
Political Entrepreneurship- A Review of its Historical Aspects

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The term Political entrepreneur may refer to someone (usually active in the fields of either politics or business) who founds a new political project, group, or political party or a businessman who seeks to gain profit through subsidies, protectionism, government contracts, or other such favorable arrangements with government(s) through political influence (also known as a rent-seeker). A political entrepreneur refers to a political player who seeks to gain certain political and social benefits in return for providing the common goods that can be shared by an unorganized general public. These common goods that political entrepreneurs attempt to provide to the populace generally include foreign- and domestic-related public policy, while the benefits they hope to gain involve voter support, public recognition, and personal popularity.

HISTORY

The political activism of American business as a class has surged and ebbed at various historical moments. Variations in both business and countervailing political mobilization should be approached as problems of collective interpretation and action. To explain the historical patterns of class-wide business activism, we need to look at the dynamics of partisan regimes in American politics. Partisan leaders, not businesses or other policy-seekers themselves, have the strongest incentives to absorb the transaction costs associated with either broad-scale business or countervailing collective action. When partisan entrepreneurs see an opportunity to alter the distribution of power at the national level, they engage in a discursive exercise to remold business or oppositional interests and undertake the mobilization of these interests.

An analytical framework for dealing with political entrepreneurship and reform is proposed which is based on some new combinations of Schumpeterian political economy, an extended version of Tullock's model of democracy as franchise-bidding for natural monopoly and some basic elements of New Institutional Economics. It is shown that problems of insufficient award criteria and incomplete contracts which may arise in economic bidding schemes, also - and even more so - characterize political competition. At the same time, these conditions create leeway for Schumpeterian political entrepreneurship. The same is true for various barriers to entry in politics. These barriers affect a trade-off between political stability and political contestability which will be discussed with special emphasis on incentives and opportunities for political entrepreneurship in the sense of risking long-term investments in basic political reforms.

BUSINESSPERSON AS A POLITICAL ENTREPRENEUR

However, the term is also used in a very different way by those that wish to contrast what they see as a pure "market entrepreneur" with someone that uses the political system to further a

commercial venture or their own career. On this definition a political entrepreneur is a business entrepreneur who seeks to gain profit through subsidies, protectionism, government contracts, or other such favorable arrangements with government(s) through political influence (also known as corporate welfare).

Ed Younkins (in 2000) wrote: "Political entrepreneurs seek and receive help from the state and, therefore, are not true entrepreneurs." Similarly, Thomas DiLorenzo says, "a political entrepreneur succeeds primarily by influencing government to subsidize his business or industry, or to enact legislation or regulation that harms his competitors." He says, in contrast, the "market entrepreneur succeeds financially by selling a newer, better, or less expensive product on the free market without any government subsidies, direct or indirect." He gives the example of a mousetrap manufacturer who seeks to gain market share by making a better mousetrap as being a market entrepreneur, and a manufacturer who lobbies Congress to ban the importation of foreign-made mousetraps as a political entrepreneur.

Bridging the gap between static equilibrium in an interest group theory of government and process theories is one of the major roles of transfer demanding process. The transfer demanding entrepreneur acts in a creative, discontinuous fashion to organize latent demand for a particular transfer into an effective interest group. The imbalance, rebalance transfer demanding entrepreneur provides a theoretical framework for understanding the movement between static political equilibria. This paper involves the transfer demanding entrepreneurship necessary to bring together the western railroads, organized labor in the Indian Territory. [1]

In a constrained maximization model [2], three sets of agents have preferences over outcomes:

1. Organized interest groups offer campaign contributions to improve their own wealth
2. Voters offer votes to obtain outcomes closer to their most preferred outcomes
3. Legislators seek both campaign contributions and votes to obtain reelection

In the past few years, economists have explored the consequence of ethnic and social diversity on nation size and on the relative efficiency of the production of private and public goods. As per the Evolutionary Political Economy, there is no causal relation between nation size and diversity.

This is because of the following reasons-

1. Political organization is crucial for the endogenous formation of preferences
2. The separation between private and public goods is open to continuous innovation
3. Heterogeneity plays an important role for the coordination among actors [3]

The theoretical reinterpretation of some classical topics in the public choice literature defines a general theoretical framework for political behaviors whose implications go beyond those determined by the standard self-interest assumption. Political organizations are required to maximize a residual quantum that can actually be implemented after all the electoral commitments, with voters and interests groups, have been fulfilled. Residual right is based on the goodwill accumulated over time by political organizations. When there is deficiency of goodwill, a chain of "exit" strategies by voters can lead to undesirable results. [4]

Several theories of political entrepreneurship generally focus on the construction of a temporary alliance for combined action necessary to change policy. A taxonomy of three levels of political rules are formulated

- a. pre-constitutional
- b. constitutional
- c. post-constitutional

This is mainly to identify the salient characteristics of institutional entrepreneurship that rules at each level. [5]

In order to analyze a methodology of political markets, Public Choice as a field has introduced a framework the output of these markets is reflected by the role that government plays. This is in accordance with respect to the organization of economic activity. Gordon Tullock has studied a myriad of aspects of this topic for more than half a century. [6]

Israel Meir Kirzner, an American economist closely identified with the Austrian School. He had argued that the market economy operates with ruthless efficiency to coordinate economic activities and realize the gains from social cooperation under the division of labor because of the institutional framework within which it operates namely private property rights. A strict dichotomy between the levels of analysis should be maintained. [7]

How entrepreneurship can be promoted by any kind of economic policy and how can we relate this to the monetary sources of the business cycle. Access to finance is commonly seen as a crucial means to generate economic growth, therefore, the admirable policy goal of promoting more credit for entrepreneurs—whether through access to finance, SME support or regional development—can lead to negative unintended consequences. [8]

The role of knowledge and discovery in the process of market equilibration. Neoclassical economics is a set of solutions to economics focusing on the determination of goods, outputs, and income distributions in markets through supply and demand. This determination is often mediated through a hypothesized maximization of utility by income-constrained individuals and of profits by firms facing production costs and employing available information and factors of production, in accordance with rational choice theory. Neoclassical economics dominates microeconomics, and together with Keynesian economics forms the neoclassical synthesis which dominates mainstream economics today. Although neoclassical economics has gained widespread acceptance by contemporary economists, there have been many critiques of neoclassical economics, often incorporated into newer versions of neoclassical theory.

The neoclassical theory is criticized for the manner in which individual decisions are modeled and the manner in which satisfaction of equilibrium conditions is met through real world market outcomes. Mises' work allowed one to see the market as an entrepreneurially driven process while Hayek helped to appreciate the role of knowledge and its enhancement through market interaction. [9]

Three concepts for this approach emerge:

- (1) The entrepreneurial role
- (2) The role of discovery
- (3) Rivalrous competition.

The entrepreneurial discovery approach leads to very different conclusions than the neoclassical theory in several areas including antitrust policy, economic justice, welfare economics, and central planning under socialism. Those individuals who take issue with this approach predominantly fall into one of two categories:

1. Those who disagree with the asserted equilibrative character of the market process
2. Those who disagree with the emphasis on systematic mutual learning as critical to the market process

Carl Menger was an Austrian economist and the founder of the Austrian School of economics. Menger contributed to the development of the theory of marginalism, (marginal utility), which rejected the cost-of-production theories of value, such as were developed by the classical economists such as Adam Smith and David Ricardo. Menger used his “Subjective Theory of Value” to arrive at what he considered one of the most powerful insights in economics: both sides gain from exchange. Unlike William Jevons, Menger did not believe that goods provide “utils,” or units of utility. Rather, he wrote, goods are valuable because they serve various uses whose importance differs. Menger also came up with an explanation of how money develops that is still accepted by some schools of thought today. His theory considers the origins of three institutions that underlie economic growth—the division of labor, monetary accounting, and private property. [10]

Political markets perform very differently from traditional markets. The factors which public choice scholarship has identified as distinguishing politics from markets—rational ignorance, majority rule, collective outcomes—affect the performance of politics as a process even if political equilibrium is relatively efficient. [11]

There are two views regarding public finance-

1. One orientation treats the state as autonomous from or independent of economic processes and institutions.
2. The other orientation treats the state and the economy as interdependent and mutually generated.

Since the mid-20th century much of the Continental orientation has been pursued under the rubric of public choice rather than public finance. The state sponsored economic development perspective of cameralist public finance got lost in the transmutation of public finance into public choice. [12]

The profit opportunity of a Political entrepreneurship can be divided into two categories:

1. Productive- Productive opportunities enable entrepreneurs to profit from enhancing the efficiency of government.
2. Predatory- Predatory opportunities enable entrepreneurs to profit from forcibly transferring resources from some to others

This analysis shows that political institutions tend to favor predatory over productive political entrepreneurship. [13]

In his Prize Lecture Israel M. Kirzner, winner of The International Award for Entrepreneurship and Small Business Research argues that a number of those who have commented on his work

have misunderstood certain aspects of his theoretical system, and as a result the common distinction in the literature between “Schumpeterian” and “Kirznerian” entrepreneurs is flawed.

A comparative analysis of economic and political entrepreneurship is provided using an evolutionary framework which is process based. On this basis conclusions are derived for the role of political entrepreneurship. [14]

It studies the impact of entrepreneurial family background on the development of social and human capital resources. Those entrepreneurs from higher socio-economic groupings had high endowments of human capital. They also had social networks characterized by high endowments of human capital. As a result, entrepreneurs from higher socio-economic class had access to highly effective business support, and these networks provided a ‘platform’ from which opportunities could be both recognized and realized. [15]

Policy can influence the allocation of entrepreneurship more effectively than it can influence its supply. While the total supply of entrepreneurs varies among societies, the productive contribution of the society's entrepreneurial activities varies much more because of their allocation between productive activities. [16]

The main objective is to develop an integrative concept which theorizes the connection of strategic agency and institutions in a model of institutional change. The incorporation of a systematic place for interests does not weaken the main theoretical trait of institutional theory, but, on the contrary, demonstrates the importance of institutional rules for understanding institutional change in a comprehensive model. [17]

What is exactly needed is to apply the Austrian analysis of the entrepreneur to the political process by differentiating the political process from the economic process; we will endeavor to show to what extent an analysis in terms of the political market process is both possible and relevant. The political entrepreneur is doubly specialized for the political process. [18]

When an individual acts on a political profit opportunity, Political entrepreneurship takes place. [19] These profit opportunities can be divided into two categories:

1. Productive
2. Predatory.

The foundations of a dynamic theory of collective action mainly emphasizes on-

1. Firstly, the role of public entrepreneurs in processes of institutional development is characterized.
2. Secondly, the protagonists of social change are analyzed in regard to their motivation, strategic options, levels of action, and specific capabilities.

A new perspective on successful collective action is opened up. [20]

In recent years and not least after the latest financial and economic crisis, we have seen a strongly renewed interest for industrial policy to get the developed economies growing again. The political entrepreneurs, i.e. the politicians and their experts and advisers have been hunting desperately for new approaches to industrial policy. With political entrepreneurs, we here understand politicians/bureaucrats/civil servants/authorities within publically financed activities that with different methods try to stimulate entrepreneurship and self-employment with the overall goal to increase employment and economic growth. The renewed interest for industrial

policy and the increased importance of political entrepreneurs motivate that we once again ask the fundamental question about what shall be the proper focus, measures and extent of industrial policy.

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