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HOW TO MAKE AN ENTREPRENEURIAL STATE: WHY INNOVATION NEEDS BUREAUCRACY

By Rainer Kattel, Wolfgang Drechsler, and Erkki Karo. New Haven & London: Yale University Press, 2022, 288 pp., ISBN:9780300227277

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Abstract. “How to Make an Entrepreneurial State: Why Innovation Needs Bureaucracy” by Rainer Kattel, Wolfgang Drechsler, and Erkki Karo offers an analytical approach to creating successful “innovation bureaucracies” with a wealth of exemplary policies, practices, and institutions observed throughout the post-Second World War era. The book defines the quality of “agile stability” that the public sector needs to create in order to solve next-generation problems. As its title speaks, its main argument is: “Innovation needs bureaucracy.” Therefore, the authors give a detailed account of how public institutions create, do (perform), fund, intermediate, and rule (administer/coordinate). The book gives a detailed account of these typologies of innovation institutions, from the US’s DARPA to Sweden’s Vinnova. It is a reference source for students, scientists, practitioners, and anyone who cares about innovating successfully and developing prosperous societies while facing tomorrow’s challenges.

Key words: agile stability, innovation bureaucracies, neo-Weberian innovation agencies.

Book review

How to Make an Entrepreneurial State: Why Innovation Needs Bureaucracy by Rainer Kattel, Wolfgang Drechsler and Erkki Karo is a book tackling “how” governments organize to create and nurture successful “innovation bureaucracies”. From the outset, the book introduces the formula of successful “innovation bureaucracies” or institutions: “agile stability”. This term refers to the quality that successful states need to develop in order to solve next generation problems, e.g., global warming, pandemics and environmental crises.

The authors’ main argument is that “innovations need bureaucracy”. Throughout the seven chapters, the book utilizes a wealth of notions, such as “bureaucracy hacking”, “mission mystique”, “capacity” and “capability” in its narration and dives into the development of “innovation bureaucracies” in the US, Europe, and Asia since the end of the Second World War.

The book’s title includes “Entrepreneurial State”, and its foreword is written by Mariana Mazzucato, the author of *Entrepreneurial State*. Moreover, one of the authors, Rainer Kattel, was Mazzucato’s colleague, and it appears that the book directly engages with

the stream created by Mazzucato. But beyond this stream, the book furthers the wider literature promoting the idea that contrary to the conventional wisdom, the role of the state was significant in many innovations, and even in radical ones, from GPS to the internet (p. xiv). They argue that although we tend to attribute to innovations to Schumpeterian private companies and regard public institutions and Weber unrelated to this process, the reality is different. Promoting this idea, Kattel, Drechsler and Karo set out to understand “how”, then, states create “innovation bureaucracies”. From the beginning, the authors creatively wreck the false dichotomy between “bureaucracy” and “innovation”. And, as the conventional wisdom unjustly attributes all the *pros* to Joseph Schumpeter and innovation, while attributing the *cons* to Max Weber and bureaucracy, the authors successfully bring these two disciplines’ eternal fathers -Weber and Schumpeter- together at the same table to prove how their works are in fact complementary regarding the ultimate objective of guiding societies in innovation not only for profitability but also realizing social objectives. Thus, throughout their fantastic analysis and narration, the authors truly reflect this holistic understanding. One tempts to argue that this book will be more inspiring

in the varieties of countries where the role of the state is especially bigger than much of the liberal market economies. The role of state in the liberal market economies, e.g., US and UK, might be more “mission-oriented”, such as the Apollo program “to put a man on the moon” or the Manhattan Project to create a power asymmetry based on nuclear weapons. Also, even though DARPA’s investments also created dual-use innovations such as the Internet, GPS, Siri, and myriad others, its main purpose has been the US supremacy in technological leadership militarily. In this sense, this economic model’s requirement seems to be more “agility” than “stability”. However, the book argues that today’s states don’t have the luxury to choose between “agility” and “stability” and forgo one for the other. COVID-19 clearly demonstrated how both stable health infrastructures and long-term investments and mission-focused innovativeness, such as reorienting the production to supply “medicine, ventilators, protective equipment, and test kits,” were equally required.

In fact, as the authors correctly put it, the US and the UK suffered due to their market-based model when it became clear how crucial stable health systems were in responding to the public health crisis (ibid). Comparably, Germany and South Korea were better equipped with these stable bureaucracies (ibid). Therefore, even though a model can have a competitive advantage in certain aspects, as in the US, it doesn’t guarantee that its social system won’t be disrupted by tomorrow’s challenges. Therefore, developing “agile stability” is as crucial for the liberal market economies as the ones with a larger role for the state. Still, however, the countries with a larger role for the state need to focus particularly on developing “agile stability” as in those countries, the quality of the state literally defines the success or failure of the society. This is also valid for the developing countries in general.

Covering the period from the end of the Second World War to today, the authors demonstrate that innovation bureaucracies assume a variety of roles that the authors typologize in five: “creators”, “doers”, “funders”, “intermediaries”, and “rulers”. In these typologies, the authors bring a rich portfolio of innovation bureaucracies from the US to Germany and Sweden, and further to the East Asian innovation bureaucracies of South Korea, Japan, Taiwan, Singapore and China. To give a glimpse of the authors’ typologies, “creators” include the National Institutes of Health (NIH) of the US and the Max-Planck-Gesellschaft of Germany. Likewise, Brazil’s Petrobras (a state-owned company),

Singapore’s public holding companies, the US’s DARPA, and public universities taking part in the Estonian Genome Project are among the “doers”. Furthermore, the National Science Foundation (NSF) of the US, the European Research Council, public development banks, e.g., Brazil’s National Bank for Economic and Social Development (BNDES), and public-private venture capital partnerships, e.g., the US’s In-Q-Tel assume the role of “funders”. Similarly, “intermediaries” comprise from cluster organizations to business incubators and technology parks. Finally, the “rulers” are: “(h)igh-level public-private coordination bodies (national research and innovation councils, boards, etc.), offices of president/prime minister, ministries”. Hence, the book offers rich content to understand leading innovation bureaucracies largely through a Weberian lens.

Regarding successful innovators, the authors demonstrate how the “stability” function as attributed to “*expert organizations*” - “*Weber I*” - and “*agility*” function associated with “*charismatic networks*” - “*Weber II*” - are, in fact, inseparable components of innovation bureaucracies. In this context, the authors warn against falling under the influence of dominant fashionable paradigms such as the Washington Consensus and its offshoots, such as the New Public Management (NPM). As the authors argue, NPM in the 1980s and 90s focused much on discrediting “Weber I” qualities (i.e., “stability” function), while overselling the “agility” of the private sector methods in public administrations. However, this biased focus resulted in destroying not only “long-term capacities” in bureaucracies but also “mismanaged” new challenges that truly required dynamism and agility. So, the NPM’s extolment for cost efficiency in public administrations turned out to be destructive, and the followers of the NPM neither achieved cost efficiency nor effectiveness in their objectives and targets. Here, it is proper to emphasize the authors’ interest in non-Western public administrations.

On the other hand, the authors do not explore why countries jumped on the Washington Consensus train, willingly or unwillingly. By analogy to Peter Grekovitch’s “Policy requires politics”, some also say “Politics needs policy” (Grekovitch P.A., 1986). In this sense, the collapse of the Soviet Union had revealed the dichotomy between the endowments of soft power between the Communist Bloc and the US-led “liberal” world. Capitalism was the winner, and neoliberalism was in its driving seat as the “only game in town”. Disillusioned, frustrated, and feeling left behind, the Eastern Europeans swallowed the bitter pill because they needed a “policy” in the

hope of catching up with the West in life standards, even though the developed West itself was not necessarily implementing all of its own policy prescriptions (Robert H. Wade, 2003). According to Grekovitch, polities tend to try new policies in “hard times” (Grekovitch P.A., 1986). So did the Eastern Europeans. When it comes to countries such as Türkiye, fighting against bureaucracy was also a part of the democratization agenda of governments. Bureaucracy included military, judicial, and administrative bureaucracy, and these were important reserved domains of tutelage (M. Hüseyin Mercan and M. Tahir Kılavuz, 2017). Of course, there existed other causes to reform bureaucracy, including corruption and budget deficits. Therefore, decreasing the clout of bureaucracy by focusing on such principles as openness, transparency, and accountability was at least partially for the purpose of opening space for civilian politics by containing the political excesses of bureaucracy. Again, a liberalizing NPM was the only policy in town.

Regarding this paradigm failure, the authors demonstrate that, in the public sector, “both long-term capacities and dynamic capabilities” need to be created and sustained. In fact, towards the COVID-19 crisis, developed countries had already recognized this, and created Neo-Weberian “agile stability” or “Weber III”, combining *both* the “stability” function of “Weber I” and the “agility” function of “Weber II”, as exemplified in the long-term social commitments for green economies, reflecting a “normative” and “epistemic turn”. The authors exemplify how the 21st-century innovation bureaucracies have successfully adopted Neo-Weberian qualities as seen in the Swedish innovation agency, Vinnova, and the UK’s Government Digital Services (GDS). On the final page of the book, the authors suggest that it is necessary to focus on “creating agile organizations” with “a new emphasis on risk-taking, and contemporary and future challenges” but equally on maintaining stable bureaucracies. They finalize with a strong note: “It demands high-level judgment power, resolve, tenacity and funding to develop such an innovation bureaucracy – but if this sounds difficult and expensive, *the alternative is not meeting the challenges of our times*”. So, it is a choice between to develop or not to develop. However, the authors don’t consider funding to be

the most difficult part of the ceremony. International funds often come with externalities in the form of conditionalities constraining developing countries’ options to invest in national priorities, objectives and institutions. Creditors generally utilize the funding agreements to open markets for their companies, rather than normatively supporting countries’ innovation capacities.

Some key takeaways and implications are:

1- “Agile stability,” i.e., both “agile” and “stable” public infrastructures, should be developed to face tomorrow’s challenges, such as pandemics and global heating, so as not to be caught desperate when faced with these challenges.

2- In this task, “innovation” and “bureaucracy” are mutually supportive, not contradictory.

3- Today’s successful innovation agencies are Neo-Weberian. Put differently, they are both “agile” in facing unconventional challenges, and nurture “stability” capacities for the long term.

4- Fashionable paradigms are not necessarily helpful for states and societies, they might be utterly harmful, as the Washington Consensus and its offshoot NPM experiment showed. Countries should not fall into the trap of the popular paradigms under the influence of politics, they should calmly assess where they are going before jumping on a train.

5- There are a variety of successful “innovation bureaucracies” in all categories. So, there is no need to try to fit into a single size. Better, consider the successful typologies and develop your own according to your own way of eating yogurt.

In addition to being an important contribution to public administration and innovation studies, the exciting narrative of developmentalism is felt throughout the book. It has this aspect also because the book is a collective work by three generations of PhDs: Wolfgang Drechsler’s first PhD was Rainer Kattel, and the latter’s first was Erkki Karo, as such, reminding that universities are classical, indispensable “innovation bureaucracies” creating human capital, which is ultimately the true source of innovation. It is a reference for students, scientists, and practitioners to consider while creating their own innovative public capacities according to their own politico-economic models, constraints, and sources for the final purpose of facing tomorrow’s challenges and creating prosperous societies.

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