

Time to question the entrepreneurial state and the mission economy

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The EU and its member states are increasingly adopting a mission-oriented approach to tackling today's pressing challenges. This line of thinking has been inspired by Italian American economist Mariana Mazzucato. After a long career as an innovation scholar, Mazzucato became famous with her book *The Entrepreneurial State* (2014), in which she argued that government efforts in innovation and technology had been critical in the past in promoting economic development. Laissez-faire policies were therefore misguided, she argued, and instead of stepping back, states ought to take a step forward and proactively push for development in key areas.

Mazzucato has inspired a generation of policymakers to take a more interventionist approach. Her most recent book, *The Moonshot Economy* (2021), takes another step towards changing policy orientations and tries to illustrate how governments can implement mission-oriented policies. A mission can be regarded as a grand societal goal formulated by policymakers, for instance putting a man on the moon, lowering CO2 emissions or sharp reductions in poverty.

Although these calls for an entrepreneurial state and a mission-oriented approach have been directed towards policymakers and popularised in a series of books, academics have paid surprisingly little attention to Mazzucato's arguments. In a recently published book called *Questioning the Entrepreneurial State* (2022) co-edited by Karl Wennberg and Christian Sandström, 32 scholars make a systematic effort to address this rapid shift in policymaking and thinking. The book contains a combination of theoretical and empirical contributions, pointing out a collection of problems with Mazzucato's claims, while also trying to articulate alternative directions for policy.

The EU Green Deal

The EU's Green Deal is to a large extent the brainchild of Mariana Mazzucato and her disciples. The EU Commission led by van der Leyen has mobilised a thousand billion euros – a remarkable amount of money – over a 10-year period to accomplish industrial renewal and sustainable development. Some of this money will come from national governments and some of it is channelled via the European Investment Bank in the form of soft loans or pure R&D grants. A total of 430 billion euros are specifically earmarked for investments into hydrogen gas.

The EU Green Deal marks a step away from conventional industrial and environmental policy. Previously, governments have imposed legislation and then let firms decide how to comply with it. The increasingly interventionist approach applied by both the EU and national governments are not only a consequence of Mazzucato's thinking; they are also the product of a growing urgency to address pressing issues related to the environment.

How does innovative development happen?

While economic growth can happen without substantial reshuffling of resources in a society, it frequently occurs through a process of 'creative destruction' (Schumpeter, 1942). As new technologies become available and new ways of organisation and access to new resources are introduced, innovation is bound to displace already existing features of a society. Hence, all innovative activities have an inherently disruptive effect, meaning that the renewal of an economy is at times a painful process that occurs at the expense of established firms, technologies, products, and entire markets. As a result, innovation scholars have often highlighted the importance of the creation of new firms, new institutions, and new competencies in order to accomplish large, ground-breaking leaps of economic development. When we regard innovation as a process of creative destruction, it is clear that the mission-oriented approach is likely to be counterproductive and harm both the environment and the economy. Below we give three reasons why this is the case.

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'Mission capture' is bound to take place

How is a mission defined, and by who? Policy design does not – and should not – take place in a vacuum. Policies are developed in interaction with the stakeholders that are affected by these policies. Scholars of political economy have often argued that vested interests tend to exert a disproportionately large influence on this process, i.e., capturing a mission and shaping it to favour their interests. The OECD (Larrue, 2021) states that missions are particularly subject to 'mission capture' because,

"to be effective at developing consensual strategic agendas, they need to rely on established communities. These are often related to incumbents in key sectors which tend to avoid transformational agendas that involve a reshuffling of established economic positions" (p. 39).

There are many reasons why such mission capture is likely to occur. Today's large and dominant firms are better represented than tomorrow's giants as the incumbents posit more financial and relational resources. They have deeper pockets and can hire more lobbyists; they are better at exerting pressure on politicians as they represent more jobs and a larger share of the economy.

Missions and 'free money' distort the economy

The presence of large pools of government money directed towards sustainability is also bound to distort both competition and incentives in the marketplace. Firstly, these billions of euros are handed out to those who have successfully applied for grants. As this is a laborious process, large, established firms are the ones who are most likely to mobilise the resources required to access these pools of cheap or 'free' money. Again, the result will most likely be less innovation and the continuation of the current order of things.

Secondly, the free money distorts firm behaviour. If a firm can receive billions of free euros for pursuing certain activities and technologies, it is increasingly likely to take on the role as a subsidy entrepreneur, making systematic efforts to grab as much government money as possible. As it is other people's money that is up for grabs, firms will in effect also become immune to technological risks and engage in technological ventures that are bound to fail.

A mission ends up not being technology neutral

As missions are captured by today's resourceful interest groups, they are likely to be designed to entrench these groups' positions, bearing in mind that innovation and development displaces established firms, skills, regulations, and industry structures. Missions in reality end up not being technologically neutral, the pools of free money will be made available in ways that are compatible with existing power structures in the economy, thus effectively reinforcing certain technologies at the expense of others.

Once the mission-oriented approach is put into practice, it tends to end up benefiting established interest groups, effectively becoming a form of rebranded support for large firms.

Learnings from the Swedish ethanol bubble

There are in fact many contemporary examples of proactive and progressively more interventionist innovation policies. In Sweden, the production of ethanol cars and ethanol expanded from 2003 and onwards. This bubble culminated in 2008 when 20 per cent of all newly sold cars ran on ethanol. Two years later, car engines collapsed as they did not function properly on ethanol. Relatedly, the World Bank (2008) showed that using ethanol as a fuel resulted in increased food prices globally. The ethanol bubble was from its onset a political artefact. It was fuelled by generous tax deductions and petrol stations were forced to supply a biofuel and no other alternative was available at that point.

A bubble was also created around ethanol production. As ethanol was supposed to become the fuel of the future, the Swedish Energy Agency supplied billions of Swedish krona to firms that wanted to make ethanol. These firms tried to do so by making ethanol from cellulose (trees) in the rural north. Given direct access to policymakers in government, these firms obtained huge R&D grants and in return promised new jobs, re-industrialisation, and green growth. These promises fell apart in a series of scandals, accounting frauds and mounting debt for rural municipalities in the northern parts of Sweden. In sum, billions were spent on the wrong technology, resulting in no sustainable development and no economic development.

Conclusion

Mission-oriented policies have gained traction over the past few years. They appeal to policymakers as they are portrayed as visionary and capable of addressing and solving the grand challenges that our world is facing. Reviewing the track record of such policies and using elementary economic theory, it is clear that these policies need to be treated with caution and perhaps, suspicion. The policies that come out of the political machineries interacting with interest groups are likely to strengthen established firms and established technologies rather than result in any real transformative change. Large pools of government money aimed at sustainable development are bound to end up in the pockets of today's dominant firms. As these pools of money are obtained, firms end up investing in technologies that lack a sound commercial or environmental rationale but are in line with their interests and the prevailing political consensus. The EU's 430 billion euros earmarked for hydrogen investments probably constitutes one such contemporary example. In conclusion, there is a high risk that mistakes of the past are repeated unless policymakers think twice before they adopt mission-oriented policies.

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