

H. Deligöz 

Ankara Yıldırım Beyazıt University, Ankara, Türkiye
e-mail: halimdeligoz@gmail.com

HOW TO MAKE AN ENTREPRENEURIAL STATE: WHY INNOVATION NEEDS BUREAUCRACY

By Rainer Kattel, Wolfgang Drechsler, and Erkki Karo. New Haven & London:
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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 a quality of “agile stability” for the public sectors 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 on how public institutions create, do (perform), fund, intermediate, and rule (administer/coordinate). It is a reference source for students, scientists, practitioners, and anyone, who care for innovating successfully and developing prosperous societies while facing tomorrow’s challenges.

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

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” (Kattel et al., 2022, p. 1& 211). Throughout the seven chapters, the book utilizes a wealth of notions, such as “bureaucracy hacking”, “mission mistake”, “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.

Regarding that the book’s title includes “Entrepreneurial State”, and its foreword is written by Mariana Mazzucato, the author of *Entrepreneurial State* (2013), moreover, one of the authors, Rainer Kattel, has been also Mazzucato’s colleague, 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 state was significant in many of innovations, and even in radical ones, from GPS to internet (Kattel et al., 2022, 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, contrary to the conventional wisdom, which unjustly attributes all the *pros* to Joseph Schumpeter and innovation, while attributes 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 (Kattel et al., 2022, p. xv & 15). Also, even though DARPA’s investments also created such dual-use innovations as 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 states don’t have 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 to reorient the production to supply “medicine, ventilators, protective equipment and test kits” were equally required (Kattel et al., 2022, p. 13). In fact, as the authors correctly put, the US and UK suffered from due to their market-based model when it became clear how crucial was stable health systems to respond 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 competitive advantage in certain aspect 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 state need particularly focus on developing “agile stability” as in those countries the quality of state literally *define* 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” (Kattel et al., 2022, p. 71-73). 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 on the authors’ typologies, “creators” include National Institutes of Health (NIH) of the US and 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 Estonian Genome Project are among “doers” (Kattel et al., 2022, p.71). Furthermore, National Science Foundation (NSF) of the US, 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” (Kattel et al., 2022, p.72). Similarly, “intermediaries” comprise from cluster organisations to business incubators and technology parks (Kattel et al., 2022, p. 73). Finally, the “rulers” are: “(h)igh-level public-private coordination bodies (national research and innovation councils, boards, etc.), offices of president/prime minister, ministries” (Kattel et al., 2022, p. 73). Hence, the book offers a rich content to understand leading innovation bureaucracies largely through a Weberian lense.

Regarding successful innovators, the authors demonstrate how the “stability” function as attributed to “*expert organisations*” or (“Weber I”) and “agility” function associated with “*charismatic networks*” or (“Weber II”) are in fact inseparable components of innovation bureaucracies (Kattel et al., 2022, p. 10-11, emphasis in original). 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) (Kattel et al., 2022, p. 85). As the authors argue, NPM in the 1980s and 1990s focused much on discrediting “Weber I” qualities (i.e., “stability” function), while overselling the “agility” of the private sector methods in public administrations (Kattel et al., 2022, p. 83). 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 (Kattel et al., 2022, p. 89). So, the NPM’s extolment for cost efficiency in public administrations turned out to be destructive, and the followers of NPM neither achieved cost efficiency nor effectiveness in their objectives and targets (Kattel et al., 2022, p. 83-87). Here, it is proper to emphasize the authors’ interest in non-Western public administrations (Kattel et al., 2022, p. 212; see also Drechsler, 2013).

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, 1986, p. 1). In this sence, 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. The capitalism was the winner and neoliberalism was in its driving seat as “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 (Wade, 2003). According to Grekovitch, politics tend to try new policies in “hard times” (Grekovitch, 1986, p. 239-240). So did the Eastern Europeans. When it comes to countries beyond the Eastern Europe such as Turkiye, fighting against bureaucracy was also a part of democratization agenda of governments. Bureaucracy included military, judicial and administrative bureaucracy, and these were important reserved domains of tutelage (Mercan & Kılavuz, 2017; Eser et al., 2012), in addition to other causes, including corruption and budget deficits, to reform bureaucracy. Therefore, decreasing the clout of bureaucracy by focusing on such principles as openness, transparency and accountability promoted by World Bank or IMF conditionalities was at least partially to utilize the external anchor for the purpose of containing political excesses of bureaucracy and opening space for the civilian politics. Again, a liberalizing NPM can be considered as part of this external anchor.

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 (Kattel et al., 2022, p. 197). In fact, towards the COVID-19 crisis, developed countries had already recognized this, and created Neo-Weberian “agile stability” or “Weber III”, combining *both* “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” (Kattel et al., 2022, p. 199). 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) (Kattel et al., 2022, p. 206). In 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 finalizes with a strong note: “It demands high-level judgement 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*” (Kattel et al., 2022, p. 210, emphasis added). So, it is a choice between to develop or not to develop. However, the authors don’t consider that the funding is 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, in order not to be caught desparate when faced 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 do 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, 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 yoghurt.

In addition to being an important contribution to public administration and innovation studies, the exciting narrative of developmentalists 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 (Kattel et al., 2022, p. 212), as such, reminding that universities are classical, indispensable “innovation bureaucracies” creating human capital, which is ultimately the true source of innovation (Kattel et al.,

2022, p. 58). It is a reference for students, scientists, 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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Information about the author:

Halil Deligöz - PhD in International Relations. Independent Scholar, (Ankara, Türkiye, e-mail: halimdeligoz@gmail.com)