

The Political Entrepreneur and the political process.

A market process perspective of the political market

Abel François ♦

Abstract : The aim of this article is to apply the Austrian analysis of the entrepreneur to the political process. By distinguishing the political process from the economic process, we will endeavour to show to what extent an analysis in terms of the political market process is both possible and relevant. The existence of an information conveyance which can be assimilated to a price system within the political process, with its resulting profits, are motivating elements for the political entrepreneur. The latter is doubly specialised and possesses all the Kirznerian functions of the Austrian entrepreneur as a coordinating agent for the political process.

Key-words : *entrepreneur - political market - market and political process - Austrian School.*

JEL Classification: D72

♦:ATER Université Nancy II et Laboratoire d'Economie Publique (LAEP), Université Paris I
Maison des Sciences Economiques 106/112 Bd de l'Hôpital 75647 Paris Cedex 13.
T:33.(0)1.44.07.81.01, E: abel@univ-paris1.fr ; <http://laep.univ-paris1.fr>

I would thank Jean-Dominique Lafay, Christine Fauvelle-Aymar, François Facchini, for their comments, Jacques Ravix, the paper discussant of the 2000 AHTEA Meeting, and the anonymous referees.

1. Introduction.

The neo-classical paradigm has excluded the entrepreneur from its field of analysis. Due to the influence of its neo-classical component, the entrepreneur has had little mention in the economic analysis of politics. The politician is generally looked to for his qualities as a leader within a party or a pressure group. Since its appearance, the Austrian tradition has introduced an important out set of theories concerning entrepreneurship. Hence, the entrepreneur is today a theme which is central to its development and specificity (Harper, 1996).

Any analysis of the political entrepreneur will thus necessarily and logically rest on the tools of the Austrian tradition. However, this implies a modification of the analysis of the political market which should not be seen in terms of efficiency or equilibrium, but in terms of process and of coordination. The issue is to highlight the coordinating role of the politician in the political process.

There is a double purpose in the application of Austrian entrepreneurial theory to the political market. First, the Austrian tools will be tested for their stability in the context of a specific object. Secondly, the validity of the economic analysis of politics will be strengthened by the use of tools that are different from the original paradigm. Moreover, this approach fits into the current attempts to create an Austrian public economy.¹ Finally, to be creative, any such attempt must avoid returning to the question of the very existence of a political market or to opposing methods².

Highlighting the role of the political entrepreneur in political coordination means thinking of the political market as a process (section 2) which is distinct from the economic process in its object but similar in that it attempts to resolve the problem of coordinating individual plans. Moreover, there is a mechanism similar to the price system in the political process which contains relevant information about existing profit opportunities (section 3). This information vector plus the profit incentive guides the action of political entrepreneurs. The latter may thus be defined as a double specialist in search of political profit (section 4). He fulfils all the major functions of the Kirznerian entrepreneur (section 5) thereby improving the coordination of individual political plans.

2. Economic process and political process

Because things change with time, because individual beliefs are necessarily subjective and because decisions are always made with uncertainty, the major problem of the actors is achieving their individual plans. And the major problem facing any social organisation is the coordination of these plans. The existence of stabilising institutions, of discovery processes, of people communicating preferences and of individual expectations all make this coordination possible.

The economic process and the political process are two institutional frameworks, two distinct processes. Each of them seeks to answer a single problem which arises in two different fields affecting two different objects.

Hence, the economic process seeks to favour and enable the coordination of individual economic plans. The political process, however, seeks to favour and enable the coordination of individual political plans. Thus, the economic process makes the coordination of mutually

¹ There are 2 distinct attempts at doing this in the work of Harper (1997) and Ikeda (1997).

² Avoiding the questions of method should not hide the existing ambiguity on this point that exists within the Public Choice school between its different components.

advantageous exchanges possible whereas the political process ensures the coordination of individual plans around unilaterally advantageous exchanges.

The distinction drawn between mutually advantageous exchanges and unilaterally advantageous exchanges (conflict) is that of J. Hirshleifer (1985 and 1994) and more generally of the economics of conflict. Here one finds the major weakness of the market analogy of the politician, a weakness that J. Buchanan has already pointed out : the existence of extra-individual constraints on political exchange. The category of unilaterally advantageous exchanges includes a multitude of conflicts and exchanges : from violent appropriation to the rent-seeking activity.

The political process is thus an institutional framework aimed at regulating conflict³. The management of conflict within a community of human beings takes on different forms and calls upon various means : property law (domestic or foreign security), a legal system aimed at awarding damages for prejudice, the legitimate monopoly of violence⁴, at financing collective action, ... The existence of these institutional and constitutional frameworks enables individuals to construct their individual plans and their expectations on these items.

The political process is thus made up of an institutional framework and individual actions based upon the expectations regarding conflict. The forms of political process are varied and diverse. Conflict can be regulated by the creation of a simple tribal group around a leader or by setting up a more complex democratic federation with elected representatives. However, these different processes do not have the same coordinating capacities.

Whatever the evolution of the political process, as far as individuals are concerned it means income transfer. This can be deliberate (redistribution policies) or involuntary (unintended consequences of regulatory policies or of public output of collective goods (McCormick and Tolison, 1981⁵). It can be explicit or implicit : *“all interventions involve implicit or explicit income transfers of some kind, since any intervention produces both “winners” and “losers”.* (S. Ikeda, 1997: 104).

A political exchange can take on various forms.. But in all cases it involves a unilaterally advantageous exchange linked to the settlement of a conflict. Indeed, even electoral exchange brings together at least three individuals : the public decision-maker (one) who makes use of the monopoly of violence to gain electoral support (either through suffrage or financial support), an elector (two) who obtains a financial gain in return from a third individual (three).

Amongst the different political processes, we will deal here with democracy as it is the competitive dynamic coordinating individual plans in the realm of politics. This particularly involves individual political choices, the selection of political staff and the implementation of the policies selected. This process is working in radical uncertainty and having unintended consequences on individual action. Moreover, the development of the political process involves several markets : that of bureaucracy, the electoral market the legal market, the constitutional market, the market of corruption, that of regulation, ...(D. Wittman 1995)⁶.

³ Any ambiguity in the political process is derived from the fact that the regulation of conflict and primarily the monopoly of legitimate violence, provides new opportunities for conflict.

⁴ Here we find M. Weber's definition (1919 :125) of the State as : *“a human community which, within the limits of a pre-determined territory, successfully claims the right to a monopoly of physical and legitimate violence”.* If the function of the state appears to reside within this monopoly, the political question resides within the different forms of regulation and management of this violence and which does not necessarily imply a state.

⁵ This analysis encourages its authors to regard politicians as “brokers” of public transfers.

⁶ We will not single out individual markets here. We believe that the implementation of policies by the bureaucracy poses no problems. This does not mean that all political activities are successful or that they attain their objectives. In other words, we do not deal with the problem of coordination of individual plans within the government process. For this, we will refer to Ikeda (1997) and particularly to chapter 3.

Consequently, the political process is wider than Ikeda's (1997: 72) governmental process defined as "*the order that arise from the on-going adjustments by actors to perceived changes in conditions within the public sector alone.*" but smaller than the interventionist process defined as "*a spontaneous order, sustained and set in motion by the unforeseen adjustments of entrepreneurs and public choosers, in the market and governmental processes, that are the destabilizing and unwanted responses to public policy implemented in the presence of dispersed knowledge and radical ignorance.*" (S.Ikeda, 1997: 151). These two distinctions can be explained through the choice of the object as a distinctive criterion between economic and political process.

Our view of the political process thus goes against the analyses, in terms of equilibrium of the political market, which see it as a tendency toward equilibrium between a demand for transfers emanating from interest groups and a political supply requiring the use of bureaucracy (G. Becker, 1983 and 1985).

The analytical distinction between political process and economic process does not mean that the two processes are autonomous or substitutable, nor that they are not in competition. A priori, it is not the role of the political process (reciprocally the economic process) to solve the problem of economic coordination (political coordination). But for different reasons, they both have tend toward expansion. The result of this is an unclear frontier between the two as well as a spill over effect of one over the other. However, the two processes need each other in order to survive. The political process needs the economic process to finance the regulation of conflict, especially the structure of property rights. Reciprocally, the economic process requires the existence of a structure of law to stabilise the preferences and expectations of individuals via the regulation of potential conflict. In reality, each process plays a part in the existence of the other. It is clear, however, that the frontier between reciprocal improvement and deterioration of coordination is analytically difficult to formulate. There are individual effects of one process upon the other which considerably affect the way in which coordination operates, both deliberately and unintended.

The result is that both the political and economic processes are closely interwoven : one cannot exist without the other yet one cannot destroy the other. There are considerable ambiguities concerning the links between economic action, political action and political and economic institutional structures⁷. The aim of this article is not to do away with this ambiguity, but to put forward an original version, in isolation from the political process.

Democracy, the political market, appears to be a political process that certainly is imperfect and is not the market process, but which allows a better coordination than any other political system. It attempts to regulate any conflict (and by doing this provides new possibilities for conflict) by trying to coordinate individual plans and expectations around unilaterally advantageous exchanges.

3. Price and profit in the political process

To put his talent into practice, the political entrepreneur needs to have at his disposal some sort of mechanism that will reveal both the preferences of the electors and profit

⁷ This ambiguity can be found in all writers having taken an interest in the dynamic between political action and economic action, especially B. Constant, A. Toqueville (1850) and A. Hirschmann (1982). B.Constant appears to be the most thorough on this question (S. Holmes, 1984 : 42-109) with his distinction between the "*liberté des anciens*" and "*liberté des modernes*" which deals with the differences in individual preferences, institutional differences and dynamic interaction between the two.

opportunities. The incentive of political profit and competition between politicians will thus encourage the political entrepreneur to alter political production in order to better take account of the demand expressed. In this way, he contributes to a better coordination of the political process.⁸ Moreover, the political entrepreneur influences demand during the electoral campaigns by defining possible policies and avoids a heavy distortion between demand and potential supply.

Despite the fact that the voting mechanism is weaker than price system to update information diffusion, we are going to attempt to show how the voting system remains sufficient⁹ in its role as information provider regarding flaws in coordination and hence political profit opportunities. And this in spite of the fact that the major Austrian criticism aimed at the school of Public Choice concentrates on the absence of price on the political market (DiLorenzo, 1988). The definition of political price will enable us to define the political profit obtained by the politician.

To do this, we will seek to show that the traditional criticism of the voting system is partial and unfounded. This criticism deals mainly with the ability of the vote to reflect preferences and the evolutions of these preferences.

3.1. The criticism of the voting mechanism

There are two major criticisms of the electoral system. First of all, the cognitive content of the vote is said to be weak in essence. Secondly, the main drawback of the voting system as compared to the price system is that it is momentary in essence and discontinuous over time which limits its power to distribute relevant information. Indeed, if time is historical - i.e. carrying change and continuous transformation – the overall economic and political data, beginning with political demand, is continually changing. However, voting is something momentary and does not reveal this evolution. The elements concerning the political process are the following : constantly changing demand, constant and continuous supply and a potential intermittent mechanism for revealing preferences. The conclusion here would be that the vote is far from being a reliable and relevant vector of information when it comes to guiding the activities of the political entrepreneur.

We will see that these criticisms of the voting system as a vector of information can not only be considerably reduced and even contradicted by a number of arguments but that they are based on incomplete and poor analyses of the vote system.

3.2 The ballot technique

First of all, the criticisms levelled at the voting system are based upon a partial and limited view of the electoral issue. Voting is indeed only seen as sanctioning a competition or as *“the first past the post”*¹⁰. This view is closely linked to majority electoral system with single-round and single-member district. It has been widespread amongst economists since Schumpeter (1942) and Downs (1957) and sees the vote as only being a mechanism for selecting political personnel. But it needs to be completed by an analysis of the election seen as an attempt to reflect public opinion and political demand.

In fact, each of these views of the vote (staff selection or reflection of public opinion) is linked to different electoral system, to different voting functions and different types of

⁸ The proposition of the political entrepreneur as a coordinating agent on the political market is not necessarily in conflict with the other propositions seeking a mechanism for political coordination – such as the ideology expressed by F. Facchini (2000) – even if this author uses a number of the criticisms leveled at, the voting system to support his proposition.

⁹ The criterion applied here to the voting mechanism is deductive. There is no attempt to evaluate its relative efficiency or its coordinating power.

¹⁰ Also translated as “the winner is the only one to take on the post”. S. Ikeda (1997) fully supports this analysis of the vote with the idea of a single winner (see pp. 85-89)

mandate (O. Ihl, 1996). The view of the vote in terms of selection is linked to the majority electoral system with single-round and single-member district. The view of the vote as a reflection of opinion is linked rather to the proportional electoral system. Between these two types of electoral formula there is quite a large number of electoral techniques which facilitate the selection of political personnel to a greater or lesser extent and reflect the preferences of the electors with more or less accuracy.

Indeed, a large proportion of economic analyses of politics are based on the majority electoral system with single-round and single-member district (under the influence of Anglo-Saxon political practises). Despite the clear analytical gain, the extent of the economic analysis of politics is considerably weakened by this, as is the criticism that may be levelled at the voting system. In fact, there is quite a large number of voting mechanisms (P. Martin, 1997) revealing a greater or lesser representation of political demand and a wider or narrower reflection of preferences¹¹ (LeDuc and al., 1996).

Hence it is logical to consider the informative function of the voting mechanism as being weak if it is deprived *a priori* of its initial function of revealing preferences. This would be akin to suggesting that the only role of price is to distinguish one producer from another and in no way to provide information as to the tastes of the consumer. Consequently, the cognitive weakness of the vote is more analytical than real and the voting system has, by essence, a function of revealing the preferences of electors. The voting system of the political process is therefore not limited to one type of voting mechanism.

Moreover, the issue of electoral competition is not a zero sum game. An election is only a zero sum game between the various candidates (what is won by one is taken from the other) when and only when the number of electors is known and stable. However, democracy offers individuals a further means of expression via abstention or a null vote. A political entrepreneur may deploy his talent in order to obtain the vote of electors who would not ordinarily vote. In this case, he increases the number of votes expressed and derive a profit from this which is not necessarily a loss for the other candidates¹².

3.3. The means of expression and evolution of preferences

The temporal discontinuity of the electoral day should then be moderated by the super-positioning of the overall existing poll at election over time. Hence, an election concerning an institution or a political post may influence the action of another or another competition. For example, the re-election of local politicians acts as an indicator for national politicians. The need to readjust the political supply is reinforced by various co-existing electoral days.

Any election, local or partial, will serve as a signal of some sort to the political supply, whether or not it is in office. Moreover, professional elections, be they institutional or internal in political or trade union organisations, also act as a signal.

Besides, the discontinuity of electoral dates is made up for by multiplying survey polls which inform about the evolution of individual preferences between two elections. They solve

¹¹ For example, we can imagine that each voter have ten voices that he shares out among the candidates.

¹² A troubling historical phenomenon emerges from the question of the voting system as a vector of information. The statistical mechanisms for collecting information and revealing preferences initially has developed on the political market. It would appear that these instruments such as surveys, emerged to counter-balance the cognitive weakness of the voting system and especially its lack of continuity over time. With the increasing weight of political decisions and the specialization of politicians, a multitude of surveys and polls has emerged concerning future elections and local decisions. These surveys are widespread in the economic sphere and are increasingly used by companies. Should we conclude that this usage is also an answer to the low awareness of markets and hence to a qualitative limit to the knowledge of the price vector ? Or is it a opportunity for acquiring extra information ?

the problem of the multiplication of elections that give the best information on the evolution of individual preferences¹³.

The use of surveys can reduce the cost of electoral deliberation by limiting the size of the voting community and by lowering the opportunity cost of the act of voting. First of all, multiplying deliberations by voting is expensive : the opportunity cost of voting (especially in terms of loss of work time and the equivalent wages). Multiplying collective deliberations would give rise to an increase in this cost involving a reduction in political participation. Surveys using the sampling technique greatly reduces the cost of expressing an opinion by limiting it to a small number of individuals.

Secondly, reducing the size of the political market should, a priori, enable the cost of organising elections to be reduced, thereby increasing deliberations. Therefore, surveys enable the number of ballots to be multiplied without bringing into question the division of political labour and the principle of representation.

In other words, surveys appear as an organisational innovation enabling coordination of the political market to be improved by following the evolution of preferences between ballots. These are a second best choice when it comes to revealing the evolution in preferences, given the high cost of electoral ballots. What is more, they are important for the smooth running of democracy¹⁴.

At last, the discontinuity of voting is also in part made up for by the monetary exchanges of supporters. Financial intensity and the diversity of donations all inform politicians as to the orientation of demand. Between electoral campaigns, monetary donations are also an indicator of the preferences of the electors.

3.4. Voting system and political profit

Consequently, the voting mechanism should be taken in its entirety - i.e. as a mechanism revealing the political preferences of an electoral community, and not simply as means of selecting political personnel. It is made up of a series of local and national, partial or general ballots having different techniques, internal to political organisations or on the electoral market only. Moreover, it is completed by the development of survey techniques and donations. In short, the economic analysis of voting has tended to neglect this global character of the voting mechanism. It has hence left itself open to criticism from political scientists and certain economists.

In conclusion, the voting mechanism – i.e. electoral ballots and surveys – appears to be the most efficient vectors of information on the political market (Ikeda, 1997 : 86). It is reinforced by a certain number of secondary and complementary preference-revealing mechanisms¹⁵. Analysing voting involves a set of inter-linked elements, the study of which will inform the actors on the political process : how political personnel are chosen, the selection of political programmes by a prospective or retrospective vote, participating in a self-reinforcement (Weingast, 1997) mechanism of the political regime, ... that is to say, the group of functions highlighted by political science. Elements of economic analysis can be found for each of them.

In the same way as for the price system, the voting system makes all subjective information and knowledge concerning the regulation of conflicts objective and accessible but

¹³ We are not posing the question here as to how valid the survey polls are in revealing political preferences, but rather as to their utility in terms of the coordination of their use. Two forms of survey are distinguishable :

i). those used as a way of forecasting future election dates and ii). those surveys used as qualitative public management tools.

¹⁴ Indeed, it is interesting to note that autocracies use surveys but never reveal the results to the population.

¹⁵ This presentation of the voting mechanism as a preference-revealing process is an essentially heuristic representation. It is in no way an attempt at updating Samuelson's 1955 demonstration of the vote as revealing marginal dispositions to pay for a collective good provide.

in a slower and less subtle manner. It can not, however, be compared to the price mechanism as it is slower and less reactive. But it can be used as an indicator of profit and profit opportunity for political entrepreneurs. Given the object of the political process - i.e. conflict, it is the best conveyance of information and knowledge but this does not mean that it can be extended to the economic process and used in place of the price system.

Political profit opportunity can thus be defined as the difference between the true score of each political supply compared to the score required to set up the electoral programme for which the candidate has obtained his votes. This score is not necessarily the one that will provide electoral success¹⁶ as the supplier can put a part of his programme into practise by negotiating within the political alliances of the government. The votes obtained will provide him with more or less clout in the log-rolling (G. Tullock, 1998: 105-120). The signal indicating profit opportunity is to be found in the difference between the votes obtained and the potential votes given the political supply and demand. Real profit is then the differential in the votes obtained compared to his major competitors.

In this case, there is not only one winner for each election : a politician may not obtain the post in question but may have a heavier clout in the negotiations within the governmental coalitions. The aim of the politician is to maximise the number of votes obtained. He can increase these either by encouraging a greater number of people to vote (lowering the abstention rate and/or increasing the number of voters enrolled), or by attracting individuals who had previously voted for someone else.

This profit then serves as an incentive and a remuneration for the coordinating action of politicians in the political process. Indeed, by seeking to satisfy an unsatisfied demand that has been revealed via the surveys or other modes of expression, the politician is able to readjust the political supply and the re-allocate means in the management of unilaterally advantageous exchanges. Whilst seeking his own objective, the political entrepreneur plays a part in improving political coordination. However, a modification of policies involves a modification of individual plans and, willingly or unwillingly, un-coordination. There is a re-launch of entrepreneurial action and a new dynamic of coordination begins.

4. The political entrepreneur, public producer and specialisation

In political science, the political entrepreneur is defined as *“the individual who changes the direction and flow of politics”* (M. Schneider and al. 1992: 737). Political science has indeed been quick to take account the innovative nature of the political entrepreneur. The latter, however, does not have the qualities of the Austrian entrepreneur as he is essentially an innovator and a disturber of political activity.

Being an entrepreneur means being alert to profit opportunities (D. Harper, 1998: 241). Defining the political entrepreneur politically means distinguishing him from the public producer and the bureaucrat. But it also means defining his innovative and speculative characteristics enabling him to implement his talent of alertness. He will derive a profit from his activities. The whole of the voting system, that is to say his mistakes, those of his competitors and his successes will provide him with information he can use to exploit his talent in the search for opportunity. This search for political profit encourages the entrepreneur to discover more about political demand and hence to improve the coordination of individual plans. This improvement in awareness of demand is a result of the voting system.

¹⁶ The total number of votes necessary to win the election varies according to the type of ballot, abstentions and the structure of the political market (a two parties or multiparty system) and should not be reduced to obtaining a majority.

It is possible and necessary to distinguish between the political entrepreneur and the public producer. An initial distinction relates to the framework of action. The political entrepreneur is an individual in a position of competition for an electoral mandate, put into competition by the vote of a population. This covers all the locally and nationally elected representatives (even the judiciary in certain countries). Contrary to this, the state producer is not elected but is nominated within the framework of an activity involving public production. Here we speaking of civil servants and staff related to public supply.

The first has the attributes of an entrepreneur whilst the second is a bureaucrat in the Misesian sense of the word because *“in bureaucratic organisation those in charge are obliged to conform to the rules and statutes laid down by a higher authority. The role of the bureaucrat is to execute the prescripts of the statutes and rules which severely limits his power to act as he thinks best”* (Mises, 1943: 52).

The second distinction lies in the specialisation of each of them. In fact, the public producer is a specialist in the application of administrative rules and he does not have the same attributes as the entrepreneurs, being unable to use the talents he may have in the institutional framework. On the contrary, the political entrepreneur has a double specialisation. Firstly, he is a specialist in electoral issues as a competition. Secondly, he is also specialised in the implementation of policies : he is able to use bureaucratic procedure to his own advantage, i.e. to maximise the votes he obtains in the future thanks to the political decisions he takes. The bureaucrat, however, can only act within the framework of fixed and established rules.

The double specialisation appears necessary for his political survival and the political process tends to choose politicians having these two qualities. Indeed, a candidate with no electoral skills, however good a manager of public affairs he may be, has little chance of being elected or re-elected. Similarly, a candidate for brilliant electoral campaigns has little chance of being elected or re-elected if he displays a lack of skills in the execution of a mandate.

Our political entrepreneur is therefore not a politician having an activity of economic entrepreneur in the field of economics made possible by his skills and public resources. We are dealing with a specific ideal-type of the political process and in no way with a case of substituting political action for economic action. Having said that, the political action of political entrepreneurs may well have deliberate or involuntary repercussions on the economy of his circumscription.

The politician’s classical approach to coordinating action is the following : having captured a latent demand on the electoral market¹⁷, he takes advantage of this via an accumulation of votes. These vote shares enable him to alter (or create) a policy by changing existing bureaucratic action. If his production is a success, he may well reap the rewards of this at the next elections. Thanks to his desire to be elected or re-elected, he has, a priori, altered improved the coordination of the political process¹⁸.

The member of national parliament seems to us to be an ideal-type representative of the political entrepreneur. However, we do not believe that the legislator is the only political entrepreneur (Schiller, 1995 and Weissert, 1991). The political entrepreneur can be just as present in the legislative field as in the executive or judicial sphere. The distinctive criterion is that he is in electoral competition for the mandate and that is able to influence the elaboration of public decisions.

¹⁷ This capture may be the result of the transfer demanding process (N.Campbell, 1999).

¹⁸ But his action is also certain to have modified certain individual plans, giving rise to a further coordinating dynamic.

5. The entrepreneurial functions of the politician

The entrepreneur, as defined by I. Kirzner (1973, 1979 and 2000) both discovers and exploits profit opportunities – i.e. the price differential between two markets, two trading areas or two periods. The entrepreneur makes use of three essential actions in his search : speculation, innovation and arbitration.

The definition of the Austrian entrepreneur we have used is the most restrictive one and is based essentially on the work of Kirzner and that of Harper. The wider definitions of Mises and Hayek which consider that entrepreneurship is widespread, would have been easier to apply. The restrictive definition can be explained by the will to test both the stability of the Austrian arguments within a different field of activity and the robustness of the economic analysis of the political sphere through the use of new, more restrictive tools.

5.1. The political entrepreneur trades off

The political entrepreneur performs several trade offs simultaneously: a technical trade off when he produces public decisions, a spatial trade off and a partisan trade off. Each of these is part of his political supply and the electoral sanction emanating from them. The profit he does or does not obtain is the direct result of errors of perception and /or ignorance in the application of these arbitrages.

Political trade offs can thus be said to be linked to differences in cost and price between groups (technical trade off), to differences in price between different sub-markets (spatial trade off) and finally to differences in costs and price in partisan organisations (partisan trade off).

The first trade off is technical, producing public decisions. As the aim of the entrepreneur is to acquire profit – i.e. a vote differential, he needs maximum support to attain this goal. However, the political technology linked to problems of individual participation in collective action requires a rule for the selection of support. Any policy or suggested policy put into practise must include a concentrated gain, and a diffuse and shared cost. This rule guarantees the support of individuals and of the pressure group concerned.

No policy can have the general improvement of all electors or groups as its aim. The entrepreneur is forced to trade off between the different groups so as to obtain maximum support and profit. This trade off rests upon the existing opportunities between groups. It may be a question of obtaining the support of an existing group which had formerly supported another candidate or of encouraging the creation of a new pressure group. But obtaining support via group interests, will deprive opposite groups of support. There is thus an opportunity cost in the selection of support, which forces the political entrepreneur to trade off between the various groups depending on their relative support capacity – i.e. depending on their cost and their price.

The second trade off is of a spatial nature. This is the result of the gradual generalisation of representation in the whole democracy. Parliamentary democracy has evolved toward a structure of representation enabling savings to be made in organisation and coordination costs : representation takes place by territorial zones of various sizes and more or less densely populated depending on the country. In all cases, the political representative is elected for a limited geographical area. Moreover, there may well be economies of scale in local mandates.

Territorial representation has thus imposed a double skill for politicians : action at the national level in assemblies and local activity in constituencies on top of other possible local mandates. The entrepreneur is forced to trade off between the two levels given that he is limited in the exploiting them (C. Atlas and al. 1997). However, his abilities to discover non-exploited profit opportunities are spread over them all. The trade off is between conserving the local base and participating at a national level¹⁹. Finding a balance between local and national level means juggling with gain and cost at the two levels of activity which, to a certain extent, are linked to each other.

The final trade off arises from the existence of political parties in the political process. The specificity of a party relates to informational problems regarding the political market and forces all politicians to act within such an organization. The result is a trade off in entrepreneurial action between party constraint and his own aims. Whether there be convergent or divergent interests between the party structure and the entrepreneur, the latter has to decide between exploiting opportunities in accordance with the party and acting alone in opposition to the party.

There is obviously no problem in the case of convergence. However, when the objectives of the party and individual objectives of the entrepreneur are not the same, the politician will have to make a short term decision regarding his immediate interest and those of the party. A set of strategies emerges, ranging from submission to dissociation and even the breaking off of contact. In a more general manner, we are witnessing trade offs in terms of “exit” or “voice” as Hirschmann (1970) might say of the politician faced with a party. The politician is forced to make decisions according to the expected and perceived electoral yield from different solutions.

5.2. The political entrepreneur speculates

Speculation supposes trade offs over time so as to obtain a price differential between acquisition and sale. The political entrepreneur speculates in two ways : firstly on the constitution of his political supply and secondly on the results of his policies.

Programmed speculation (or speculation *a priori* before the election day) corresponds to the implementation of an electoral programme, whether it is based on action that has already been undertaken in the case of an outgoing candidate or on proposed policies. Given the time needed to produce and publicise political programmes, the entrepreneur must necessarily put together his programme well in advance. He obtains the different parts at a given price, in terms of acquisition cost and votes. In this programme, the choice of policies is thus an increased expectation of the value of these policies. In other words, the politician hopes for an electoral profit when voting takes place. This is true speculation because he takes up a political stance in the hope that it will bring him more votes.

Applicative speculation (or speculation *a posteriori* after the election day) takes place at the time the electoral programme is implemented. At the moment the decision is made, the political entrepreneur speculates on the practical success of his policies. Put differently, he hopes that the decision will bring intense gain and a diffusion of cost so as to bring him the support of the beneficiaries. The consequence of the policies belonging to the economic sphere is that there is no certainty that the policies will be a success²⁰. Therefore, the

¹⁹ As much as we may have political entrepreneurs specialized at a local level, specialization only at a national level is impossible. The only known cases are the heads of the executive (French or American) who are obliged to drop any other mandate. But even these had a local base before the election.

²⁰ To simplify our demonstration we have considered that there is no difference in interest between the choices of the political entrepreneur and the administrative structure responsible for applying these choices. Without this,

entrepreneur expects the cost of implementing his policies to be more than compensated for by his success.

5.3. The political entrepreneur innovates

The fact that the entrepreneur is an innovator has been the main reason for introducing him into political science, which defines him as “*a person who seeks to initiate a political dynamic of change, (.....) via an attempt to gain support for politically new ideas. This includes identifying problems, creating a network for diffusion in political circles, giving form to the terms of the political debate and the building of coalitions.*” (M. Mintrom, 1997: 739). The idea that political innovations originate from politicians activities has been corroborated by the empirical analysis of Mintrom (1997) concerning the USA with regard to local decisions about public schooling. There is a technique and a technology specific to the diffusion of innovations by the political entrepreneur which is distinct from that of the economic market.

Beyond this specificity, J. Schumpeter’s (1912) typology of innovation is defined in such a way that it can be applied to the political market. The five types of economic innovation are thus to be found and represent “*the implementation of a new production function*” in the political process. Moreover, political innovation can just as well follow the path of increased public intervention as it can follow that of a contraction of the public sphere. The condition is that it aims at increasing the resulting political support.

So, the production of a new good in the political process therefore corresponds to the implementation of a new public intervention (in the sense of increasing or decreasing the public sphere) ; a new production method to a new means of public intervention; the opening up of an outlet, that may lend its support to a latent or existing group in exchange for a political decision; the new source of raw materials with a new foundation, a new wealth to be regulated in view of a transfer; and finally the implementation of a new organisation means a search for efficiency through a reorganisation of its political support (abandoning the less politically profitable).

Innovation is not the result of the politician’s research, the entrepreneur is not an inventor. As in the political sphere, innovation arises from research, essentially social science, and from experts and scientific councils. The scientists leave the scientific market momentarily or permanently to produce innovations for the politician through public intervention or dis-intervention.

The incentives for innovation are the setting up of a temporary monopoly on the subject and the interventions dealt with and the profit derived. This monopoly is materialised by an increase in votes at the election.

The absence of property rights for political ideas and their applications means that this monopoly is very quickly contested. The advantage of innovation is the accepted paternity of the subject – an advantage gained by the “first mover” or the right of “finder-keeper”. The entrepreneur responsible for innovation has an information and production advantage over the subject – i.e. a market power. Following this, the theme can be adopted and imitated. If it reveals itself to be fruitful it will rapidly be disseminated amongst the competitors overall. The imitation is limited by a the obligation to be distinct and different from the competition. The fact of adopting a theme or proposal will depend on the trade off between the gain from the imitation and the loss in readability for the demand.

entrepreneurial uncertainty and hence speculation is reinforced by the question of administration. Since it’s impossible to know all the distributive consequences of policy, it is impossible to identify all the winners and the losers of any policy.

6. Conclusion : Political entrepreneur *versus* economic entrepreneur

It thus appears that there are entrepreneurs in the political process who have the Austrian characteristics of entrepreneurship²¹. The Austrian tradition has highlighted the economic entrepreneur above all but the problem now is that of distinguishing one from the other. Apparently they have the same characteristics but their place of action, their particular type of talent and the nature of profit seem to diverge. The economic entrepreneur is always on the lookout for monetary profit whereas the political entrepreneur seeks electoral profit. But the essence of their activity is the same.

In this case, can we consider that an entrepreneur might move between the two spheres, in either direction, from the political to the economic market or from the economy to politics. This analysis constitutes the research of W. Baumol (1990, 1993) concerning the orientation of entrepreneurial activity between productive activity (profit-seeking) and unproductive activity (rent-seeking). According to this writer, entrepreneurs' action and use of resources depends on the return from these two wide fields of activity.

Without denying the importance of the incentive and institutional framework in entrepreneurial decisions, this approach comes up against two major difficulties. First of all, W. Baumol considers the entrepreneur and his talent as a resource which only requires a change in remuneration for its allotted role to be altered. Secondly, this approach neglects the fact that entrepreneurial activity creates *ex nihilo* its own reward structure.

However, the transition in the countries of Eastern Europe has taught us that the majority of the entrepreneurial class formerly belonged to the nomenclature of the communist party (Mink and al., 1999. p. 138-148). The interest is to be found in an analysis in terms of entrepreneur flow between the two economic and political processes and the highlighting of variables responsible for this movement (output, networks, access to capital.....).

Two problems arise here. Firstly the question of the institutional influence of the two processes upon entrepreneurial decisions remains unanswered. Secondly, economic research on the way entrepreneurial talent is built up (discovering and exploiting profit opportunities) is only in its infancy, despite some pioneering work by D. Harper (1994 and 1996) especially the question of the influence of the cultural and institutional structure on the development of entrepreneurial talent. In other words, can entrepreneurs change process in a mixed economy; can political entrepreneurs exist in a system dominated by the market process; and finally, can economic entrepreneurs emerge in a socialist system where the political process is dominant ?

References

- Abélès M. (2000) *Un Ethnologue à l'Assemblée*. Paris: Editions Odile Jacob.
- Atlas C., Hendershott R. and Zupan M. (1997) "Optimal Effort Allocation by U.S. Senators: The Role of Constituency Size." *Public Choice* 92(3-4): 221-229.
- Baumol W. (1990) "Entrepreneurship: Productive, Unproductive and Destructive." *Journal of Political Economy* 98(5): 893-921.
- Baumol W. (1993) *Entrepreneurship, Management, and the Structure of Payoffs*. Cambridge (MA.): MIT Press.
- Becker G. (1983) "A Theory of Competition among Pressure Groups for Political Influence." *Quarterly Journal of Economics* 98(3): 371-400.

²¹ Which in no way suggests that all politicians are entrepreneurs.

- Becker G. (1985), "Public Policies, Pressure Groups, and Dead Weight Costs." *Journal of Public Economics* 28: 329-347.
- Camby J-P. et Servent P. (1997) *Le Travail Parlementaire sous la Cinquième République*. Paris: Montchrestien, coll. Clefs Politique, troisième édition.
- Campbell N. (1999) "Political Entrepreneurs and the Transfer Demanding Process: Homesteading the Unassigned District." *The Review of Austrian Economics* 12(2): 201-226.
- DiLorenzo T. (1988) "Competition and Political Entrepreneurship: Austrian Insights into Public-Choice Theory." *The Review of Austrian Economic* 2: 59-71.
- Downs A. (1957), *An Economic Theory of Democracy*. New York: Harper & Brothers Publishers.
- Facchini F. (2000) "Les Effets de l'Absence de Prix Monétaires sur la Coordination Politique." *Journal des Economistes et des Etudes Humaines* X(2/3) : 345-362.
- Harper D. (1994) "A New Approach to modeling Endogenous Learning Processes in Economic Theory." *Advance in Austrian Economics* 1: 49-79.
- Harper D. (1996) *Entrepreneurship and the Market Process: An Inquiry into the Growth of Knowledge*. London: Routledge.
- Harper D. (1997) "An Austrian Framework for Public Policy." *Working Paper of New York University*.
- Harper D. (1998) "Institutional Conditions for Entrepreneurship." *Advance in Austrian Economics* 5: 241-275.
- Hirschman A. (1982), *Bonheur Privé, Action Publique*. Paris: Fayard, Collection L'espace du politique, translation of *Shifting Involvements. Private Interest and Public Action*. 1983.
- Hirschman A. (1970) *Défection et Prise de Parole*. Paris: Fayard, Coll. L'espace du politique, translation of *Exit, Voice and Loyalty*. 1995.
- Hirshleifer J. (1985) "The Expanding Domain of Economics." *American Economic Review* 75(6): 53-64.
- Hirshleifer J. (1994) "The Dark Side of the Force." *Economic Inquiry* 32: 1-10.
- Holmes S. (1984) *Benjamin Constant et la Genèse du Libéralisme Moderne*. Paris: Presses Universitaires de France, Collection Léviathan, 1994.
- Ihl O. (1996) *Le Vote*. Paris: Montchrestien, coll. Clefs Politique.
- Ikeda S. (1997) *Dynamics of the Mixed Economy. Toward a Theory of Interventionism*. London and New York: Routledge.
- Kirzner I. (1973) *Competition and Entrepreneurship*. Chicago: The University of Chicago Press.
- Kirzner I. (1979) *Perception, Opportunity, and Profit*. Chicago: Chicago University Press.
- Kirzner I. (1997) "Entrepreneurial Discovery and the Competitive Market Process: an Austrian Approach." *Journal of Economic Literature* 35: 60-85.
- LeDuc L., Niemi R. and Norris P. (1996) *Comparing Democracies. Elections and Voting in Global Perspective*. London: SAGE publications
- Martin P. (1997) *Les Systèmes Electoraux et les Modes de Scrutin*. Paris: Montchrestien, Coll. Clefs Politique, seconde édition.
- McCormick R. and Tollison R. (1981) *Politicians, Legislation, and the Economy*. Boston: Martinus Nijhoff Publishing.

- Mink G. et Szurek J-C. (1999) *La Grande Conversion. Le Destin des Communistes en Europe de l'Est*. Paris: Edition Le Seuil, Coll. L'épreuve des faits.
- Mintrom M. (1997) "Policy Entrepreneurs and the Diffusion of Innovation." *American Journal of Political Science* 41(3): 738-770.
- Mises L. von (1943) *La Bureaucratie*. Paris: Librairie de Médicis, 1947.
- Schiller W.(1995) "Senators as Policy Entrepreneurs: Using Bill Sponsorship to Shape Legislative Agendas." *American Journal of Political Science* 39: 186-203.
- Schneider M. and Teske P. (1992) "Toward a Theory of the Political Entrepreneur: Evidence from Local Government." *American Political Science Review* 86(3): 737-747.
- Schumpeter J.(1912) *Théorie de l'Evolution Economique*. Paris: Dalloz, 1935.
- Schumpeter J.(1942) *Capitalisme, Socialisme et Démocratie*. Paris: Petite bibliothèque Payot, seconde édition, 1946.
- Tocqueville A. de (1850) *De la Démocratie en Amérique*. Paris: Robert Laffont, Collection Bouquins, treizième édition.
- Tullock G. (1998) *On Voting. A Public Choice Approach*. Cheltenham : Edwar Elgar
- Weber M. (1919) *Le Savant et le Politique*. Paris: Edition 10/18, 1963.
- Weingast B. (1997) "Democratic Stability as a Self-enforcing Equilibrium." in Breton A., Galeotti G., Salmon P. and Wintrobe R. (eds)(1997) *Understanding Democracy: Economic and Political Perspectives*. 11-46, Cambridge: Cambridge University Press.
- Weissert C. (1991) "Policy Entrepreneurs, Policy Opportunities, and Legislative Effectiveness." *American Politics Quaterly* 19: 262-74.
- Wittman D. (1995) *The Myth of Democratic Failure. Why Political Institutions are Efficient* Chicago: The University of Chicago Press.