

# **Toward a Theory of Public Sector Entrepreneurship**

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## **Abstract**

Existing theories of public sector entrepreneurship are devoid of any sense of entrepreneurial discovery universally present in human action. Instead, these theories emphasize rational calculation particularly present in economic activity. Existing theories of public sector entrepreneurship, therefore, are inadequate to account for observed entrepreneurial behavior in political and bureaucratic settings. The purpose of this paper is to redress the limited theories of public sector entrepreneurship by integrating Kirznerian entrepreneurship with Buchanan and Tullock's constitutional political economy to move toward a more adequate theory of public sector entrepreneurship. The following definition is offered: *Public sector entrepreneurship occurs whenever a political actor is alert to and acts on potential profit opportunities, thus moving the system in which the actor is embedded toward equilibrium.*

## **Introduction**

No theory of public sector entrepreneurship currently exists to account for the kind of entrepreneurial behavior exhibited by many political and governmental actors. Kirzner, the Austrian economist and vigorous theorist of entrepreneurship, generally defines entrepreneurial behavior as “entrepreneurial discovery” ubiquitous in all human action, not just economic activity:

Entrepreneurial discovery represents the alert becoming aware of what has been overlooked. The essence of entrepreneurship consists in seeing through the fog created by the uncertainty of the future. When the Misesian human agent acts, he is determining what indeed he ‘sees’ in the murky future. He is inspired by the prospective pure-profitability of seeing the future more correctly than others do. (Kirzner, 1997b, p. 51)

Existing theories of entrepreneurship of public sector entrepreneurship are devoid of any sense of Kirznerian *entrepreneurial discovery universally present in human action*. Instead, these theories emphasize *rational calculation particularly present in economic activity*. A typical example is “political entrepreneurs” who “provide a mechanism for the pooling of resources so that individuals can act effectively as a group and supply themselves with collective goods” (Wawro, 2000, p. 4). Or, “the revenues of the political entrepreneur will consist of donations and taxes. His costs are made up of the costs involved in collecting the revenues, coordinating individuals’ expectations, and supplying consumption units which make up his program” (Frohlich

& Oppenheimer, 1972, p. 161). Thus existing theories of public sector entrepreneurship are inadequate to explain any Kirznerian entrepreneurial behavior observed in political and bureaucratic settings.

This paper seeks to redress the limited theories of public sector entrepreneurship. Specifically, concepts are drawn from Kirznerian entrepreneurship and Buchanan and Tullock's constitutional political economy to begin to develop a more adequate theory of public sector entrepreneurship, one that can better account for entrepreneurial behavior in political and bureaucratic settings. Thus, the purpose of this paper is to move toward a theory of public sector entrepreneurship.

The paper proceeds in three parts. In Part 1, existing theories of public sector entrepreneurship are reviewed and critiqued. The idea of public sector entrepreneurship is not new, and many new theories have been recently presented. It will be demonstrated, however, that available theories fail to include the essential Kirznerian notion of entrepreneurial discovery principally because of two defects: (1) over-emphasis on rational calculation and (2) over-specialization on specific instances of public sector entrepreneurship. In Part 2, the groundwork for an Austrian-public choice hybrid theory of public sector entrepreneurship is laid. After key concepts of Kirznerian entrepreneurship and Buchanan and Tullock's constitutional political economy are described, theories of public sector entrepreneurship within those two schools of thought are described and critiqued. They, too, will be found inadequate because for the same two defects as above. In Part 3, an Austrian-public choice hybrid theory of public sector entrepreneurship is offered. The requirements for the theory are sketched, which primarily include (1) alertness; (2) Misesian universalism and symmetry assumptions; (3) an expanded sense of political profit opportunities; and (4) political equilibration. The Austrian-public choice hybrid theory of public sector entrepreneurship is stated in the conclusion.

### **Part 1. Existing Theories of Public Sector Entrepreneurship**

The idea of "public sector entrepreneurship" is not new. Wagner in his well-known 1966 review of Olson's *The Logic of Collective Action* identifies political entrepreneurs as being the broad group of individuals—in contrast to the narrow group of lobbyists and interest groups—that supply collective benefits for political profit (Wagner, 1966, pp. 165-166). In 1964, even before Wagner's review, Ostrom wrote her dissertation at UCLA entitled *Public Entrepreneurship: A Case Study in Ground Water Basin Management*.

She conceived of a tripartite conception of public entrepreneurship in which entrepreneurial activity in a public organization is an essential function “at the time that a new organization is being formed,” “in the going concern operating in a changing environment,” as well as in the organization’s general capability for innovation (Ostrom, 1964, pp. 3-4). The crucial difference between private and public entrepreneurship, she observes, is the special constraints on the latter: “The capacity to engage in public entrepreneurship is defined by a political system [e.g., “constitutional ground rules,” “legislative enactments”]” (Ostrom, 1964, p. 6). Although the idea of public entrepreneurship surfaced in the 1960s, it was still relatively inchoate.

In the 1970s, theories of public sector entrepreneurship began to take shape. Jones generally describes the essence of these theories as follows:

A political entrepreneur is someone who recognizes that a group of individuals share a desire for the provision of a collective good or common goal, and who believes there to be a profit to himself in undertaking the costs of providing an organization which will furnish such a goal (Jones, 1978, p. 499).

Jones characterizes the political entrepreneur as (1) a rational calculator (2) primarily engaged in the narrow economic activity of providing collective goods. Frohlich, Oppenheimer, and Young’s work on strategic entrepreneurship (Frohlich & Oppenheimer, 1972, Frohlich, Oppenheimer, & Young, 1971) is illustrative of Jones’ characterization. “It is assumed,” they write, “that the entrepreneurial political leader maximizes the expected value of his profits (the difference of his revenues and costs)” as the revenues consist of “donations and taxes” and the costs result from “collecting the revenues, co-ordinating individuals’ expectations, and supplying consumption units which make up his program” (Frohlich & Oppenheimer, 1972, p. 161). Therefore, as the work of Jones, Frohlich, Oppenheimer, and Young indicate, theories of public sector entrepreneurship depict the political entrepreneur as *homo economicus politicus*, that is, an economic actor with perfect rationality and complete information in the quasi-market setting of politics.

*Homo economicus politicus* is still evident in the more specialized theories of public sector entrepreneurship of the 1990s. For example, Schiller’s “legislative entrepreneurs” in Congress engage in rational calculation as they evaluate the costs and benefits of introducing a bill: “The senator’s decision calculus rests on a number of factors: the receptiveness of the political and policy environment, institutional position, potential administration support, financial cost, another senator’s role in the issue and opportunities for

publicity” (Schiller, 1995, p. 190). Similarly, Wawro’s legislative entrepreneurship “is a set of activities that a legislator engages in, which involves working to form coalitions of other members for the purpose of passing legislation by combining various legislative inputs and issues in order to affect legislative outcomes” (Wawro, 2000, p. 4). In both theories, legislative entrepreneurs are rational, economic calculators that just happen to be in Congress (this is not the same thing as symmetry in behavior, to be discussed below).

The primary defect of the above theories of public sector entrepreneurs as *homo economicus politicus* is an over-emphasis on rational calculation in primarily the context of economic activity. Kirzner observes that, although there is an entrepreneurial element in rational calculation (Kirzner, 1979), rational decisions and entrepreneurial decisions are not synonymous. “Participants do not merely react to given market data [as Robbinsian maximizers], but rather display entrepreneurial alertness to possible changes in these data—an alertness which can be used to explain how such changes can occur in general” (Kirzner, 1973, p. 39). Vaughn in assessing Kirzner makes a similar observation: “Entrepreneurship is a particular kind of action that is distinct from maximizing behavior and without which a market process would be unexplainable” (Vaughn, 1994, p. 141). Kirznerian entrepreneurial behavior is “alertness to hitherto unnoticed opportunities” (Kirzner, 1973, p. 39), not Robbinsian economizing.

One can see the difference between Kirznerian alertness and Robbinsian maximization in Wawro’s summarization of the legislative entrepreneurs (LEs): “LEs invest time and effort to become aware of existing opportunities for enacting legislation that others have failed to notice and gather information about how to combine various legislative inputs to exploit these opportunities” (Wawro, 2000, p. 4). Wawro can mistakenly be interpreted in this passage to be discussing alertness; however, “alertness” is not an object of investment. “The discovery of a profit opportunity *means the discovery of something obtainable for nothing at all*,” Kirzner observes. “No investment at all is required; the free ten-dollar bill is discovered to be already within one’s grasp.” (Kirzner, 1973, p. 48). Kirznerian entrepreneurship is not cost-benefit analysis, yet cost-benefit analysis is precisely the definition of entrepreneurship offered by theories of the public sector entrepreneurs as *homo economicus politicus*.

Other recent theories of public sector entrepreneurship rely on rational calculation but imbue in them the language of “strategies and tactics.” Baez and Abolafia in their definition of “bureaucratic entrepreneurship” are equating entrepreneurship and rational calculation in the following passage on strategy: “Some actors respond to these extraordinary interruptions in their routines as fundamental shifts in their environments. These cues may lead them to think strategically about whether and how to alter current routines to accommodate new environmental expectations” (Baez & Abolafia, 2002, p. 526). Similarly, Feeley’s definition of “policy entrepreneurship” is goal-oriented behavior: “A successful policy entrepreneur is able to correctly assess which goals will be most attractive to the constituency groups she is targeting and will adjust her tactics accordingly to maximize her chances for success” (Feeley, 2002, p. 126). And Moore’s conception of “entrepreneurial advocacy” in public management relies on “diagnostic skills” (“Given this aim, the crucial *diagnostic* skill is identifying who can, or must, or might play a role in making the decision”) and “tactics” (“The crucial *tactical* skills have to do with finding ways to mobilize support (and neutralize opposition) for the specific choices managers want made”) (Moore, 1995, p. 151). None of these theories of public sector entrepreneurship recognizes the importance of Kirznerian alertness or entrepreneurial discovery.

Two recent theories of political entrepreneurship are cognizant of this defect of theories of the public sector entrepreneurs as *homo economicus politicus* and avoid an over-emphasis on rational calculation. Carpenter employs the language of marketing instead of accounting when he defines “bureaucratic entrepreneurship” as “the incremental selling of new program ideas through experimentation and piecemeal coalition building” (Carpenter, 2001, p. 30). Boyett mentions the allocation of resources, but he does so amid many other factors:

Entrepreneurship occurs in the public sector where there is an uncertain environment, a devolution of power, and at the same time re-allocation of resource ownership, to unit management level. It is driven by those individuals, particularly susceptible to the ‘manipulation’ of their stakeholders and with a desire for a high level of social ‘self-satisfaction’, who have the ability to spot market opportunities and who are able through follower ‘manipulation’ to act on them (Boyett, 1997, p. 90)

Both Carpenter and Boyett thus avoid over-emphasizing rational calculation in their theories of public sector entrepreneurship.

These last two theories, however, are not without defect. In fact, all of the theories presented in Part 1, including the last two, suffer from over-specialization. The entrepreneurial phenomena that they explain are at most a collection of particular instances of entrepreneurial behavior.

Mises and Kirzner both underscore that entrepreneurship is universally present in human action. Mises writes: “The term entrepreneur...means: acting man exclusively seen from the aspect of the uncertainty inherent in every action” (Mises, 1996, p. 253). Elsewhere, he writes: “Like every acting man, the entrepreneur is always a speculator. He deals with the uncertain conditions of the future. His success or failure depends on the correctness of his anticipation of uncertain events” (Mises, 1996, p. 290). Thus, to Austrians, the entrepreneur is *homo agens*, not *homo economicus politicus*. Any theory of public sector entrepreneurship must be generally present in public sector behavior, not just in senators, interest groups, lobbyists, bureaucracies, and the like.

## **Part 2. Groundwork for an Austrian-Public Choice Hybrid Theory of Public Sector Entrepreneurship**

### **Kirznerian Entrepreneurship**

Entrepreneurship is central to Austrian economics.<sup>1</sup> In fact, Kirzner identifies entrepreneurship as the central feature in understanding the market as a process, and not as a state of static equilibrium. Consequently, he “...finds entrepreneurship incompatible with the equilibrium state, but compatible with, and indeed essential for, the notion of the equilibration process” (Kirzner, 1992, p. 7). The critique of existing theories of public sector entrepreneurship above in Part 1 identified two main tenets of Kirznerian entrepreneurship: (1) entrepreneurial decisions are not rational calculations and (2) entrepreneurial behavior is ubiquitous in human action. This section will describe a third: Kirznerian entrepreneurship’s role in “equilibration” (i.e., movement toward an equilibrium state).

As the above quote suggests, equilibration is not the same as the neoclassical notion of equilibrium, but the two are necessarily entwined. Kirzner writes: “Although for me, too, it is only through the individual that changes can arise, I see these changes as *equilibrating changes*. For me the changes the entrepreneur initiates

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<sup>1</sup> It should be noted that Schumpeter’s conception of entrepreneurship is not the same as Kirzner’s: “Schumpeter always portrayed the entrepreneur-innovator as a disequilibrating force disturbing the previous equilibrium, whereas Kirzner depicts him or her as seizing upon a disequilibrium situation and working to restore equilibrium” (Blaug, 1998, 230). The two conceptions, however, are not necessarily incompatible (Kirzner, 1999).

are always toward the hypothetical state of equilibrium..." (Kirzner, 1973, p. 73). In fact, according to Kirzner, entrepreneurial discovery drives the market process: "The dynamic competitive process of entrepreneurial discovery (which is the driving element in this Austrian approach) is one which is seen as *tending systematically toward*, rather than away from, the path to equilibrium" (Kirzner, 1997a, p. 62). And, Vaughn observes, "Kirzner is clear that he is describing a function rather than a kind of person, just as labor and capital are themselves functions in economic theory" (Vaughn, 1994, p. 142). Kirznerian entrepreneurship is in large part the process of equilibration.

Equilibration is central to Kirznerian entrepreneurship because it facilitates profit opportunities. Profitable opportunities occur only in disequilibrium: "In equilibrium there is no room for the entrepreneur. When the decisions of all market participants dovetail completely...and no possibility exists for any altered plans that would be simultaneously preferred by the relevant participants, there is nothing left for the entrepreneur to do" (Kirzner, 1973, p. 26). When the entrepreneur's alertness identifies the profitable opportunity in disequilibrium and acts entrepreneurially, the equilibration process is triggered: "In the market system the existence of opportunities is signaled by profit opportunities in the form of price differentials. Now signals may not always be seen but the kernel of market theory is that a *tendency* exists for them to be seen," (Kirzner, 1979, p. 116) thus moving the system closer to equilibrium. Entrepreneurship seizes the profit opportunity in disequilibrium and begins to return the system toward equilibrium. In Kirznerian entrepreneurship, however, the system does not reach equilibrium; it only tends toward it.

### **Buchanan and Tullock's Constitutional Political Economy**

Public sector entrepreneurship would seem to be anathema to Buchanan and Tullock's constitutional political economy.<sup>2</sup> Tullock in *The Politics of Bureaucracy*, for example, describes "the inefficiency of bureaucratic free enterprise" from the uncontrollability of bureaucracy as follows: "'It', the bureaucracy, will do things, will take actions, not because such actions are desired by the ultimate authority, the center of power, in

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<sup>2</sup> Public sector entrepreneurship would also seem anathema to the political economy of Austrian economics. Mises in *Bureaucracy*, for example, writes of the effect of "progressivism" on government agencies: "The bureaucrats multiply and are anxious to restrict, step by step, the individual citizen's freedom to act" (Mises, 1969, p. 4). Similarly, Hayek in *The Constitution of Liberty* argues for constraints on government: "The problem of discretionary powers as it directly affects the rule of law is not a problem of the limitation of the powers of particular agents of government but of the limitation of the powers of government as a whole" (Hayek, 1960, p. 213). "Austrian" political economy and Buchanan and Tullock's constitutional political economy parallel each other in many respects.

the organization, but because such things, such actions, develop as an outgrowth of the bureaucracy's own processes" (Tullock, 1965, p. 168).<sup>3</sup> Similarly, Buchanan in *The Limits of Liberty* argues that the state ("Leviathan") needs to be "chained": "By widespread agreement, the state has become too powerful, too pervasive in its influence over private affairs," even though, paradoxically, "demands for extensions on public control abound" (Buchanan, 1975, p. 14). At the end of *The Reason of Rules*, Brennan and Buchanan call for a new civic religion that would seem to counter public entrepreneurship:

A civic religion that will return, in part, to the skepticism of the eighteenth century concerning politics and government and that, quite naturally, will concentrate our attention on the *rules that constrain governments* rather than on innovations that justify ever expanding political intrusions into the lives of citizens (Brennan & Buchanan, 1985, p. 166).

Restraining the inefficiency and intrusiveness of government lies at the heart of Buchanan and Tullock's constitutional political economy.

Governmental behavior, inefficiency, and intrusiveness are not necessarily forever linked. For example, "We may wish to separate two ideas in [Tullock's] control hypothesis: the notion that bureaux tends to become autonomous...on the one hand, and the idea that these bureaux trends result in inefficiency on the other hand" (Lane, 1987, p. 19). If we do separate government behavior from inefficiency and intrusiveness, the true effect of individual cases of governmental behavior can be analyzed. Buchanan articulates the concept of the "postconstitutional/productive state": "In its postconstitutional role, what we may call the 'productive state' is the constitutional process through which citizens accomplish jointly desired objectives, a means of facilitating complex exchanges *among* separate citizens..." (Buchanan, 1975, p. 97). Separating government behavior from inefficiency and intrusiveness would allow the true effects of the postconstitutional state to be studied.

Mierlo makes such a move when he develops a public-choice conception of public entrepreneurship. "The concept of 'public entrepreneurship,'" he writes, "provides promising possibilities for radical reform of the government bureaucracy, especially by injecting mechanisms of competition and democratic control into public organizations" (Mierlo, 1995, p. 3). Mierlo's theory of public entrepreneurship is based on "client-orientation": "Public organisations have to cope with increasing demands from both their political principals,

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<sup>3</sup> In *Inside Bureaucracy* (1967), Downs expresses similar concerns.

by whom they are financed in exchange for their public service delivery, and their clients, the public to whom they provide their services” (Mierlo, 1995, p. 6). His full definition of public entrepreneurship is as follows:

1. “at the demand side: exploration and analysis of (open or latent) problems and demands of society on the activity field of the public organisation in question;
2. “at the supply side: exploration and analysis of problems and demands in the existing supply of services in the branch in which the organisation in question operates, and in particular in the existing supply of the organisation itself
3. “matching of demand and supply by adapting the supply of the organisation in question to the actual or potential demand from the policy field/market;
4. “using a network of contacts with other involved institutions, such as political principals, interest groups and service organisations as representatives of clients, and competing bureaucratic organisations, under simultaneous development of this network” (Mierlo, 1995)

Unfortunately, however, as the quotes above suggest, Mierlo’s theory of public entrepreneurship suffers from the same defect of the previous theories of the public sector entrepreneurs as *homo economicus politicus*: an overemphasis on rational calculation.

Instead of supplying a strictly public choice theory of public sector entrepreneurship, the true value of Buchanan and Tullock’s constitutional political economy might come from the bridge it provides from economics to politics. They state in the Preface to *The Calculus of Consent*: “[This book’s] methodology, its conceptual apparatus, and its analytics are derived, essentially, from the discipline that has as its subject the *economic* organization of such a society” (Buchanan & Tullock, 1962, p. v). More specially, Buchanan and Tullock’s constitutional political economy insists on symmetry in human behavior: “people should be treated as rational utility-maximizers in *all* of their behavioral capacities” (Buchanan, 1978, p. 17). “Given that the same people engage in market activities and in politics,” Tullock writes in *Government Failure: A Primer in Public Choice*, “assuming that their behavior has the same motivation in both of these areas seems simpler” (Tullock, 2002, p. 5). The bridge between economics and politics and the symmetry assumption is essential to any Austrian-public choice conception of public sector entrepreneurship.

### **Part 3. Toward a Theory of Public Sector Entrepreneurship**

“Modeling political agents—whether voters, bureaucrats, or politicians—as entrepreneurs is a significant arena in which Austrian applications to political economy can establish political relevance” (Boettke & Lopez, 2002, p. 114). This paper is an attempt to do just that.

Kirznerian entrepreneurship and Buchanan and Tullock's constitutional political economy are not easily reconcilable. Boettke and Lopez acknowledge that Austrian economists and public choice theorists treat the "benevolence and omniscience assumptions" for actors differently, ostensibly making Austrian economics and public choice methodologically inconsistent (Boettke & Lopez, 2002, p. 112). However, they do argue that there might be common ground:

The disequilibrium market process model, obtained by introducing the political entrepreneur, offers the beginnings of a theory of error that is necessary to avoid that paradoxical compulsion we mentioned above [i.e., benevolence, omniscience assumptions] and to develop a theory of learning by agents within the political process. (Boettke & Lopez, 2002, p. 116).

Holcombe's definition of "political entrepreneurship," for example, demonstrates this common ground:

Political entrepreneurship occurs when an individual observes and acts on a political profit opportunity. As with market entrepreneurship, entrepreneurial actions require, first, that a profit opportunity exists, that someone is alert enough to spot the opportunity and recognize the opportunity to profit, and third, that the individual is willing to act on the opportunity once it is spotted. (Holcombe, 2002, p. 143)

Schneider, Teske, and Mintrom define public sector entrepreneurship in a similar spirit:

In addition to the central feature of alertness to opportunity, we also define entrepreneurs by two other factors: their willingness to take risky action in the pursuit of opportunities they see, and their ability to coordinate the actions of other people to fulfill their goals (Schneider, Teske, & Mintrom, 1995, p. 8).

Although Schneider, Teske, and Mintrom's and Holcombe's definitions are approaching an Austrian-public choice theory of public sector entrepreneurship, they are still incomplete.

A true Austrian-public choice theory of entrepreneurship must contain entrepreneurial alertness instead of rational calculation, as Schneider, Teske, and Mintrom's and Holcombe's definitions do. However, they must also include three additional components: (1) an explicit statement of Misesian universalism in public sector entrepreneurship (i.e., a theory of public sector entrepreneurship that encompasses all political actors from bureaucracies to legislators to lobbyists based on the public choice symmetry assumption); (2) an expanded sense of political profit opportunities; and (3) political equilibration. Schneider, Teske, and Mintrom's and Holcombe's definitions are not necessarily incompatible with Misesian universalism in public sector entrepreneurship. These definitions simply lack an explicit statement. However, their definitions do not at all address an expanded sense of political profit opportunities or political equilibration.

Equilibration is central to Kirznerian entrepreneurship, as described above. Schneider and Teske elsewhere hint at equilibration when they introduce a paper with the following statement: “Political scientists have been increasingly interested in entrepreneurs—individuals who change the direction and flow of politics” (Schneider & Teske, 1992, p. 737). However, Baumgartner and Jones’ model of policy change they call “punctuated equilibrium” (Baumgartner & Jones, 2002a) is a far more robust notion. “In the end,” Baumgartner and Jones write, “we depict a political system that displays considerable stability with regard to the manner in which it processes issues, but the stability is punctuated with periods of volatile change” (Baumgartner & Jones, 1993, p. 4).

The central mechanism for policy change in their model is “feedback loops” that are often facilitated by political entrepreneurship. Positive feedback loops “are characterized by self-reinforcing processes in which change in one case makes change in the next case more likely” (Baumgartner & Jones, 2002b, p. 7); negative feedback loops are evident “where shocks to the system are dampened, where pressures from one side lead to counterpressures from another side, and in general where self-corrective mechanisms keep the system on an even keel” (Baumgartner & Jones, 2002b, p. 6). Both kinds of feedback loops are facilitated by an entrepreneurial behavior: “A successful policy entrepreneur is able to correctly assess which goals will be most attractive to the constituency groups she is targeting and will adjust her tactics accordingly to maximize her chances for success” (Feeley, 2002, p. 126). Thus entrepreneurship triggers a negative or positive feedback loop and either returns the system to the old equilibrium or establishes a new equilibrium. Baumgartner and Jones’ model of punctuated equilibrium is perfectly compatible with and complementary to a Kirznerian theory of public sector entrepreneurship.

Equilibration figures prominently in Kirznerian entrepreneurship because, as described above, political profit opportunities appear only in disequilibrium. In a study of local government entrepreneurs, Schneider and Teske recognize the need for better conceptions of political profit opportunities. “We shall develop two empirical indicators of potential profits for local entrepreneurs [i.e., protection of private information and establishment of barriers to entry],” they write, “but ultimately, political scientists interested in entrepreneurship must more fully develop the concept of political profits and its indicators” (Schneider & Teske, 1992, p. 740).

Additional sources of political profit opportunities could come from “creating public value” (Moore, 1995), for example, or from maintaining “organizational essence” (Halperin, Clapp, & Kanter, 1974, p. 28). Therefore, in addition to including entrepreneurial alertness, an explicit statement of Misesian universalism in public sector entrepreneurship, and an expanded sense of political profit opportunities, a theory of public sector entrepreneurship must also contain political equilibration.

## Conclusion

The purpose of this paper is to offer a theory of public sector entrepreneurship that combines Kirznerian entrepreneurship with Buchanan and Tullock’s political economy. Part 1 demonstrated that no existing theory of public sector entrepreneurship captures Kirznerian entrepreneurial discovery. Parts 2 and 3 showed that an Austrian-public choice hybrid theory on political entrepreneurship must include the following elements: (1) entrepreneurial alertness; (2) an explicit statement of Misesian universalism in public sector entrepreneurship (i.e., a theory of public sector entrepreneurship that encompasses all political actors from bureaucracies to legislators to lobbyists based on the public choice symmetry assumption); (3) an expanded sense of political profit opportunities; and (4) political equilibration. Based on these requirements, an Austrian-public choice hybrid theory that moves toward an adequate theory of public entrepreneurship could be stated as follows:

*Public sector entrepreneurship occurs whenever a political or governmental actor is alert to and acts on potential profit opportunities, thus moving political system in which the actor is embedded toward equilibrium.*

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