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Political Challenges of Addressing Climate Change through the ‘Entrepreneurial State’

Rachel Godfrey-Wood

Abstract This article outlines some of the limitations of existing institutions and their inadequacy in bringing about ‘green transformations’ to address climate change in order to explain the need for alternative approaches to institutions. It outlines the ‘entrepreneurial state’ approach, as outlined by Mariana Mazzucato as a promising conceptual approach with potentially transformative policy implications to address the issues of innovation. It identifies some of the political challenges to achieving entrepreneurial state-type institutions in contexts where configurations of power and existing actor networks are unfavourable. It argues that although entrepreneurial state-type institutions are often framed as operating by harnessing high degrees of cooperation between different actors according to commonly-held long-term objectives, achieving the right types of institutions is likely to require a high degree of contestation in order to overcome existing vested interests. Moreover, it discusses the relationship between green transformations and democratic participation.

Keywords: entrepreneurial state, green transformations, renewable energy, climate change, elite capture, path dependency.

The Institute of Development Studies (IDS) 50th Anniversary Conference drew attention to the inadequacy of the world’s institutions and conceptual approaches towards institutions in addressing pressing global challenges. In part this is due to changes in the world economy. Whilst conventional development studies programmes have tended to view challenges in developing countries as existing either in a separate sphere, requiring a specific type of expertise and knowledge, or alternatively as representing an ideal set of institutions to which developing countries should aspire, there is increasing agreement that these demarcations are outdated (Schmitz and Scoones 2015). The rise of some middle-income countries, and in particular the middle classes within those countries, has led to a degree of convergence in incomes between those groups enjoying greater income in developing countries and those in the middle and lower-middle classes of the developed

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world who have seen their incomes stagnate (Milanovic 2016). Second, it has become increasingly clear that, far from representing an ideal set of institutions to which developing countries should aspire, developed country institutions frequently exhibit the same types of flaws commonly associated with developing countries. Third, the challenges posed by phenomena such as inequality and climate change, which fundamentally threaten human wellbeing, require serious institutional responses, and are unlikely to be resolved by institutions which are based on inadequate and unrealistic conceptual frameworks.

In this article, I briefly outline some of the limitations of existing institutions and their inadequacy in bringing about 'green transformations' to address climate change in order to explain the need for alternative approaches to institutions. Subsequently, I outline the 'entrepreneurial state' approach, as outlined by Mariana Mazzucato (2013) as a superior conceptual approach with more realistic and at the same time transformative policy implications to address the issues of innovation. I identify some of the political challenges to achieving entrepreneurial state-type institutions in contexts where configurations of power and existing actor networks are unfavourable, comparing the experiences of renewable energy policy in Germany and the UK to illustrate the influence of path dependency and contextual factors on policymaking processes and subsequently on the long-term impacts of policies. I argue that although entrepreneurial state-type institutions are often framed as operating by harnessing high degrees of cooperation between different actors according to commonly-held long-term objectives, achieving the right types of institutions is likely to require a high degree of contestation in order to overcome existing vested interests. Moreover, I highlight that there are only limited lessons which can be drawn from past examples of heterodox approaches to bring about economic transformations, and discuss the relationship between green transformations and democratic participation.

1 The dysfunctionality of existing institutions

The 2008 financial crash and its aftermath, characterised by austerity programmes pushing the cost of the crisis onto the majority of the population, has drawn attention to the dysfunctionality of developed country institutions. Existing institutions in developed countries have allowed for massive concentrations of wealth at the top end of wealth distribution, and the parallel dominance of financial elites and their ideas in other key sectors of society such as the media and politics. Elite capture is reflected most clearly in legislation which systematically favours capital over labour, thus institutionalising the accentuation and perpetuation of inequality in law (Hsu 2014). As Stiglitz and Greenwald (2014) argue, economic orthodoxy has not been a positive development in terms of technological or institutional innovation, as companies have massive incentives to focus on gaining and protecting market and political power rather than engaging in the riskier and more uncertain challenge of long-term innovation. Far from creating the conditions for long-term investment, they have encouraged firms to prioritise

rent-seeking and the maximisation of shareholder value, with companies increasingly investing more and more in buying back their own shares and less in long-term investment (Lazonick 2014; Haldane 2016).

Catastrophically, this has all happened at the precise moment in history when the world faces the unprecedented challenge of decarbonising economic growth and human development. Greenhouse gas emissions are so heavily embedded within current paradigms of economic growth that nothing less than a fundamental transformation of policies, technology, institutions and modes of innovation is necessary if human wellbeing is to be secured without breaching the ‘safe operating space’ imposed by environmental limits (Leach *et al.* 2012; Zenghelis 2016). Achieving the target of reducing global greenhouse gas emissions by 50 per cent below 1990 levels by 2050 requires bringing about a ‘green transformation’, defined as ‘the process of restructuring that brings the economy within the planetary boundaries’ (Schmitz 2015). Unlike historical energy transformations, green transformations will have to be driven explicitly by environmental concerns as opposed to profit motives or increased consumer benefits (Newell 2015). Such transformations will depend to a large degree on the capacity of societies to direct processes of technological innovation towards advances which prioritise sustainability.

2 Innovation, the ‘entrepreneurial state’ and climate change

Awareness of the inadequacies of conventional economic and institutional approaches to addressing climate change has led to a reassessment of how processes of innovation and institutional development have actually functioned in practice. Central in this reassessment is the work of Mariana Mazzucato (2013, 2016), who has challenged conventional narratives of how technological innovation has occurred in practice, arguing that virtually all substantial technological advances in modern history have owed themselves to state support and collaboration between public and private sectors rather than the competition and entrepreneurialism of self-interested actors. Central to this account is the understanding that markets are institutions which are outcomes of interactions between different public and private actors and institutions rather than pre-existing ‘natural’ institutions, and are embedded in wider institutional structures (Mazzucato 2016; Polanyi 1944 [2001]). Moreover, technological innovation is not the result of ‘exogenous’ technological opportunities, but rather of active government policy. Key examples of the ‘entrepreneurial state’ in practice include the railroads, the Internet, modern-day pharmaceutical companies and nanotechnology, all of which ‘trace their most courageous, early and capital intensive “entrepreneurial” investments back to the state’ (Mazzucato 2013). This narrative therefore gives the state a far greater prominence in influencing not only the rate but also the direction of innovation, allowing it to shape markets in favour of innovations which are likely to promote equality and environmental sustainability (Atkinson 2015; Mazzucato 2016). According to Mazzucato, the direction is influenced by ‘mission-oriented’ public policies and institutions, which establish their objectives and contribute

their own resources in order to fundamentally tilt the direction of innovation in favour of publicly chosen goals.

3 Political challenges

The question the entrepreneurial state approach raises is precisely how the political conditions to allow for this are to be created. The intellectual argument for an alternative paradigm might be strong, but is likely to require disruption to come to fruition, because dominant narratives have a tendency to maintain power through particular framings of problems, forms of knowledge, organisational arrangements and bureaucratic routines, all of which tend towards the perpetuation of certain pathways and the marginalisation of others (Leach, Scoones and Stirling 2010). Moreover, there are clear limitations in using historical examples of entrepreneurial states to shape future green transformations.

The historical examples provided by Mazzucato are contingent on particular historical contexts, economic and social conditions and coalitions of interests which are not likely to be replicated. For example, the post-war conditions that facilitated the rise of a social democratic consensus in much of the Western world were facilitated by a combination of a section of the industrial capitalist class seeing benefits in bolstering the purchasing power of the majority of the population, the destruction of manufacturing capacity during the war allowing for massive increases in expansion, and the fear of communism. In the current context in the UK, for example, it is not entirely clear who would be the potential partners in the creation of institutions who could act in the way Mazzucato envisages. Moreover, public institutions can be 'mission-oriented' in perverse ways, for example when they are directed towards supporting the development of fracking, or the arms trade (Mazzucato 2016). In many developed countries, political capture of the key institutions on which any alternative project would depend is extensive, ranging from the mainstream media to political parties and supposedly neutral public institutions such as tax collection authorities and regulators (Stiglitz 2012; Fuentes-Neiva and Galasso 2014). Such interest groups are capable of forming powerful networks which have strong vested interests in the promotion of problematic types of solutions to climate change, such as emissions trading, which has been criticised for avoiding any structural transformation of energy systems. In spite of its manifest problems, emissions trading has achieved a prominent place in attempts to address climate change thanks largely to an alliance of large investors, professional accountants and consultants, and key sectors of the aid industry (Schmitz and Scoones 2015).

Therefore, while there are unquestionably potential private sector allies for a progressive political project aiming to promote decarbonisation (Newell and Paterson 2011), forming a viable and transformative alliance with them may require contestatory processes because the actor networks in favour of the *status quo* are often extremely well positioned and organised within structures of power. Moreover, new political subjects need to be empowered to drive any serious process in order to

counter the inevitably conservative nature of the nation state, captured as it is by key elite interests. The nation state is far from being a neutral, benevolent actor, and exists and intermeshes within a broader context in conditions fundamentally hostile to any transformative change (Miliband 1969 [2009]). This is particularly the case in Anglo-Saxon countries where neoliberal narratives have become particularly hegemonic. This suggests that the opportunities for building an entrepreneurial state vary significantly across different countries and historical contexts, depending on the nature of particular configurations of power and capitalist interests at certain moments. This is borne out by the history of major economic transformations, which shows that transformation occurs due to multiple changes occurring at the same time (Schmitz and Scoones 2015).

4 Renewable energy policy in Germany and the UK

The opportunities for green transformations in different countries, and the different challenges faced as a result, is well illustrated by the divergent experiences of Germany and the UK in the development of renewable energy policy. In 2012, whilst renewable energy in Germany accounted for 24 per cent of total energy demand, it was under half this in the UK. This difference owes itself both to major differences in the approaches taken by policymakers, divergences in the types of coalitions of interest groups which were formed around renewable energy policies, and contextual factors which facilitated better policy in Germany than in the UK (Lockwood 2014). Whereas German renewable energy policy secured the active participation of a broad range of actors by offering attractive returns with low risk and a guaranteed market, thus building up a broad coalition behind renewable energy, UK policy only provided incentives for large energy companies to invest. As a result, Germany has established a relatively vibrant renewable energy sector with substantial employment effects and broad political buy-in, and efforts to reverse the policies have been countered by a broad coalition of actors including environmental groups, solar industry associations and companies, trade unions and local politicians. By contrast, British policy has allowed subsidies to be captured by large and unpopular energy companies, making green energy policy politically unpopular and vulnerable to cutbacks (*ibid.*).

The implications of the contrasting experiences of Germany and the UK are twofold. On the one hand, as Lockwood argues, policymakers need to consider policy feedback effects, and need to implement policies which are likely to generate new coalitions and interest groups which will strive to scale up a given policy and make it successful. The second implication, however, is that some countries experience greater levels of path dependency than others. The fact that Germany established more far-reaching policies in the first place was partly a consequence of contextual factors. Whereas Germany could count on a network of regional banks, a legacy of policy coordination between private actors and the state, a willingness to use non-market mechanisms to promote renewable energy, and a federal, decentralised democracy, the UK had none of these things due to its more doctrinaire adherence to neoliberalism and scepticism of deliberate industrial policy (Lockwood 2014).

Moreover, Germany's renewable energy policy was consistently promoted by the country's relatively strong Green Party, which benefited from a proportional representation system, allowing smaller parties to exercise influence, in contrast with the UK where environmental concerns have been consistently marginalised in Parliament. These contextual differences manifested in divergences in policymaking which had far-reaching feedback effects.

Furthermore, high levels of inequality which prevail in the UK make it harder to build the broad-based alliances necessary to address the challenges of sustainability (Wilkinson, Pickett and De Vogli 2010), and may have caused stronger negative policy feedback effects against green policies, because of greater fears of their adverse distributional consequences (Lockwood 2014). The case study thus illustrates the ways that dominant economic structures, narratives and understandings of the economy are likely to have a decisive influence over the types of policies used to address climate change (*ibid.*). This suggests that countries such as the UK which suffer from high levels of negative path dependency are likely to require even more thoroughgoing, radical and contestatory institutional transformation than other countries if they are to make a serious contribution to addressing climate change.

5 The green economy and democracy

Given that achieving green transformations will inevitably require a degree of contestation, it is necessary to examine the precise relationship between contestation, democracy and institution building in the formation of the entrepreneurial state-type institutions advocated by Mazzucato. Mazzucato emphasises the importance of having a state which can avoid bowing to the interest groups seeking rents and privileges in the form of tax cuts. However, it is unclear how a state capable of this degree of autonomy can be brought into being if it is already subject to a high degree of elite capture, and how 'mission-oriented' public institutions capable of decisively tilting the playing field in favour of democratically chosen objectives can be forged in the absence of elite acquiescence. In fact, many of the positive examples of the entrepreneurial state provided by Mazzucato come from contexts of relative elite consensus around the need for entrepreneurial state-type institutions, in some cases linked to unaccountable and militaristic programmes such as the Defence Advanced Research Projects Agency (DARPA).

Meanwhile, in developing countries virtually all the successful examples of the application of heterodox economics are associated with right-wing authoritarian regimes which actively repressed civil society, especially trade unions (Selwyn 2014). Recent years have seen a continuation of this trend, with Ethiopia and Rwanda increasingly lauded for their progress in incorporating aspects of the success of the East Asian developmentalist states whilst simultaneously charting out paths towards a 'green economy' through authoritarian models of 'developmental patrimonialism' (Booth 2011; Kelsall 2013). Furthermore, most of the successful examples of developmental transformation clearly emerged

from processes which were experimental, context-specific, and based on transitional arrangements rather than driven by an overarching vision (Hobday 2003; Qian 2003), limiting the extent to which they provide a clear blueprint for green transformations in the future.

In other instances, governments which have successfully implemented elements of the state-led developmentalism advocated by Mazzucato may see it in their interest to crush the nascent efforts of other governments to do the same, as the German government did to Greece's Syriza-led government in 2015. This indicates the limitations of methodological nationalist approaches which see approaches taken in countries in isolation from one another. Meanwhile, there are few examples of countries which have successfully employed heterodox economics through democratic mandates and in the face of elite opposition, with Ecuador standing out as a possible recent rare exception (see Ordóñez *et al.* 2015). The August 2016 coup in Brazil and subsequent threats of privatisation of the Brazilian Development Bank (BNDES), a historically successful example of an institution that has channelled finance towards long-term clean energy projects, show that even relatively established and institutionalised cases of the entrepreneurial state can still be vulnerable to reversal due to elite opposition.

This raises questions of the relationship between the green economy and democratic participation, as well as the potential and limitations of attempting to repeat models of innovation which were effective under particular configurations of power in a different context. While there are historical examples of the formation of the types of collaborative institutions that are likely to be necessary to bring about genuinely transformative change, green coalitions depend on particular convergences of different interest groups which do not exist equally across all societies at all times (Newell 2015). As a result, there is nothing even approaching a historical blueprint for processes of change to form institutions which are equipped to address the challenges of the twenty-first century. This would require institutions which incorporate both elements of long-term strategic planning, on the one hand, and are also capable of democratically challenging vested interests and empowering the poorest and historically most excluded sectors of society on the other. To date, however, most discussions of innovation for the green economy have taken a top-down direction, barely considering the possibility that solutions could come from local people themselves (Ely *et al.* 2013).

In contrast with the notion of transformation as a carefully controlled, strategic 'transition', others argue in favour of bottom-up, unpredictable, unruly processes of change – which are inherently more democratic and hold more transformative potential in any case (Stirling 2014). Involving a more diverse range of actors and considering different approaches may allow better responses to complexity than top-down ones, as well as avoiding unwelcome path dependency and the dangers of major errors that emerge from the exclusion of key actors at key moments of the innovation process (Leach *et al.* 2012). Top-down approaches

to innovation and policy change often overlook the historical role of grass-roots innovators in building up the actor networks, political pressure and technological knowledge necessary for renewable energy to get off the ground in the first place, as occurred with the Danish wind sector (Ely *et al.* 2013).

There are, of course, dangers associated with the potential for romanticisation of the participation of local 'communities', namely that decades of uneven and in some cases contradictory experiences of community-based or participatory policymaking are forgotten, simply due to a determination to disassociate from 'top-down' models. As Immerwahr (2015) argues, community-based approaches to policymaking have a history which goes back far further than is commonly recognised, and have frequently been associated with local-level elite capture, exclusion, and perverse forms of disempowerment which may actually inhibit people from engaging in broader structural issues (see, for example, Mansuri and Rao 2012, for a review of attempts to promote community-based approaches in developing countries). Even when community politics is deeply embedded in a society and serves as an effective instrument for achieving a variety of objectives, this needs to be underpinned by a practical logic rather than a purely ideological or 'visionary' one, and may exact major constraints on individuals' actions (Godfrey-Wood and Mamani-Vargas 2016). Such initiatives also need to be genuinely political if they are to avoid contradictions and have a chance at achieving lasting structural change, rather than becoming depoliticised, over-reliant on compromise and vulnerable to co-optation as occurred with the Transition Towns movement in the UK (Connors and McDonald 2010). In spite of these significant caveats, the challenges of climate change, the complexity of twenty-first century societies, the limits of approaches which depend on centrally-managed, technocratic approaches, as well as the distributed nature of much renewable energy means that the argument for decentralised, locally-run energy systems is likely to get stronger rather than weaker. Crucially, broad-based participation and engagement is a pre-requisite for green policies to be sustained, rather than experienced as impositions by technocrats (Schmitz and Scoones 2015).

This takes us to the role of social movements, including trade unions, who have a stake in wanting to direct processes of innovation in favour of skilled and secure jobs. Historically, there is evidence to suggest that successful organisation by workers for better wages and working conditions can be used to force firms to invest in productivity-enhancing technology which drives the overall economy (Riley and Rosazza Bondibene 2015). The political sustainability of green transformations is likely to depend heavily on the extent and quality of job creation or destruction (Newell 2015). Massive unionisation of the workplace, as well as worker representation in directing processes of innovation, seems like the most direct way in which the direction of the green economy can be genuinely democratised. A key example of participatory decentralised green policymaking is that of the Lucas Plan of the 1970s,

which was devised by workers who proposed rechanneling public financing from arms production to socially useful production including renewable energy (Smith 2014). Of course, advocating for this sort of approach will be challenging, in societies where workers' rights have been relentlessly attacked, labour has been flexibilised and restructured away from manufacturing industries (which are most likely to mobilise), and the very notion of union organisation has been undermined.

6 Conclusion

In this article, I have outlined the inadequacy of existing institutions and institutional approaches to addressing the challenges of the twenty-first century, with specific reference to climate change. Subsequently, I have discussed the potential of employing Mazzucato's 'entrepreneurial state' approach as a means of allowing governments to democratically determine not only the rate but also the direction of technological innovation in accordance with publicly defined objectives. The main challenges of this approach are twofold: firstly, forging an entrepreneurial state in the face of substantial elite resistance from actors which have a stake in perpetuating short-termist, speculative and polluting activities; secondly, employing it in a way which is both sufficiently democratic to fully harness the range of ideas and capacities that exist in a society, as well as securing broad-based buy-in from diverse groups for a sustainable transition. In order to meet these challenges, processes attempting to forge 'entrepreneurial state'-type institutions will necessarily have to be contestatory, and will have to actively involve non-elite actors in the formulation of policy, in order to drive processes which are as 'unruly' and 'hope inspired' as they are 'strategic' and 'mission-oriented'.

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