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2017

Online at <https://mpra.ub.uni-muenchen.de/79497/>

MPRA Paper No. 79497, posted 02 Jun 2017 19:50 UTC

Entrepreneurship and policy dynamics: a theoretical framework

Ivan D. Trofimov*

ABSTRACT. This paper examines the current state of entrepreneurship theory in the public domain and proposes a theoretical framework applying the concepts of entrepreneurship developed by I. M. Kirzner and J. A. Schumpeter in the field of economics to the field of public policy. A distinction is made between political and policy entrepreneurship. Three generic policy entrepreneurship functions (policy leadership, innovation and coordination) which are performed by specific means by a variety of actors scattered across the policy system, are identified. It is shown that these entrepreneurial functions can provide a complete explanation of adjustments taking place during policy regime formation (including agenda setting and policy negotiation). It is postulated that during this process (denoted as policy equilibration), the complementarity of entrepreneurship functions is essential. The paper also considers possible exercise of policy entrepreneurship functions in the trade policy domain and examines what actors can act as entrepreneurs.

Keywords: Entrepreneurship; trade policy; agenda setting

JEL Classification: D78, F13, L26

1. Introduction

The concept of entrepreneurship is frequently used in political and policy science. The existing literature on policy formation and change provides a non-functional view of the entrepreneur, without due consideration of activities of entrepreneurs in policy regime formation, institutional construction, effectiveness of entrepreneurial action, and behavioural factors that constrain or enable policy entrepreneurship (Shockley, 2007). In addition, there is a tendency to reduce public entrepreneurs to a specific case of politician in an electoral market (Wagner, 1966; François, 2003), creator of interest groups (Salisbury, 1969) or supplier of public goods (Ostrom, 1964).

This paper extends the entrepreneurship concepts of I. M. Kirzner and J. A. Schumpeter to the field of public policy. We argue that such extension allows a more complete picture of policy entrepreneurship that:

- 1) Emphasises entrepreneurial *function*, rather than lists particular entrepreneurs;
- 2) Establishes the *collective* nature of policy entrepreneurship; and
- 3) Identifies *generic* entrepreneurial functions that are performed in all instances of policy construction (Kirznerian coordination and Schumpeterian leadership and recombination).

The paper is organised as follows. Section 1 checks whether it is necessary at all to introduce this concept and whether current literature on public policy reserves a place for such an analytical novelty. In Sections 3 and 4 we argue that by extending the ideas of I. M. Kirzner and J. A. Schumpeter initially formulated in the economic domain, to the public policy field, the issue of policy dynamics becomes substantially clarified. We indicate in particular differences between political and policy entrepreneurship, the former being of interest in terms of politicians' behaviour and operation of a political market, and the latter being essential for the analysis of actual policy formulation. We also identify three functions that

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are typically performed by policy entrepreneurs and postulate their complementarity. Section 5 examines the complementarity of policy entrepreneurship functions. Section 6 provides discussion of policy entrepreneurship in the trade policy domain. Section 7 summarises the discussion.

2. Entrepreneurship in public policy literature

Theoretical and empirical literature on public policy formulation has not reached agreement as to the role of the public entrepreneur (and policy entrepreneur as its specific sub-type). Some authors (Harberger, 1993) argue that public entrepreneurs exist and, importantly, being endowed with leadership and political skills, enact reforms that set respective countries on higher growth paths, than would have been possible in their absence. In contrast, others (Kirchgässner, 2002; Feld, Schnellenbach, 2007) assert that public entrepreneurs in normal circumstances play a minimal role: they rise to prominence only during historic transformations, whereas in more or less stable and functioning political and economic systems, more moderate tinkering with formal institutions is sufficient to enact necessary changes. In this respect it is argued that as institutions (rules and procedures) have a decisive influence on political behaviour, the specific entrepreneurial qualities (political ability, vision) matter less for policy dynamics. No heroic figures are necessary with changes made by “average moral human beings.”(Kirchgässner, 2002: 185)

Most of the analyses that contend that public entrepreneurship matters nonetheless lack the solid foundations of the concept that have been provided for decades in economic theory. These analyses either reduce entrepreneurship to a specific case of government decision making, such as appraisal of legislative documents by Congress entrepreneurs or public entrepreneurship by senators (Schiller, 1995; Wawro, 2000); to organisation of collective action (Ostrom, 1964; Frohlich et al, 1971); vote maximisation by a politician (François, 2003); or they conceptualise it broadly as various activities improving the functioning of the public domain (Boyett, 1997).

We argue that for the concept of entrepreneurship to obtain real analytical power and standing in public policy analysis, it is necessary firstly, to separate policy entrepreneurship (that plays role in creation, dismantling and reform of particular policies) from political entrepreneurship (that includes activities of politicians targeted at increasing the likelihood of being re-/elected and improving their standing in the political system) and from a broader case of public entrepreneurship that, in addition to the above two types, includes activities in non-government areas (e.g. local community entrepreneurship). Secondly, it is essential to define who the policy entrepreneur is and which particular functions he/she performs (beyond the mere statement that he/she is responsible for bringing in novelties and changes in the policy system), as well as to work out in detail which factors (entrepreneurs’ capability and personal characteristics or his/her environment) assist or hamper the exercise of entrepreneurship. To remedy the vagueness and ambiguity of the concept (and hence its limited applicability to the analysis of policies), in the following section we devise several middle-level propositions with regard to entrepreneurship.

It is proposed in this paper that policy entrepreneurship (similarly to the economic version) is a multidimensional concept presupposing that entrepreneurs have several *modi operandi*; hence a single theory cannot depict the phenomenon in its entirety. We argue that if the driving forces of policy dynamics are to be established, two principal roles of entrepreneurs can be envisaged – the role of an actor, *making* the change by different means, and the role of an actor, *contributing* to and *facilitating* the change. We argue that the analysis of the former role can be performed by extending the theory of J. A. Schumpeter to the policy domain,

whereas in the analysis of the latter we can apply the theory of entrepreneurship developed by I. M. Kirzner in the Austrian school of economics.

3. Kirznerian entrepreneurship

The theory of entrepreneurship developed by I. M. Kirzner (1973; 1997a) rests on the distinction between entrepreneurial and non-entrepreneurial (economising) types of behaviour. Economising behaviour requires perfect knowledge and information, i.e. if “individual knows with certainty what to expect, his plans can be completely explained in terms of economizing, of optimal allocation, and of maximizing”. (1973: 37) In contrast, if dispersed knowledge or bounded rationality and information imperfections are present, actors will tend to make inferior plans – “either plans that are doomed to disappointment or plans which fail to exploit existing market opportunities.” (1973: 10)

The former plans are optimistically made in anticipation that certain events or decisions of other actors will realise them: for instance, in product and factor markets, the buyers may set their bids at a low level, anticipating that sellers will accept them, and sellers will set offers at an inadequately high level, expecting that buyers will purchase at these prices. In both cases, the plans are not realised with buyers unable to buy all the goods they want and sellers left with unsold goods. Both are failing to recognise that superior plans could have included setting prices higher or lower. Kirzner denotes this type of market participants’ mistake as the “over-optimism” mistake. (1999: 6)

The latter plans, having been made, reveal that alternative courses of action could have delivered better results: buyers/sellers discover *ex post* that goods could have been bought/sold cheaper/dearer elsewhere, and hence the market opportunities have not been exploited fully. (1973: 14) This type of mistake is denoted as the “over-pessimism” mistake. (1999: 6)

The function of the entrepreneur is crucial in this respect: Kirzner acknowledges that market participants may be deficient in their ability to learn from previously made mistakes and that there is no guarantee that the correction of misallocations in disequilibrium will be speedy and successful. The entrepreneur would compensate for actors’ frequent inability to learn and thus ensure that market process results in the improvements of plans and decisions.

The market process would then take the following form: the entrepreneur, seeing a profitable opportunity in a market in disequilibrium (in the product markets this comes as a price discrepancy), buys cheap and sells dear and arbitrages away the profit opportunity, eliminating disequilibrium, thus leading the system to an optimal allocation of resources to more highly valued uses, that is, to equilibrium. Overall, the function of a Kirznerian entrepreneur in the market economy is to correct imperfections and to ensure, by discovering and exploiting entrepreneurial opportunities that disequilibrium situations do not persist for long. Kirzner (1997b) argues that the critical capability that determines entrepreneurial discovery and the execution of the entrepreneurial function is alertness, defined as ability on the part of the entrepreneur to be aware of opportunities and “of what has been overlooked. The essence of entrepreneurship consists in seeing through the fog created by the uncertainty of the future.” (1997b: 51)

The application of the Kirznerian entrepreneurship concept in the public domain is justified by the presence of the processual complexity in policymaking and the uncertainties of politics.

Processual complexity stems from structural features of the policy system, such as interlocking and overlapping sources of authority and control – the separation of powers and

multiple levels of decision making (federalism or the EC-type decision structure, involving national and supranational actors), but also from multidimensional relations between private and public agents and particularly from their diverse motives, behaviours and objectives. Hence, at the core of processual complexity is a high possibility that any policy initiative gets hampered or delayed as a result of these features. Before being formalised and accepted, initiative is tested and challenged by opposition and modified by actors submitting alternative proposals. This clearly means challenges for those aspiring to reform, and the exercise of Kirznerian policy entrepreneurship would necessarily include the reduction of this complexity by judicious coordination of individual plans such as policy views and objectives that would help actors to reduce their mutual ignorance and eliminate mistakes.

Uncertainties of political processes imply unpredictability of political outcomes: the frustration of plans of some actors, their surprises and wrong expectations are mirrored by the plentiful profit opportunities for others. Sheingate (2003: 191-192) mentions some of them. Unexpected election results (despite the attempts of politicians to make elections as predictable as possible) mean that additional profits, coming in the form of extra votes, may be made at the expense of political incumbents. Crisis situations that make policies unsustainable as well as new policy issues which are not yet recognised, may give opportunities to a politician to take advantage by capitalising on these situations. The latent or nascent demand for policy changes, resulting from the public dissatisfaction with existing policies or from the attractiveness of alternatives, may give an individual politician or social movement a chance to improve political standing (Schnellenbach, 2007: 192).

As opposed to Kirznerian political entrepreneurship model that considers exploitation of political profit opportunities in the electoral market (Wagner, 1996; François, 2003), Kirznerian policy entrepreneurship model looks at several specific aspects of policymaking.

Firstly, it is common that politicians engage in electoral competition not merely to secure a political post, but rather to achieve some higher order goals – to introduce policy improvements, to avert policy change and so on. The electoral win would therefore be one of the instruments to attain the ultimate goal – to get ideas and proposals embodied in policy. Indeed, under different circumstances, as well as formal and informal institutions, politicians would recourse to other means of accessing their policy objectives (e.g. to dictatorship or to overhaul of the institutional structure).

Secondly, in cases when political developments (e.g. election) precede policy innovations, there may be no causality between the two. Policymaking realities evidence that, in many cases, after elections ambitious politicians did not turn into radical policy entrepreneurs, or enacted only incremental changes or turned out to be conservatives. Also major policy changes could have taken place irrespective of the electoral cycle. In the instances when political developments condition policy developments, the former do not have to come in the form of elections: for instance, they may take the form of bureaucratic and intra-governmental turnover.

Thirdly, the implementation of political programs and the fulfilment of electoral promises happens only through the creation of new policies or modification of the old ones, which makes a politician's program subject to the complexities of the policy negotiation, with the former becoming one of the many inputs that are moulded and transformed in the national and international policymaking "machine" before the policy output is generated.

Fourthly, the politician's program itself is a product of the policy system: it is unlikely to come *ex nihilo* or to be a creation of a single politician. Instead, it bears the stamp of various policy ideologies and concurrent visions in the surrounding policy environment.

Finally, the complexities of policy development and the multiple influences of the environment on the policymaker mean that it is not desirable to simplify the policy-making reality by drawing a clear borderline between those who introduce policy changes (entrepreneurs) and those who do not (bureaucrats and others) and by limiting entrepreneurship to a single actor. L. von Mises pointed to the universality of entrepreneurship: “This function of entrepreneurship is not the particular feature of a special group or class of men; it is inherent *in every action* and burdens every actor.”(Mises, 1996: 252-253) Kirzner echoes this view, noting that “instead of rigid compartmentalization of roles ... we could simply recognize an entrepreneurial aspect to the activities of each market participant.”(Kirzner, 1973: 15) Indeed, as shown further in this chapter, Kirznerian policy entrepreneurship is performed within the policy system by the same actors who in other circumstances could have behaved un-entrepreneurially.

Thus, it is more realistic to see Kirznerian entrepreneurship as a set of activities of various policy actors (including elected politicians) targeted at coordination of the policy process.

Precisely, the coordination function is required because:

- 1) Policy actors may lack an agreement on whether and when a policy problem should be attended to and on how to induce the rest of the policy community to act. In addition, the opening negotiation proposals may be based on unsubstantiated expectations about other actors’ compliance. Hence, there is tendency to enter the policy process in an over-optimistic way, assuming that agreements and the positions’ fit would be achieved easily (Kirzner’s over-optimism mistake).
- 2) Policy actors may be deficient (due to ignorance, or incapacity) in making use of means (negotiation strategies and tactics) to attain policy agreement. At any time during policy negotiation, there would be “unpleasant” discoveries that the full negotiation process potential has not been exploited, such as that the negotiation could have proceeded in a more speedy fashion, that better moves could have been made, or that certain actions should have been avoided (Kirzner’s over-pessimism mistake).

The reality of policymaking is that it is highly likely that tedious talks (about whether to deal with a policy problem, and about when and how to deal) with stalemates, reversals and confrontation will substantially delay the adoption of the new policy or preclude it altogether. If this were not the case, i.e. if actors were quick in agreeing to solve the problem and if their proposals perfectly dovetailed, the policy negotiation would quickly terminate and no exercise of coordination function would be required. Agenda setting would be instantaneous, and the very first meeting of the parties would eventuate in consensus. As a result, the detailed agreement would quickly follow (no sophisticated tactics to buy opposition would be needed) and the agreement would perfectly satisfy the initial plans of the parties (hence there would be no need to re-negotiate). This hypothetical situation is clearly at variance with policy realities, meaning that actors’ behaviour and their mistakes are conceptually similar both in product and factor markets and in the policy system.

Regarding over-optimism mistakes, it is important to stress that while in Kirznerian analysis actors make bids and offers over existing objects of purchase and sale, in the policy process the latter have to be defined first. Hence, actors have to establish whether the conditions should be classified as problems and this can become the first source of “over-optimism” in the process. Policy actors interested in the establishment of new policy equilibrium may find that their arguments about the necessity of the change are not attended to or accepted by the opposition, either due to their ignorance or vested interests in the existing protectionist policies. In addition they may mistakenly believe that their policy proposals are attractive to

the opposition.¹ The latter, in a similar fashion, finds that their earlier expectations, that status quo will not be disturbed and that policy issues will not be put on agenda, were not realised; they also mistakenly believe that pro-reform actors are satisfied with the opposition's negotiation position and proposals that reform should not take place.

This situation is analogous to the one, depicted by Kirzner – in both cases (market and policy process) overoptimism about actors' own plans (prices in the former and policy proposals in the latter) and about the willingness of the other side to accept them, leads to subsequent frustration; thus, preventing actors from reaching a correct estimate of each other's willingness to buy and sell. As a result, the purchase-sale transaction does not take place and both market and policy systems are in disequilibrium. In the policy system, the lack of agreement about the necessity and timing of a transaction and divergence of prices between pro- and anti-reform actors prevents them from achieving stable order. We hypothesize that Kirznerian coordination to minimise the over-optimism mistake includes activities that facilitate agenda formation (persuasion of reluctant actors to tackle the problem and identification of external conditions that can assist this task) as well as activities at the negotiation stage that moderate negotiation positions and proposals.

The over-pessimism mistake, mentioned by Kirzner (recognition by buyers/sellers that completed transactions had been suboptimal and that they had not fully exploited profit opportunities) is also encountered in the policy equilibration context. It is important to stress however, that profit opportunities that arise from possibilities for profitable exchange (i.e. from spatial and temporal price discrepancies in economic markets or differentials in electoral markets) are not present in the policy system. While in the product and factor markets there already exist goods with respect to which arbitrage and speculation can be performed and profits extracted, in the policy system this good (future) policy has yet to be devised during negotiations. Consequently, there are no profit opportunities as originally defined by Kirzner. However, if we view profit as a potential benefit, (rather than an exchange discrepancy) for pro-reform actors that is experienced once the new policy is attained, the speedy termination of a negotiation process that would deliver these benefits can be seen as a profit opportunity for those actors. In this respect, Kirznerian coordination will include activities to exploit this profit opportunity: utilisation of the whole arsenal of strategic and tactical means to foster the negotiation process in order to achieve a new policy (both adversarial actions that make the opposition more pliant, as well as offers that could benefit all parties). Inability to handle and manage the policy negotiation process would then be a failure of Kirznerian entrepreneurship, even if initial consensus to attend to the policy problem and realistic expectations of the opposing party's position are present.

The above extension of Kirznerian entrepreneurship, in our opinion, satisfies the analytic requirements of entrepreneurial versus non-entrepreneurial behaviour, outlined by Kirzner. Firstly, regarding the core requirement of alertness (ability of entrepreneurs to discern profit opportunities), Endres and Woods (2006: 194) suggest seeing it as a scarce property, a "gift" that is not common to the majority of actors, which is "activated by price signals of potential gain ... in a specific temporal and local situation..." We similarly postulate that in policy setting, alertness cannot be the ever present capability of all actors; otherwise, if all policy process discrepancies were discovered by many alert participants, the policy negotiation would quickly terminate, which contradicts empirical facts.

Secondly, Endres and Woods (2006: 193) outline several conditions that represent the scarce ability to exploit the profit opportunity – another feature of entrepreneurial behaviour. Our view of profit exploitation is not inconsistent with the one advanced by these authors. The ability to manage the policy process is not evenly spread across policy actors (point 4 of

Endres and Woods) and activated by them (point 3); it is not a matter of luck (point 8) or an *ex ante* probabilistic calculation of all process contingencies (points 6 and 7), this ability is *not acquired easily and instantly* (point 2) but instead comes *gradually* through participation in the policy process (point 5).

Thirdly, elimination of the above-mentioned mistakes and coordination of policy process brings stability (equilibrium) to the policy system (attainment of new policy or re-establishment of old one) and thereby satisfies Kirzner's requirement that equilibration is necessarily entrepreneurship. In contrast inability to perform policy coordination and attain policy equilibrium is a lack (absence) of entrepreneurship.

Fourthly, as to the motivation of the Kirznerian entrepreneur, it may be argued that the extension of the Kirzner's idea of an agent, equilibration the market, to the analysis of the collective and policy action problems may be erroneous. On this point there exists an obvious contradiction in the Austrian school theorising. On the one hand, the private entrepreneur is set against the state (government); the latter is seen capable to manage the economy and execute the orders from higher-level layers of the government system. It, however, cannot discover opportunities and capitalize on them (the argument, explaining the rigidity and the lack of dynamics in managed and socialist economies). On the other hand, many states (particularly in East Asia) did behave like Kirznerian entrepreneurs, successfully detecting opportunities for a national economic development and quickly correcting previously made policy mistakes (Yu, 2001). This line of theorizing is indeed consistent with the above-mentioned insight of Mises on the omnipresence of an entrepreneurial function. If it is "present in every action", then it would be unscientific to exclude the possibility of the state and bureaucratic entrepreneurship. This would be a purely ideologically-motivated move. The future research in the theory of entrepreneurship would reconcile the individual and collective aspects of policy entrepreneurship. This paper is one of the steps in this direction.

Summarising, we advance the following proposition:

***Proposition 1** The essence of Kirznerian entrepreneurship in the policy domain is coordination of the policy process, consisting of consensus building and management activities in negotiation process. The former involve elimination of inconsistencies and misfit between various actors both at initial stages, when the policy problem is defined, and at later stages, when negotiation proposals are submitted. The latter involve activities to release negotiation constraints and to minimize wrangles and stalemates.*

4. Schumpeterian entrepreneurship

Schumpeter's theory of entrepreneurship was originally elaborated in the economic domain and is the core part of Schumpeter's grand theory of socio-economic evolution.

The entrepreneur is seen by Schumpeter as a powerful endogenous driver of capitalist development that brings novelties into the economic system by means of leadership (Ebner, 2006). The specific emphasis on leadership is at the core of the Schumpeterian view of history and society. It is argued that while the dominant values and behaviour in capitalism conform to rationalist logic that can be reduced to a large extent to naked profit motive, the pre-capitalist modes of behaviour (manifested differently in each national economic setting) are nonetheless present.

Leaders, in this conceptualisation, are the carriers of these ideologies, values and behaviours which are alien to the dominant capitalist logic. While the rational maximiser is an actor conforming to capitalist requirements, behaving in a routine adaptive fashion in an already established institutional and organisational setting, the entrepreneur is an opposite

sociological type. He/she is the person akin to visionary and hero (rather than ordinary bourgeois), who is driven by atavistic pre-capitalist and quite irrational instincts (striving to expand, conquer and dominate, experiencing the joy of creating new things, leading others and starting new business ventures and the like), who, due to his/her strength and vitality, is able to overhaul entire economic sectors and open new avenues for economic development. Importantly, material benefits associated with entrepreneurship are never an end in themselves, but rather means to achieve the above-mentioned non-material goals. In *Capitalism, Socialism and Democracy* Schumpeter (1942/1987) extended this concept of leadership to the public domain.

Schumpeter stated firstly, that entrepreneurial leadership is a phenomenon that is not confined solely to economic domain, but also universally observed in politics and public decision making. “Collectives act almost exclusively by accepting leadership – this is the dominant mechanism of practically any collective action.” (Schumpeter, 1942/1987: 270)

Secondly, he proposed a theory of decision making in democratic societies based on the elitist form of leadership, envisaging a role for the political leader very similar to the heroic economic entrepreneur. The leader was seen as a person who is running for office or vigorously competing for leadership and attempting to corrupt the opposition, break the existing political arrangements and establish himself/herself as a political monopolist. This necessarily implied a specific relation with the general public and the institutional environment. Regarding the relationship with the former, Schumpeter stressed the ignorance and passiveness of voters and private citizens and the ability of political leaders to mould and design public opinion and preferences, thus turning the public into a bunch of rationally ignorant and disinterested voters being subject to political manipulation (Schumpeter, 1942/1987: 263). Regarding the relationship with the latter, Schumpeter acknowledged that new combinations are typically carried by outsiders to the “core” of the political system and their innovative activities face an “enormous economy of force” and resistance by the well-established actors, thus necessitating low entry barriers into politics so that entrepreneurs could implement their programs and policies. This idea was later extended by Tullock (1965) and Wohlgemuth (2000), identifying the conditions and institutional reforms that could stimulate higher contestability and a higher degree of political innovation.

Thirdly, the personal qualities and the modes of behaviour of Schumpeterian political leaders as well as their motives are conceptually similar to those of Schumpeterian economic leader-entrepreneurs. The behaviour of both types of entrepreneur is clearly characterised by radicalism, with which both types position themselves in the surrounding economic and political environment. Instead of working in the deadwood of existing political structures, the Schumpeterian political leader would radically change the political terrain. Similarly to the Schumpeterian economic entrepreneur, making qualitative non-incremental changes in the economic system (introducing new products, developing new production methods, discovering new markets or devising new organisational methods), the Schumpeterian political entrepreneur makes major punctuations in the political system. He/she expands or reduces the intervention of the government, provides new means of public intervention, discovers new sources of political support and reorganises his/her political support e.g. gets rid of the less politically profitable (François, 2003: 164).

We argue that the principal features of the Schumpeterian political entrepreneur can be equally applied to leaders who instigate policy formation and play a decisive role in it.

Firstly, Schumpeter’s original conceptualisation of “heroic” entrepreneur and industrial leader implies that policy change is not performed by the majority of actors, but by a few leaders (both at the time when it is initiated and when it is underway). Also, a certain degree

of alienation of this “heroic” entrepreneur from the surrounding environment implies that policy change is unlikely to originate from the midst of the policy status quo. Thus we postulate that Schumpeterian political entrepreneurs:

- a. Are of rare occurrence and start in the position of minority in the policy system;
- b. Are not likely to originate from the protectionist “iron triangle” (organised interests - parliamentary committees – bureaucracy network); and
- c. Are more likely to be independent expert community or stakeholder that is *external* to the policy domain in question, be situated in the *top strata* of the political system (and therefore be insulated from protectionist networks) or at least be located at the *fringe* of the bureaucratic or legislative “core” (e.g. be an open-minded and reform-oriented bureaucrat or congressperson).

Secondly, it is also possible to accommodate Schumpeter’s idea that leaders are driven by predominantly non-material impulses and are not pure wealth maximisers; the tangible rents resulting from political leadership are therefore not the only incentives for Schumpeterian entrepreneurship (and are likely to be the side effects of this activity). We argue that this can be the case of: expert community and external stakeholders who may be interested in genuine social and policy improvements; certain pro-reform bureaucratic factions who are less corrupted by vested interests and whose Schumpeterian activities are driven by their consciousness and contention that only “good” policies should be devised; and top political figures who have higher order priorities – while they are undoubtedly concerned about re-election and maximisation of political power, their involvement in particular policy area emanates from their other motives that are not limited to that area. For example their involvement in trade policy domain may be driven by the objective of preservation of good relations with other countries to which resolution of trade conflicts could contribute, or the conclusion of agreements in other trade negotiation areas.

Thirdly, regarding the mechanism of political entrepreneurship in the context of policy formation or reform, we argue that, similarly to original Schumpeter’s conceptualisation, it implies radical reconfiguration of the policy domain, although the means and mechanisms of this reconfiguration may be diverse. At the pre-negotiation stage, the reconfiguration of the domain is achieved by injecting and forcing new interpretations of policy problems and new policy ideas and thereby setting desired agenda for policy formation in a system that is dominated by pro-status quo actors. As shown further, this function is performed by three types of actors – expert community, pro-reform factions of the domestic agricultural bureaucracy, in many instances top national decision makers, as well as by stakeholders who are external to the policy domain. At the negotiation stage, the leadership functions are exercised by top national decision makers. These are the actors who in normal conditions are not involved in given policy area but delegate authority to the lower level of bureaucracy. At certain points, when divisions between pro- and anti-reform actors widen and the reform is delayed, top policymakers may decide to intervene into the political wrangle, make crucial decisions themselves and thus bring reform into existence.

Fourthly, this representation of leadership implies that the acceptance of entrepreneurial proposals (or programs) will be determined by factors other than voting by citizens. While in the original Schumpeterian representation the “aye” vote would have been an indication that a policy reform program is accepted by the public, selection-by-voting does not play any substantial role for the leadership of the expert community and pro-reform bureaucracies. The ultimate “consumers” of their entrepreneurial “products” are other, anti-reform bureaucrats

(rather than public), and hence different factors such as credibility of persuasion, legitimacy of claims, availability of political resources etc. become salient.

We note that Schumpeter did not confine his analysis of entrepreneurship to the exercise of leadership. Insights about non-leadership activities of policy entrepreneurs may be derived from Schumpeter's later analysis of economic entrepreneurs in *Business Cycles* (1939) (BC).

Firstly, while in the *Theory of Economic Development* (TED) the accent was put on a heroic industrial leader as initiator and carrier of innovation and on "creative destruction" (performed by firms entering the industry and displacing incumbents) as a mechanism of the innovation process, in the later works the focus was shifted. Schumpeter recognised that entrepreneurship can be exercised collectively (e.g. in corporate entities), inducing discontinuities and disruptions of smaller magnitude with "creative accumulation", associated with technological innovation in established firms in the presence of entry barriers to new innovators, coming to the forefront (Schumpeter, 1939). As a result, the leadership function would become redundant. We argue that this second facet of entrepreneurship can be discovered in policymaking. While the Schumpeterian political leader continues to be important (challenging the ideational foundations of policy or forcing negotiations into the desired direction), many policy innovations can be brought into being without it. This is the case of recombinant activities of Schumpeterian policy entrepreneurs at early stages of policymaking. Actors conduct trial-and-error tinkering with policy elements and mechanisms (adjust instruments, redefine short term goals and targets, without changing the underlying ideational and institutional core) and create new analytical instruments that could be helpful in discussions at agenda setting stage. Also, in the policy negotiation setting, entrepreneurs construct agreement from available proposals, submissions and designs of parties to negotiation.

Secondly, another view contained in *BC* and later extended by research in structuralist economics (Dahmen, 1988) and innovation systems analysis (Lundvall, 1992), is likewise applicable in the policy case. The essence of Schumpeter's insight is that innovation is a combination of knowledge drawn from different sources and that a significant portion of innovation in modern capitalist economies is a result of collective incremental activities of a large number of quite unremarkable actors (rather than heroic figures, as postulated in *TED*). In the same way as Lundvall (1992) argues that innovations may come from the surroundings of the firm or from its relations with final users of innovation (customers), the public sector or other firms, we hypothesize that policy novelties can be made by non-policymakers, by actors somewhat extrinsic to the core of the policy system, e.g. by the expert community. And we argue that their contribution, while not radical or decisive as such, can nonetheless have significant repercussions for the policy formation process. Thus,

***Proposition 2** The exercise of Schumpeterian entrepreneurship in the policy domain includes leadership (political) activities as well as policy innovation through various means, performed at both the agenda setting and policy formulation stages. We therefore distinguish between Schumpeterian political (Mark I) and policy (Mark II) entrepreneurships.*

5. Complementarity of policy entrepreneurship functions

Regarding the relationship between Schumpeterian and Kirznerian entrepreneurship, two questions have to be answered:

- 1) Do these two types stand for two opposing activities (equilibration and disequilibration) or are they two aspects of the same phenomenon?
- 2) If the former holds, can they complement each other?

The first view that is available in this respect, advanced by Loasby (1982), is that Kirzner and Schumpeter envisaged fundamentally different workings of the economy and roles of the entrepreneur. The Kirznerian economy moves to equilibrium, assisted by the entrepreneur, who exploits discrepancies in the system. Whereas, the Schumpeterian economy moves away from equilibrium, driven by the entrepreneur who profits from performing “creative destruction” in the economic system. Loasby (1982: 223) says: “Each might be regarded as providing opportunities for the other, for example, new combinations brought by Schumpeterian entrepreneurs attract Kirznerian entrepreneurs who perceive the advantages of the new combinations and are eager to share in those advantages.” Yet, says Loasby (1982: 224), “they do not fit together that well.” The application of this view to policy regime dynamics analysis would be problematic: it would mean that the Schumpeterian entrepreneur creates a new regime and reaps profits from this, for example, by obtaining some privileged position within it. It is not clear, however, where profit opportunities for the Kirznerian entrepreneur would be located then.

The second view available is that the two types are identical (Choi, 1995), i.e. there is one entrepreneurship with Kirzner and Schumpeter looking at it from different angles. Kirzner, in his 1999 article, argues that there is only one function of entrepreneurs – coordination through exploitation of profit opportunities – which in single-period markets is performed through price arbitrage (as in Kirzner’s 1973 book), and in multi-period markets through coordinative destruction (i.e. destroying, but at the same time improving coordination of the economic system, by decreasing misallocations of resources and releasing them to more efficient uses). Schumpeterian creative destruction in multi-period markets is thus a sub-type of Kirznerian coordination. Kirzner’s insight on multi-period markets is clearly important for policy regime analysis. The existing policy regime (and fortunes of many, associated with it) of the first period is forcefully eliminated to create a new and superior one in the second period. Coordination is performed by means of innovation. It is left unclear which instrumental functions are performed when moving from period 1 to period 2.

The third view, advanced by Boudreaux (1994) is helpful in this sense. While indeed equilibration is the only way to push the market towards fulfilment of as yet unfulfilled potential and to reform the policy regime towards one with a smaller number of contradictions and failures, the means of achieving this may be diverse. We argue, in line with Boudreaux, that in the same way as the Schumpeterian entrepreneur contributes to one aspect of equilibration (e.g. improves product quality through innovation) and Kirznerian to the other one (improves operation of the market), with both improving the functioning of economic system, in the policy regime too, both types of entrepreneurs contribute to formation of a better regime. The Schumpeterian entrepreneur “produces” new policy and “leads” the formation process, whereas the Kirznerian “facilitates” it.

The complementarity of policy entrepreneurship functions is evidenced in almost all cases of major policy reforms. Milestone policy innovations – such as social security arrangements and environmental policies instituting protection of workforce (or the environment) against excesses of capitalism, or anti-discrimination laws ensuring everyone’s participation in social and economic activities – are usually associated with Schumpeterian type leaders. The latter use their political power to “push through” policy novelty (e.g. F. D. Roosevelt’s initiative and leadership behind the 1935 *Social Security Act* adoption) or radically change institutional and ideational terrain. The examples of the latter are agenda setting leadership of Martin Luther King in anti-segregation movement (Bloom, 1987) or Rachel Carson and Ralph Nader in the rise of environmentalism (Esposito, 1970). This aspect of policy innovation is typically documented and remembered. At the same time, behind the scenes Kirznerian entrepreneurs facilitate the passage of policy acts, advocate and campaign for the new policy idea, mobilise

public opinion, mediate the opposing interests and conduct other reform-promoting activities. The exercise of Schumpeter Mark II entrepreneurship (operationalisation of policy ideas into solid proposals and concepts, construction of policy from various proposals) complements the former two types. It is performed by many non-politicians and non-leaders, e.g. work of the expert community, production of legislative acts within legislative and judiciary branch and government machine at large.

Based on the above discussion, the following methodological proposition may be made:

***Proposition 3** Multidimensionality of policy entrepreneurship implies that all three functions (policy leadership, policy design and policy facilitation) have to be performed, if the reform is to culminate in success. These functions do not contradict one another, but are complements.*

6. Policy entrepreneurs in agricultural trade policy system

Having examined generic entrepreneurial functions, it is necessary to determine who specifically can act as an entrepreneur and which particular type of entrepreneurship he/she will perform. The case of trade policy system (and in particular agricultural trade policy system) is considered.

Our contention is that the same people (or groups) can perform several types of entrepreneurship. For instance, national government officials (e.g. the EU Agricultural or Trade Commissioner) may act as political leaders (Schumpeter Mark I entrepreneurship) and at the same time help devise EU negotiation proposals (Schumpeter Mark II entrepreneurship). The case of entrepreneurship by GATT/WTO officials (WTO Director General) is similarly ambiguous: the WTO Director General is clearly a political figure and thus has the ability to use his power to direct the negotiation process and influence the negotiation outcome (Schumpeter Mark I entrepreneurship). He could, however, also behave as a mediator and initiator of discussions, thus detecting policy discrepancies (problems with operation of international agricultural policies) and facilitating the negotiation process (Kirznerian entrepreneurship). At the same time, although not part of the mandate, he could participate (and *de facto* frequently did this) in the negotiation process, by making negotiation proposals (Schumpeter Mark II entrepreneurship).

Due to this analytical problem that different types of entrepreneurial functions may be performed by different actors during both agenda setting and policy negotiation, it is necessary to examine in detail who could be a policy entrepreneur during GATT/WTO negotiations. As put by Buchanan (2004: 135), any social state is “brought into being by the choices made by many participants along many interdependent dimensions of adjustment”, and the exercise of entrepreneurship is no exception. Neither Schumpeterian nor Kirznerian entrepreneurship is restricted to activities of top policymakers. The same type of entrepreneurial action may be performed by government bureaucrats, officials in international organisations, or other participants in the policy process, for example external actors with interests in the policy outcome.

The idea that entrepreneurship can happen in bureaucratic settings was advanced by Schumpeter in his later works. As put by Ebner (2006: 507), Schumpeter, assuming that entrepreneurial leadership in early capitalism is a historically specific phenomenon, predicted that in “socialized” or “state” capitalism, entrepreneurship would be performed in the public sector by bureaucrats (indeed the state, by performing a range of entrepreneurial functions could become an “entrepreneurial state”). References to bureaucratic entrepreneurship

(Murphy, 1971; Price, 1971) include entrepreneurship while holding positions in the government (so-called executive entrepreneurship), entrepreneurship by those implementing policies (administrative entrepreneurship), as well as entrepreneurship by legislatures and the judiciary, designing new legislation and rules (legislative entrepreneurship).

As to entrepreneurship by external stakeholders (defined as all actors apart from government bureaucrats and international officials), this has been a common practice in numerous instances of policymaking. Sebenius (1984), following his participation in UNCLOS III (Third United Nations' Conference on the Law of the Sea), mentioned that the participation of external actors, behaving entrepreneurially contributed substantially to the negotiation process:

Motivations that were quite apart from national interests of the involved parties prompted other individuals and groups to play important roles in the financial negotiations. The chairman of NG-2 and his staff, and external groups including Quaker and Methodist organizations all developed stakes in the success of the conference and were instrumental in bringing about the financial compromises.(p. 18)

We argue that in the GATT/WTO trade talks, four types of actors are likely to perform Kirznerian and Schumpeterian entrepreneurial functions: a) top domestic political leaders (heads of state and trade ministers); b) top international bureaucrats (officials in the WTO Secretariat, WTO Director General); c) middle level political figures – national negotiators and domestic bureaucrats (located across national trade policy systems); and d) external stakeholders, including the community of political economists.

Firstly, regarding top national political figures, they are clearly able to use their political power and behave as Schumpeterian political entrepreneurs. However due to the immense number of issues to attend to, trade negotiations is not always their priority. Their involvement in trade issues is therefore occasional and occurs at times when there is a negotiation deadlock. In addition, we argue that top national decision makers are able to initiate change in policy regime by framing policy issues in a new way and proposing new ideas (Schumpeterian political entrepreneurship at agenda setting stage) and are also able to act as Kirznerian entrepreneurs during negotiations.

Secondly, as far as top international bureaucrats are concerned, several authors (Hampson, Hart, 1995) argue that they are unlikely to perform Schumpeterian political and policy entrepreneurship due to their limited capacity and lack of motivation. As to motivation, GATT officials of the 1970s-1980s were genuinely interested not only in preservation of the existing GATT regime but also in its strengthening and broadening. They were well aware that modifications were inevitable and that for instance agriculture had to be seriously tackled by the GATT. Hampson and Hart (1995: 193-198) mention, however, that their response was bureaucratic rather than entrepreneurial. It did not include any attempts to promote new ideas or exercise leadership (Schumpeter Mark I entrepreneurship) or to construct policy (Schumpeter Mark II entrepreneurship) and was confined to organisational (not substantive) matters – the creation of general decision-making procedures, the strengthening of the international trade system by reviewing GATT articles, modifying dispute settlement procedures and so on. Their limited capacity, as reflected in the mandate, confirms this point. As mentioned by O. Long (1985), who himself was a GATT Director General in 1968-1980, the functions of the top GATT policymakers were:

- 1) To act as a guardians of the GATT and to use their influence to make governments comply with the GATT rules, albeit without having any formal authority to oblige them;
- 2) To explore the problem areas in international trade policy, to determine the areas to be included in forthcoming negotiations and to otherwise act as initiator of negotiations;
- 3) To mediate the interests of contracting parties; and
- 4) To manage the everyday activities of the GATT.

In other words, GATT bureaucrats were only allowed to perform Kirznerian entrepreneurship (point 3 above).ⁱⁱ We argue, however, that in addition to Kirznerian functions which were performed *ex officio*, GATT bureaucrats also acted as Schumpeter Mark I and II entrepreneurs. For example, the behaviour of Arthur Dunkel towards the end of the GATT Uruguay Round and of Peter Sutherland in the very last stages demonstrates the *de facto* use of political power (Schumpeter Mark I activities), as well as “production” of policy through submission of proposals (Schumpeter Mark II activities).

Thirdly, entrepreneurship by national trade policy bureaucrats is inevitable because issues discussed in the international domain originate from the domestic system. As Slaughter (1997: 183) put it,

Because of the move to international cooperation on previously domestic policy issues it is no longer foreign ministries that dominate international diplomacy: instead a number of domestic agencies, often with quite distinct agendas, increasingly play active roles.

Winham (1977: 99) similarly states that the common feature of negotiators is that they behave in a manner “more akin to that of national bureaucrats than of classical diplomats”. It is of interest however whether they behave as entrepreneurs. We agree with the insight of Roberts and King (1989) that bureaucrats are no less capable of being entrepreneurs than other actors and postulate that the behaviour of many bureaucrats in the executive branch of the government and in legislatures both, in the EC and the USA, did not conform to that of “classical” bureaucrats and that many of them were able to break the existing policymaking routines. We argue that national bureaucrats behaved both as Kirznerian and Schumpeterian Mark II entrepreneurs. At pre-negotiation stage they were assisting problem-framing entrepreneurship by political economists and other external stakeholders and experimentation and learning by other national bureaucrats.

For instance, in the case of agricultural policy in the GATT Uruguay Round, while the majority of the national bureaucrats were anti-reformist, the pre-negotiation stage witnessed the rise of pro-reform bureaucrats, who contributed substantially to placing agriculture on the Uruguay Round agenda. At the core of their Kirznerian entrepreneurship was the building by pro-reform bureaucrats of domestic consensus as to the desirability of *laissez faire* agricultural policies. Although it is possible (and is done frequently) for domestic pro-reform bureaucrats to impose their will on anti-reform bureaucrats (i.e. to act as Schumpeterian Mark I entrepreneurs), we argue that the reality of agricultural policy making (both in the EC and the USA) was different: consultation, persuasion and collaboration, rather than use of confrontational tactics, were preponderant. Entrepreneurship by national bureaucrats continued at negotiation stage, where, in addition to Kirznerian consensus building, they were acting as Schumpeter Mark II entrepreneurs, constructing agreement by submitting negotiation proposals of varying quality.

Fourthly, regarding external stakeholders, their involvement and entrepreneurship in the negotiation process is linked to the issue in question: in highly technical negotiations (e.g. on arms control or on militarisation of space) the number of external stakeholders will be limited and these would include a small club of specialists on the issue. Other, socially sensitive negotiations (e.g. on climate change) would include a wide range of stakeholders (NGOs, various public figures), usually highly motivated, driven by deep-rooted beliefs and ideology, making references to public opinion and campaigning for a particular negotiation outcome. We argue that trade negotiations have features of both technical complexity and political sensitivity (clearly, some trade negotiations, such as those on genetically modified organisms and food safety, are more politically divisive; whereas others, such as intellectual property rights negotiations, involve complex legal and scientific issues). The WTO Doha Round talks involved substantial political controversy (Seattle clashes) and wide participation of external stakeholders due to its development orientation, the active position of the developing nations and the rise of the anti-globalist movement. In contrast, during the GATT Uruguay Round agricultural talks, the involvement of external actors was more limited in scope, more depoliticised and technically oriented. There existed some ambiguity about how to operationalise agricultural issues and which aspects of the problem to tackle. Substantial preliminary work in issue definition and quantification of the agricultural problem were required, and thus the involvement of agricultural policy professionals (rather than general public or groups, interested in political outcome) was natural. Of several possible types of specialists, two stand out - lawyers and economists.

Regarding entrepreneurship by lawyers (Hampson, Hart, 1995: 194-196), this was manifested in the codification of the international trade law that took place during the Tokyo Round – the previously scattered legal provisions on the use of certain instruments were unified in a single document (e.g. the Code on Export Subsidies). Another instance of lawyers' entrepreneurship was in putting adversarial trade practices such as the use of anti-dumping and countervailing duties under legal control. The entrepreneurial activities of lawyers were also salient in the pre-negotiation stage with respect to legally undefined trade practices – before such trade issues, as intellectual property, investments and services were included in the Uruguay Round agenda, the possible agreement templates and potential rules had already been discussed by legal scholars in academic journals and conferences. It is clear that codification of existing rules and the write up of new ones is a form of Schumpeterian Mark II recombinant entrepreneurship, “producing” policy novelties and policy templates.

Regarding the role of economists, Hampson and Hart (1995: 196-198) argue that their relative importance in GATT agenda setting has declined since the 1940s.ⁱⁱⁱ This stemmed from the following – the development of international trade theory in the post-war period resulted in relative detachment of the works of the academic (university) economists (trade economists, as well as others) from the realities of GATT policy making. The sophisticated models, high degree of formalisation and frequently uncertain predictions made academic economic advice less digestible to government officials and negotiators (Evenett, 2007). In addition, from an organisational point of view, the GATT over its forty year history became rather inimical to the participation of economists. As distinct from the IMF, World Bank and UN, the GATT lacked a formalised structure (and hence employment opportunities for economists) until the WTO was formed in 1995.^{iv} As a result, most of the economic analysis and formulation of negotiation proposals were conducted by economists of the member states located at a national level within respective ministries and departments (interested, in the case of agricultural negotiations, in the preservation of the status quo). The GATT Secretariat used the services of external political economists rather infrequently – in the early GATT years,

when submissions of James Meade (1942/1988) and Claire Wilcox helped the initial conception of the GATT and later in 1957, when G. Haberler, J. Tinbergen and R. de Oliveira Campos prepared the report on the situation in agricultural markets and the status of domestic agricultural policies.

We argue that in the context of the GATT Uruguay Round agricultural talks, political economists performed all three types of entrepreneurship – Schumpeter Mark I entrepreneurship, when new policy ideas were forced upon the rest of policy system, Kirznerian entrepreneurship, when political economists assisted putting agricultural trade issues on the Uruguay Round agenda, and Schumpeterian Mark II entrepreneurship at pre-negotiation stage, when political economists created novel concepts (devised analytical instruments and quantified agricultural distortions), thereby operationalising policy discussion.

Summarising the above discussion we can put forward the following proposition,

Proposition 6.1 Both Kirznerian and Schumpeterian (Mark I and II) entrepreneurs are likely to be active in international trade policy domain. Entrepreneurs are likely to be active both at agenda setting and negotiation stages of policy formulation, as well as at both international and domestic levels. The policy entrepreneurship is likely to be performed by national and GATT/WTO bureaucrats, lawyers, economists, as well as top political figures.

7. Conclusion

This paper elaborated the concept of policy entrepreneurship and considered it to be a major determinant of policy process and outcomes and a central component of policy regime formation.

Firstly, a clear distinction between political and policy entrepreneurship was proposed, the latter being more appropriate for the analysis of specific policies and policy formation processes.

Secondly, instead of merely identifying policy entrepreneurs, the generic policy entrepreneurship functions were examined. Corresponding to these function three types of policy entrepreneurship were proposed – entrepreneurial leadership, entrepreneurial management and coordination, and entrepreneurial policy innovation. These functions are the extension of the theories of economic entrepreneurship proposed by I. M. Kirzner and J. A. Schumpeter.

Thirdly, it was argued that policy entrepreneurship has collective nature, including the efforts of politicians, lower-level bureaucrats, economists, non-governmental actors and others. Attainment of stable and durable policy regime (i.e. equilibration) is the outcome of activities of multiple entrepreneurs. In cases when only one or a limited number of entrepreneurs were involved in the process the equilibration process is likely to be compromised. This is in line with the hypothesis of Buchanan (2004: 135), of multiple participants and dimensions of adjustment during policy formulation.

Fourthly, we argued that all three types of policy entrepreneurship take place at all stages of policy formation: during agenda setting as well as during policy negotiation.

Fifthly, the issue of equilibration and dis-equilibration in the policy domain was discussed. We argued that policy formation process is necessarily an equilibration. Kirznerian and Schumpeterian entrepreneurship are in this respect the two aspects of the same process. In this respect, the effect of entrepreneurial actions is determined not only by their own

effectiveness (better proposals, more astute leadership, convincing consensus building), but also by their joint effectiveness, i.e. complementarity, when one action amplifies another.

Finally, an exploration of likely policy entrepreneurship functions and entrepreneurs was conducted in trade policy domain. The tentative taxonomy of entrepreneurs in this policy domain was presented.

It is likely that in different policy regime formation processes each of the three generic entrepreneurial functions may be exercised more frequently or intensely. In areas of interest to the nation as a whole (security policies) or in cases when multiple issues and associated parochialism of policy actors are likely to delay formation process (e.g. regional economic integration regimes), the exercise of Schumpeterian Mark I leadership function will be predominant. In cases when policy regime is not created from scratch, but rather evolves from the existing one (domestic macroeconomic policies, regulatory policies in particular sectors), or in “wicked” situations, when the nature of the problem and likely solutions are not fully understood (e.g. the write up of new rules for climate change regulation or for economic exploration of Arctic), Schumpeterian Mark II innovation function will be prominent (recombination and learning in the former case, and operationalisation and agreement construction in the latter). In cases when the number of veto players or actors with diverging views of the future policy is substantial and the policy conflicts are not purely material, but rather stemming from ideological and frames’ disharmony, the Kirznerian consensus building and coordination are likely to come to the forefront. In order to deal with these peculiarities of negotiation types, no adjustment of the proposed framework is required; it would be sufficient to perform deeper and more thorough analysis of the dominant type of entrepreneurship in the actual case studies.

It is also likely that the taxonomy of entrepreneurs will differ in every negotiation case, as will the specifics of entrepreneurial actions, i.e. the content of reverberation and arguments, the substance of threats, the details of domestic constraints’ restructuring and of the new bargains and the components of negotiation proposals. In this situation, no generalisation is possible (except for stating the importance of looking for entrepreneurs beyond immediate negotiators and of checking for interactions and synergies of entrepreneurial actions) with these problems dealt with on a case by case basis.

Regarding the areas of the framework application, these are numerous. Most obvious are the studies of the WTO regime formation in various fields (intellectual property, services, international investment and global competition policy). It is also possible to validate the proposed concepts against agricultural trade debates that have been ongoing in the GATT/WTO for decades. The policy entrepreneurship concepts may also be applied to the study of trade liberalization on a bilateral and regional basis. Finally, the theoretical constructs of this paper are by no means limited to trade issues; hence, the researcher may look at other economic regimes (e.g. monetary), or non-economic ones (e.g. security, environment).

The limitations of the analysis in this paper stem from the nature of entrepreneurship. To obtain a complete picture of policy formation process an investigation of institutional variables (that may constrain entrepreneurial action or affect it in a number of ways) is warranted. Also, the role of behavioural (e.g. attitudes to risk, gains and losses) and ideational (political and economic philosophy) factors need to be investigated.

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ⁱ In the case of trade policy reform, the buyers of the reform (states interested in trade liberalization) overoptimistically believe that their offer price is high enough; whereas, the sellers (protectionist states) actually consider the price to be too low; thus reform transaction does not occur. When talking about reform price, it becomes clear that buyers' price is not a numerical figure, but rather a bundle of offers and inducements contained in a negotiation proposal, which can increase the attractiveness of the latter in the eyes of the reform seller. Similarly, the seller price is defined as a set of conditions that a buyer has to fulfil to finalize the reform deal.

ⁱⁱ Regarding point 2, it is worth noting that although O. Long mentions the possibility of Kirznerian entrepreneurship by the GATT Director General (by initiation of talks), the inclusion of new agendas (such as agricultural policy agenda) and the start of respective negotiations was frequently a prerogative of external stakeholders.

ⁱⁱⁱ This is at stark contrast with intense advocacy activities of trade economists in a pre-war period. Apart from Keynes renunciation of free trade (with repercussions for policy), pro-free trade advocacy was substantial, particularly from Geneva based international organizations (League of Nations and International Labour Organization). This period witnessed the assault on unilateral trade restrictions and on the bilateral trade idea and germination of multilateralism that later became the cornerstone of the GATT (Endres, Fleming, 2002).

^{iv} In these bodies, the role of political economists was substantial – both at the time when they were formed (IMF for instance is the result of intellectual and political influence of J. M. Keynes and H. Dexter White, who was also a prominent international bureaucrat and IMF Managing Director in the 1940s), and during their operation (the contribution of such economists as G. Myrdal, N. Kaldor, M. Kalecki and others).