The myth of Mazzucato's Entrepreneurial State [1]

Written by **Tim Worstall** [2] | Saturday 16 November 2013

It's quite extraordinary the way in which Marianna Mazzucato, in her book The Entrepreneurial State, uses the example of the iPhone as proof that it's really the State that is the entrepreneur. Here's Owen Jones taking the argument for a walk [3]:

> Clutch your mobile phone close to your bosom, stroke it tenderly, and praise the Fairy Godmother of Free Market Capitalism that you?re not walking around with an obscene brick stuck to your ear, a breadstick aerial reaching towards the heavens. ?Imagine what telephones would look like if the public sector had been entrusted with designing and making them,? as an opinion piece in the Telegraph had it this week, reflecting views widely held on the Right. ?The smartphone revolution would probably be at least another couple of decades away.?
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> One tiny little flaw with this dystopic piece of counter-factualism: er, the public sector was entrusted with doing just that. Economics professor Mariana Mazzucato?s The Entrepreneurial State shows how ? to take just one example ? the Apple iPhone brings together a dazzling array of state-funded innovations: like the touchscreen display, microelectronics, and the global positioning system. The governing ideology of this country is that it is the entrepreneurial private sector that drives human progress. The state is a bureaucratic mess of red tape that just gets in the way. But free market capitalism is a con, a myth. The state is the very backbone of modern British capitalism.

So how many smartphones have been state designed? I know of a tablet being put together in North Korea but can't think of any others. So we do seem to be left with the idea that smartphones were indeed the creation of that private sector entrepreneurialism.

But other than that snark what is actually wrong with the basic argument that is being put forward here? Essentially, it's that those making it don't know their economics.

We distinguish between two things: invention and innovation. The first is thinking up entirely new things: say that GPS system mentioned. It's generally agreed that at this basic level of research and invention that the State and the market actors are equally able. The Soviets did indeed make Sputnik even if 50 years later they still couldn't make a washing machine that anyone with a choice wanted to buy.

The second, innovation, is the same as entrepreneurialism. This is taking said inventions and putting them to new uses. That State certainly never thought that the GPS system would be used to tell me I'm just passing a really great pizza joint but smartphones do indeed do that these days. But that free market did take those series of inventions, combine them in a new and interesting manner and create the technology

with the fastest adoption rate ever in the history of our species.

This is all pretty standard stuff and it's been part of William Baumol's work to explain it all to us over the decades. The State can invent but finds it very difficult to innovate, the market can invent just as well but is stonkingly better at innovation. Given that Mazzucato is in fact an economics professor we might hope that she actually knew this before writing her book. Then again, she is as Sussex so perhaps not. Which is why she used the iPhone, a picture perfect example of market innovation, in her argument about state or market invention, an entirely different subject.

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