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A Theory of Political Entrepreneurship

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Abstract

This paper adapts the entrepreneurial theory developed by Richard Cantillon, Frank Knight, and Ludwig von Mises to the theory of "political entrepreneurship." Political entrepreneurship is an outgrowth of the theory of the market entrepreneur, and derives from extending entrepreneurial theory from the market into the political sphere of action. By applying the theory of the entrepreneur to political behavior, we provide a basis for identifying political entrepreneurs, and for separating them analytically from other government agents. The essence of political entrepreneurship is the redirection of production from the path it would have taken in an unregulated market. Nevertheless, this production does produce an income stream to political entrepreneurs which closely resembles the profit of market entrepreneurs.

Keywords: Entrepreneurship, Political Entrepreneurship, Ownership, Production, Uncertainty, Income Distribution, Profit and Loss

1. Introduction[1]

Recent literature has stressed the importance of capital ownership, decision-making, and uncertainty-bearing in entrepreneurial theory [1-5], emphasizing the entrepreneurial theory of Richard Cantillon, Frank Knight, and Ludwig von Mises. This paper seeks to extend this analysis to a relatively underdeveloped area in economics: the theory of "political entrepreneurship."[2] We develop an economic theory of political entrepreneurship; one which demonstrates that political entrepreneurship distorts the structure of production, regardless of the presence of anti-social behavior such as rent-seeking. While some theories speak of entrepreneurship in a metaphorical fashion, "political entrepreneurship" is a truly economic function precisely because entrepreneurial theory may be applied to the political realm without sacrificing realism, and without reference to analogy and metaphor.

There are three major branches of thought in the theory of political entrepreneurship which are relevant to this paper.[3] The first is found in the public choice literature. This branch has largely focused on the rent-seeking aspects of political activity: the stifling of competition through legal barriers to entry, lobbying and special interest practices, legislation brokering, coalition-building, etc.[4] The second branch focuses on the entrepreneurial element more than the political, and largely relies on the entrepreneurial theory of Israel Kirzner, which emphasizes alertness and discovery as the key elements in entrepreneurial behavior. Entrepreneurship in the market is a metaphor for an entrepreneurial element which exists in all human behavior. In this theory, political entrepreneurs are individuals alert to opportunities to profit from

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[2]The concept "political entrepreneur" is sometimes attributed to Joseph Schumpeter [6], although the term does not appear in his writings. However, Schumpeter's theory of democracy as a system of competition between individuals vying for political control certainly anticipates aspects of the current literature. For some discussion cf. [7,8] and [6]. To our knowledge, political entrepreneurship as an explicit concept first appears in Dahl [9], which bears some similarity to Schumpeter's theory.

[3]Klein *et al*. [10] provide some review of the literature and outline potential research opportunities.

[4]Cf. for instance [11-17]. [18] explores the same sort of political entrepreneurship, but from the opposite perspective, that of positive-sum "innovations" in policy. [15] and [19] deal primarily with "policy entrepreneurship," which is that part of political entrepreneurship concerning "legislation innovation." Within the public choice tradition, there is also research which incorporates political entrepreneurship without developing an explicit theory of the entrepreneur [11].
There are also sub-disciplines within the broader category of political entrepreneurship. For some discussion of the relationship of "bureaucratic entrepreneurship" to "political" and "public entrepreneurship" [10,20].

the political system.[5] These two literatures often incorporate a third approach based on the new institutionalism, which emphasizes the role of political entrepreneurs in shaping, changing, and consolidating political institutions.[6] We should also note that although there are distinct elements in these approaches, much of the existing research incorporates a mixture of public choice, Kirznerian entrepreneurship, and new institutionalism, as well as the work of other social scientists such as Friedrich Hayek and Joseph Schumpeter.

The purpose of this paper is not to critique these approaches, although we shall make some remarks in passing. What matters for us is that while there are important findings in the abovementioned literatures, they tend to address only the practical manifestations of political behavior, and focus almost entirely on exploring the various methods by which politicians redistribute wealth to favored interest groups. Thus, "political entrepreneurship" is usually a metaphor for rent-seeking, and is used to explain how, in practice, politicians and political beneficiaries go about acquiring income through the perception and exploitation of rent-seeking opportunities. What is more, this literature (especially that based on the work of Professor Kirzner) tends to focus on other metaphoric aspects of political behavior as well, such as alertness and discovery, to the neglect of more concrete economic matters, such as ownership, uncertainty, and production.

The concept of political entrepreneurship need not be a metaphor, however. In the theory of political entrepreneurship, relatively little attention has been paid to the entrepreneurial theory begun by Richard Cantillon [25] and developed by Frank Knight [26], Ludwig von Mises [27] and others,[7] which emphasizes ownership, decision-making, and uncertainty-bearing as the primary components of entrepreneurial activity. Explaining how these characteristics of entrepreneurship exist in the political realm and thus, how "political entrepreneurship" differs from "voluntary," or "market entrepreneurship"—is the purpose of this paper. It is important to note that we are not simply looking for a novel definition of political entrepreneurship, but for a specific function within the state. And while our approach has implications for future research, we wish to emphasize that this paper is an exploratory attempt to provide a new theory of political entrepreneurship, and not the last word on the subject. Interestingly, our theory happens to coincide with the etymology of the word entrepreneur, which traditionally referred to risk-bearing agents of government production [30].

[5]Cf. for instance [19, 21-24].

[6]Cf. for instance [6, 18, 24], and the literature cited there.

[7]For an elaboration on the differences and similarities between Cantillon, Mises, and Kirzner, and an explication of the many entrepreneurial traditions in economic theory, cf. [28,29].

2. Characteristics of Political Entrepreneurship

2.1. Political Entrepreneurship Defined

The theory of the entrepreneur is a branch of the broader field of the theory of income distribution, which seeks to explain the different returns or rents to various economic functions. Income theory may be divided into three broad categories: the theories of wages, interest on capital, and entrepreneurial profit.[8] This paper discusses the income of the entrepreneur, and how this economic function and income category relate to the political sphere. What concern us are the following characteristics of entrepreneurship: ownership, the direction of scarce resources through production for the future satisfaction of consumer wants, and uncertainty-bearing [5]. We will show that the idea of entrepreneurship in economic theory proper has an analogous function in the sphere of government operations; that is, in the sphere of socially organized, coercive economic exchanges.[9] Put another way, in order to answer the question "What is political entrepreneurship?" we might also ask "Who are the political entrepreneurs?" It appears reasonable to describe as "political entrepreneurs" those individuals who perform the same or similar functions in the political sphere as entrepreneurs perform in the free market economy. It is important though that in the theory of political entrepreneurship, as in the theory of the market entrepreneur, we deal with an economic *function* and not an economic *personality*.[10]

More specifically, the function of political entrepreneurship consists in *the direction of coercively obtained resources by the state toward processes of production which would not otherwise have taken place*. We will justify this explanation in the following sections of this paper. For now, we merely wish to clarify the direction of our argument. For now, we wish to point out that political entrepreneurship is capable of yielding profits and losses to, based upon the political entrepreneur's ability to correctly anticipate future market conditions. We call this income stream "quasi-profits," which captures both its entrepreneurial and non-market character.

[8]To which might be added the theory of land rents, depending on which particular theory of income distribution is adopted.

[9]We wish to look at coercion only in regard to entrepreneurial theory. However, there is a voluminous literature on the economics of coercive exchanges; a fundamental and systematic theoretical work relevant to this paper is [31]. For some insights into the division between coercive and non-coercive entrepreneurship, cf. [22]. Also note that "political," *i.e.* governmental, exchanges are only one form of coercive exchange. However, the following analysis could easily be generalized to a more complete "coercive entrepreneurship," which might include, for example, "criminal entrepreneurship," "political entrepreneurship," and other types of coercive wealth transfer.

[10]This is relevant in the context of political entrepreneurship because, as we shall see, it may be the case that the political-entrepreneurial function is shared by a group of individuals.

2.2. Ownership

The entrepreneur is first and foremost an owner (specifically, of capital goods). An actor who exercises ultimate control over resources may be said to own them in the economic sense. The question then arises: does economic ownership exist within government? Government is defined as "an organization with a comparative advantage in violence, extending over a geographical area whose boundaries are determined by its power to tax constituents" ([32], p. 21).

It must be the case then that within the state apparatus there are individuals who exercise ultimate control, and are thus owners. All resources used by the state must in the end be under the direction of some individual or group. In practice, the administrative and legislative environment of a particular state (e.g. pure democracy, constitutional monarchy, etc.) will determine who exactly the ultimate resource owner(s) is (are). This is an open empirical problem which may vary from case to case and also over time within a particular state. Below we shall examine examples of political ownership. Here we only wish to repeat that state owners do not finance their ownership; that is, while they do acquire resources over which they exercise ultimate control which are thus economically speaking the property of the state, these resources must first be coercively obtained from the public.[11] The resources appropriated by the state are not *specifically* and *immediately* acquired by the consent of the original owners. If they were, they would be voluntarily provided to the state and not compulsorily removed. We shall have more to say about this below.

Rents accrue to the entrepreneur through his control over, and direction of, the factors of production. The difference between market owners and government owners is the method of finance. Whereas market entrepreneurs engage in exchange, saving, etc. *voluntarily* to build their supply of capital goods, government actions are financed through compulsory methods. This will prove a crucial point in distinguishing market from political entrepreneurs, and will be discussed further below. For our present purposes though, the question of how an actor finances his ownership (through voluntary or coercive appropriation) does not concern us; ultimate control denotes ownership.[12]

[11]Holcombe [22] discusses the coercive nature of government finance in regard to political entrepreneurship. Note that the above claim regarding coercion is not equivalent to claiming that governments, as compulsory financiers, do not pass any sort of "market test." Governments do need to maintain some degree of goodwill with society at large, because, as is commonly noted, all state authority ultimately rests on the consent of the governed. But this does not disprove our claim.

[12]This is not to imply any ethical judgments regarding the concept of economic ownership. We do not distinguish here between "just" and "unjust" ownership, but merely between owners and non-owners in an economic and value-free sense.

In discussing ownership, it is important to note the difference between ultimate control and delegated control. This consists, by and large, of the distinction made by Ludwig von Mises between "entrepreneurs" and "managers": even though managers may exercise some control, ultimately they are subject to the orders of the entrepreneurs, and thus are not owners ([27], p. 301). This narrows the function of political entrepreneurship by excluding minor bureaucratic figures that exercise no *ultimate* authority, in other words, those functionaries who are responsible to others and whose decisions may be overridden.[13]

Let us take an example. Imagine a local despot, an extreme example of ultimate control. Through his monopoly on the use of force, this despot supports his rule through taxation, and thus owns the resources contained within his territory and may do with them what he wishes. He may delegate authority to various officials who carry out the ordinary affairs of the state. But although these officials (managers) make many decisions without consulting the despot, the despot can always reject them because it is his power which overrides all others. All decisions regarding resource allocation are subject to his check, even if he chooses not to exercise it.

2.3. Investment and Production

We must now examine whether it is possible for the political entrepreneur to "invest" in any sense comparable to a market entrepreneur, and thus to acquire a rent or income. Market entrepreneurs are engaged in the constant rearrangement of the production process through the direction of scarce resources. This is the decision-making aspect of entrepreneurial behavior: choosing between alternative production opportunities. We must therefore investigate whether political entrepreneurs can arrange resources in a similar manner, and if so, what income can be derived from this behavior. If it is not possible for the political entrepreneur to invest, then there can be no question of entrepreneurial income or an entrepreneurial function in the sense in which we define it. All appropriated funds would have to be considered consumption, and thus simple redistribution requiring no special treatment beyond the ordinary literature. What concerns us though is the possibility of the existence of a productive rent distinct from simple consumption.

As far as investment is concerned, there are ambiguities in the theory of government spending which require clarification. This is especially true of the writing of Murray Rothbard [31,34], the foremost advocate of the

[13]"Naturally, in capitalism, owners might delegate to others the authority to act on their behalf, but this does not change the nature of entrepreneurship, *i.e.*, ultimate control of a particular resource" ([33], p. 348).

thesis that all government spending is consumption, whose treatment of the subject we must briefly examine.[14] Rothbard summarizes his findings as follows:

As for the *transfer* expenditures made by the government (including the salaries of bureaucrats and subsidies to privileged groups), it is true that some of this will be saved and invested. These investments, however, will not represent the voluntary desires of consumers, but rather investments in fields of production *not* desired by the *producing* consumers. They represent the desires, *not* of the producing consumers on the free market, but of exploiting consumers fed by the unilateral coercion of the State... The new investments called forth by the demands of the specially privileged will turn out to be *malinvestments*. ([31], p. 1168; emphasis in original)

Schumpeter espoused much the same view:

The friction or antagonism between the private and the public sphere was intensified from the first by the fact that... the state has been living on a revenue which was being produced in the private sphere for private purposes and had to be deflected from these purposes by political force. ([38], p. 198)

This does not, however, demonstrate that government investment is not production as such, but rather that government investment is *different from the pattern of investment which would have taken place in an unrestricted market*. Yet such differences do not affect the status of investments in the sense of time-consuming production. The investment of government is simply different from market investment and thus not directly in accord with the wants of consumers. As a consequence of government investment, the so-called "structure of production" is therefore not lengthened sustainably, but is instead radically altered.[15] If the term "investment" is meant, as it is for Rothbard, to refer to consumer-driven-production, then government expenditure can never be considered investment *ex ante*, although ex post it might turn out to be used in a way which consumers find beneficial. If we emphasize the *ex ante* reference point, then perhaps some other term must be coined for investment-like activity in government. This does not contradict our argument however, which depends only on the ability of government to devote scarce resources to time-consuming production processes.[16]

Given the limitations of arguments to the contrary in this literature, we conclude that governments can engage in investment activities, in the sense that states can embark upon time-consuming processes of production which yield necessarily uncertain results. The exact likelihood that such processes actually have their intended effect is a separate matter. At essentially every stage in the process of wealth redistribution there is an opportunity for resources to become simple consumption goods, and we cannot underestimate the importance of this fact in any historical study of political entrepreneurs.

What matters for our argument is that there can be meaningful investment by government, carried out by the owners of political resources. As opposed to the theory of Rothbard, it would be more accurate to speak of "government production" as the foil to "market production." This terminology incorporates the means of appropriation (coercive or voluntary), and would also avoid torturing the definitions of "capital" and "investment" to mean only "those things produced in unregulated markets" [37]. Understanding the theory of income distribution in light of such definitions might also lead toward a clearer understanding of the pricing of various factors of production under a system of economic intervention, when both private and public production exist simultaneously in the economy.

As owners, market entrepreneurs devote their resources to time-consuming processes of production in an attempt to anticipate the future wants of consumers, in order to earn profit. Yet in the political arena, there is no such easily identifiable purpose to which resources are devoted. Since the maintenance of capital values and the use of economic calculation are at least partially absent in the decision-making process of the state, there is no immediate and necessary end which is attributable to political actors (e.g. attaining money profits, or even being reelected). All we know with certainty is that the pursuit of utility is a necessary feature of all human action. Owners within the state devote resources to those ends which are most highly valued to them.

Let us summarize using the example of the despot. He faces a choice between using his resources for production or consumption. Suppose he decides to build a marketplace for his subjects, the better to consolidate trade and increase tax revenue. It is clear that this activity is production, because the despot receives little consumption benefit by improving the conditions of his subjects. Only if the marketplace yields returns as expected does the despot's welfare increase. Unfortunately, the exact effects of government investment are difficult to untangle. In this example, taxpayers have experienced a welfare decrease through taxation. But the very same taxpayers might enjoy increased welfare if the new marketplace proves more useful than the previous arrangement.

[14]For a review and a defense of this approach to production and welfare economics, cf. [35,36]. There are some additional complications of Rothbard's approach which are explained in [37].

[15]If we take into account the costs of administration and bureaucracy, it is possible production will curtailed in addition to simply diverted from its previous course.

[16]It is important to remind ourselves that uncertainty is a necessary condition of all human action. It applies to all time-consuming production, whether carried out in the market or by government. The outcome of production is therefore not determined beforehand, because both market and government production plans can be frustrated *ex post*.

In this case we cannot say much about the net welfare effects, but we can say that the despot has diverted production from what it would have been in an unrestricted economy.

2.4. Uncertainty-Bearing

This brings us to the third characteristic of entrepreneurship: uncertainty-bearing. The market entrepreneur is an owner, and therefore when he commits his property to a production process, he necessarily bears uncertainty in an attempt to anticipate the future constellation of consumer demand. If his judgment about the future is right, he can earn profits, and if not, he incurs losses. The incidence of profits and losses falls to the market entrepreneur precisely because it is his capital which is at stake and his judgment which directs that capital.

Likewise, within government, owners face an opportunity cost of investment when choosing particular production processes. In the sphere of government, all activity is financed either through borrowing, taxation, inflation, or some combination of the three. Each method involves the transfer of property to the state apparatus, for the purposes of either production or consumption.[17] If production is chosen, then some other process is foregone, thus setting the stage for either profits or losses to emerge. Once resources have been acquired however, the results of allocating those resources fall on the (political) owner: profits or losses generated from resource allocation accrue to the individual(s) responsible for the decision-making. The institutional status of government does not therefore eliminate uncertainty-bearing.

There is one sense in which the uncertainty-bearing of the market and government differ. This is with respect to the consequences of uncertainty-bearing and ownership. Profit and loss alter the pattern of ownership in society in order to allocate goods to their most valued ends. Without this mechanism profits can be won or lost, but the pattern of ownership in society does not reflect the superior or inferior decisions of government resource allocation. The political actor may of course lose his position or sully his reputation (*i.e*. suffer a loss in terms of his "political capital"), and these possibilities do, to some extent, mitigate the problem of ownership, but they can never do so completely.[18] Some government agents are subject to electoral success which can be forfeited if the agent does not allocate resources to suit the needs of his supporters. Others seek to maintain a certain level of fame or prestige which can be decreased through behavior which alienates supporters [14].[19] But apart from this narrow sense, uncertainty-bearing is present in state allocations of resources.

Consider again the case of the dictator. Suppose he decides to invest his resources in building a fortress which will be used to further enhance his revenue (through military expansion, say). What is the result if a foreign army invades and destroys the fortress? The investment in the fortress now yields a loss to the despot: it is his fortunes which suffer as a result of defeat. The resources he owned have been lost, and are no longer capable of generating a positive rent to him.[20]

2.5. A Theory of Political Entrepreneurship

We may define political entrepreneurship then as *the direction of coercively obtained resources by the state toward processes of production which would not otherwise have taken place* (that is, would not have taken place in an unrestricted market). The uses of the capital involved in these processes of production *ex ante* involve production which would not have taken place. These processes thus necessarily redistribute resources and alter the prevailing welfare situation. Whether or not production is actually intended to increase the welfare of the public, or merely the welfare of the political entrepreneur, is not important for our argument. State investments involve uncertainty. And as we mentioned above, the uncertainty of government investment is borne by the owners of property—the political entrepreneurs.[21] In this important sense the entrepreneurial function as we have defined it exists in government as well as private markets.

The direction of resources, originating from the judgment of government owners, comprises the entrepreneurial element in government action. Without the elements

[17]Although our theory includes all three methods, for the purpose of simplification we shall focus on finance through taxation.

[18]In addition, the problems inherent in bureaucracy make it difficult for incentives such as this to have more than a superficial effect on the behavior of political entrepreneurs [39]. For a discussion of the types of political capital that political entrepreneurs attempt to maintain, cf. [14].

[19]It might be argued that in a particularly responsive democratic society agents of the state are directly and immediately responsible to their constituents, and that therefore the political process would alter the pattern of ownership, because any error is instantly punished by removal from power. If this was the case however, coercion would not be necessary. With perfect responsibility and approval, we would not be referring to what is usually called government, but in fact to an unrestricted market. In any case, this line of reasoning would not apply to bureaucracy or even mildly unresponsive forms of government.

[20]In addition, whatever consumption value the despot receives in addition to his speculative investment would also be lost.

[21]The absence of entrepreneurial losses might be thought to indicate the absence of a political entrepreneurial function. Consider the following remark from Mises:

> There is a simple rule of thumb to tell entrepreneurs from non-entrepreneurs. The entrepreneurs are those on whom the incidence of losses on the capital employed falls. Amateur-economists may confuse profits with other kinds of intakes. But it is impossible to fail to recognize losses on the capital employed. ([40], p. 11)

Our position though is merely that the absence of losses indicates the absence of market entrepreneurship.

ownership, direction, and judgment we would simply be speaking of gifts or monopoly privileges as ordinarily understood in economic theory. Acts of political entrepreneurship produce what Rothbard describes as “waste assets” ([31], pp. 941, 962-966, 969). His presentation of production theory however did not examine the entrepreneurial aspect of waste asset production, a gap which the present paper hopes to partially fill.

It is important to note though that production need not be carried out strictly by government; political entrepreneurship might also take the form of financing production in the private sector. In this case we should take note of the distinction between entrepreneurs and managers mentioned above. In the case of political entrepreneurs financing private firms, these firms would not be entrepreneurial, but managerial. This approach also implies that every firm which depends on political entrepreneurship becomes to some extent nationalized. It might be the case that political control over private firms is slight. But control could also signal *de facto* nationalization while a *de jure* separation of the public and private sectors remains intact.

An *ex post* analysis of political entrepreneurship is difficult however. Definitions of market entrepreneurship tend to include the *objectives* of entrepreneurial activity— usually the satisfaction of consumer wants, which is tied to the profit and loss system. In matters of government, as we have noted, there is no objective which can be ascribed to all political behavior (besides increasing the welfare of the political entrepreneur), and the goal of political entrepreneurship is not strictly determined. Production might be geared toward long- or short-run ends. The product of political entrepreneurship might be either public goods or private goods. The end of production could be the satisfaction of consumer wants (the imitation of market entrepreneurship), or it could be directed toward the satisfaction of interest groups. Which of these, if any, actually occurs is a matter for historical investigation. Because no goal can be attributed to all political entrepreneurs, their success and failure cannot be discussed in terms as simple as the market entrepreneur. Rothbard ([31], p. 965) notes: “Once the government remove[s] its subsidies and let[s] all capital compete equally in serving consumers, it is doubtful how much of this investment would survive”—doubtful, but not strictly determined. We can speak about *ex ante* utility, and we can identify an income which falls to the political entrepreneur based on his direction of scarce resources, but theory alone cannot say much more about success and failure.

This brings us to the critical question of the income of the political entrepreneur. So far we have attempted to discover economic activity within the operation of the state which resembles market entrepreneurship. Now it remains to be seen if an income stream exists which derives from this economic function. The total stream of income which accrues to the state may be directed either to consumption or production. The economic literature has dealt extensively with the consumption aspect of state resource allocation. Our intent is to discuss the investment-production side. This analysis must begin with the observation that it is possible, however unlikely, that political entrepreneurs could produce goods and services which are valued on the market at prices greater than their costs of production, thus generating a positive net revenue for political entrepreneurs.

But how are we to characterize the net income which flows to the political entrepreneur? It is clear that this income is neither ordinary wages nor an interest payment. But what relation does it have to market entrepreneurial profit? Thus far there is no clear answer to this problem. It might be argued that the income to political entrepreneurship is a simple monopoly gain. But we must be careful not to confuse these categories. Whatever the institutional status of government production, the income we have in mind is rooted in uncertainty. Like market profit, in a long-run equilibrium, this income would be eliminated by perfect foresight.

The possibility which remains is that the income to political entrepreneurship is equivalent to ordinary entrepreneurial profit and loss, and indeed, the income of the political entrepreneur does appear to have much in common with that of the market entrepreneur.[22] The essence of the two activities is similar, as we have argued above. However, they are not equivalent. Because both classes of entrepreneur are capable of error, it is difficult to distinguish between incomes based on an *ex post* analysis. We might separate the two forms of profit based on their welfare effects, but this avoids the problem of *function* in favor of *effects*. We also might point to the distinction drawn above between losses which rearrange the pattern of ownership (market entrepreneurship) and losses which generally do not (political entrepreneurship).

There are then similarities and differences between the two forms of entrepreneurship. It appears then that unless we focus on only one aspect of the theory, we cannot easily classify this branch of income. We therefore use the term “quasi-profits” to describe the income to political entrepreneurship. This captures the entrepreneurial aspects of political behavior, without falsely conflating different types of profitability. It is quite possible that further exploration of this topic might yield a more conclusive answer. For now though, we can be satisfied with “quasi-profits.”

[22]Hoppe [41], for example, describes the income of productive government industries as “market income.”

The existence of a state as such does not necessarily imply the existence of political entrepreneurship. It is always necessary for a state to coercively obtain some revenue to support itself, but it is not necessary that it devote this revenue to production. Without this commitment of resources, no function meaningfully comparable to entrepreneurship can exist in government, because in this case all government revenue is consumption. Governments may certainly have incentives to invest and produce, but there is no reason, theoretically speaking, why they must. Therefore, it is conceivable that states can exist without engaging in political entrepreneurship, so long as we do not consider simple taxation entrepreneurial.

One advantage our theory enjoys over other theories, such as those found in the public choice literature, is that it does not depend upon assuming the anti-social (*i.e.* economically inefficient, rent-seeking) behavior of political entrepreneurs. We have instead explained political entrepreneurship in terms of the traditional theory of income distribution. This definition rests, not on assumptions about the behavior of political entrepreneurs, but merely on the principle that political entrepreneurs reveal a preference, though production, for production which would not otherwise have taken place. Our own approach is in this sense much broader than definitions which depend on restrictive assumptions regarding the values of political entrepreneurs. We assume nothing about the content of values; we merely develop the logical implications of certain types of political behavior. Further, our definition includes more than simply politicians in the common sense of the word, but in fact anyone who exercises ultimate decision-making control over public resources. This too broadens the potential scope of political entrepreneurship, and might include certain bureaucratic functions as well as those positions which are actually decided through an electoral process. At the same time however, this definition is narrower than most because, as a practical matter, there appear to be far fewer economic owners in the state apparatus than managers. Even in the most developed governments, it appears that there are very few individuals who truly control the allocation of resources within the state, and these individuals are often members of a specific political unit, such as a legislative body or committee.[23] Finally, our theory allows us to make statements about resource use in nonmarket contexts without implicitly including any outside value judgments regarding the desirability of the market economy.

We also have drawn a sharp distinction, expressed in terms of production processes, between political entrepreneurs and market entrepreneurs. Political entrepreneurs as we have defined them cannot be market entrepreneurs by the very fact that, at least initially, they divert production away from the path set for it by the market. This further recommends it as a tool of analysis. We can also argue for the efficacy of our theory because it allows us to conceive of political entrepreneurship in terms of property, scarce resources, and choice and preference, concepts which together form the *sine qua non* of theoretical economics.

Given our theory then, what sort of activities would constitute examples of political entrepreneurship? We do not have the space here to delve into detailed empirical examples, but we can point out the more obvious directions in which empirical research may be carried. In general, principals of the state who exercise control over the *use* of resources—that is, they are not required by some other decision-maker simply to redistribute them—are political entrepreneurs. Depending on the precise form of administration, there could be a great number of political entrepreneurs or only a few.[24] Channeling tax money into various forms of plant and machinery and similar investment in market assets would be examples of political entrepreneurship. On the other hand, the vast majority of contemporary bureaucrats would not be political entrepreneurs, even if on a daily basis they make decisions which are not questioned by their superiors. As noted above, our theory highlights the difference between political entrepreneurs and what we might call "political managers," who make decisions about resource use but are beholden to higher authorities.[25] At the same

[23]This fact strongly points toward the theory of group entrepreneurship as the most important means of further exploring the basic ideas developed in this paper, and especially in exploring historical examples of political entrepreneurship. Cf. [23] for similar remarks.

[24]Although the alternative definitions of political entrepreneurship mentioned above allow for many political entrepreneurs to exist simultaneously (because one need only be alert or exert a small influence on policy to be a political entrepreneur in the usual sense), our ultimate control criterion necessarily limits the amount of political entrepreneurs acting in standard representative democracies. It might even be the case that only one individual can be considered a political entrepreneur in most contemporary democracies (for instance, a president or prime minister). This fits nicely with our notion of market entrepreneurship, where there are also relatively few entrepreneurs in most firms, as opposed to the alertness-discovery literature, which generally recognizes much more entrepreneurial activity in the economy.

[25]If we keep with traditional classes of income-earning in economics, we find portions of the functions of the capitalist, entrepreneur, and wage-earner in the political sphere, although the parallels are imperfect due to the presence of coercion and the partial absence of markets. As far as the state is concerned, the citizens are the capitalists, providing the resources necessary for the state's projects, but receiving no interest return because their resources are appropriated. The redistributing agents are the political entrepreneurs, who receive income based upon the correctness of the forecasted results of their endeavors, but are not necessarily removed from power for mismanagement. Bureaucrats and other functionaries who handle the everyday operations of the state are the managers, and despite their administrative importance are largely on par, economically speaking, with those who exercise no control at all over decisions of importance, such as the low-level staff (e.g. the janitors) of government. Political managers are essentially simple wage-earners, although their wages are not necessarily connected with their discounted marginal value product.

time, lobbyists and others working outside the political sphere—that is, outside the nexus of ultimate control of political resources—are not usually political entrepreneurs, but merely rent-seekers.[26]

There is some similarity between our theory of political entrepreneurship and the notion of "unproductive" and "destructive" entrepreneurship found in Baumol [42]. Baumol's concepts are also employed to investigate entrepreneurial activity which does not result in net gains for society (whether these gains are in utility, physical productivity, or whatever). Although Baumol does not utilize our approach, his theory is to some extent consistent with it. Baumol also discusses production and resource allocation as explanations of the income of political entrepreneurs, especially in his historical examples, although his approach relies heavily on the rent-seeking aspects of political entrepreneurship, as mentioned above. Nevertheless, his examples often fall within the scope of our definition. One particularly interesting case is that of the military entrepreneurs of the late Middle Ages, who commissioned bridges and fortresses in order to secure and enhance their incomes. We view these sorts of projects essentially as investments, as opposed, for example, to the construction of palaces, which we view essentially as acts of consumption. As a final point, these early political entrepreneurs were among the first individuals for whom the term "entrepreneur" was originally coined: risk-bearing producers directing state resources [30].

3. Conclusions

We have altered the fundamental assumption of entrepreneurial theory, market production, and this has allowed us to adapt the Cantillon-Knight-Mises theory of the entrepreneur to state production, which in turn has given us a theoretically sound definition of political entrepreneurship. This theory sees the essence of political entrepreneurship in the diversion of the structure of production away from what it would have been in unrestricted market. It has also shown us that the judgment in allocating resources employed by political entrepreneurs potentially yields a revenue stream not previously identified and which is subject to uncertainty. Another useful aspect of our theory is that it does not require any assumptions about the values of political entrepreneurs, and thus applies to all persons who meet our definition, not simply those who should happen to exhibit anti-social behavior. This advantage should not be underestimated. Research on the problem of incentives and inefficiencies in the state apparatus is among the oldest in political economy, yet it is instructive and useful to carefully construct our theories so as to demonstrate fundamental relations without having to resort to assumptions about values.

Much work remains to be done in exploring the function of political entrepreneurship. Specifically, there is a great deal which might be said regarding the role of political entrepreneurship on expectations, institutions, economic sociology, etc. Unfortunately these topics lie beyond the scope of the present paper. Although the above discussion must be regarded as only the first step in a larger research program, at the very least we must consider that ownership, uncertainty, and production should not be neglected in any study of political entrepreneurship.

[26]Excepting the extreme case where ultimate decision-making power is somehow in the hands of private individuals. Consider the case of a Mafioso who "owns" his local government. We might describe this as "private political entrepreneurship," as opposed to the "public political entrepreneurship" discussed in this paper. In reality however, this sort of entrepreneurship must be relatively rare, due to the difficulty of placing ultimate control in the hands of those outside the political process. We must remember that it is one thing to heavily influence the use of resources within a state, but it is quite another to truly control it. It is also possible, however, to imagine hybrid cases where a group of political entrepreneurs exist, some within the state apparatus, some outside it.

4. References

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