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IFN Working Paper No. 1285, 2019

The Collaborative Innovation Bloc: A Reply to our Commentators

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The Collaborative Innovation Bloc: A Reply to our Commentators[‡]

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Abstract: We are grateful for the comments to our article, and for the opportunity to respond to them. In our original contribution, we argued that the application of the EOE perspective could help make Austrian economics more concrete, relevant and persuasive, especially regarding policy prescriptions. At the heart of this perspective is the idea that entrepreneurship, when construed as the act of building an innovative firm, is an inherently collaborative activity. The comments have strengthened our conviction that the EOE perspective is of value for Austrian economics and been of great help in furthering our thinking on the matter. The comments have also helped us see how the perspective fits in with the broader tradition of Austrian economics.

JEL Codes: B53; D20; G32; L23; L26; O33.

Keywords: Austrian economics; Entrepreneurship; Innovation; Institutions; Schumpeterian entrepreneurship; Spontaneous order.

[‡]This paper is [our reply](#) to three invited comments to our paper “[The Collaborative Innovation Bloc: A New Mission for Austrian Economics](#)”, which provides the basis for a forthcoming Symposium in the [Review of Austrian Economics](#). The comments are written by [David S. Lucas](#), [Per Bylund](#), and jointly by [Nicolai Foss](#), [Peter Klein](#) and [Matthew McCaffrey](#).

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1 Introduction

We are grateful for the opportunity to respond to the three articles commenting on our contribution. All three are constructive and take the ideas we propose seriously. As such, they have already helped further our thinking on the experimentally organized economy, the collaborative innovation bloc, and the future of Austrian economics.

Arguably, the comment by Nicolai Foss, Peter Klein and Matthew McCaffrey (2019)—henceforth referred to as FKM—is the most critical of our perspective, which they criticize along four core margins. Nevertheless, they stress that there are “important points of contact between Austrian economics and the development-bloc and experimentally-organized-economy approaches,” and call our emphasis on experimentation “sweet music to Austrian ears.” Their criticism has been a useful way to further structuring our thinking concerning the relevance of our perspective, and while we scarcely believe that we will be able to convert FKM into true believers, we hope that they will look at our original contribution with a somewhat friendlier eye after reading this reply. Therefore, we will structure the next section of this reply around their four main critical points. The (more positive) comments made by Per Bylund (2019) and David Lucas (2019) will figure to some extent in this section, but since we believe that they highlight valuable ways in which the EOE perspective can and should be enriched, most of the points they raise will be dealt with in section 3. In the final section, we offer some concluding remarks.

2 Responding to Foss, Klein and McCaffrey

FKM’s first point of criticism is a broad one, namely whether “the framework of the Experimentally Organized Economy (EOE) is necessary and useful for Austrian research.” This point overlaps logically in their text with their second, namely whether the “EOE framework is less abstract than existing Austrian theory and policy analysis,” something they remain unconvinced about. They see our policy conclusions as “basic pieces of advice that most economists agree with,” stress that Austrians have written on many of these issues before,¹ and argue that our “lengthy discussion of policy does not contain any specific insights that would be otherwise lost on Austrian economists.” The third criticism also ties closely to the first two. FKM say that while they “agree that Austrian economics would benefit from a ‘meso’ level of analysis, [they] are skeptical about whether the EOE framework is the best

¹ We do not claim to be inventors of the wheel, and readily acknowledge that most of the facts and insights we draw on derive from previous (Austrian and non-Austrian) academic work, which we try to cite to the best of our ability. The suggestions for additional citations from all contributors to this symposium are much appreciated.

way to provide it.” Lastly, FKM argue that we focus mainly on Israel Kirzner’s “entrepreneurial discovery” approach to entrepreneurship, while overlooking the “entrepreneurial judgment approach” that they have promoted for several years. We will do our best to respond to these points below.

2.1 The usefulness of the EOE perspective

We appreciate that FKM agree with us in their third point of criticism that there is a need for a meso-level analysis within Austrian economics—even if they do not think that our perspective offers such a level. Obviously, we disagree. We believe that the provision of this meso-level analysis (a word we should perhaps have used) is a core contribution of our work and that it is precisely through the application of this analysis that the EOE perspective could make Austrian economics less abstract (cf. the authors’ second point) and more useful/policy-relevant (cf. their first point).

In fact, Bylund illustrates the same notion in his comment, when he ties our contribution to Oliver Williamson, arguing that we focus on the third level in Williamson’s schema of institutional analysis (Williamson 2000). After citing a host of contributions within Austrian economics concerning collaborative orders and economic organizing, Bylund points out that these contributions, though important, “are scattered attempts rather than an integrated approach to organizing and collaboration. They also, and perhaps for this reason, tend to fall short of the concreteness that Elert and Henrekson advocate for making Austrian economics a relevant and persuasive framework for policy-makers.”

Of course, an argument can be made that we should follow our own high standard in this regard. FKM do not think that we do. They write that

it is worth asking what about the EOE framework makes it more concrete than current Austrian policy work, and what its value-added is in policy analysis. To take one example, Elert and Henrekson (2019) offer an excellent summary of some major problems with labor regulations and wage-setting policies. However, the points they raise are well-known in Austrian and mainstream economics circles. We enthusiastically agree, for instance, that labor market regulations undermine productivity. Yet we fail to see how this kind of insight, however nuanced, is too abstract for Austrian economics to grasp, or how it relates uniquely to the EOE framework.

To begin with, that labor market regulations undermine productivity is scarcely the core takeaway from our discussion on these issues. Instead, it is a brief attempt to draw on the insights concerning the importance of key personnel in the collaborative innovation bloc (CIB) to formulate more explicit institutional policy. This, we would argue, makes such an

exercise a unique feature of the EOE framework. Moreover, all labor markets are more or less strongly regulated, and theory should respect that. Hence, arguments to the effect of “deregulate!” miss the point, compared to arguments that understand the qualitative differences of different types of deregulation.

For the interested reader, we would recommend a new book of ours, *The Entrepreneurial Society: A reform agenda for the European Union*, co-authored with Mark Sanders, where we apply the EOE-perspective to six different reform areas, the labor market being one of them. A recurring theme in the book is that the devil is in the details, and comparative analysis elucidates how many institutional problems elude simple classification or categorization. Consider, for example, the qualitative differences in employment security between Denmark and Sweden: The Danish *flexicurity* system combines generous welfare protection and opportunities for retraining with weak job security mandates (Andersen 2005). Danish employees therefore lose little when they switch employer or labor market status, making Danish talent available also for entrepreneurial firms (Bredgaard 2013). By contrast, a Swedish employee who voluntarily gives up a tenured position for self-employment typically has no more security than what is provided by (means-tested) social welfare. Thus, the opportunity cost of giving up a tenured position in Denmark is substantially lower than in Sweden. The implications for key personnel in the collaborative innovation bloc are huge, but these qualitative differences between Denmark and Sweden can scarcely be summarized by saying that the Danish labor market is less regulated than the Swedish labor market.²

The point we wish to convey is that concreteness is needed, and a theory such as EOE, with its highly explicit building blocks, could help Austrian economics arrive at this concreteness. One way to characterize the present state of the literature (within and outside Austrian economics) is by highlighting two extremes. At one extreme, which we may label the “frog’s perspective”, we find empirical and theoretical work on, say, the specific workings of venture capital, which tackles the issue in question in a matter-of-fact kind of way. Such studies are valuable, but they seldom focus on the full view, whereas our point is that VC cannot be studied—and VC reforms cannot be undertaken—in isolation. At the other extreme, we have

² Likewise, it is true that U.S. labor markets are largely “deregulated.” Thus, one may wonder why many people have two jobs, adding to commuting distance and undermining loyalty and firm-specific knowledge development. The reason: if you offer somebody a job of 30 hours per week or more, the firm has to pay health insurance as long as the firm has at least 25 employees (<https://www.ehealthinsurance.com/resources/small-business/are-employers-required-to-offer-health-insurance-in-2019>).

the “eagle’s perspective”, which we criticized when arguing that much of institutional economics (Austrian institutional economics included) operates at an overly abstract level. For instance, although it is very useful to know that inclusive institutions introduced in colonies in the 16th century persist to this day and can be instrumented with settler mortality in that era (Acemoglu et al. 2001), that leaves us with precious little actionable policy advice. Likewise, while Foss and Klein’s (2012) book, *Organizing entrepreneurial judgment: A new theory of the firm*, is in many ways a remarkable achievement which we encourage all students of entrepreneurship to read, the section on policy conclusions occupies one page and contains only the highly abstract recommendation that (p. 247) “it is critically important to avoid public policies that generate malinvestment in the first place.”

To return to Bylund’s point, a core value of the EOE perspective is that it lies between these extremes, much as the third level of analysis in Williamson’s schema (the governance level establishing the play of the game through organizations, contracting, etc.) lies between the second level of formal rules of the game and the fourth level of market action and allocation. We would perhaps stress that the CIB sometimes overlaps with L2 as well, but we agree with the core point. Our perspective is a way to move from the eagle’s view to the frog’s view (and vice versa) in a logically coherent manner that does not lose track of the intermediate perspective.

2.2 Mistakenly perceiving us as critical to Austrian Economics

Possibly, we sometimes appear to be harsher than intended when discussing Austrian economics. Overall, we tend to feel FKM depict us as more critical against Austrian economics than we actually are. For example, they write, “An underlying theme in Elert and Henrekson’s paper, though they only hint at it toward the end, is that there is something wrong with spontaneous order theorizing, and that this is what causes problems for Austrian research.” We disagree with this characterization of our view of spontaneous orders, especially with the idea that we would think that “the fundamental concept is useless,” which they imply a few lines further down. In fact, we conceive of the economy as an emergent spontaneous order, but why are so few people convinced that this is how the economy works? Perhaps because Austrian analyses, with few exceptions, have been too abstract and failed to show why the spontaneous process has played out in a certain way in a particular context. In offering the EOE perspective, we wish to further our understanding of why and how spontaneous orders differ across contexts, to limit the abuse of the spontaneous order concept that both we and FKM lament.

As another example of us being depicted/coming off as more critical than we in fact are, FKM write that we say

that little has been done to develop (the basic insight of the importance of an institutional framework) in concrete terms, for example, by discussing how in practice institutions influence spontaneous order and entrepreneurship. Austrians can rightly balk at this latter claim. Perhaps the most obvious counterexample would be the body of Austrian research studying the relationship between political institutions, entrepreneurs, and the business cycle (e.g., Salerno, 2012; Engelhart, 2012).

We do not deny that these are important contributions—but what our theory concerns itself with is neither macroeconomics nor business cycle theory, but innovative entrepreneurship, primarily construed as the act of building a firm in order to promote an innovation. Also, the collaborative nature of entrepreneurship means that you cannot merely focus on entrepreneurs—the other players in the CIB need to be present as well for the analysis to have traction. On this point, it is interesting that FKM note, a couple of paragraphs further down:

Perhaps Elert and Henrekson mean that Austrian economics has paid relatively little attention to the specific group of institutional players that they gather into the collaborative innovation bloc; that is, the problem is that Austrians should pay more attention to the entrepreneurial ecosystem. If so, then we have some sympathies in this respect.

Yes, that is exactly what we argue, and it is clear from Bylund's and Lucas's comments that neither of them has had any problem seeing this. We would even say that this is what Austrian economics should chiefly concern itself with. If not by applying the EOE perspective so at least by applying some similar perspective, as FKM seem to wish. However, when the authors discuss the need for a meso-level analysis in their third section ("Austrian economics and the need for a meso-level of analysis"), there is a conspicuous absence of any alternative to the EOE perspective—by pointing this out, we do not mean to suggest that there are no such alternatives out there, just that FKM seem reluctant to promote any of them.³

Rather, they mainly concern themselves here with highlighting similarities between the perspective we advance and what Austrians have written in the past. For example, they write:

Mises, for example, explicitly described the economy-wide resource allocation process as one with multiple levels, or stages, that incorporate knowledge-sharing, mutual learning, and explicit as well as tacit coordination.

³ Such an analysis is also absent in Foss and Klein's 2012 book.

We are unsure about what to make of this; there seems to be an implied (or even explicit?) criticism here, whereas the fact that Austrians in the past have touched upon the same issues could just as easily be used as an endorsement of our contribution. In our view, this illustrates that there have been important connections between Austrians and the EOE. We want these connections to be revived and strengthened to the point of permeating much Austrian work. Mises' insights mentioned above are, in our understanding, not really present in contemporary Austrian theory. To borrow from Schumpeter, those insights can be likened to an invention whose potential has yet to be fully exploited; only when it is spread and implemented throughout the Austrian academic community can we talk about it as an innovation.

In fact, after reading their third section we are none the wiser as to why FKM are skeptical about the usefulness of the EOE perspective, or what they would want to put in its stead. We do agree with the point they raise toward the end of the section—and then expand upon in the next section—namely that there is great usefulness in their “ideas of original and derived judgment and proxy-entrepreneurship[, which] explain how entrepreneurs delegate authority within and between firms (Foss et al., 2007; Foss and Klein, 2012)” —in fact, we wish that we would have made more explicit references to that perspective in our original contribution, especially when discussing the importance of key personnel. We deem that it is more elucidating to understand how the entrepreneur interacts with other players in the CIB, however.

Moreover, we take some issue with the continuation of FKM's argument here:

These decisions are made in the context of economic calculation using money prices, which in turn hints at the institutional setup required for successful market entrepreneurship to flourish, especially via the price system, purely free markets, the security of private property against all encroachments, and sound money (Salerno, 1993, p. 69).

An important point of the EOE perspective is that not all interactions are subject to easy economic calculation. Moreover, we agree that the context “hints” at the required setup, but not much else. The list FKM offer is precisely the kind of laundry list we were criticizing with our original contribution. Purely free markets are rare, if they exist at all, and private property is encroached upon and renegotiated all the time. The point of the EOE perspective is to move beyond such Nirvana fallacy type arguments about what is needed for entrepreneurship to thrive and instead consider the type of mixed-economy structures and institutions characterizing virtually all modern societies.

2.3 Defining entrepreneurship: the eternal battle

Returning to idea of the original and derived judgment, this relates closely to FKM's fourth point of criticism, which they return to in the fourth section of their paper ("The meaning of entrepreneurship). There, they write that "the EOE framework is focused mainly on the innovative aspects of entrepreneurial blocs. Yet, as Austrian economists have often pointed out, entrepreneurship is about more than innovation as such. Many real-world entrepreneurs are innovators, to be sure, but innovation is more a side effect of entrepreneurship than its essence." This is perhaps a matter of taste. Granted, entrepreneurs pursue their goals without a view to the broader societal picture. In that sense, we may perhaps think of innovation as a side-effect. If so, it is one heck of a side-effect. In William Baumol's book *The microtheory of innovative entrepreneurship* (Baumol 2010), he calculates that more than nine tenths of the rise in GDP per capita since 1870 can be attributed to innovation. It may not be the only thing entrepreneurs do but it is beyond doubt one of the most important things that they do for society at large. A perspective that puts innovation front and center should not have to justify itself too much beyond that.

Then, FKM once more mentions Mises' writings, stating that:

The writings of economists like Mises reveal a different view of the entrepreneurial process, one in which entrepreneurs use their judgment to navigate complex and uncertain markets. Using the price system as a guide, they decide how to combine scarce, heterogeneous capital goods to create products that satisfy consumer wants. Sometimes that results in new or improved products and services, new companies, and other creative acts, but not necessarily—stewardship of existing resources, which includes deciding not to deploy them to new uses, is an entrepreneurial act. The essence of entrepreneurship is the responsibility for productive resources under conditions of uncertainty.

We fail to see how this is so different from what the EOE perspective purports. In fact, this depiction sounds quite a lot like the entrepreneur as a collaborator. Bylund seems to agree, when writing:

Interestingly, and relevant to the argument put forth by Elert and Henrekson, Mises also identifies a sub category of entrepreneurship that 'cannot be defined with praxeological rigor' but that 'economics cannot do without': those uncertainty-bearers 'who are especially eager to profit from adjusting production to the expected changes in conditions, those who have more initiative, more venturesomeness, and a quicker eye than the crowd, the pushing and promoting pioneers of economic improvement'—the entrepreneur-promoters (Mises [1949] 1998, pp. 255–256). Somewhat simplified, the entrepreneur-promoters are the disruptive entrepreneurs (Christensen, 2013) who bring about creative destruction (Schumpeter [1911] 1934) and consequently push the market process forward toward (or through) the expansion of the extent of the market.

Again, we do not claim to have invented the wheel. If anything, this important similarity between the EOE and Mises is something we will acknowledge explicitly in future work.

The same can be said about the subsequent quote by FKM: “We argue that studying entrepreneurship as judgmental decision-making (combining specific, heterogeneous capital goods) is a vital way to make theory more realistic and applicable at all levels of analysis, whether micro, meso, or macro.” We happily concede this point. We simply do not see much of a fault line between the notion of entrepreneurial judgment and entrepreneurial innovation within the collaborative innovation bloc. The point is even brought home a couple of lines further down when FKM write: “Entrepreneurs decide if, when, and how much decision-making authority to delegate to other individuals in the production process. In fact, Elert and Henrekson touch on almost this exact point when they discuss ‘the entrepreneurial meta-skill’ of gathering dispersed and tacit skills together to form a collaborative effort.” Indeed. We also agree that the EOE could “benefit from more attention to the hierarchical relationships embedded in collaborative innovation blocs”—with the important caveat that the entrepreneur is not the only one in the CIB doing the delegating. Sure, the entrepreneur usually plays that role with respect to key personnel, but it is more of a give and take when it comes to the entrepreneur’s interactions with other actors in the CIB. Still, these are valuable suggestions.

Another important suggestion by FKM on how to improve the EOE—and we are certainly open to such suggestions—can be found earlier in their comment when they highlight some previous work of ours (and with coauthors Tino Sanandaji and Robin Douhan: Douhan and Henrekson, 2010; Henrekson and Sanandaji 2011) regarding institutional entrepreneurship:

there are ways to connect Austrian and EOE research on institutions and policy. (...) Building on William Baumol’s research, this schema categorizes different entrepreneurial reactions to institutional constraints: entrepreneurs can abide by, alter, or evade institutions, and they can do each of these in productive or unproductive ways. This framework fits nicely with long-standing Austrian interest in the complex relationship between market institutions and governments, and between economic and political power (Rothbard, 1970). In turn, Austrians can add something to this framework by emphasizing the concrete role of economic calculation and the price system, especially in the interventionist economy (McCaffrey, 2018). This allows for a broader and richer account of entrepreneurs and institutions that includes the entire entrepreneurial decision process, rather than focusing on the decision to innovate.

We largely agree with this point (though our feelings concerning innovation should be obvious by now). Again, however, a detailed knowledge of the particular institutional setup is necessary if such an endeavor is to be meaningful.

3 Responding to Bylund and Lucas

The last point in the previous section ties quite nicely to David Lucas's comment. He asserts that

[e]mpirical study of the exchange processes in the CIB appears quite tractable: I readily envision (and encourage) comparative, qualitative, or quantitative work that would explore the pattern predictions emerging from this framework. Finally, the CIB is useful to explain variations in rates of innovation that other theories cannot account for—i.e., by identifying specific institutional bottlenecks hindering innovative collaboration.

Still, in Lucas's view, our original contribution suffers somewhat from the fact that we downplay self-interest in our institutional analysis. If applied to EOE, a public choice perspective would offer "important insights about the formation of public policies that affect innovation activity. Without this, a gap exists among the identification of institutional bottlenecks that hinder collaboration in the innovation bloc and the subsequent alleviation of those bottlenecks. Infusing public choice assumptions into the Collaborative Innovation Bloc framework reveals several promising areas for future research." A further important point raised by Lucas concerns what he calls institutional "black holes" where government subsidies to innovation projects induce entrepreneurs to pursue value-destroying projects too long in order to receive more subsidies. Such schemes tend to be introduced as a second-best response to alleviate problems caused by other innovation-hindering policies. Once such subsidies have been put in place there is a great risk that a new group of unproductive "subsidy entrepreneurs" emerge (Gustafsson et al. 2017).

We readily admit that while we use the EOE framework to identify institutional bottlenecks, we do not offer an explicit strategy for how policy can be improved in such cases, nor do we devote any attention to institutional black holes. The reason is simply that this was beyond the scope of the paper. In general, a change of policy in a democratic society needs to be preceded by an informed discussion of the detrimental effects of the current policy. However, in order for a reform proposal to win the approval of the electorate, thorough analyses are needed that show the likely positive effects of the proposal. Here we see a much greater role for Austrian economics, if it draws on the toolbox provided by public choice and EOE. Today such ex ante evaluations are almost always based on neoclassical models and methods, despite that one could argue in line with Holcombe (2009, p. 301) that "[f]or purposes of policy analysis, the Austrian approach provides better insights because of its more realistic behavioral foundations."

Public choice teaches us that in order to understand policy formation one needs to look into the incentives of politicians, regulators and experts, and how they interact. Welfare-enhancing policy reform becomes more likely if the electorate's view of the world, in particular its view of how the market system works, is well informed. Here Austrian economics has a never-ending, socially highly valuable mission; if we can explain why an existing policy or rule has detrimental effects and why a reformed policy would improve matters, the probability of reform will increase.

This important point, we believe, also relates closely to Bylund's point mentioned above that the EOE perspective mainly concerns itself with the L3 level of play of the game in Williamson's schema. We do agree that the core of our emphasis in our original article lay on L3, but the fact that we proceeded with an institutional—L2-rules-of-the-game—analysis, is indicative of the fact that the boundary between L3 and L2 in the EOE perspective is somewhat fuzzy. Incorporating public choice into the EOE may very well remove that boundary completely, by revealing how the players of the game also help shape their own rules. This approach also lends itself easily to a historically informed analysis of why the institutional framework (and the bottlenecks) “governing” a particular CIB has evolved to look the way it does. In fact, the analysis in the aforementioned reform book, where we employ the EOE perspective to discuss how the European Union should be reformed, takes as its starting point that we cannot know where we are headed if we do not know how we got where we are. So, the public choice perspective may have been a natural part of our applied EOE work without us being as aware of it.

There are some indications that similar insights are beginning to permeate mainstream economics. For example, in her review of Samuel Bowles' book *The moral economy* in the *Journal of Economic Literature*, Rachel Kranton (2019) argues that

the legislator needs better tools to determine whether incentives are incentives per se, whether incentives convey information, or whether indeed incentives also change preferences. Second, the legislator needs better tools to understand the political and social environment in order to better engage the public in policy making and to better construct the message. ... If economists are to design policies that work, economists should know the context and understand people's motivations within that context.

To us, this seems like it fits well with what we wish to achieve, especially given the important links that Lucas and Bylund see between our work and prior institutional and public choice work. In future work on the EOE, we will strive to make these links more explicit, and our hope is that other Austrian scholars will help us in this endeavor. By embracing the EOE

perspective, Austrian economics could move ahead of the pack in furnishing the kind of policy relevant tools Kranton calls for—it would be a pity if its practitioners did not seize on this opportunity.

4 Conclusions: An entrepreneurial reform agenda

The growth challenge many nations presently face can, in our view, only be overcome by a strategy acknowledging the importance of entrepreneurship, especially the kind of Schumpeterian entrepreneurship that introduces new products and technologies and serves as a conduit of new knowledge to generate innovation and progress. We have argued that Austrian economics should have a much greater role than today in an informed discussion regarding policy reform with the aim of fostering Schumpeterian entrepreneurship. We agree with Harper (2018, p. 18):

The Austrian approach to policy seeks to support the innovative capability of market systems *indirectly* by strengthening the institutional rules of the game that frame market processes (and that generate a spontaneous pattern of innovation, rather than directly by trying to engineer particular innovative outcomes through specific *ad hoc* interventions into market processes.

But in order to convince parties outside of the Austrian paradigm it is absolutely necessary to explain which competencies and resources are relevant, i.e., which agents that need to be given the right incentives. As Schumpeter (1949 [1951]; cited from McCraw 2007, p. 473) once put it:

The one question that is to be repeated with reference to every country, time, industry and possibly leading concern: *who* was it that acted *how* and *why* and what were the effects that may be traced to such actions.

This is where the EOE/CIB model comes in. In order to understand how to promote an entrepreneurial society, researchers and policymakers must recognize the crucial importance of collaborative innovation blocs, their agents and the roles they play, and how they interact with and are governed by the institutional framework in which they are immersed. Of course, policymakers will need to tailor all proposals to specific national and regional contexts, but we see this as robustness of the EOE approach, not as a weakness: There are already enough contributions where unquestionably talented economists present statistical inference and econometrics to support what, ultimately, amounts to an “if-it-works-on-average-it-will-work-everywhere” approach to reforms (see, e.g., Colander and Freedman 2018). As Rodrik (2015) argues, no one model can be applied everywhere. All judicious policy advice is context dependent.

Granted, the identification of best-practice institutions is a *sine qua non* for any reform agenda to be successful, but so is the recognition that a first-order economic principle like market competition does not map onto one single policy package. No unique correspondence exists between functionally good institutions and the form that such institutions take; in fact, policymakers must choose between several institutional bundles to achieve the desired economic and social ends. The bundle which is the most appropriate will depend on the context. At best, misguided reforms that ignore this fact do not work. At worst, a thoughtless introduction of supposedly first-class institutions can backfire, undermining existing domestic institutions instead of taking hold (Rodrik 2008). The EOE offers an essential tool for going beyond abstract reasoning, drilling down to the specific effects of particular measures in a specific context. Much more work is required in this respect before an entrepreneurial reform agenda is realized, but we believe the EOE perspective will help researchers proceed further down the ladder of concreteness without losing sight of the broad picture.

Another important insight is the need to prioritize. The EOE perspective is, we believe, valuable for identifying which institutions matter the most for the key actors engaging in innovation, and an essential part of future work is to identify and suggest the removal of so-called institutional bottlenecks (Acs et al. 2014). Doing so will make it possible for researchers and policymakers to assess the problems that ought to be the top priority in a particular country. Comparisons to similar countries are also essential here: Rather than trying to leapfrog directly to an institutional bliss point—as implied by a focus on abstract, first-best institutions when making policy recommendations—a country should probably try to become more like a somewhat better performing neighbor in the short and medium term.

This goal is likely to be attainable by virtue of its relative modesty and because the reforming country then aspires to something that has been tried before in a similar institutional context. Such an incremental approach can perhaps be seen as “robust” in the “robust political economy” sense of the term (Pennington 2011), since it will also leave room for experimentation rather than imitation without reflection. From a Schumpeterian perspective, the quest to develop an optimal set of legal rules ignores a central feature of successful economic development, namely, the fact that institutions and organizations in a competitive environment continuously challenge, innovate and adapt. Reforms that are tailor-made to a country’s specific constraints and opportunities through experimentation during a discovery process will likely be more beneficial than reforms based on mere imitation (Hausmann and Rodrik 2003; Sabel and Reddy 2007).

Finally, it is an undeniable fact that spontaneous orders have evolved very differently across countries. This has spawned an entirely new field within economics: varieties of capitalism (Hall and Soskice, 2001), which presently makes very little reference to Austrian thinking even though there are obvious overlaps. This scholarship has become highly influential, not least because it provides national policymakers with a rationale for being reluctant to policy reform that appears to be alien to their own unique variety of capitalism. Another scholar who has been highly influential in policy circles in recent years is Marina Mazzucato (2015), who has managed to convey the message that in the history of modern capitalism the state's primary role has not been to get the institutions right but to shape and create the markets that have paved the way for new technologies and sectors that the private sector would not otherwise have developed.

Austrian scholars could help challenge and enrich these perspectives. They have the requisite tools and concepts needed to show how the spontaneous process could play out in a socially far more beneficial way if the key agents in the CIB get the right incentives and circumstances. This requires hard detailed work showing how the institutional details have obstructed the market-based innovation engine. There are literally hundreds of articles waiting to be written, rooted in the Austrian tradition; articles that could pave the way for more innovative and entrepreneurial ecosystems across numerous polities. We hope that this work has inspired both confidence and humility regarding this prospect.

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