficiencies resulting from the lack of economic calculation. Similarly, in “The Failures of the Entrepreneurial State: Subsidies to Renewable Energies in Europe,” Amenta and Stagnaro document

the failure of many European countries to promote environmental, industrial, and social goals. Though the authors provide a bit too much perceived legitimacy to the efficacy of carbon tax policies, they effectively reinforce the criticisms of the entrepreneurial state's ability to accomplish mission-oriented innovation. Despite massive investments in subsidizing renewable energy in the last several years, Europe has failed to achieve meaningful progress from a cost-benefit analysis, especially when factoring in opportunity costs. Further supporting this notion, Sandström and Alm discuss in "Directionality in Innovation Policy and the Ongoing Failure of Green Deals: Evidence from Biogas, Bio-ethanol, and Fossil-Free Steel" the experiences of Europe regarding biogas, cellulose ethanol, and the new popular push for so-called "green steel." In all three cases, massive subsidies have led to innumerable instances of corruption, wasted opportunities, and economic destruction. In essence, these chapters show that, while various "green" reforms deserve serious consideration, the ways in which countries have pursued and continue to pursue green technologies remain far from compelling examples of success. Overlooking some potential naivety relating to what governments actually can do, the authors of each of these chapters provide incredibly indicting evidence of the entrepreneurial state to date, especially concerning its attempts to fight climate change.

PART 5. FROM THE ENTREPRENEURIAL STATE TOWARDS EVIDENCE-BASED INNOVATION POLICY

This final section of the book turns generally from the negative to the positive by looking at what types of policies may ultimately be more beneficial for the promotion of entrepreneurship and innovation. While some skepticism from a primarily Austrian-oriented audience may be warranted, some interesting insights are contained within these chapters. For example, in "Policy Instruments for High-Growth Enterprises," Coad et al. examine several recommendations within the literature for promoting high-growth enterprises (HGEs) as well as suggest a few of their own. Notably, they find a tendency for "quantity over quality" and argue for designing policy that balances increasing the downside of non-compliance

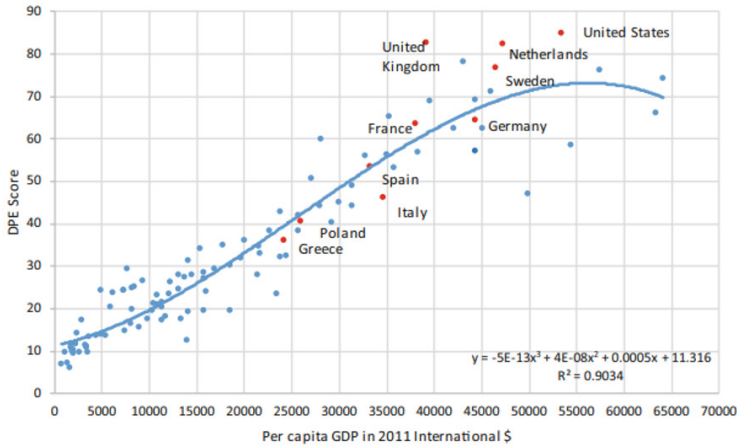
with increasing potential benefits and incentives. Unfortunately, they also seem to miss the generally negative economic impacts of taxation and regulation on entrepreneurial experimentation. In other words, both entrepreneurial success and failure are features, not bugs, of a market setting. As such, reducing the quantity of entrepreneurial failures should not be the goal of state policy. Nevertheless, they identify several notable failures of prior entrepreneurship policy and correctly emphasize the importance of the profit and loss function in guiding entrepreneurial development.

Highlighting another advantageous means of policy change, Eriksson and Nykvist detail three Swedish case studies on the benefits of deregulation and the consequences of failing to deregulate in "Public-Steering and Private-Performing Sectors: Success and Failures in the Swedish Finance, Telecoms, and City Planning Sectors." Where institutional entrepreneurs managed to leverage influence in the telecoms and financial sectors, they brought about enormous improvements in the rates of innovation and customer satisfaction, but where centralized policy became reified in the public housing sector, bureaucracy and the stifling of innovation often has reigned supreme. Many know about the reforms from a more socialistic to a more capitalistic Sweden in the 1980s and 1990s, but the authors here concisely and descriptively bring to life specific examples to make this understanding more salient and hint at the mechanisms under which such free-market reforms can occur.

Supporting such a perspective, Acs, in "The Digital Platform Economy and the Entrepreneurial State: A European Dilemma," discusses some compelling data from the Digital Platform Economy Index (DPEI) that illustrates how countries such as the United States, the UK, and the Netherlands far outperform others in terms of digital platform salience and adoption, which ultimately helps drive entrepreneurial growth in the modern world. Since these three countries notably engage in less direct intervention in terms of innovation and entrepreneurship policy, this is remarkably telling about the overall efficacy of the entrepreneurial state. Here, Acs provides some of the first and most compelling macro-level index data outside of general economic freedom for exploring how political, cultural, and economics institutions will facilitate future entrepreneurial development throughout the world. In

fact, a chart reproduced here in Figure 1 may be one of the most indicting empirical criticisms of the entrepreneurial state advocated by Mazzucato. It shows not only the strong correlation between the DPEI and GDP, but also the degree to which countries of equivalent GDP vary from the trend (see the vertical distance from the trend line). Those with noticeably more active “entrepreneurial states” tend to exhibit relatively lower standards of living as measured by GDP. Putting criticisms of GDP as a useful proxy aside for argument’s sake, this is a damning critique of the entrepreneurial state more broadly. Furthermore, it prompts discussion of what more meaningful measures might show. To be clear, the DPEI is not a purely market driven phenomenon as regulatory factors antithetical to the market are also often incorporated in terms one of the sub-dimensions—namely digital infrastructure governance, which takes account to what degree governance rules for operating on the architecture have been established, regardless of whether they originate with the state or market. In short, this measure does not disaggregate state-driven rules and market-driven rules for governance. Nevertheless, as the authors note, the DPEI correlates strongly with other free market indices including the Index of Economic Freedom. As such, it might be inferred that countries which fare better on the DPEI matrix rely more strongly upon bottom-up rules for instituting digital rules of governance. Further research should bear this out, but my point here is this: Those nations which typically rely less on government subsidies to business and allow for more experimentation seem to fare better in terms of this metric. This can be seen most directly in the comparison between the Netherlands, Sweden, and Germany. Even though these countries have roughly the same GDP, Sweden and Germany, both of which are notorious advocates of the entrepreneurial state, still lag the Netherlands. Furthermore, despite having a much smaller GDP than the United States or the Netherlands, the United Kingdom has managed to outpace almost all other countries in terms of the DPEI. The authors hint that this likely derives from the recent Brexit vote which implicitly reoriented the UK’s economy towards a markedly more free-market entrepreneurial emphasis relative to the rest of the EU. If we believe a more robust digital economy based on free-market principles portends greater future economic progress, Figure 1 seems to support such a notion.

Figure I. The connection between the DPE Index and per capita GDP (development)



Source: Szerb et al. (2022).

The book wraps up with Elert and Henrekson's "Collaborative Innovation Blocs and Mission-Oriented Innovation Policy: An Ecosystem Perspective," in which the authors take each of Mazzucato's six points recommendations regarding the entrepreneurial state at face value and evaluate them within the context of the collaborative innovation bloc (CIB) mental model. A CIB essentially depicts and elaborates on the high degree of complexity involved within an entrepreneurial pursuit, focusing on the interrelated activities of entrepreneurs, inventors, investors, customers, and other key stakeholders. While the authors do a great job of describing the weaknesses inherent in Mazzucato's core claims, they at times join various others in this book in conceding too much, especially as it relates to what the state can do. More on that in the next section. Nevertheless, the CIB is a useful model for thinking through the complexities of the entrepreneurial process and, ultimately, addressing why the entrepreneurial state is ill-equipped to engage in it.

FINAL THOUGHTS

Overall, this book is a fantastically interesting read. It attacks the concept of the entrepreneurial state from several different theoretical perspectives, including those related to entrepreneurial ecosystems, effectuation, ownership competence, digital platforms, industrial economics and managerial economics, free-market environmentalism, public choice theory, and many more. As such, it provides a much-needed holistic critique of the entrepreneurial state that is likely to appeal to a big-tent audience within the Austrian community, and it provides a primer on a wealth of academic foundations upon which to build for researchers interested in studying the idea of the entrepreneurial state. For those individuals needing some grounding in one or more of the recent management and entrepreneurship literatures as they relate to state interference, this work serves as a nice general handbook. This should extend its reach beyond a more niche audience. Moreover, it is irresponsible to allow misguided notions of state capabilities for entrepreneurship to enter the public discourse without a robust retort. Given this book's positioning as a middle ground for an academic and lay-audience alike, it stands as a worthwhile, though perhaps somewhat constrained, defense of free-market entrepreneurship.

That being said, this commendation is also my primary criticism of the book as a whole. Specifically, it provides only a lukewarm rejection of state activity in its entirety, and it tends to try and find some margin for the state to have some sort of active role in the entrepreneurial process (though to be fair, a few of the contributions are much more opposed to this stance than others). I strongly hold that this is a mistaken stance, at least theoretically if not strategically. States suffer irredeemably from problems related not only to incentives, but also to the problems of insufficient knowledge and economic calculation. Even the final essay of this book, which makes a handful of unfortunate concessions to Mazzucato and state involvement in entrepreneurship, at least somewhat recognizes the latter points as the authors write: "In complex, interconnected systems, even relatively targeted, relatively limited interventions can have far-reaching, unforeseen repercussions." Given the inherent uncertainty associated with entrepreneurship and the lack of economic calculation involved with state action,

the logical conclusion is that governments should exercise absolutely NO intervention into the marketplace. Thus, paraphrasing Jacob Hornberger on a recent episode of *The Bob Murphy Show*, as Austrians and libertarians, maybe we should let the conservatives be the modern-day “slavery reformers” and instead focus on being the “abolitionists” of the entrepreneurial state (Murphy 2022). Nevertheless, this book still offers a much needed theoretical and empirical critique of the so-called entrepreneurial state, and thus, it stands as a highly worthwhile read for anyone interested in pushing back against governments’ increasingly looming shadow within the entrepreneurial realm.

REFERENCES

- Ejermo, Olof. 2018. “Does Incubation Lead to Innovation? Evidence from the Swedish Incubation Program.” *Tillväxtanalys* PM2018:20. Available at <http://www.tillvaxtanalys.se/publikationer/pm/pm/2018-11-19-does-incubation-lead-to-innovation---evidence-from-the-swedish-incubation-program.html>.
- Foss, Nicolai J., and Peter G. Klein. 2012. *Organizing Entrepreneurial Judgment: A New Approach to the Firm*. Cambridge University Press.
- Foss, Nicolai J., Peter G. Klein, Lasse B. Lien, Thomas Zellweger, and Todd Zenger. 2021. “Ownership Competence.” *Strategic Management Journal* 42, no. 2 (February): 302–28. <https://doi.org/10.1002/smj.3222>
- Hayek, Friedrich A. 1945. “The Use of Knowledge in Society.” *American Economic Review*, 35, no. 4 (September): 519–30.
- Knight, Frank H. 1921. *Risk, Uncertainty, and Profit*. New York: Houghton Mifflin. Available at <http://www.econlib.org/library/Knight/knRUP.html>
- Larsson, Johan. P. 2022. “Innovation Without Entrepreneurship: The Pipe Dream of Mission-Oriented Innovation Policy.” Vol. 53, pp. 37–55 in *Questioning the Entrepreneurial State: Status-quo, Pitfalls, and the Need for Credible Innovation Policy*, ed. Zoltan Acs, David Audretsch. Cham, Switzerland: Springer Nature Switzerland. <https://doi.org/10.1007/978-3-030-94273-1>
- Mazzucato, Mariana. 2011. “The Entrepreneurial State.” *Soundings* 49 (Winter): 131–42. <https://doi.org/10.3898/136266211798411183>

- . 2016. “From Market Fixing to Market-Creating: A New Framework for Innovation Policy.” *Industry and Innovation* 23, no. 2: 140–56. <https://doi.org/10.1080/13662716.2016.1146124>
- . 2018. “Mission-Oriented Innovation Policies: Challenges and Opportunities.” *Industrial and Corporate Change* 27, no. 5: 803–15. <https://doi.org/10.1093/icc/dty034>
- Mises, Ludwig von. 1949. *Human Action: The Scholar’s Edition*. Auburn, Ala.: Ludwig von Mises Institute.
- Murphy, Robert P. 2022. “Jacob Hornberger Says Libertarians Should Oppose School Vouchers” *Bob Murphy Show Podcast* no. 248. Available at <https://podtail.com/podcast/bob-murphy-show/ep-248-jacob-hornberger-says-libertarians-should-o/>
- Pelikan, Pavel. 1989. “Evolution, Economic Competence, and the Market for Corporate Control.” *Journal of Economic Behavior and Organization* 12, no. 3 (December): 279–303. [https://doi.org/10.1016/0167-2681\(89\)90024-3](https://doi.org/10.1016/0167-2681(89)90024-3)
- . 1993. “Ownership of Firms and Efficiency: The Competence Argument.” *Constitutional Political Economy* 4, no. 3 (September): 349–92. <https://doi.org/10.1007/BF02393268>
- Rothbard, Murray N. 1962. *Man, Economy, and State with Power and Market, Scholar’s Edition*. Auburn, Ala.: Ludwig von Mises Institute.
- Szerb, László, E. Somogyine Komlosi, Zoltan J. Acs, Esteban Lafuente, and Abraham K. Song. 2022. *The Digital Platform Economy Index 2020*. New York: Springer International Publishing. <https://doi.org/10.1007/978-3-030-89651-5>