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BOOK REVIEWS

Moonshots and the New Industrial Policy: Questioning the Mission Economy

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Moonshots and the New Industrial Policy: Questioning the Mission Economy edited by Magnus Henrekson, Christian Sandström, and Mikael Stenkula Springer, 2024; xii + 331 pp.

Industrial policy is now ascendant across developed economies. The European Union first started implementing legislation in 2020 for a European Green Deal Investment Plan, a continent-wide economic decarbonization project with a €1 trillion price tag for subsidies and loans over ten years. Its mission is to achieve a carbon-neutral economy by 2050. In the United States, the Biden administration's Inflation Reduction Act of 2022, or IRA, pledged $369 billion to finance an energy transition away from fossil fuels and to achieve a 40 percent reduction in greenhouse gas emissions by 2030. The common thread connecting these policies is the belief that governments can successfully pursue national economic missions through targeted intervention, strategic investment, and industrial planning.

Moonshots and the New Industrial Policy: Questioning the Mission Economy subjects this proposition to a much-needed critical examination. It should be read by Austrian economics scholars as well as those who are seeking a broader critique of modern variations of industrial policy.

From an academic perspective, the book is a refutation of the influential scholars who have provided the intellectual framework for modern industrial policy, especially Mariana Mazzucato of University College London. According to Mazzucato, her popular books inspired important political figures such as US Representative Alexandria Ocasio-Cortez and European Commission President Ursula von der Leyen to advocate for more expansive industrial policies (8). In December 2019, von der Leyen described the Green Deal as Europe's "man on the moon moment" (Simon 2019).

Just a few years later, these grand missions are in retreat. Amid concerns about high energy costs and the reduced competitiveness of European industries and farmers, the Green Deal's ambitions have been scaled back.

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In the US, the IRA has become the subject of significant political controversy regarding its effectiveness and is now being substantially modified under a new administration. That does not mean the siren song of industrial policy has ceased, however. Despite canceling many IRA programs, the Trump administration has launched its own mission-oriented industrial policy. Its nationalist industrial policy is, if anything, more interventionist than the one it replaces, employing a full range of protective tariffs, subsidies, loans, price floors, "golden shares," and direct ownership stakes in companies.

Moonshots is a sequel to an earlier book, *Questioning the Entrepreneurial State: Status-Quo, Pitfalls, and the Need for Credible Innovation Policy* (Wennberg and Sandström 2022), in which thirty-two scholars challenged Mazzucato's entrepreneurial state thesis on both theoretical and empirical grounds. The editors of *Moonshots* lament that Mazzucato has refused to offer a scholarly response to this volume. As they comment in *Moonshots*, "It appears that these [industrial] policies are put in place with little scrutiny and prior analysis" (5). The deepening commitment to massive government expenditures on industrial policies since 2022 demonstrates that large-scale programs of this type continue to be implemented on the basis of something other than intellectual rigor.

The volume is divided as follows. In addition to an introductory essay on mission-oriented industrial policy by the editors in part 1, *Moonshots* contains three parts that address, respectively, theoretical perspectives on the efficacy of such programs, empirical evidence regarding the failure of noteworthy industrial policy initiatives, and alternative ways for governments to effectively promote entrepreneurship and innovation without top-down industrial planning.

Part 2 begins with a chapter by Diane Coyle on the need for coordination between public and private actors on any industrial policy. Coyle warns of governments' tendency to rely on oversimplified political rhetoric in their industrial strategies, as well as their penchant for "obscuring the chain of accountability" essential for making public-private entrepreneurial policies successful (39). The essay offers some valuable insights on coordination challenges vis-à-vis government bureaucrats and the market when the two are trying to interact constructively on a common venture. However, it is noteworthy that Coyle accepts the premise that an interventionist entrepreneurial state is necessary in various circumstances. More than most of the book's other contributors, Coyle assumes that an entrepreneurial state could work in theory. But her justification for an entrepreneurial state is less than compelling: "The longer time horizon of the public sector—a lower social than private discount rate—is relevant in contexts ranging from blue skies research to investment in infrastructure. If a project has a longer payback

period than private investors will accept, or there is a high nonmarket, social return, a combination of direct public investment and incentives for complementary innovations and assets may be appropriate" (38).

What Coyle does not address is why a state would need to have a longer time horizon/lower discount rate than private investors do. In a market setting, the failure to generate a positive investment return is the primary signal to the investor that an assumption was inaccurate. Coyle does not establish why the state is better qualified to determine a time horizon. For Coyle, the state's preference for a grander project is proof enough that its longer time horizon is the best one. This conclusion is problematic given Coyle's own criticisms of government entities regarding rhetorical oversimplification and what she persuasively describes as their avoidance of establishing clear lines of accountability for the partners in such ventures.

In the next chapter, "Engineering Is Not Entrepreneurship," Randall G. Holcombe discusses the important distinction between engineering projects and startup investing. The entrepreneur who receives private funding is held to the high standard of value creation due to the fact that the investors hold an ownership stake which they seek to monetize profitably at some point in the future. This is starkly different from a moon-landing project, in which success is determined solely by completion of the mission. A state with virtually unlimited funds can create a new technology by throwing enough money at engineers. That does not mean the project will generate a positive return relative to other potential investments. As Holcombe points out, engineering marvels are not entrepreneurship. This distinction echoes Ludwig von Mises's observation that technical success and economic success are not one and the same. A project, whether private or public, may represent an engineering triumph and lose money at the same time.

Holcombe offers useful context for how state-directed innovation projects tend to operate within a system of political capitalism. Political capitalism refers to a system in which businesses generate the lion's share of their profits not by serving consumers but through influencing the government, rent-seeking, and using regulations to exclude competitors from their markets. In such a system, the best-connected special interests get to define what mission will be pursued, and resource allocation becomes thoroughly politicized.

In "A Behavioral Economics Perspective on the Entrepreneurial State and Mission-Oriented Innovation Policy," Jan Schnellenbach explores the vulnerability of an entrepreneurial state to debilitating behavioral biases. The chapter makes a good case that inefficient use of heuristics spoils the results for even the most entrepreneurial-minded bureaucrats. For example, their tendency to be overconfident results in poorly conceived innovation projects that receive inordinate funding. Another pitfall is rational irrationality, bureaucrats' tendency to believe objectively false things because they are rewarded socially and politically for holding such false beliefs. A famous

example Schnellenbach cites is when the French government succumbed to the sunk cost fallacy with respect to its development of a supersonic airplane, the Concorde. Despite it becoming evident early in the project that escalating costs made the entire project economically unviable, the government sent good money after bad due to political reluctance to end a national prestige project. The government's inability to reckon with sunk costs came to be known as the "Concorde fallacy."

Schnellenbach cites some interesting empirical research showing that bureaucrats are less successful than private venture capital firms at funding successful startups. The chapter therefore complements the public choice tradition by demonstrating how cognitive limitations make entrepreneurial discovery difficult to replicate within government agencies.

In the next chapter, "Innovationism and the New Public Intellectuals," Olof Hallonsten addresses the increasingly trendy belief that innovation is the cure to every ill. Mazzucato, a leading proponent of an entrepreneurial state, personifies the media celebrity/academic who has embraced this over-the-top innovationism on the public-speaking circuit. Hallonsten is critical of the lack of intellectual rigor associated with those media personalities who publicly cheerlead state-directed missions from their perches at prestigious academic institutions using buzzwords and empty jargon.

In part 3, Rodney H. Yerger Jr.'s "Analyzing the Effectiveness of State-Guided Innovation" is perhaps the most valuable chapter in the book. Yerger scrutinizes Mazzucato's claims that many well-known digital technology innovations should be credited to the inventiveness of bureaucratic agencies rather than to venture capitalists and to entrepreneurs. Yerger sets the record straight on several noteworthy examples, such as smartphones and global positioning systems. Government did provide basic research funding that was used in conjunction with private research funding, and later became a large buyer of digital technologies. But in each case, basic research was ultimately commercialized by private entrepreneurs who developed businesses which were later sold to larger companies, which made substantial further investments to market and commercialize the technologies. In no case was the government directing the commercialization process from start to finish in lockstep with its declared grand mission for society. Yerger does everyone a service by debunking the spurious claims and exaggerations that popularizers have used to justify more interventionist industrial policies.

Yerger's findings reinforce a Hayekian insight. Governments may fund scientific research and may even become important customers for emerging technologies, but the discovery of commercially valuable applications depends upon decentralized entrepreneurial experimentation (Hayek 1978). Commercialization is itself a process of entrepreneurial discovery.

Yerger makes another valuable contribution with his second chapter, "A Case Study on DARPA: An Exemplar for Government Strategic Structuring to Foster Innovation?" Here, Yerger digs into the Defense Advanced Research Projects Agency, an oft-cited example of state-directed technological innovation, particularly in national defense weaponry. To be sure, this agency was responsible for some impressive advances, especially early in its tenure when it was smaller and less visible as a funding magnet. However, the chapter shows that as the government has considerably boosted the agency's funding over time, DARPA has become more bureaucratic and has lost its prior independence from political control. Consequently, the pace of DARPA's initial successes could not be sustained. Yerger concludes that it would not be feasible to scale DARPA up into an innovation driver writ large for the national economy. This conclusion is consistent with Friedrich Hayek's insight that the knowledge required for economic coordination becomes increasingly dispersed as the scale of an activity expands. What may be feasible in a narrowly defined defense research agency does not necessarily translate into a model for directing innovation throughout an entire economy.

In the chapter "The State of the Entrepreneurial State: Empirical Evidence of Mission-Led Innovation Projects Around the Globe," Maral Batbaatar and coauthors conduct a meta-analysis of twenty-eight academic papers concerning state-directed grand mission projects around the world. Their empirical findings are certainly eye-opening. Of the forty-nine megaprojects launched by central governments, not one had been evaluated in light of opportunity costs or by conducting a thorough cost–benefit analysis. Only one-third were deemed successful. Nearly 10 percent were deemed outright failures. A majority, or 51 percent, were still considered works in progress. Batbaatar and coauthors further conclude that many of the national missions articulated by governments were hopelessly vague, such that a performance evaluation was not possible. Nearly half the missions did not even publish a deadline for completion, again making performance evaluation challenging. Even more disconcerting, most of the projects denoted by governments as "missions" did not meet the criteria for that term as defined by the Organisation for Economic Co-operation and Development (OECD). It seems that governments' eagerness to declare grandiose, expensive missions exceeds their ability to accomplish these missions.

In the chapter "When 'What Works' Does Not Work: The United States' Mission to End Homelessness," David S. Lucas and Christopher J. Boudreaux dissect an ongoing national mission that continues to fail. The US spent $7.9 billion to eradicate homelessness in 2022, a doubling of annual federal expenditures since 2010. While the equivalent of $13,500 per homeless person should have put a large dent in the problem, progress has been minimal. Needless to say, the 2010 mission of eradicating homelessness for children and families within ten years was not accomplished.

In "The Cost of Missions: Lessons from Brazilian Shipbuilding," André Cherubini Alves provides a detailed case study of the Brazilian government's mission to reestablish a viable shipbuilding industry starting in 2007. After the discovery of large oil deposits offshore prompted a need for advanced oil rigs, the Brazilian government wanted its nearly extinct shipbuilding industry to support oil production. In what was declared Brazil's equivalent of the Space Race, large subsidy programs were established alongside protectionist policies to advantage local shipyards and workers. The mission proved a spectacular flop. The government was unable to set up the complex shipbuilding supply chains that were needed. Not only did Brazil fail to establish a world-class shipbuilding industry, but the grand plan devolved into a major corruption scandal that engulfed state officials as well as affiliated contractors and component suppliers.

Kathryn Waldron and Christopher J. Coyne consider foreign aid grand missions in "You Can't Develop What You Don't Know: The Realities and Limitations of Foreign Aid Missions." Such missions often start following a major natural disaster that generates understandable sympathy through saturation coverage in the media. Waldron and Coyne trace how well-intended disaster relief efforts typically degenerate into a destructive "NGO scramble" whereby nongovernmental relief groups opportunistically reorient themselves to benefit financially from the incident receiving media attention. The NGOs interject themselves into the media frenzy, hyping stories of human suffering in hopes of being chosen to administer grants, loans, and other subsidies from the foreign aid agencies. They have a symbiotic relationship with the official aid agencies, in that foreign assistance budgets must be fully depleted in order to justify the following year's funding. This creates systemic incentives for overspending, fraud, and waste. Similarly, NGOs compete with each other to gain political favor with the foreign government officials who exercise power over the distribution of funding. This creates an unfortunate dynamic in which political corruption is rewarded and reinforced, diverting resources away from the needed disaster relief. In the end, Waldron and Coyne find that bureaucratic knowledge deficiencies, bad incentives, and top-down planning failures prevent these projects from achieving their grand mission of lifting aid recipients out of poverty.

In "A Public Choice Perspective on Mission-Oriented Innovation Policies and the Behavior of Government Agencies," Rickard Björnemalm and coauthors subject three Swedish government agencies in the areas of regional economic growth, innovation, and the energy sector to critical examination from a public choice perspective. Using the agencies' annual reports over a decade, Björnemalm and coauthors tracked and compiled a comprehensive tally of evaluations of these agencies and their respective grand missions. They found that 84 percent of the evaluations were positive, with only 4 percent expressing critical commentary about the agencies and their missions. Unfortunately, in too many cases the agencies received kudos for managing to spend their entire

annual budget, much like the foreign aid programs analyzed in the previous chapter. Such metrics have almost no connection with whether the agency's mission was accomplished. It is clear that bureaucracies have a strong self-preservation instinct that leads them to tout favorable evaluations of themselves, regardless of whether those evaluations evaluate anything meaningful. This analysis sheds a great deal of light on whether it is warranted to presume, as industrial policy proponents do, that government bureaucrats are both trustworthy and accountable.

In the chapter "Learning from Overrated Mission-Oriented Innovation Policies: Seven Takeaways," the book's three editors summarize the theoretical and empirical findings regarding various case studies of industrial policy missions. They incorporate a deeper look at three additional government-led national missions: the War on Cancer, the mission to lift homeownership in the US, and the Swedish Million Program. The most compelling of these examples is the National Homeownership Strategy, which US President Bill Clinton launched in the 1990s. The strategy was a joint effort of the Department of Housing and Urban Development, the national bankers' trade association, and the government-sponsored enterprises (GSEs)—the Federal National Mortgage Association (or Fannie Mae) and the Federal Home Loan Mortgage Corporation (or Freddie Mac). After Clinton left office, President George W. Bush continued to aggressively support the national homeownership mission using multiple policy, regulatory, and subsidy levers.

The policies constructed to promote the national homeownership mission culminated in the national housing market meltdown known as the global financial crisis of 2008–9. Under the national strategy, Fannie Mae and Freddie Mac were pressured to guarantee repayment of principal and interest on the mortgage-backed securities they issued to support the liquidity of the secondary market for home mortgages. The GSEs themselves had an implicit federal guarantee of their solvency, which they used to support expanded mortgage lending to subprime borrowers. The GSEs took on so much mortgage risk that when the housing market finally collapsed in 2008, the failure of the GSEs and a large number of mortgage lenders caused a financial meltdown. The global financial crisis is surely a cautionary tale for proponents of grand policy missions—but one that they studiously ignore. From an Austrian perspective, the episode illustrates how political objectives can distort market signals and induce widespread malinvestment. The national homeownership mission ultimately substituted political goals for market-based assessments of credit risk, producing consequences far beyond the housing sector itself.

While the empirical chapters demonstrate that mission-oriented policies often fail to achieve their stated objectives, they leave largely unexplored the misuse of an important valuation technique that frequently underpins contemporary industrial policy. Whether the mission concerns climate change,

semiconductor manufacturing, strategic minerals, or regional development, governments typically justify their business investments using a social discount rate. Although only briefly mentioned in the volume, the concept warrants greater attention.

Before investing in a target company, venture capitalists must estimate how much the target company can ultimately be sold for. Venture investors may value target companies using a discounted cash flow analysis in which a discount rate is a key component. The discount rate converts future cash flows into present-day dollars, incorporating the time value of money as well as the uncertainty of the future cash flows. The discount rate represents the rate of return the investor requires in order to justify the investment risk.

The choice of discount rate is an art, not a science. It involves the investor's entrepreneurial appraisal of risks under conditions of uncertainty and depends on a range of factors, such as the target company's stage of development, the timing of its needs for investment capital, the liquidity of the investment, the uncertainty around future demand for and pricing of its product, and the profitability of its operations.

While discount rates can be useful to an investor in making final investment decisions, they are inherently subjective. Venture capitalists can develop intuition for discount rates over time through the experience of having to negotiate the target company's exit value with actual buyers at the end of a multiyear process. The private investor must eventually reconcile the forecast exit value and all the underlying assumptions behind it with demand from potential buyers in the market.

That task is difficult enough for a private investor whose assumptions will eventually face a market test. The state acting as venture capitalist may likewise employ market-based financial valuation to estimate the investment's expected return. But public investment decisions may also incorporate the state's preference for achieving certain unrelated policy goals in areas such as climate change, job creation, critical minerals development, or national security. These benefits may be estimated separately using a "social" discount rate that is considerably lower than the return required by a private investor-entrepreneur. The addition of these discounted social benefits can therefore justify committing public capital to projects that would not pass muster otherwise.

Typical investors apply discount rates for early-stage companies in the 40–60 percent range but use even higher rates for seed-stage companies, given their necessarily high probability of failure. Government programs may separately apply much lower social discount rates when calculating the present value of subjective nonmarket benefits. Those additional benefits can cause a project with an unattractive expected financial return to appear worthwhile. The problem with assuming nonmarket benefits in an investment decision is that

such assumptions are unlikely to ever be put to a market test in most cases. This problem highlights the incompatibility of state interventionism and entrepreneurial innovation.

One of the few references to the social discount rate in the book appears in Diane Coyle's chapter, where she argues that governments may possess a longer investment horizon than private actors and therefore may be justified in undertaking projects that private investors decline to fund (38). Unfortunately, Coyle does not elaborate on how the state should select a social discount rate or use it in practice. Private investors rely on dynamic, entrepreneurial, and dispersed knowledge networks to forecast the exit value of an investment, while the state employs more-ideological criteria to make its investment decisions. The use of politically derived discount rates by the state funding entity creates public-private coordination challenges beyond even those Coyle identifies in her chapter.

This problem closely resembles the economic calculation problem identified by Ludwig von Mises (1949, esp. chaps. 26 and 32) and later extended in Peter Klein's (2010) work on entrepreneurial judgment and capital allocation. Rational investment decisions require appraisals grounded in ownership, uncertainty, and market feedback rather than politically determined objectives. A social discount rate attempts to substitute administrative judgments for this market process, making capital allocation increasingly dependent upon political rather than entrepreneurial criteria.

From an Austrian perspective, the central issue is not whether governments possess the technical expertise to choose the correct social discount rate but whether such a rate can be determined outside the market process. The question is whether the state can rationally compare competing investment opportunities without referencing the profit-and-loss signals generated by market exchanges where their assumptions finally get tested. The social discount rate represents an attempt to replace entrepreneurial appraisal with administrative appraisal, thereby converting capital allocation decisions from market processes to political processes.

Private, entrepreneurially derived investment valuations emerge from judgments regarding uncertainty, opportunity costs, and anticipated future demand. Government valuations, by contrast, inevitably incorporate political assumptions about which future outcomes a government agency will mandate. The result is not simply a different valuation framework but an altogether different process of capital allocation. This distinction helps explain why mission-oriented policies repeatedly suffer from the knowledge and incentive problems documented throughout *Moonshots*.

The significance of this distinction becomes clearer in the final section of the volume, where several contributors shift attention away from government-directed missions and toward the institutional conditions necessary for

innovation. Rather than asking how governments can become more entrepreneurial, these authors ask what kinds of institutions allow entrepreneurship to flourish.

The chapter titled "The Entrepreneurial State Cannot Deliver Without an Entrepreneurial Society," by Mark Sanders and coauthors, considers ways for the state to promote innovation other than through state-directed missions. The authors assert that with enough money and time, the state is capable of spurring episodic innovation. But long-term success in fostering innovation throughout the broader economy depends, first and foremost, on a broad institutional framework that rewards experimentation and scaling. A top-down process dictated by government bureaucrats is very likely to crowd out the private entrepreneurial networks needed for sustained innovation. It may be the case that proponents of missions take for granted that the US has a generally supportive environment conducive to entrepreneurial flourishing and innovation, including relatively open markets, free competition, and property rights protections. Sanders and his coauthors' argument is broadly consistent with Israel Kirzner's conception of entrepreneurship as a discovery process. Sustainable innovation emerges not from bureaucratic design but from institutions that permit entrepreneurs to identify and exploit opportunities that cannot be predicted in advance.

In the next chapter, "Overcoming the Siren Song of Central Planning," David C. Rose addresses the human predisposition toward authoritarian control to solve large societal problems, a utopian instinct that he argues is the product of evolutionary biology. The elevation of elders within families and tribes, as well as the emergence of natural elites among decentralized small social groupings, contributes to the assumption that a collectivist government should exercise control over entire countries. Rose calls this a "control bias" that carries with it a deep-seated emotional appeal. Rose makes the rather alarming claim that humans are genetically hardwired to consider the lack of centralized authority in a country irresponsible. This would certainly explain the average citizen's failure to grasp Hayek's concept of spontaneous order or Adam Smith's metaphor of the "invisible hand," in which individuals unintentionally promote the common good while pursuing their own self-interest. Rose's insights have implications far beyond the debate over entrepreneurial statism and industrial policy.

In "R&D Tax Incentives as an Alternative to Targeted R&D Subsidies," Roger Svensson discusses policies to promote innovation. Svensson prefers tax incentives and targeted R&D subsidies over easily politicized national missions in which direct subsidies are distributed through highly bureaucratic entities. While he believes R&D subsidies are called for when the state has a longer time horizon for projects than private venture capitalists do, Svensson is cautionary about agency capture by vested interests seeking to advantage incumbent technologies and firms over new entrants. He argues that targeted policies avoid

the problem of government picking winners and losers in the marketplace; moreover, such policies can better avoid market distortions and ensure that investors remain properly incentivized by the opportunity to earn positive returns.

In the final chapter, "Bottom-Up Policies Trump Top-Down Missions," two of the book's editors, Magnus Henrekson and Mikael Stenkula, attempt to distinguish between top-down innovation steered by government and decentralized, bottom-up innovation. They also try to elucidate what types of public policies, including appropriate tax policies and labor market regulations, can foster a thriving and experimental entrepreneurial/innovation culture without the burdens of state interventionism.

Overall, *Moonshots* should be read by all who are interested in state-directed industrial policy, especially in its latest iterations in the US. It is also a useful primer for those interested in the more focused areas of climate policy and deglobalization. The book is wide-ranging in its approach, mixing Austrian- and public choice–inspired critiques with perspectives of other authors who are clearly more open to the goals of industrial policy.

As noted above, the book could have devoted more attention to the ways in which official agencies attempt to quantify the expected nonmarket benefits of the business ventures they finance. The application of relatively low social discount rates increases the present value assigned to long-term social benefits, enabling projects to clear a public investment hurdle even when their expected financial returns would fail to satisfy private investors. Social discounting can thus expand the scale and riskiness of investments that attract financing from official agencies.

The book's public choice–oriented contributors convincingly emphasize the unavoidable reality that industrial innovation policies operate within political systems dominated by self-interested actors rather than benevolent planners. This public choice perspective is one of the book's greatest strengths. Overarching industrial policy, both of the climate flavor and of the nationalist flavor, creates new opportunities for rent-seeking, regulatory capture, and the political allocation of capital.

An institutional question lies at the heart of the industrial policy debate: Which decision-making process is more competent at promoting technological progress? The debate over industrial policy ultimately turns on this question. The contributors provide a robust case for decentralized experimentation, entrepreneurial discovery, and competition over centralized political allocation of capital. In doing so, they reaffirm core Austrian insights regarding economic calculation, dispersed knowledge, and the essential role of decentralized entrepreneurship in coordinating economic activity.

At a time when industrial policy has returned to the forefront of economic debate, *Moonshots and the New Industrial Policy* is a reminder that ambitious objectives cannot overcome the constraints that have always plagued top-down economic planning initiatives. The book reaffirms a fundamental insight: Technological and economic progress depends not upon the vision of wise planners, but upon institutions that permit entrepreneurs to discover knowledge and monetize it. The contributors provide compelling reasons to remain skeptical that the interventionist state can consistently outperform the decentralized processes of entrepreneurial discovery that have historically driven technological advancement. Ultimately, the contributors' critique of mission-oriented innovation policy reinforces a central Austrian insight: Capital allocation cannot be divorced from market-based entrepreneurial judgment and economic calculation without sacrificing the critical feedback mechanisms necessary for value creation.

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