

Public Entrepreneurs:
Identifying Agents for Change in
The Local Market for Public Goods

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Public Entrepreneurs

Preface

Political and economic systems are continually changing. Most social science theories view change as occurring in incremental or evolutionary fashion, and these theories usually model adaptations as responses to environmental forces. But change can be sudden, producing radical shifts in the status quo. In many natural systems, radical change is often the result of exogenous events—a volcano erupts, a large meteor hits the earth, or a virus mutates and hitches a ride into a new host population. Exogenous events can also create radical changes in social and political systems. But of even greater importance, radical change is often produced by actors within these complex system. Strong forces for change are released as individuals perceive opportunities and create the incentives and forces to challenge existing political, social, and economic conditions.

In political systems, radical change is often associated with the emergence of new leaders, the development of new political movements, and the introduction of new policies. Ideas and coalitions that appeared firmly entrenched and impervious to change are washed away more quickly than seemed possible. New issues emerge and come to dominate political discourse. Policy innovations sweep through capitals and communities across the country. We argue that leaders who advocate political innovations often play the public sector equivalent of private sector entrepreneurs—they perceive opportunities for political and policy change, they advocate innovative ideas, and they transform political arenas (or "markets"). In this book, we study public entrepreneurs as agents of change in what we call the "local market for public goods."

We recognize that there are many forces besides the actions of entrepreneurs that propel change in economic and political markets and that there are many different theories of change. But there are two underlying dimensions that cut across these theories. Some theories postulate that change is caused by random forces that are not easily amenable to social scientific study. The "garbage can model" is perhaps the best known statement of this idea of essentially random change (Cohen, March, and Olson 1972). Other social scientists argue that change results from more structured processes. For example, the growing literature on agenda setting seeks to develop a systematic analysis of the forces propelling change (for example, Kingdon 1984; Cobb and Elder 1983; Milward and Laird 1990; Baumgartner and Jones 1993). Similarly, game theory seeks to identify the underlying structure of interactions between individuals. Game theorists have developed concepts, such as structure-induced equilibria, to analyze how change is implemented in complex systems (Shepsle 1979; Shepsle and Weingast 1981).

The second dimension of theories of change focuses on whether the forces for change are exogenous or endogenous to the system under study. Economic models often point to technological factors, demographic transitions, and changes in relative prices as critical forces of change—that is, they tend to emphasize exogenous factors. Political models of change tend to mix both endogenous

and exogenous factors, merging together the effects of public opinion, interest groups, and actors within policy communities. Our focus on public entrepreneurs takes an endogenous, structured view of change; that is, we argue that entrepreneurs are "embedded" in the system they are trying to change and we believe that entrepreneurial activity can be systematically modeled.

Who and What are Entrepreneurs?

Many academic disciplines are concerned with how entrepreneurs emerge and how they foster change. Economics, business administration, public administration, political science, sociology, and psychology have all contributed to the study of entrepreneurship. As a field of intellectual analysis however, the study of entrepreneurs is dominated by case studies and biographies. Truly rigorous theories of entrepreneurship are few and the study of entrepreneurship is not cumulative. In our reading of the existing studies of entrepreneurship, we found wide disagreement over the definition of entrepreneurs, the degree of risk absorbed by entrepreneurs, the impact of entrepreneurs, and the appropriate approaches to the study of entrepreneurial activity. Indeed, we even found that many analysts argue that the systematic study of entrepreneurs is impossible—that by their very nature, entrepreneurs are rare and that the emergence of entrepreneurs cannot be subject to rigorous, systematic study. For example, according to James Q. Wilson, studies of innovative leadership show that the personalities and actions of individual executives are critical to explaining innovative bureaucratic change. Given this, Wilson (1989: 227) argues that: "It is not easy to build a useful social science theory out of 'chance appearances'." We disagree.

Rather than accepting the notion that entrepreneurship is beyond systematic study, we respond to an intellectual challenge put forward by Israel Kirzner, a leading student of entrepreneurship. Kirzner argued that "it would be good to know about the institutional settings that are most conducive to opportunity discovery" (1979: 8). It is this task that motivates our work. We demonstrate that there are identifiable conditions that systematically affect the likelihood that public entrepreneurs will emerge and that entrepreneurial policies will be pursued.

In this book, we draw on a wide range of studies of entrepreneurship and we root our work in a broader systematic intellectual framework than is usually found in the study of entrepreneurship. As will become evident in the pages that follow, we draw on a variety of disciplines and approaches in our study. And we empirically test components of our theory using data from a large number of communities.

Our focus is on entrepreneurs in the public sector. While we found concepts from economics to be particularly useful in organizing our thoughts and generating hypotheses about the emergence and the role of entrepreneurs, economics simply does not provide a sufficiently strong theoretical

base for our work. In turn, we integrate insights from economic theory with the growing contribution that political scientists have made to the study of entrepreneurship and leadership in politics.

While economists have spent decades studying entrepreneurs, they have not developed an accepted theory of the emergence of entrepreneurs or of their impact on markets. More incomplete still is an understanding of entrepreneurial behavior in politics. Many political scientists have recognized the importance of entrepreneurs in the development of innovative public policies. Recent work on agenda-setting (Kingdon 1984; Riker 1982), on the origin of policies (Milward and Laird 1990), on policy innovation and diffusion (Walker 1969; Gray 1973; Polsby 1984; Berry and Berry 1992), and on the politics of ideas (Wilson 1980; Derthick and Quirk 1985) all provide evidence of opportunities for entrepreneurial actors. But little or no agreement exists on the characteristics of entrepreneurship, except that entrepreneurship is important and that it is often critical.

The importance of political entrepreneurs in organizing efforts to solve collective problems has been recognized for some time (Salisbury 1969; Frohlich, Oppenheimer, and Young 1971; Olson 1971; Moe 1980). Following this tradition, recently developed formal models of political systems confirm an important role for entrepreneurs. Using a radically different style of argument, even more evidence on the emergence and functions of entrepreneurial leadership comes from case studies of individuals or particular policies. While case studies and formal modeling efforts contribute to our understanding of entrepreneurial behavior, they have not constituted a theory of public entrepreneurship.

One reason for the absence of successful theories of entrepreneurship is that many social scientific theories perform best in explaining the status quo in politics and in markets or in illustrating minor perturbations in the status quo. But theories of change are much less successful and the explanation, much less the prediction, of change remains elusive. According to Lavoie (1991: 35): "change usually appears in economist's models only as deterministic tendencies toward a fixed equilibrium, like the movements of a clockwork mechanism, not as a truly creative process." While Lavoie was concerned specifically with the discipline of economics, similar statements can be made about the many models of political change that simply extrapolate the present into the future.

We believe that models of change must be developed that focus on non-incremental change. We further believe that entrepreneurs are crucial figures in the process of change in public and private markets and within formal hierarchical organizations. Entrepreneurs see opportunities that others do not and they seek personal gain by taking action to seize the opportunities created in a uncertain environment. In the process of taking such risks, entrepreneurs help radically transform economic and political systems. While North argues that "incremental change comes from the perceptions of the entrepreneurs in political and economic organizations that they could do better by altering the existing

institutional framework at some margin" (1989: 7), we believe that entrepreneurs often alter political situations in more than marginal or incremental ways.

Because successful entrepreneurs often achieve dramatic change, many studies portray them as exceptional individuals, somehow operating with a set of decision rules that are different from those held by other participants in political or economic markets. In contrast, we believe that entrepreneurs actually respond to rational benefit/cost calculations in choosing their actions: that is, they are motivated by a desire for "profits" or personal gain. While in economics these expected benefits usually revolve around monetary profits, an expanded notion of benefits that includes psychological and policy rewards is necessary in the study of public sector entrepreneurs.

Entrepreneurship is risky by definition, and not all entrepreneurs profit by their actions. Failed entrepreneurs are common and even successful entrepreneurs face continual challenges to their ideas and to their profits. In the long run, the individual entrepreneur cannot expect to win every time. Successful entrepreneurs may be flattered by the competition offered by newcomers who imitate their successes. However, over time competition erodes the entrepreneur's profits by turning the entrepreneur's unique insights into routine products or commodities: "Competition means that entrepreneurs are unlikely to earn consistently superior returns. Although constantly changing market conditions suggest that there are likely to be profit opportunities, the constant striving for profit greatly reduces the chances of economic successes. Clearly entrepreneurial profit-seeking activity is a game worth winning, although in retrospect it frequently is a game not worth playing" (Pasour 1989: 104).

While entrepreneurial profits may be ephemeral for the individual actor, economic and social systems benefit from entrepreneurial activities. Schumpeter, among others, argued that the "creative destruction" resulting from entrepreneurial activity is a mainspring of capitalism. Thus despite the success or failure of individual entrepreneurs, their actions can generate considerable benefits for society as a whole. A core component of our argument is that the "market" for public entrepreneurship not only produces opportunities and rewards for individual entrepreneurs, this market also produces benefits for society.

Defining the Entrepreneur

We begin here by briefly defining what we mean by the "entrepreneur." We then discuss the specific political arena within which we study public entrepreneurship.

Ultimately, any modern definition of the entrepreneur must trace back to the work of Joseph Schumpeter, who argued that the function of the entrepreneur is innovation—the novel recombination of existing factors of production or the introduction of a new production function (Schumpeter 1939:

102). Going beyond Schumpeter's specific concern for new combinations of the factors of production, scholars have gradually expanded the idea of entrepreneurship to include a concept of the market much broader than the world of production functions, a concept that encompasses innovation in the world of ideas (e.g., Daft and Becker 1978; Kingdon 1984; Polsby 1984; Walker 1981; Roberts 1991).

The concept of entrepreneurship has been most actively and consistently pursued in the work of the Austrian School of economics. We build our definition of the entrepreneur most directly on the work of Israel Kirzner, an economist of the Austrian School who has actively studied entrepreneurship for the last 20 years. According to Kirzner (1985), the most common focal point in the recent economic literature on entrepreneurship is the emphasis on the "discovery" of market opportunities by "alert" individuals. From this perspective, entrepreneurs engage in the act of "creative discovery"--they try to take advantage of newly *discovered* or newly *created* possibilities in order to earn entrepreneurial profits (Casson 1982; Ricketts 1987). In their drive for profits, private entrepreneurs discover, create, and exploit new opportunities through arbitrage, speculation, or innovation.¹ But while entrepreneurs clearly play an important role in explaining how markets function, traditional economic theory has surprisingly little to say about them.

We begin our analysis by specifically showing how the neoclassical theory squeezed entrepreneurship out of mainstream economics. In Part 1 of this book, we show how neoclassical economic theory, especially the model of perfect competition and the resulting emphasis on equilibrium, limited the market role of entrepreneurship. Pasour argues that if "markets are in equilibrium, economic activity is perfectly coordinated and there is no scope for profit seeking activity. In this situation, a blindfolded monkey *can* handle the entrepreneurial function, for it has no duties" (1989: 96). Baumol (1983: 66) makes the same point using a more literary metaphor: "Look for (the entrepreneur) in the index of some of the most noted of recent writings on value theory, in neoclassical or activity analysis models of the firm. The references are scanty and more often they are totally absent. The theoretical firm is entrepreneurless — the Prince of Denmark has been expunged from the discussion on Hamlet."

While elegant and rigorous models of markets have been developed in the neoclassical approach, we show that once the stringent assumptions of neoclassical economics are relaxed and their highly abstract model of the market made to more closely resemble the "real world", the range of strategic options available to actors in the market dramatically increases, and the opportunities for entrepreneurs correspondingly increase.

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 the opportunities they see, and their ability to coordinate the actions of other people to fulfill their goals. Later, we discuss the three dimensions of this definition more fully, and we examine in more detail the specific techniques and mechanisms successful entrepreneurs utilize in politics.

Entrepreneurs in Local Government

We believe that there are entrepreneurs in the public sector who actively seek dynamic changes in policy or politics. While such entrepreneurs are found at all levels of the relatively open American political system, our research focus is on entrepreneurial behavior at the local level. In particular, we test our theories empirically in the context of American suburban governments—the environment in which most Americans now live. Our data base includes suburbs in major metropolitan areas, ranging from relatively small municipalities of 2,500 people to suburban cities with populations in excess of 200,000 people. We believe that these communities are small enough for entrepreneurial individuals to make an important difference.

While suburbs are still often pictured as devoid of the problems facing large central cities, the reality is that they too face increasingly complex "urban" issues. In the past 15 years, among other fundamental changes to suburbia, the effects of growth on suburban environments have become evident and politically contentious, migration has changed the racial and demographic composition of suburbs, fiscal challenges have emerged as intergovernmental aid has been cut, property tax revolts have restrained revenues, and crime and drugs have moved into suburban areas. In some communities, entrepreneurs stepped forward as these new kinds of problems transformed the relatively more quiescent suburban politics that existed prior to the late 1970s. The entrepreneurs we identify are not heroic, larger-than-life figures. Many are ordinary citizens who are pulled into the vortex of local politics because of a single issue about which they care, often with a passion. We show that such political activity is surprisingly common in American local governments. We also show that sometimes entrepreneurial individuals find that their skills allow them to move beyond a single issue and they can become an important political force for change in the very structure of local politics.

We argue that the local governments we examine operate in a quasi-competitive environment that we call "the local market for public goods" (Schneider 1989). In this market, given the importance of local taxes for financing services, each community has strong incentives to attract and retain desirable and mobile residents and businesses who contribute the most in tax dollars.

Businesses and household often change location. While most of the factors driving locational choices are exogenous to local politics, for example technological changes in manufacturing

techniques or change in household marital status, other factors, such as the local tax rate, are directly affected by local policy choices. Thus, public entrepreneurs are not only engaged in struggles for change within their community, but they are both affected by and affect the competitive climate of their metropolitan area. Some entrepreneurial innovations allow communities to improve their own prospects at the expense of their neighbors. In turn, neighboring communities may imitate and adapt successful innovations to their own political context. Historically, reforms have repeatedly swept across American communities. We believe that entrepreneurs play a major role in the diffusion of these types of innovation.

We examine entrepreneurial behavior in the context of institutional and environmental changes. Hirschman's (1970) classic work *Exit, Voice and Loyalty* lays out the basic forms of response to organizational change. These responses are well-known to political analysts, especially "voice", which refers to citizens contacting public officials or acting as individuals or groups in expressing dissatisfaction. The exit option is central to Charles Tiebout's model of local government (Tiebout 1956 and extended by Ostrom et al. 1961), which established one of the strongest research traditions in the study of local governments and which continues to underlie many modern theories of local government competition (see, e.g., Peterson 1981; Schneider 1989). In addition to exit and voice, we add the critical component of *entry* into the competitive equation. The importance of entry is particularly central to the analysis we present in Chapter 7.

In this competitive climate, we believe that the major impact of entrepreneurs is to inject innovation into local governments and local government systems. Because of the force of competition, successful innovations, especially those that increase efficiency and responsiveness, will elicit a positive response in local government. Paralleling economic models of entrepreneurship, such as those developed by Schumpeter, the local public sector entrepreneur engages in the "creative destruction" of old policy and political paradigms. These actions can lead to improvements in local government that affect the level of taxes and the quality of services delivered. While public entrepreneurs seek to maximize their own profits, they produce benefits that others garner. Thus, just like economic entrepreneurs, public entrepreneurs provide important pecuniary externalities to other actors in the system.

Unlike case studies that emphasize the importance of one or, at most, a few heroic entrepreneurs, we argue that entrepreneurship is widespread in local government. We do not take the extreme view that all important actions in a market setting are entrepreneurial (*cf.* Mises 1947). Instead, we define entrepreneurial activity as those that propel dynamic political change. We therefore focus on certain classes of public sector actors. These include, broadly, two sets of actors:

political entrepreneurs, such as mayors and city council members who operate in the world of electoral politics, and *managerial* entrepreneurs, such as city managers or high-level managers of public bureaucracies who control the resources of established agencies. In addition, we recognize that in the relatively porous system of local government, the actions of individual citizens and businesses can affect public entrepreneurship. We explore the role of mobile citizens and mobile businesses in propelling change and in creating a climate supportive of entrepreneurship.

Our Methodology

While none of the social sciences has produced a fully formed theory of entrepreneurship, we found the economic approach the most fruitful avenue to follow. As we illustrate in some detail in the next chapter, much of mainstream economics has underestimated and underanalyzed the role of entrepreneurs. But some off-shoots of traditional theory, especially those stimulated by the Austrian school, bring the role of the entrepreneur into central focus. We build our theory on this alternate foundation. However, as we examine the emergence and behavior of public sector entrepreneurs, we adapt the economic approach to politics. We also draw on the literature on entrepreneurship found in sociology, psychology and other social sciences, integrating these observations into our economics-based approach.

Fundamental to our approach is the argument that entrepreneurs engage in rational benefit/cost analyses when deciding to pursue opportunities. We believe that there is a population of potential entrepreneurs distributed across local governments. The size of the local population with entrepreneurial skills and ambitions is a function of the characteristics of the community, such as its income and education level (Ronen 1983; Ricketts 1987) and the economic composition of the region and the city itself (see Chapter 6).² Potential entrepreneurs have energies and talents they could invest in alternate spheres of activity. The rate at which they are attracted to the local *public sector* (as compared to some other domain) is a function of the costs they face in entering the public arena and the benefits they garner if they succeed as public entrepreneurs (Ricketts 1987).

The level of these costs and benefits are embodied in measurable facets of local government. For example, we show in later chapters that, among other considerations, costs are a function of the collective action problem entrepreneurs face and the ease with which these problems can be solved. Similarly, we show that benefits to entrepreneurship are a function of the slack resources that exist in a community.

An economic approach raises the question of the type of gains public sector entrepreneurs seek. Unlike many economic entrepreneurs, public entrepreneurs usually are not seeking large increases in personal wealth, which, though possible in politics, are not common in local politics (at

least not within the confines of legal activities).³ Public entrepreneurs have utility functions that must include the desire for power, prestige, and popularity, the desire to influence policy, and other factors in addition to any monetary income derived from their political activities. These benefits may be a function, among other things, of the budgetary slack of the local community, which affects the entrepreneur's ability to reallocate resources to achieve the policy goals held by the entrepreneur.

Since we conceive of public entrepreneurship taking place in a quasi-competitive local market, we utilize a basic microeconomic model of supply and demand for entrepreneurship. Thus, we analyze the impact of supply-side factors such as individual entrepreneurial characteristics, the local entrepreneurial business climate, and opportunity costs relative to expected entrepreneurial gains in political institutions. On the demand side, we consider factors related to the actions of citizen/voters and the effects of local fiscal and economic situations.

It is clear that the local market for public goods is imperfect: while embodying many competitive forces, it does not meet the requirements of a perfectly competitive model (see Schneider 1989). And, as we show in the next chapter, in any imperfect market, the range and impact of entrepreneurial strategies on the functioning of the market increases. To understand these strategies, we draw on recent systematic analyses of the strategies of political entrepreneurs, in particular Riker's (1986) notion of heresthetics. In addition, we incorporate elements of applied private market competition, such as the role of entry barriers, into our model and show how these barriers can affect entrepreneurship in the political realm.

Beyond developing a more rigorous theory of public entrepreneurship, we develop elements of our theory in a manner that can be tested empirically. Specifically, we believe that the emergence of entrepreneurs can be analyzed probabilistically as a function of specific political, fiscal, economic and demographic factors that influence the supply and demand for entrepreneurs. However, we recognize that not all aspects of the theory are immediately testable with the data available; particularly we are not yet able to test the long term dynamic impact of entrepreneurship on local government systems.

The Layout of the Book

We explore the central issues in a theory of public sector entrepreneurship in Part 1 of the book. No one has yet developed a comprehensive theory of public entrepreneurs and tested it empirically. We move in that direction. We turn first to the development of ideas about entrepreneurship in economic markets and then show how these ideas can be applied to the world of politics and, particularly, to the study of the local market for public goods.

Chapter 1 develops the rationale for entrepreneurial behavior in markets by relaxing the

highly restrictive assumptions of the neoclassical model of microeconomic markets. In particular, we show that when information is costly, when products are not homogeneous, when sellers are few, and when transactions costs are not zero, opportunities for entrepreneurship emerge in the neoclassical market model. Entrepreneurs exploit these opportunities.

In Chapter 2, we more carefully develop a definition of entrepreneurs and illustrate the specific mechanisms that political entrepreneurs employ to achieve their goals. We explore the dimensions of the collective action problem, which is usually a more difficult barrier for political entrepreneurs than it is for private sector entrepreneurs. We also illustrate how a market for political entrepreneurs operates, identifying specific components of the supply and demand sides of that market.

Part 2 of the book is devoted to empirical analysis of entrepreneurs in local governments across the country. In Chapter 3, we introduce our empirical evidence, which is based on a survey of over 1000 communities around the nation coupled with extensive objective data gathered from census reports and from state and local studies of local fiscal conditions. We use this evidence to show how measurable aspects of the costs and benefits of entrepreneurship across local governments affect the probable emergence of entrepreneurs across communities. We also provide more detail about the backgrounds of our entrepreneurs, and present some case histories to illustrate examples of political entrepreneurship.

Chapter 4 shows how ongoing struggles over growth in local government are addressed by entrepreneurial politicians. Using a property rights approach, we show how traditional progrowth activities, more innovative progrowth programs, and antigrowth activities have had cycles of innovation related to citizen demand-cycles propelled and structured by the opportunistic behavior of public entrepreneurs.

In Chapter 5, we examine managerial entrepreneurs who are full-time career employees of local government. Since most of the managerial entrepreneurs in our sample are city managers, we analyze the factors that affect the emergence of entrepreneurial city managers and contrast the factors that drive this alternative source of entrepreneurship with those affecting the emergence of political entrepreneurs. We also provide detailed analysis of the strategies and goals of these bureaucratically-based actors.

In Part 3, we examine broader issue that influence the supply and demand sides of the market for political entrepreneurs. Chapter 6 explores the milieu of the entrepreneurial market in more detail. Some areas of the United States are sources of a disproportionate number of innovative ideas. We explore the importance of an entrepreneurial milieu empirically, by focusing on business sectors

characterized by substantial employment in the high technology and finance, insurance, and real estate (FIRE) services sectors. We argue that public sector entrepreneurs are embedded in networks of economic actors that can support and encourage entrepreneurship.

In Chapter 7, we move from entrepreneurs within government to those in the citizenry at-large. We look at individual movers and established residents who have high levels of information about local government. As careful and informed shoppers in the local market for public goods, we show how such individuals can act as entrepreneurs whose entry decisions and subsequent use of political voice provide benefits to all citizens in a region. Certainly there are more of these citizen/consumer entrepreneurs than there are entrepreneurs in formal government and political positions. Austrian economists have debated the issue of the number of entrepreneurs ("the few or the many") that are found in markets and who propel change. We explore this issue and argue that ultimately the set of informed citizens (the relatively many) help form coalitions supporting political entrepreneurs (the relatively few) in their efforts to propel policy change.

In Chapter 8 we conclude our argument. We argue that the emergence of public entrepreneurship is more predictable than others have argued. In our view, public entrepreneurs respond to rational benefit/cost calculations that are a function of specifiable institutional and political conditions embodied in the structure of local government. While we do not have enough longitudinal data to establish statistically that these entrepreneurs have made a marked difference in tax rates or patterns of growth, our case studies suggest that many local entrepreneurs are making dynamic changes in the politics and policies of their communities, changes which seem likely to have a significant and measurable impact on the future development of their cities.

Endnotes:

1. Building on Kirzner's work, we believe that public entrepreneurs are distinguished by their willingness to present policy proposals and political positions that represent a dynamic change from existing procedures in the policy domain or in the geographic location in which they are operating. We elaborate our theory relying mostly on the economics literature. Roberts (1991) has presented perhaps the most recent comprehensive review of the literature on entrepreneurship from a political science perspective.
2. We do not know the actual size of the local population of potential entrepreneurs. Following the recent literature on leadership, we believe the population to be much larger than implied by the biographical case study literature on entrepreneurs that tends to glorify the individual who is the subject of the study and implies that the entrepreneur being studied is somehow an "heroic" figure, who by definition is uncommon.
3. At least one of our entrepreneurs has been sent to jail for "appropriating" the profits of his creative financing of development projects in his community.

Part 1: A Theory of the Public Entrepreneur

In this section, we argue that change occurs in all political and economic systems and we develop components of our theory of entrepreneurship as agents of change in the public sector. While most social scientific theories focus on change as occurring in incremental fashion, change can be sudden, producing radical shifts in the status quo. In complex human social systems, radical changes can be produced by actors within the system. That is, actors can perceive opportunities for major change and create the incentives and forces to affect such change. In political systems, radical change is often associated with the emergence of new leaders, the development of new political movements, and the introduction of new policies. Old ideas and established coalitions that appeared entrenched are washed away more quickly than seemed possible.

We view leaders associated with radical change as the public sector equivalent of private sector entrepreneurs—individuals who create dynamic change in markets. In this book, we specifically focus on identifying entrepreneurs as agents of change in what we call the local market for public goods. Entrepreneurs propel change by being alert to opportunities for "profits" (broadly defined) that emerge in the institutionally defined environment of local government in the United States.

While many social science disciplines have analyzed entrepreneurial behavior, entrepreneurs have been considered most important in economic markets. Yet economics as a discipline has not focused much energy on developing theories or empirical data about entrepreneurs. In Chapter 1, we illustrate how neoclassical economics, especially the model of perfect competition, limits the role of entrepreneurship in the theory of the market. We relax the strict assumptions of the neoclassical model and show how the range of strategic options available to actors in real economic situations increases, producing opportunities for alert entrepreneurs.

In chapter 2, we develop our definition of the entrepreneur. We begin by comparing the tasks facing public and private sector entrepreneurs and try to develop a definition that identifies the function of the entrepreneur regardless of the arena in which he or she is operating. We argue that despite obvious differences in the locus of their activities and the nature of their goals, to a considerable degree all entrepreneurs must perform particular functions and, in order to do this, they share certain characteristics.

We begin by arguing that *all* entrepreneurs must perform three functions. First and foremost, entrepreneurs discover unfulfilled needs and select appropriate prescriptions for how those needs may be met—that is they must be alert to opportunities. Second, as they seize these opportunities, entrepreneurs bear the reputational, emotional and, frequently, the financial risk involved in pursuing a course of action with uncertain consequences. Finally, entrepreneurs must assemble and coordinate teams or networks of individuals and organizations that have the talents and/or resources necessary to undertake change.

Chapter 1: Bringing Back the Entrepreneur:

Neoclassical Economic Models and the Role of the Entrepreneur

While many social science disciplines have analyzed entrepreneurial behavior, entrepreneurs have been considered most important in economic markets. Yet even economics as a discipline has not focused much energy on developing theories or empirical data about entrepreneurs. Our task in this chapter is to illustrate how neoclassical economics, especially the model of perfect competition, limited the role of entrepreneurship in the theory of the market. We show that by relaxing the strict assumptions of the neoclassical model, the range of strategic options available to actors in real economic situations increases dramatically, producing opportunities for alert entrepreneurs. Throughout the following discussion, we develop parallels between the strategic options open to entrepreneurs in the private market and entrepreneurs in the political market.

Neoclassical economics and the entrepreneur

Many scholars have argued that neoclassical economics leaves little or no room for entrepreneurs. Neoclassical economists, working in the wake of the "marginalist"- revolution built on Marshall, Walrus, and others, developed the competitive model as an ideal to which real world markets might aspire and to which they could be compared. Like many other highly abstract and powerful models, the model of the competitive market took on a life of its own. Because of its tractability and elegance, economists often take the basic model of perfect competition as a reflection of reality, rather than as an analytic tool.

The core ingredients of the model of the perfectly competitive market are well-known. In the idealized model, the competitive market requires a variety of buyers and sellers who trade homogeneous goods about which they have full information. Buyers have freedom to purchase the bundle of goods and services that maximizes their welfare, subject to budget constraints. Given these conditions, the competitive market place allocates resources efficiently. However, efficiency is not a dichotomous variable. Rather, markets are more or less efficient and the level of efficiency is ultimately dependent on a variety of factors, including the number of firms in the market, the degree of differentiation between products, and the ease with which firms can enter and exit the market.

Behaviorally, each firm is assumed to seek to maximize profits. Since in the perfectly competitive market any individual firm is so small in comparison to the whole range of producers offering virtually identical goods, firms are price takers *not* price makers. That is, no firm can artificially inflate the price it charges for the goods it brings to the market~if a firm's price is too high, its market share literally falls to zero. Consequently, and somewhat ironically, in the model of perfect competition there are no true competitors because strategic choices are not possible.

Given the assumption of product homogeneity, firms cannot convince consumers that their product is different or better than that of competing suppliers. All actors in the market are assumed to have complete information about the nature of their transactions. A large number of firms supply

the same basic product, using the same basic production technology. Because of competition, firms must accept the market price as a given and each firm earns "normal" profits as returns to their invested capital. Assuming no entry barriers, if firms were earning "excess profits" in a given market, new entrants would be immediately attracted to enter that market and the resulting price competition would force profits back to "normal" levels.

Underlying the model is also the fundamental idea of equilibrium: a situation in which each individual, facing the behavior of others and facing the institutional framework that structures the market, is doing as well as possible. At equilibrium, actors in a market learn that new or different actions do not produce beneficial outcomes. As Kreps (1990) puts it:

...individuals make individual choices, and the institutional framework aggregates those actions into an aggregate outcome which then determines constraints that individuals face and outcomes they receive. If individuals take a "trial shot" at an action, after the aggregation is accomplished and the feedback is fed back, they may learn that their actions are incompatible or didn't have quite the consequences they foresaw. This leads individuals to change their individual actions, which changes the feedback, and so on. An equilibrium is a collection of individual choices whereby the feedback process would lead to no subsequent change of behavior, (p. 6)

In developing the foundations for their models of economic behavior, neoclassical economists built on the first principles of methodological individualism and utility maximization. But to make their problems tractable using the calculus and to develop explainable equilibrium states, economists needed to fix as many systemic parameters as possible and to assume that many factors affecting supply and demand were exogenous to the model. Within such constraints and using ever more elegant and increasingly rigorous analytic tools, economists can model how exogenous shocks to a market system affect supply (such as a hurricane that reduces the lime crop) or demand (such as a shift toward lower cholesterol products as consumers focus more on their health). Comparative statics can show how the equilibrium output and price of products in the market are affected by such changes. But fundamentally, in the core model, consumers are *assumed* to have well-specified (and fairly stable) preferences to which firms respond by producing the appropriately valued goods and services. The number of parameters involved is fairly small and many other "real world" conditions are held constant.

Modifying the Neoclassical Model To Reinsert the Entrepreneur

We have presented an admittedly highly simplified version of the perfectly competitive market. However, by simplifying the neoclassical model, we can identify several of the core

conditions upon which it is built: full information; a multiplicity of buyers and sellers; product homogeneity; low entry and exit barriers; and equilibrium. Each of these core conditions explicitly limits the role of entrepreneurship.

In the following pages, we explore what happens in a market as each of these highly restrictive assumptions is relaxed. Our goal is to produce a more realistic and more textured model of markets (both political and economic). As we do so, we show how these modifications move the highly abstract model of the competitive market closer to real world markets. We specifically show how relaxing each assumption creates opportunities for entrepreneurial behavior that the basic model ignores and we set the stage specifically for developing a theoretically and empirically important role for entrepreneurs in the local market for public goods. We begin with the issue of full information, the absence of which in many ways lies at the core of opportunities for entrepreneurial behavior.

Neoclassical Assumption: The Role of Information

In the traditional neoclassical economic model, information and transaction costs are assumed to be zero. In this section, we draw upon several recent streams of research to show that once that assumption is relaxed to allow for the limited information available in most real world transactions, an entrepreneurial role becomes important. We begin our analysis at the micro-level, considering specific elements of the profit function and the implications for entrepreneurial action that emerge when the nature of the information element is no longer taken as given. Following this, we consider the implications for entrepreneurship of asymmetric information leading to transactions costs and management costs. We then step beyond this frame of reference to consider the role of entrepreneurs placed within the broader, macro-level operating environment of political-economic institutions.

Perfect Information and the Neoclassical Model

If information and transactions costs are treated as negligible, economic success in the market place can be attributed to the result of correct and swift mathematical calculations. But if there are costs for gathering information, the entrepreneur must attempt to discover market opportunities and cope with constantly changing conditions (Pasour 1989: 96-97). Entrepreneurs have a central role in choosing the mix of inputs into the production process: the entrepreneur has to employ some inputs that are necessary for production, but whose exact relationship to the productive process may be underspecified or whose output is indeterminate.

Once the costliness and imperfectness of information is understood, entrepreneurship becomes critical. According to Demsetz: "Entrepreneurship is little more than profit maximization in a context in which knowledge is costly and imitation is not instantaneous." (1983: 277-in Ronen's book). Similarly, Leibenstein argues that in real markets there is always imperfect knowledge about

production functions, which creates "market deficiencies" or "gaps" that the entrepreneur sees and fills.

In a perfect market, the price system acts to coordinate the separate and decentralized actions of many different people (e.g., Hayek 1945: 70). Yet, ambiguity always accompanies any particular price change, because it is never clear whether a change in price reflects general inflation, a permanent shift in relative scarcities or consumer preferences, or a temporary fluctuation for which there could be any number of causes. Under such limited information, at best, only a probability distribution for price can be estimated. The entrepreneur lacking full information must decide whether to maximize the expected value of profits or seek a compromise between maximizing profits and minimizing risk (Simon 1969). Price uncertainty and ambiguity, therefore, create opportunities for entrepreneurs to profit from accurately interpreting and forecasting price changes.

Price uncertainty also provides justification for the development of marketing strategies. Improved knowledge of consumer preferences and consumer behavior may help the entrepreneur anticipate various opportunities and determine ahead of time what output quantity will yield the highest expected revenue. Although such action is typically associated with the private sector, it is not unheard of for local governments to undertake surveys of citizens' demands for public services. Of course, as elections near, most politicians engage in some form of "market analysis" to determine what policy rhetoric voters are most willing to "buy". Increasingly, in sophisticated campaigning, they use the marketing techniques borrowed from the private sector, such as focus groups.

Finally, price uncertainty provides justification for entrepreneurial activities aimed at using instruments of government to bring about greater certainty. For firms, such behavior may include lobbying for trade tariffs, rate and entry regulations, and government contracts (see Tullock 1967; Stigler 1971; Kreuger 1974; Buchanan et al. 1980). For local governments, parallel strategies may include diversifying the tax base, entering contractual arrangements to provide selected services to other jurisdictions, seeking intergovernmental aid, or seeking higher-level government mandates to restrict the actions of potential or actual competitors. In the words of Cyert and March (1963: 119), all these strategies may be thought of as uncertainty avoidance measures that mitigate against surprises from the market and from competitors by "arranging a negotiated environment."

Perfect Information and the Firm as a Production Function

In the model of pure competition, firms appear as simple production functions rather than as complicated collections of individuals performing in hierarchical and transactional relations. Absent perfect information, knowledge of the production function can no longer be taken as given. Hence, while managers may be expected to adopt purposeful, self-interested behavior, decisions over what

constitutes the best techniques for combining inputs become subject to uncertainty. Although the manager will possess knowledge of existing circumstances, as well as historical information about the market, this will provide no guidance on how to reduce production costs or alter production techniques in response to unfamiliar changes in the operating environment and on-going competitive pressures. This creates opportunities for entrepreneurs to garner profits by developing innovative management techniques (Simon 1969). Waves of managerial reform are commonplace and have swept through both the private and the public sectors of the United States repeatedly during this century (see, e.g., Knott and Miller 1987). Yet the very nature of the competitive process ensures that entrepreneurs must keep searching both for better ways of applying and combining existing techniques and for adopting wholly new ones to meet ever-changing circumstances.

One arena in which entrepreneurs seek to innovate is by reorganizing the use of personnel to increase the efficiency and the responsiveness of workers. The fundamental problem for any manager is to monitor and coordinate the behavior of their subordinates, especially specialized workers whose incentives may lead them in directions other than that desired by the entrepreneur.

This coordination problem is rooted in the very nature of modern complex organizations. The division of labor has the potential to increase productivity by allowing individuals to gain and apply superior levels of expertise and by limiting the amount of information they must deal with at any given time. To achieve these benefits, specialization must be accompanied by coordination (March and Simon 1958: 162).

The key to coordination in organizations is communication. In some instances, the communications task will be trivial, but in many instances ~ particularly those requiring a high degree of specialization — determining how to ensure a smooth flow of information within an organization may be a complex task (see Hammond 1986). Those managers who are able to design the most appropriate organizational form to meet the tasks at hand may be able to obtain high profits from production where others only achieve normal returns on investments. In government, those managers who are able to develop appropriate organizational forms may be able to realize financial savings where others cannot, and they may gain credit for the savings or increase the flexibility in their budgets to pursue other policies or perks they value (e.g., Dunleavy 1991).

Additional opportunities for entrepreneurship are introduced as a consequence of the transaction costs associated with purchasing inputs and selling output. All production processes could conceivably occur through the use of market coordination. Organizations and firms would not be necessary, and hierarchical bureaucratic organizations would be irrelevant to the functioning of the market. In reality, however, production is often coordinated within firms. Managers can reduce

transaction costs (and, hence, the total costs of production) by substituting one contract for the many spot contracts that would be associated with production coordinated through use of the price mechanism (Coase 1937).

Recently, scholars have considered how, at the micro-level, measurement and enforcement costs associated with transactions frequently determine the nature of contracts (Cheung 1983) and the structure of economic organizations (Williamson 1985). At the macro- or market-level, these costs frequently contribute to the development of social, political, and economic institutions (Libecap 1989; Barzel 1989; North 1990; Ostrom 1990). The presence of transaction costs provide opportunities for entrepreneurs in both the private and public sectors to garner profits from establishing contractual arrangements among the owners of inputs that economize on these costs and facilitate mutually beneficial trade.

Scholars such as Olson (1965), Axelrod (1984), and Ostrom (1990) have explored various ways in which informal actions or contractual arrangements (including the establishment of proto-governmental monitoring agents) can develop between individuals and within small groups to facilitate mutually beneficial transactions. Barzel (1982: 42) suggests that firms will form and trade with each other at junctures where output can be easily measured, but where output is difficult to measure the different steps will be performed within the firm.

This suggests that an entrepreneur may realize economies in transactions costs through the development of a firm-like nexus of contracts.¹ Concern about transactions costs is particularly relevant for the management of government, where many of the public goods that are provided are inherently hard to measure and where production technologies are uncertain.

Williamson (1985) suggests that the form of various economic organizations can be explained as the result of efforts to economize on transaction costs. Williamson's analysis of transaction costs and his identification of the importance of monitoring, reputation, and repeated trades are among the most important recent theoretical contributions to the study of entrepreneurship. Alchian and Woodward (1987) continue this line of investigation, suggesting that in the absence of perfect information, entrepreneurs face many opportunities to profit from decisions concerning what components to buy across markets and what components to make in-house.

Placing transactions within the firm through vertical integration may reduce some transactions costs. But this strategy is no panacea for the pernicious effects of incomplete and asymmetric information. All incentives compatibility problems, such as moral hazard, shirking, and opportunism, can be seen as having their origins in incomplete information. While placing transactions within a firm-like organization may reduce information costs, incentive compatibility problems will remain.

Problems of this sort have been investigated by Alchian and Demsetz (1972), and more extensively, within the principal-agent literature that has emerged since the mid-1970s (see Pratt and Zeckhauser 1985 for an overview and Moe 1984 for applications to political science problems).

How entrepreneurs can economize on management costs is the focus of Miller's (1992) analysis of "managerial dilemmas." Miller follows Alchian and Demsetz (1972) in claiming that in team production situations where monitoring is costly and hence shirking is a dominant strategy, hierarchy may be established as an efficiency-enhancing institutional form (1992: 34). Here, the incentive for monitors to perform their task diligently is provided by making them residual claimants for profits from production. However, Miller (1992: 35) notes that the hierarchial solution to the problem of team shirking is not necessarily automatic or final.

Miller suggests that *any* incentive scheme will leave some member of a team reason to shirk in ways that cannot be efficiently discovered and sanctioned (182). Information asymmetries (in the form of monitoring limitations) and production externalities (in the form of inseparable marginal production) make it impossible for managers to achieve full efficiency just through the manipulation of economic incentives. Rather, several possible equilibria, many of which may be Pareto inferior, exist. This introduces a role for managers to create belief systems, norms, or social conventions in hierarchies that will guide individual behavior so that the output of the team as a whole stabilizes at a relatively efficient equilibrium point.

Miller (1992) demonstrates that entrepreneurs may garner profits from not only giving careful consideration to the nature of various contractual arrangements, but also from paying attention to corporate "culture:"

Rather than relying only on a mechanical incentive system to align individual interest and group efficiency, hierarchical leaders must create appropriate psychological expectations, pay the "startup costs" for appropriate cooperation norms, kick-start the secondary norms that will be the primary enforcers of cooperative norms, and create institutions that will credibly commit the leader to the nonexploitation of employee "ownership rights" in the organization (p. 232; also see Kreps 1984).

In short, the presence of incomplete information raises possibilities for profits to be made through entrepreneurial action within organizations.

The New Approach to Institutions

We turn next to the broader context in which firms operate, and how entrepreneurs may profit from actions that lead to changes in their broader operating environment, including politics. Here, we consider the roles both indirect (via externalities) and direct (via collective action or via

lobbying) - that entrepreneurs may play in bringing about profit-enhancing changes in various social, political, and economic institutions. North (1990:63) suggests that institutions are usually devised to reduce the transactions costs for society as a whole. Institutional changes may be "imposed" on business managers through the political process. Yet, the enforcement and compliance requirements of institutions are themselves costly; hence incentives arise for entrepreneurs to seek reforms that reduce their socially-imposed costs of doing business.

Institutional changes can be thought of as a means (explicit or implicit) of assigning or reassigning property rights. Making this analytical simplification allows us to establish the end-point to which rational actors aspire. This is simply the result identified by Coase (1960): if the price system worked costlessly, the ultimate assignment of property rights (which maximizes the value of production) would be independent of the initial assignment.

Ostrom (1990), in her study of common pool resource (CPR) management, notes that improving overall welfare is not easy in the presence of information and transaction costs:

Given the strong temptations to shirk, free-ride, and generally act opportunistically that usually are present when individuals face CPR problems, overcoming such problems can never be assured. ... Further, if individuals find rules that work relatively well, they may have little motivation to continue the costly process of searching for rules that will work even better. "If it ain't broke, don't fix it" applies as much to institutional capital as to physical capital (Ostrom 1990: 210-211).

Ostrom, contends that CPR appropriators (e.g., a group of fishing companies) may adopt a series of incremental changes in operational rules when various conditions are met. These conditions require that most appropriators share a judgment that they: will be harmed unless they adopt new rules; will be affected in similar ways by the change; place high value on the continued activities; face low information, transformation, and enforcement costs; share norms of reciprocity and trust; and constitute a fairly small and stable group (1990: 211). Although Ostrom does not use the term, it is clear that such change could be facilitated by a political entrepreneur who uses various strategies to propel institutional changes through which all may benefit.

Libecap (1989) and Barzel (1990) have considered the development and transformation of property rights from a more generalized perspective than Ostrom. These authors tend to be more specific about the motivation for such institutional change. According to Libecap (1989: 12), the "primary motivation for contracting for property rights are common pool losses. Capturing a share of the expected gains from mitigating common pool conditions encourages individuals to establish or to modify property rights to limit access and to control resource use."

Note how limited information lies at the heart of the need to establish property rights. As value accrues to the use of previously common property (e.g., the fishable sea), actors find it in their interest to delineate the boundaries in which they may operate. Those who actively seek the establishment of property rights may justly be termed entrepreneurs, since they seek to improve the profitability of their own operations, yet -- through their actions -- they provide a positive externality (determination of property rights) to all actors who share the operating environment (see also Riker and Sened 1991).

The establishment of such property rights is frequently a prerequisite to profitable trade. Hence, an incentive is provided for entrepreneurs to determine ways of reducing the costs of establishing property rights. Once a low-cost method (relative to realizable profits) can be determined, we may expect property rights to be established or redefined. Libecap (1989: 16) suggests three factors can create pressures to change existing property rights: shifts in relative prices; changes in production and enforcement technology; and shifts in preferences and other political parameters. Barzel (1989: 114) further establishes the possibility for (on-going) entrepreneurial action by noting:

The public domain is ubiquitous; innumerable commodity attributes are placed in it. Any service not fully charged for on the margin is at least partly relinquished to the public domain...Resource owners attempt to maximize the net values of their resources: They attempt to organize their action so that, *ceteris paribus*, losses to the public domain are minimized.

We can think of entrepreneurs as those who rise to the challenge of extracting profits from preexisting property rights. But since property rights will always be less than fully specified, entrepreneurs can also seek gains by deliberately eroding those rights not made explicit in current arrangements, changing the rules to their own advantage (North 1990: 87). The latter approach is riskier and more difficult, but may yield higher benefits. And seeking to alter the broad operating environment is even more pro-active than the sort of entrepreneurial behavior of firms documented by Cyert and March (1963).

In sum, absent full information, the role of the entrepreneur becomes complex and many opportunities for entrepreneurial profits arise in otherwise uninteresting areas of production, management, and trade. Opportunities for garnering profits from entrepreneurial actions emerge from almost every aspect of production, marketing, management, and in the broader social-political context of rule-making institutions, or in politics.

Public Sector Organizations and Incomplete Information

While the problem of incomplete information and uncertainty creates numerous opportunities for private sector entrepreneurs operating in the larger political context, it also creates opportunities for entrepreneurs within government. Production indivisibilities inherent in public goods, unclear marginal price signals from unpriced goods, and other information problems are critical in the public sector.

While Miller (1992) showed that solving information problems in profit making organizations is far from trivial, it is even more complex in the public sector. Wilson (1989) argues that the inability of public sector managers to reallocate resources within their organization (including the personnel constraints of Civil Service personnel rules), the inability to motivate subordinates through the retention of residual profits, and the need to try to achieve multiple goals imposed by multiple political principals makes public management more difficult than private management. Moe (1984; 1990) is one of the few political scientists focused on developing a theory of the nature of the constraints that politicians and public sector managers face, compared to those in privately-owned organizations. We will discuss this issue more in Chapter 5, but for now it is important to recognize that the greater information problems in the public sector can lead to substantial opportunities for entrepreneurship within government.

Assumption: Multiple buyers and sellers

The classical model of the market is built upon a multitude of buyers and sellers. However, there are many other market configurations besides the one upon which the purely competitive model is built. In some markets there is only one buyer who faces many sellers-monopsony. While monopsony is an interesting deviation from the competitive market, the context with which we are more concerned is the inverse case where there is only a limited number of sellers of goods in the market: monopoly or oligopoly.

While monopoly markets are at the other extreme from perfect competition, economists have well-behaved models of such markets. In classic monopoly models, monopolists do not make important strategic choices, but rather simply look to the (given) existing demand curve for pricing guidance (of which they are assumed to know the shape) and set a quantity of output that equates marginal revenues to marginal costs ($MR=MC$). This maximizes their monopoly profits. Natural monopolies are assumed to be technologically determined and not the product of successful strategic choices by entrepreneurs.² Thus, monopoly theory, like that of perfect competition, is simple and elegant, but essentially bloodless in terms of strategic behavior. Just as there is little need for entrepreneurial actors in the static model of perfect competition, there is no need for an entrepreneur

in the extreme model of natural monopoly.

A market configuration that has been subject to intense investigation by economists is that of oligopoly, which is characterized by "imperfect competition" between a limited number of sellers. Essentially, oligopolistic competition falls between the two extremes of perfect competition and monopoly and describes the condition of most real world markets.

In oligopolistic markets, strategic choices by firms are critically important. Hyman (1989: 421) describes how strategic choices develop in oligopolistic markets:

Sellers in oligopolistic markets know that when they or their rivals change either their prices or outputs, the profits of all firms in the market will be affected. The sellers are aware of their interdependence. Each firm in the industry is presumed to recognize that a change in its price or output will cause a reaction by competing firms. Individual sellers in oligopolistic markets *must* consider the reaction from their competitors. The response a seller expects from rival firms to a change in its price, output, or marketing efforts is a crucial determinant of its choices.

As economists focused increasingly on the strategic interactions in oligopolistic markets, a revolution in the study of industrial organization (10) took place. Historically, the theory of industrial organization was dominated by the famous "structure-conduct-performance" (SCP) paradigm. In this approach, the *structure* of markets (measured by such factors as the dominant production technology, the number of competitors, the degree of product differentiation) affected the *conduct* of the market (e.g., pricing, investment, research and development) which in turn drove the *performance* of the market (especially efficiency, innovation, and product diffusion). The SCP approach was empirical, based on the observation of industries, but was based on weak and ad hoc theories.

By the 1970s a new wave of interest in 10 emerged, a wave propelled by a growing dissatisfaction with the state of theory in the field and driven by the adoption of noncooperative game theory as the "standard tool" for the analysis of strategic conflict (Tirole 1989: 3). Noncooperative game theory brought a unified methodology to the study of strategic choices and allowed innovations and ideas developed in the study of dynamic change and asymmetric information to be introduced into the study of markets.

These innovations focused the attention of economists on strategic interactions and made the modeling of strategies central to the study of markets.³ At present, there is a wide (and growing) array of theories of the oligopolistic market and approaches to its study (for example, Cournot duopoly, price leadership, kinked demand curves, the many extensions of Nash equilibrium). While there is at present intense disagreement over which of these theories best describes market behavior,

strategic choices are important in all of them. This focus on strategies obviously increases the theoretical role for entrepreneurial actors, but exactly how entrepreneurs enter the theory is yet to be fully specified.⁴

We believe that many if not most government policies are enacted in an environment that resembles oligopolistic markets. And we believe that, in particular, the suburban governments we study provide a milieu in which the theory of oligopoly and theories of politics can interact profitably. As more Americans moved from urban areas to the suburbs surrounding them over the course of the 20th century, metropolitan areas developed different organization structures. Some (such as Unigov in Indianapolis or the consolidated governments found in Jacksonville/Duval County and Nashville/Davidson County) are built around the concept of a unified system of government, in which government services attempt to tap scale economies of joint provision to the entire metropolitan area. The metropolitan government or consolidation reform movements pushed this type of change, blaming jurisdictional fragmentation for high costs and lack of policy coordination. At the other extreme, other metropolitan areas are highly polycentric, in which many local governments offer local services in implicit, if not explicit, competition with one another.⁵

In a truly monocentric model, there is a single local government that is a monopoly supplier of local public goods and services. The potential role for entrepreneurial strategies is reduced in a monopoly setting, as the neoclassical economic theory illustrates. However, Schneider (1989) shows that more metropolitan areas have characteristics of polycentric systems than of monocentric markets (also see Ostrom et al. 1961). And when there are many suppliers, as is the case in most metropolitan areas, and when suppliers are not "fully competitive," strategic behavior by governments is likely.⁶

Thus, most metropolitan areas have an oligopolistic market structure, and we can use some of the techniques and theoretical constructs economists employ to study the supply side of such a market. Strategic choices over the services to offer, the tax price to charge, the way in which to differentiate one community from others (especially for the most attractive segment of potential buyers—such as businesses and high income families) become critical to local governments in a dynamic polycentric system. In this intercommunity environment, the public entrepreneur can shape a dynamic strategy, manipulating the policy tools local governments bring to the local market for public goods.

Assumption: Homogeneous Products

In the neoclassical model of competitive markets, products are assumed to be homogeneous. If there are no distinctions between products (that is, they are "commodities"), then buyers will switch freely between goods on the basis of price alone. In contrast, nonhomogeneous products give rise to

strategic opportunities as entrepreneurs seek market niches.

Hayek directly disputed the assumption of large numbers of firms producing homogeneous commodities with the same essential attributes. Hayek argued that homogeneity even within a single market never exists and information asymmetries lead to ongoing problems of reconciling supply and demand (Hayek 1976: 102). In Hayek's depiction of the imperfect market, knowledge is not diffused instantaneously (as in the perfectly competitive market). These lags give rise to the possibilities of entrepreneurial search for opportunities for profit.

Also operating within the Austrian approach, Reekie (1984) developed the concept of a *discrepant market*— a dynamically heterogeneous market that is never cleared and in which full congruence is never attained. For Reekie, the central problem of economics "is to ascertain how human beings in the discrepant marketplace act in order to maximize each other's satisfaction...The answer lies again in differing prices...(that) alter or are perceived to alter or to be about to change. Alertness to these perceived price changes results in the commencement of entrepreneurship and the market process..."

Earlier, Alderson (1965) also rejected the notion of homogenous demand. Alderson argued that it is artificial to link firms together just because they produce similar products, since firms can actually be serving quite different markets. Thus analysis should be shifted to how individual firms create a *differential advantage* in their pursuit of markets. Unlike the model of perfect competition, firms can rarely be sure what price is 'right' nor what product offering is 'correct.' These discontinuities and the definition of market niches to secure profits leave room for entrepreneurial activity.

In private markets, suppliers try to restrict competition by maintaining control over information, excluding others from the data necessary to profit in a market. Entrepreneurs glean some new piece of information from the environment and then bet on the future based on their insight. However, once this information becomes public, the entrepreneur loses the competitive edge and entrepreneurial profits are bid away. For example, in the process of arbitrage, the entrepreneur sees a discontinuity in the market. Acting on this insight, the entrepreneur enters into a series of profitable transactions. But as the entrepreneur succeeds, the insight becomes more widely known and competitors enter the field, ultimately driving down the entrepreneur's profits. Over time, the entrepreneur's innovation becomes a more-or-less standardized product, yielding only market rates of return.

In the world of applied business studies, Michael Porter identified four stages by which to analyze the life cycle of products: introduction, growth, maturity, and decline. Each stage has

associated with it different implications for buyers, product development, marketing, and competition (Porter 1980: 158-161). And each stage has different implications for entrepreneurship. While Porter notes that there are problems in the specific concept of product life cycles, industry evolution is driven by a series of dynamic processes. One of the most important dynamic processes is learning by buyers. For Porter, products tend to become more like commodities over time as buyers become more sophisticated. This in turn tends to *reduce* product differentiation over time. Similarly, over time many markets are characterized by reduction in uncertainty as technologies are tested, buyers are identified, and the potential size of markets clarified. The process of imitation of successful strategies and the abandonment of poor strategies occurs. The reduction of uncertainty may lead to new entrants into the market—more risk averse actors can now enter the market, increasing the competition the original entrepreneurs faced. Finally, diffusion of proprietary knowledge can also occur over time, and may be especially fast in the absence of patent protection or other barriers built on proprietary knowledge or specialized technology.

There are theoretical problems when the concepts of private information and product differentiation are carried over to the public sector. What, if any, private information can public sector entrepreneurs monopolize? The very nature of public entrepreneurship often requires that at critical times (especially during elections) a political entrepreneur *must* share information with the public, without being able to protect the rate at which it disseminates to other competing politicians. In order to raise capital the private sector entrepreneur may have to share insights with others. But this process of revelation is protected by patent laws, franchising agreements, etc. In the public sector, there is no similar legal protection on sharing information. And while policy entrepreneurs may emphasize the benefits of their proposals and try to hide the negative aspects (Arnold 1990), the public sector entrepreneur must inevitably disclose more information than the private entrepreneur. In large part, this is because a critical task for the private sector entrepreneur is to raise capital—and capital is controlled by a small number of individuals or institutions.

In contrast, most public sector entrepreneurs need votes or support in public opinion to succeed. Building and maintaining a political coalition is critical to the success of a political entrepreneur and revealing information and ideas is central to this coalition process (Doig and Hargrove 1987).⁷ Indeed, ambitious political entrepreneurs may seek to have their innovations imitated elsewhere, to develop a broader reputation and to increase the rewards of their entrepreneurial activities.

Assumption: Easy Entry and Exit

The fourth critical aspect of the neoclassical model that we examine is the assumption that

competitors can easily enter into or exit from specific markets. In fact, the recent development of the theory of "contestable markets" (see Baumol, Panzar and Willig 1982) has been based largely on the ability of firms to move in and out of markets with minimal cost. When entry and exit are easy, competitors can move quickly to take "above normal" profits away from those who were able to earn them. Thus, strategic competitors must try to erect barriers to entry to protect their profits from those who, by their entry, would reduce them to "normal" levels.

In his analysis of private market competition, Porter (1980) suggests several sources of barriers to entry, including: a) economies of scale; b) product differentiation (including brand identification, customer loyalty stemming from past advertising or customer service); c) capital requirements; d) switching costs; e) access to distribution channels; f) cost disadvantages independent of economies of scale, such as proprietary product technology, favorable access to raw materials, favorable location, or government policies.

Thus, in private markets entrepreneurs try to create entry barriers to earn excess, or above-normal, profits. Political science has developed a literature on entry barriers that shows a similar process occurs in political markets. Incumbent politicians use many strategies to restrict competition, especially by limiting the ability of challengers to enter political contests. Most of the tools that incumbents use are designed to diminish the number and quality of candidates that might otherwise emerge to challenge the incumbent. Of particular importance may be the ability of incumbents to advance the interests of their constituents by manipulating bureaucratic services and by controlling the flow of legislation constituents and contributors need (Fiorina 1977; Tullock 1965; Parker 1991). The increasing use of personal contact as a form of political advertising also increases the entry barriers challengers face, especially since much of this contacting is subsidized by the government (Parker 1986; Fenno 1978; Cain et al. 1990). While the use of the congressional franking privilege is the most often cited advantage of political office holders, local government leaders also use the more limited perks of their office to send newsletters to constituents and to dominate local news coverage.

In the arena of local government, entry barriers may also be embedded in the "constitutional rules" that structure local political economies (Oakerson and Parks 1988). Rules governing the incorporation of new communities, the annexation of existing ones, and the types of services local government must supply all affect the range of competition local government officials face and the opportunities for entrepreneurial activity (Burns 1991). The degree of fragmentation and diversity in service offerings in the local area can also affect the incentives and actions of incumbent politicians and the potential for entrepreneurial activity (Schneider 1989).

The manipulation of entry barriers to limit challenges to incumbents has been most widely

studied in Congressional elections, but the effort to protect political incumbency occurs at all levels of government. How local political entrepreneurs overcome existing entry barriers and the extent to which they then try to erect new ones to protect their newly attained positions is a critical dimension of a theory of entrepreneurship in local government.

Exit barriers are perhaps less well understood, but are important to the theory of contestable markets. If large amounts of sunk costs are involved and "hit and run" entry is not possible, the decision calculus of competitors changes, and markets lose their contestable nature. Even if entry is easy, but it leaves new entrants stuck in a market for awhile after incumbents have reacted to them, difficult exit from the market may act to deter entry in the first place.

Assumption: Equilibrium/Disequilibrium

The fifth and final assumption that we analyze is that of equilibrium in markets. Many of the issues explored above ultimately trace back to the fundamental concept of equilibrium that underlies so much of economic analysis. In this section, we show how the very conception of equilibrium in economics may limit the role for entrepreneurs. But more importantly, we show that many political scientists believe that as a discipline, political science should be more concerned with *disequilibrium* rather than equilibrium.

Many scholars argue that neoclassical economics defines equilibrium as a *state* or condition of "perfect competition." In contrast the Austrian economists believe we should be more concerned with the *process* of reaching that equilibrium. According to Kirzner, viewing equilibrium as a state rather than a process makes the concept static rather than dynamic and that it is ultimately the mainstream conception of equilibrium that has forced entrepreneurship out of their models: "neoclassical approach has...squeezed the real-world entrepreneur back into the neoclassical full-equilibrium box" (Kirzner 1985: 8-9).

And once we shift our focus away from dynamic change, entrepreneurs become irrelevant to neoclassical economics (Reekie 1984: 9). Austrian-school economists view change over time as a critical dimension of economics that they argue is often neglected in neoclassical work. For Austrians, "...human action is not 'preprogrammed.' Learning occurs, tastes and technologies change, exogenous variables are continuously imparting new shocks to the system" (Reekie 1984: 33). From this perspective, fewer market parameters are fixed than in most neoclassical models. And entrepreneurs both generate the shocks to the system (cf., Schumpeter) and act to take advantage of the changes that accompany such shocks. The concern for change over time and disequilibrium has important implications for the study of politics.

Entrepreneurs and Equilibrium

In the Austrian tradition, entrepreneurs have greater independence of action and market outcomes are less predetermined than in neoclassical economics. However, in both the neoclassical and the Austrian schools of thought, the relationship between entrepreneurs and equilibrium is central.

On one hand, entrepreneurs can be viewed as seizing opportunities in the market to move it toward equilibrium. This essentially is the role entrepreneurs play in neoclassical economics. But Austrians are more divided over the relationship between entrepreneurs and equilibrium.

While Kirzner's entrepreneur is defined by an "alertness to disequilibrium" and independently injects new elements into markets, ultimately for Kirzner "...the changes the entrepreneur initiates are always toward the hypothetical state of equilibrium" (Kirzner 1973: 73). In contrast stands Schumpeter's idea of creative destruction (1942; also see Shackle 1972). For Schumpeter, entrepreneurial activity is most likely to emerge when a market is approaching equilibrium. In this evolving situation, the successful entrepreneur engages in a series of innovations that move the market first toward disequilibrium and then ultimately to a new market arrangement that is more profitable for the entrepreneur. Schumpeter's entrepreneur engages in creative destruction tearing apart existing political-economic arrangements in order to create new ones.

For Schumpeter, the entrepreneur stands to profit from the successful introduction of new ideas or policies into a market that appears stable to others. After the disruption caused by the innovation, a new stability may emerge. But for Schumpeter, as the market absorbs the last round of innovations to approach equilibrium, the potential for entrepreneurial profits from innovation increases, giving rise to yet a new generation of entrepreneurs.

Disequilibrium in Political Systems

With the renewed interest in institutions propelled by social choice theories in that last decade, political scientists have also begun to explore the relationship between entrepreneurs, innovation, and equilibrium. Since the concept of equilibrium is at the core of so much economic analysis, the extent to which entrepreneurs move private markets toward equilibrium or disequilibrium is theoretically critical for their enterprise. But the concept of equilibrium is also important in the study of entrepreneurs in *political* markets.

Much of the recent analysis of political equilibrium can be traced to the work of William Riker and his argument that political situations are normally characterized by an underlying *disequilibrium* of tastes and that stable equilibria in politics are rare. Riker argues that:

We know from Arrow's theorem that cycles cannot be avoided by any fair system... [and] that other methods of voting (e.g., positional methods like plurality voting and approval

voting and point counting or electoral methods like proportional representation which are intended to make minorities win) are subject to disequilibria, manipulation, agenda control, etc. in much the same way as majority rule. It seems fairly safe to conjecture, therefore, that equilibria are as rare and fragile as is majority rule. And this rarity and fragility are doubtless as much features of systems based upon coopted committees as of those based on popular election...What we have learned from the study of these alternative systems is thus: Disequilibrium, or the potential that the status quo be upset, is the characteristic feature of politics...There are no fundamental equilibria to predict. (Riker 1980: 443)

Riker's contention is supported by a large and growing number of experimental and formal analyses that have severely restricted the conditions under which equilibrium can be expected. For example, Plott (1967) showed that for a large family of preference profiles, a simple majority equilibrium does not exist. Work by McKelvey (1976, 1979), Schofield (1978, 1983, 1984), and McKelvey and Schofield (1987) established that if equilibrium does not exist, then agendas can lead to almost any outcome (Austen-Smith 1983 reviews this work). Yet despite these abstract proofs, stable "equilibrium" outcomes are empirically observable despite the underlying dynamics of instability.

This presents a conundrum for political scientists that has turned scholarship in the direction of institutions. Shepsle (1979) was among the first to show how institutions can induce stable outcomes despite the forces pushing toward disequilibrium. For Shepsle (1986: 51-52) the

relationship between social choices and individual values is a mediated one. Standing between the individual bundle of tastes and the ...available social choices are institutions—frameworks of rules, procedures, and arrangements—that prescribe and constrain the set of choosing agents, the manner in which their preferences may be revealed, the alternatives over which preferences may be expressed, the order in which such expressions occur, and generally the way in which business is conducted.

This argument underlies the concept of "structure induced equilibrium"—that institutions can induce equilibria where, absent these arrangements, no equilibria exist. In a similar vein, using field studies exploring the use of common property resources, Ostrom (1990) shows how a wide variety of societal arrangements can overcome strong inherent tendencies toward disequilibrium driven by conflicts in tastes and strategies.

The idea of structure induced equilibrium provides a line of argument that addresses a critical part of the equilibrium/disequilibrium conundrum. But this makes Riker's argument linking politicians and equilibrium an even more central issue that must be addressed in any theory of entrepreneurship. For Riker, while equilibrium may appear in political arrangements at any given point in time, such an

equilibrium is inherently unstable. This presents openings for Riker's heresthetician--an entrepreneurial political leader who "probes until he finds some new alternative, some new dimension that strikes a spark in the preferences of others" (Riker, 1986: 64). Riker argues that through agenda control, strategic behavior, and, most importantly, the introduction of new policy dimensions to political debate, the heresthetician can break up structure induced and maintained equilibria to create new and more profitable political outcomes.

Thus while Riker argues that when institutions stand in the way of rational individuals, individuals will act to change the institution:

...insofar as a constitutional system supplies an outcome that is not the same as outcomes that might have been obtained from simple majority rule in the system without [institutions]...losers are likely to change the [institutions]...in the hope of winning on another day...If institutions are congealed tastes and if tastes lack equilibria, then so do institutions, except for short-run events. (19xx: page???)

Thus while Shepsle stresses structure induced equilibria to explain stability, Riker's heresthetician resembles Schumpeter's entrepreneur: both engage in creative destruction tearing apart existing political-economic arrangements in order to create new ones. Like Schumpeter's entrepreneur, Riker's heresthetician stands to profit from the successful introduction of new ideas or policies into a market that appears stable to others. After the disruption caused by the innovation, a new stability may emerge. But Riker believes that lurking behind this new stability is still the fundamental disequilibrium of taste that can then be exploited by the next generation of entrepreneurial politicians. Similarly, for Schumpeter, as the market absorbs the last round of innovations to approach equilibrium, the potential for entrepreneurial profits increases, giving rise to yet a new generation of entrepreneurs. Empirically, the outcome of innovations pushed by Schumpeter's entrepreneur or by Riker's heresthetician may thus resemble a *punctuated equilibrium*, a process in which institutions are characterized by long periods of stability punctuated by short bursts of rapid change (Krasner 1984).

North (1990: 90) argues that "such discontinuous change has some features in common with discontinuous evolutionary change (characterized in demographic theory as punctuated equilibrium), but perhaps its most striking feature is that it is seldom as discontinuous as it appears on the surface." For North, while formal rules may be changed quickly, a subtext of informal constraints remain, which makes the change less pronounced. The most recent work on political change based on the concept of punctuated equilibria shows that at times change is more deeply experienced than articulated by North, but does confirm North's observation that informal norms can survive radical

realignments of interests.

Punctuated Equilibria: Baumgartner and Jones

In their study of *Agendas and Instability in American Politics*, Baumgartner and Jones (1993) build on Riker's theoretical argument, specifically employing the concept of punctuated equilibria. Their work balances theoretical development with a series of detailed case studies, showing how disequilibrium in policy systems can be produced with greater frequency than theories of incremental change or theories of equilibrium would allow.

Baumgartner and Jones ascribe punctuated equilibrium to the nature of any social system in which (quoting Simon): "the environment makes parallel demands on the system, but the system can respond only serially" (Simon 1977: 157). That is, the system is grappling with a large number of issues, but its leaders can attend to issues only one at a time. Thus leaders are an information and attention bottleneck. Just what and how issues capture the attention of these decision makers becomes critical. But the result is intermittent performance, characterized by "lurching" and "lulls."

Paralleling the dialogue between Riker and Shepsle, Baumgartner and Jones begin with the supposition that political systems are never in general equilibrium. But this does not mean that there is perpetual chaos. Structure induced equilibrium and the definition of issues processed by those institutional structures create some stability. However, this stability can be ephemeral:

The tight connection between institution and idea provides powerful support for the prevailing distribution of political advantage. But this stability cannot provide general equilibrium, because a change in issue definition can lead to destabilization and rapid change away from the old point of stability. This happens when issues are redefined to bring in new participants. Similarly a change in institutional rules of standing or of jurisdiction can rupture an old equilibrium. (1993: ????)

Baumgartner and Jones argue that no single overarching equilibrium is possible in American politics. However, policy subsystems are often institutionalized as structure induced equilibria in which a prevailing *policy understanding* predominates. Disaggregated decision systems are viewed as linked to institutionally defined structure induced equilibria: by disaggregating policy decisions, those who control decisions also share values. For Baumgartner and Jones, the role of ideas (or "ideology") is critically important to the maintenance of the status quo. First, a definable institutional structure must exist to limit access to the policy process (a form of entry barrier). Equally important, a powerful supporting idea is associated with this institutional arrangement. Image and rhetoric communicate and reinforce the link between this ideology and core political values.

But the generation of *new ideas* makes many policy subsystems unstable in the long run.

Policy entrepreneurs need not change the opinions of their adversaries (a process that Riker defines as rhetoric). Rather, as new ideas begin to take hold, different policy makers and institutions suddenly become mobilized and begin to claim jurisdiction over issues that had not interested them. This expansion of interest swamps the existing status quo, and stability is punctuated with periods of volatile change.

Baumgartner and Jones' analysis rests on the argument that structural induced equilibria are fundamentally unstable, because entrepreneurial political leaders will eventually find leverage points to upset the status quo. Those excluded from the policy subsystem constitute "slack resources" that can be mobilized by policy entrepreneurs. And mobilization typically occurs through a redefinition of the prevailing policy image.

The destruction of these policy monopolies is almost always associated with a change in the intensities of interest as new actors become concerned with a particular question. For Baumgartner and Jones this mobilization is typically driven by a new understanding of the nature of the policies involved. This is the introduction of new dimensions stressed by Riker as an element of heresthetics.

Baumgartner and Jones argue that the manipulation of policy images and the shopping around for institutional venues interact to drive punctuated equilibria in politics. These are concrete manifestations of the entrepreneurial instincts so common in American politics (see, e.g., Aberbach, Putnam, and Rockman 1981: 231) and are manifestations of the strategies used by Riker's herestheticians.

Baumgartner and Jones reject cyclical theories of politics in favor of the idea of punctuated equilibria. The institutional changes that are created in the policy process need not bear resemblance to those that existed a generation or two earlier because change is driven by a fresh definition of political issues. "A punctuated equilibrium model of the political system differs dramatically from the type of dynamic equilibrium model implicit in any discussion of cycles...new issue definitions are more important sources of change than the action-reaction model of cycles. As such, an evolutionary model is more relevant to politics than is the regularity implied by a theory of cycles." (1993: xxxx)

From this perspective entrepreneurs play a critical role in politics, providing the energy and the new issues that cause dynamic change in the system and tear apart old equilibria. The focus on equilibrium and disequilibrium delineate possibilities for entrepreneurial behavior that can emerge once we relax the restrictive assumptions of the neoclassical models of markets. A less than fully competitive number of suppliers, incomplete and asymmetric information, heterogenous policy ideas, entry barriers, and disequilibrium all interact to create multiple opportunities for entrepreneurs in government.

The Study of Political Entrepreneurs

Neoclassical economics limited the role of entrepreneurs. However, as the study of markets progressed and as the intellectual and analytic tools available for their study developed, the assumptions of the market model that limited the role of entrepreneurs were identified and relaxed. As a result, the role of strategic entrepreneurial behavior as an independent factor in the functioning of markets is now becoming established. The approach to entrepreneurship found in the other social sciences, including political science, was never as analytically constrained as in economics. However, much of the work in these other disciplines was fixated on the seemingly unique and idiosyncratic behavior of entrepreneurs. In turn, and unfortunately, much of the present social scientific work on entrepreneurship focuses on the actions of a limited number of "exceptional" individuals. In this approach, biography is the tool of choice.⁸ Such studies, because they emphasize the uniqueness of the subject, cannot be cumulative.

In contrast, we argue that political entrepreneurship must be approached through systematic attempts to develop a theory of entrepreneurship and that any theory of entrepreneurship must be tested empirically. In the next chapters, we analyze in more detail what entrepreneurs do and the supply and demand conditions that can be associated with the emergence of entrepreneurs.

Endnotes

1. Coase (1937) notes: "A factor of production ... does not have to make a series of contracts with the factors with whom he is co-operating within the firm, as would be necessary, of course, if this co-operation were as a direct result of the working of the price mechanism. For this series of contracts is substituted one. ... The essence of the contract is that it should only state the limits to the powers of the entrepreneur" (75-76). Cheung (1983) notes: "The word 'firm' is simply a shorthand description of a way to organize activities under contractual arrangements that differ from those of ordinary product markets" (3). Demsetz (1987) suggests: "The firm properly viewed is a 'nexus' of contracts" (155).
2. We recognize that patent monopolies can be held for some period of time and that "unnatural monopolies" can be created by political manipulation that creates entry barriers for any other competitors. Thus while there is no role for entrepreneurs in the case of natural monopolies, entrepreneurs can seek to manipulate government power to create monopolies.
3. See the discussions in Tirole 1989 and Fudenberg and Tirole 1991. Also see some of the most important early studies such as Green and Porter 1984; Radner 1986; Lehrer 1989; Fudenberg and Levine 1990.
4. Surprisingly the term "entrepreneur" does not appear in the literature with any degree of frequency. In fact, mirroring Baumol's comment about the absence of the term in the index of most standard microeconomics texts, the term also does not appear in the index of many of the standard reference books on game theory and 10. However, the terms that are used, such as "player" or "actor" and the concern for the strategic choices of firms essentially opens the window for the analysis of entrepreneurs in markets. The absence of the term "entrepreneur" reflects, in part, the lack of consensus in the field of economics about what entrepreneurs do and how to define their activities.
5. The literature on the benefits and costs of polycentricity versus unified government is substantial. Ostrom (1972) lays out the issues in sharp relief and several works by Lowery and Lyons (1989) or Lyons and Lowery (1989) address these same issues from a much more critical perspective.
6. Again see Schneider 1989 on how the local market for public goods differs from the fully competitive model.
7. Information asymmetries and the strategic revelation of information has become a topic of interest in the study of legislatures (see, for example, Austen-Smith and Riker 1987, or Gilligan and Krehbiel 1990). The insights contained in such studies of committees and legislatures, set in a particular institutional arena, do not easily carry over to the study of the entrepreneurial process with which we are concerned.
8. Alternatively, many social scientists present what are essentially biographies of policies-presenting in great detail the development of policies and/or specific laws.

Chapter 2:
The Functions of Political Entrepreneurs
In the Local Market for Public Goods

Entrepreneurs are found in domains other than the world of business. However, scholars who have looked beyond the private market tend to use the concept of entrepreneurship as a loose metaphor rather than as a tight analytic concept. These scholars provide only implicit justification for using the term "entrepreneur", often focusing on just one or two specific actions (such as spotting gaps in policy domains and brokering deals; risking political capital; or creating new coalitions—see for example, King 1988; Kingdon 1984; Smith 1991). No effort is made to clarify the extent to which entrepreneurship in the public sector is really analogous to entrepreneurship in the private sector.

Scholars who have compared the public and the private sectors usually focus on questions of management, seeking to identify differences between public and private management. The focal point of this management-oriented research differs from our own concern for entrepreneurial behavior, but that debate helps identify some of the differences that structure the behavior of entrepreneurs in different sectors. In the classic statement, Wallace Sayre (19xx) argued that the public and private management are "fundamentally alike in all unimportant respects." However, since Sayre's work, scholars have argued that the differences are narrowing. Partly this convergence is associated with the on-going progressive reforms in American bureaucracy, many of which are obsessed with making government run more like a business (Downs and Larkey 1986; Knott and Miller 1987; Osborne and Gaebler 1992).

Arguments distinguishing public and private management identify both external and internal factors. Most scholars agree that the external constraints on public managers are different than those on private managers, and that they are more difficult to deal with (Allison 19XX). This difficulty emerges in part because political institutions often introduce more than one principal to which managers must respond (Moe 1984). But Bowers (1983) and others note that American business firms are increasingly subject to political scrutiny and that management in both sectors has a "political face."

There is greater disagreement about differences on internal issues. Some authors suggest that managers in both sectors face essentially the same types of principal/agent problem, a problem that is not necessarily resolved by the presence of external competitors or a bottom-line measure of profit-making. Others argue that the constraints of Civil Service personnel rules and the inability to motivate subordinates with the retention of residual profits makes public management different and much more difficult. Wilson (1989) specifically argues that the inability to reallocate factors of

production, especially personnel, the inability to retain profits, and the need to serve goals given by multiple principals make public management different (and more difficult) than private sector management.

Casson (1982: 351), who agrees that there are important differences between public and private entrepreneurs, nonetheless presents a definition of the function of entrepreneurs he believes is essentially "institution-free" (1982: 348). We begin with Casson's approach and argue that, despite obvious differences in the locus of their activities and the nature of their goals, to a considerable degree all entrepreneurs perform particular functions and, in order to do so, share certain characteristics. However, as our argument develops, we add institutional complexity and texture to our argument and show how public sector entrepreneurs (including ones operating in the local market for public goods) face tasks and problems that are different from the problems private sector entrepreneurs face.

We begin by arguing that *all* entrepreneurs perform three functions. First and foremost, as we argued earlier in this book, entrepreneurs discover unfulfilled needs and select appropriate prescriptions for how those needs may be met—that is, they must be alert to opportunities. Second, as they seize these opportunities, entrepreneurs bear the reputational, emotional and, frequently, the financial risk involved in pursuing a course of action with uncertain consequences. Finally, in pursuing these actions, entrepreneurs must assemble and coordinate teams or networks of individuals and organizations that have the talents and/or resources necessary to undertake change.

Discovering and Framing Opportunities:

Discovering unfulfilled needs in areas of social and political activity is not necessarily difficult. But selecting the appropriate ways to satisfy those needs often requires exceptional insight. Entrepreneurs must not only define what the unfulfilled needs are, but they must be able to recognize the contextual nature of those needs and establish feasible approaches to meet them.

Needs may be well-established or they may be latent. There is considerable evidence that social problems are neither objective nor the specific result of identifiable societal conditions; rather, they exist primarily in terms of how they are defined and how they are conceived of by society (Hilgartner and Bosk 1988). Hence, a clever entrepreneur may seize opportunities to transform social perceptions. In this process, the entrepreneur generates "needs," and then meets those needs with specific responses. If an entrepreneur "frames" the situation appropriately, the entrepreneur can couple the problem with a solution, replace the status quo with a new institutional arrangement, and collect above normal profits (Kingdon 1984; Baumgartner and Jones 1993; on the effects of framing see Kahneman and Tversky 1979).

Many scholars have documented how political entrepreneurs can frame issues in such a way that their preferred alternatives are transformed into government policy. For instance, Nelson (1984) provides evidence on how child abuse was transformed from a private matter to an issue of public concern. Baumgartner and Jones (1993) present similar evidence from several policy domains. Kingdon (1984), McCraw (1984), and Derthick and Quirk (1985) all document how economists in the 1970s, whose analysis had led them to conclude regulation of the transportation industry served the interests of the providers at the expense the general public, carefully developed their case for deregulation and achieved considerable success. Derthick and Quirk (1985: 246) suggest that "advice tends to be efficacious insofar as it has two general attributes, which are by no means necessarily related: substantive soundness - the quality and persuasiveness of analysis as judged by the criteria of analysts themselves; and political adaptiveness - the ability of analysis to meet further criteria inherent in the political process and to underlie rhetoric that meets those criteria."

At a more theoretic level, Riker (1986: 34) notes that policy success can indeed be built on rhetoric that persuades indifferent people to accept the new idea. But success can also be achieved by introducing a new viewpoint (or dimension) into an ongoing policy debate. For Riker, the defining tool of the heresthetician is the ability to redefine political situations to gain majority support for his or her most preferred alternative. This "ability to shift from moment to moment, poking and pushing the world until it favors the heresthetician's cause" is "the height of the heresthetician's art."

The importance of entrepreneurs in framing issues: While there are numerous anecdotes and case studies that show how entrepreneurs frame choices, we believe that entrepreneurial action in discovering opportunities and framing issues can be summarized by a limited set of activities that can be displayed along a continuum (see Figure 2.1). On the right side of the continuum are those entrepreneurial activities that have the capacity to produce the most radical change in the markets or arenas in which entrepreneurs operate. On the left side are entrepreneurial activities associated with change that is less radical, but still more than incremental. Figure 2.1 identifies three "generic" categories of entrepreneurial activity: (1) innovation, which can be closely tied to the use of heresthetic strategies; (2) leadership, which includes elements of rhetoric and management; and (3) arbitrage, which includes the adaptation of innovation across different markets or arenas. In Figures 2.1.1, 2.1.2 and 2.1.3 below, we illustrate the operations of entrepreneurs in each of these three classes of activity.

Innovation: The entrepreneurial activity that produces the most radical change and carries the highest risk is innovation. Innovation requires the most extreme form of entrepreneurial alertness and discovery. True innovation is rare but necessary for new products and services to be developed. In

private markets, innovation usually connotes the invention of products or services consumers will want, anticipating consumers' changing preferences. As Reekie puts it: "the entrepreneur notes, *ex ante*, that the preferences of consumers are different tomorrow from what they are today. He notes, *ex ante*, that the production techniques of firms are not the same tomorrow as they are today. The Misesian entrepreneur foresees these changes in the market data. It is this foresight which is important." (19xx: p. xxx)

Public entrepreneurs can also innovate by developing a new idea or policy. Such innovations can challenge existing institutional arrangements and the terms of ongoing debates. It is here that Riker's idea of the heresthetic becomes an important component of entrepreneurship. Figure 2.1.1 shows how a heresthetician can add a new dimension to a debate to achieve a preferred outcome on an issue. Suppose three groups (1, 2, and 3) in a town support different levels of services to be provided in the community. The median group, 2, will win when this issue is framed in only one dimension. The policy will be P_0 . Seeing an opportunity to disrupt that policy outcome, an entrepreneur, representing group 1, introduces a second dimension into the debate. This new dimension, for example, may focus on the *efficiency* of the service provision, regardless of the *level* of services provided. Given the preferences illustrated here, the entrepreneur can offer policy P_1 . Because this new policy proposal is closer in Euclidian space to their ideal point, members of group 2 will find the new alternative preferable to policy P_0 . Groups 1 and 2 now outvote group 3 to adopt outcome P_1 . This new policy is closer to the goals of the entrepreneur. Granted, this will require skill by the entrepreneur and it may not be easy to maintain the policy at P_1 , as members of groups 2 and 3 react strategically themselves.

The critical point, however, is that entrepreneurs see opportunities where others do not to frame issues in a manner that increases the likelihood of success. Note, however, that because introducing this new dimension can be perceived as a radical change to existing policy discussions, the entrepreneur pushing for true innovation stands a high chance of failure.

Leadership: Consider next the leadership dimension of entrepreneurship, which we place in the middle of the continuum. Leadership, and the rhetorical and management skills associated with it, represent entrepreneurial activities that lead to less radical change than true innovation, but which can still transform a markets or organizations.

Rhetoric is the ability to change the preferences of political actors (Riker 1990). Wilson (1980: 366) suggests that entrepreneurs can sometimes tap "latent demand" that others do not even sense. But political entrepreneurs may be able not only to anticipate change in electoral preferences but also to shape that change. The ability to change preferences is far more critical in politics than in

economics, where consumer tastes are often taken as fixed and change in preferences is taken as exogenous to the market. In contrast, Baumgartner and Jones (1993) emphasize the critical role of rhetoric in mobilizing new actors in policy debates. These newly mobilized actors will in turn transform political debates and policy arrangements. Thus rhetoric has an "external" dimension, as entrepreneurs try to build or mobilize political coalitions.

Because so much economic and political activity takes place in the context of large organizations, such as firms or government bureaucracies, rhetorical skills coupled with managerial skills are an important combination for an entrepreneur. Rhetoric can inspire and motivate workers and thus attack internal collective action problems within hierarchical organizations. By instilling a sense of mission, some managers are able to get more outputs than others with the same set of inputs (Barnard 1938; Selznick 1957; Wilson 1989; Miller 1991; Brehm and Gates 1993). We consider exceptional performance in this arena entrepreneurial leadership. Providing such leadership may be even more important for political entrepreneurs because slack is more likely in public bureaucratic systems that are less disciplined by the need for market competitiveness and that are restricted in the kinds of individual rewards available for excellent performance.

Public sector entrepreneurs face constraints in improving production and performance. In contrast to private managers, managerial public entrepreneurs cannot lawfully retain profits, cannot allocate factors of production according to their own preferences, and must serve some goals not of their own choice (Wilson 1989). Yet, some entrepreneurs successfully overcome such constraints and achieve more with less.

Figure 2.1.2 illustrates entrepreneurial leadership. In this illustration, a manager combines two inputs, say labor and capital equipment, to produce a certain level of output. Technology will define the limits on the production function. But not all bureaucratic organizations will be achieving at maximum output—that is, they will not all be on the production possibility frontier. Those which are "below" the frontier are not combining inputs as efficiently as technologically possible. Only innovation can move output beyond this frontier, but skilled entrepreneurs can use rhetoric and management skills to move their agencies closer to the maximum efficiency on the frontier of the production possibility curve.

Arbitrage/Adaptation: On the extreme left of the entrepreneurial spectrum illustrated in Figure 2.1 are less radically-transforming and less risky activities, including adaptation and arbitrage. True innovation is rare, but many ideas are borrowed and adapted from somewhere else to a new setting. Policy ideas are often recycled, transformed, and adapted to fit the changing preferences of the

electorate (Kingdon 1984; Sanger and Levin 1992). This type of alertness to the value of transferring innovation can yield profits to an entrepreneur.

Arbitrage is an entrepreneurial function that involves recognizing that gains can be made by linking streams of previously separate market activities. Many economic markets are related to one another in ways that are not perceived by "ordinary" market participants. Potential gains from trade across these markets are available to those who see and act upon the linkages. Entrepreneurs in this formulation are special kinds of middlemen (Reekie 1984: 46), who see and exploit potential gains from trade of which others are not aware. A policy entrepreneur may see a problem in one policy domain and suggest a solution to that problem which he or she draws from another policy domain. Both Kingdon (1984) and King (1988) note that policy entrepreneurs tend to be "policy generalists" who take great interest in developments outside of their own narrow area of present interest. Therefore, they are always looking for potential solutions that they may adapt into their area of current policy interest.

Arbitrage thus involves "gap filling" in the circulation of policy ideas. But this same gap filling function is also evident in the coalition-building process central to politics. Entrepreneurs can identify common interests across disparate groups and gain from linking disparate groups into a new larger coalition. Kingdon (1984: 192) combines the arbitrage process of ideas with the coalition building process linking people and groups together in a process he calls brokering: "Entrepreneurs advocate their policies, as in the softening up process in the policy stream, but they also act as brokers, negotiating among people and making the critical couplings."

Using an Edgeworth box, Figure 2.1.3 illustrates how an entrepreneur can use arbitrage to improve outcomes for different groups of actors and profit at the same time. Suppose the tax and service situation in a community is at point 1. Businesses want more services but residential taxpayers are reluctant to pay more taxes.

An entrepreneur observes that a business improvement district financed by local firms rather than by residents would provide infrastructure needed by firms presently in the community and improve the attractiveness of the community for new economic activity. The entrepreneur is alert to the fact that both businesses and residents would prefer to be at point 2 rather than at point 1 (both would then be on a higher indifference curve of utility).² In this situation, businesses will pay more taxes but get more services from the business improvement district, while residents will pay fewer taxes and see services shifted to the business district. However, these are business-related services residents do not really want. The entrepreneur gains by identifying this opportunity and by negotiating the "deal" between residents and business. The entrepreneur discovers that both groups can be made

better off, and by negotiating a deal between these groups, the entrepreneur establishes a reputation that can be used for future political activities.

Discovering opportunities and framing choices is the essential ingredient of entrepreneurial activity. In our analysis of the functions of the entrepreneur, we also identified risk bearing and team creation as two other ingredients in entrepreneurship. We review the risk taking dimension of entrepreneurship next and then enter into a much more extensive analysis of the organizational dimension of entrepreneurship.

Risk Bearing:

While there is considerable dispute about the degree to which entrepreneurs are defined by their willingness to engage in risky behavior, we argue that all entrepreneurs, no matter what the locus of their activities, must bear the reputational and emotional risks involved in pursuing a course of action with uncertain consequences. And there is usually some degree of financial risk involved too (if for no other reason than there are opportunity costs in pursuing any course of action).

Entrepreneurs often assume the role of residual claimant within a nexus of contracts because their efforts are so difficult to monitor. That is, while entrepreneurs agree to pay all other factors of production a predetermined and fixed amount, they themselves bear most of the risk of variable income. Barzel (1987) argues that this willingness to assume risk is taken primarily to signal the entrepreneur's commitment to the activity, reducing the costs of monitoring the behavior of the entrepreneur. By assuming this risk in the short-term, the entrepreneur may be rewarded in the longer term by being able to obtain other needed resources at favorable rates (see also Casson 1982: 93).

Similarly, to protect their personal reputation and to encourage continued output from employees, entrepreneurs will honor commitments even if short-term profits can be made by violating them (Demsetz 1988; also see Granovetter 1985). Further, just as individual investors diversify their portfolio of stocks to spread risks, so public entrepreneurs may seek to diversify their stock of human capital and policy proposals. Typically, at any one time, we expect the entrepreneur's portfolio to be heavily weighted towards activities that are low-risk. But being able to make capital out of delivering on these low-risk activities may provide entrepreneurs with the leverage to take significant risks in one or two other areas of activity.

That entrepreneurs risk their reputations and their own capital is seen in the realm of electoral politics. But on a less public level, many public entrepreneurs also frequently place their reputations and careers in jeopardy in pursuit of their goals. In her study of the consideration of school choice as a policy alternative in Minnesota, King (1988: 441) suggests that policy entrepreneurs pushing the most innovative options in the area of school choice risked the loss of access to those in formal

positions of authority, the loss of political capital (in the form of respect and credibility) accrued through years of public service and a history of policy "victories," and the potential loss of their resource bases to support further policy activities.

While all three of the entrepreneurial activities discussed above (innovation, management, and arbitrage) carry with them varying degrees of risk, risk is proportional to the degree to which the actions the entrepreneur proposes differ from the status quo. Thus, innovation carries the greatest risk, while arbitrage is less risky by far.

The Importance of Organization:

Besides discovering unfulfilled needs, selecting ways to meet them, and bearing reputational and financial risks, entrepreneurs play a critical role in assembling the human, physical and financial resources into the groups that are necessary to achieve the entrepreneur's goals. We begin by reviewing the challenges the "logic of collective action" presents for public entrepreneurs, focusing on a critical dimension of the entrepreneurial process-how does the entrepreneur create and maintain an organization?

Every entrepreneur is faced with the problem of assembling resources controlled by others, motivating members of a "team" to work efficiently, and minimizing tendencies to shirk. The public entrepreneur faces a set of organizational problems that can be more severe than those facing the private sector entrepreneur, because compared to his or her private sector counterpart, the public entrepreneur must almost always create and maintain a collective base to mount and sustain challenges to the existing arrangements in the political market place. In particular, the political entrepreneur must face squarely the collective action problem, often with a set of tools that are more limited than those the private sector entrepreneur controls.³

We explore some of the theoretical propositions developed in the literature on the logic of collective action. Our ultimate goal is to fit these general propositions into our concept of the entrepreneur in the local market for public goods.⁴

"The" Collective Action Problem

Recent concern for the collective action problem almost always traces back to the "logic" of collective action developed by Mancur Olson (1965). Olson defines the problem succinctly: "unless the number of individuals is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, *rational, self-interested individuals will not act to achieve their common or group interests.*" (Olson 1965: 2; emphasis in original). Following Olson's work, the formation of groups to pursue collective benefits could no longer be treated as a given (as it

was for earlier political scientists like Bentley or Truman)--instead it became a core problem in the analysis of politics.

Despite myriad refinements, the collective action problem has a clear core: Olson's "logic" leads directly to the fact that rational individuals have strong incentives to free ride on the efforts of others (e.g., Bendor and Mookherjee 1987; Dawes et al. 1986). The logic of collective action is linked to the tragedy of the commons and the prisoner's dilemma, because at the heart of each is the free-rider problem (Ostrom 1990).

Olson's logic creates barriers to the organization of collective action—barriers that the political entrepreneur must face and overcome in order to organize a political base to pursue new policy goals. Olson's analysis produced two propositions that have been extensively researched and hotly debated. The conditions identified in these propositions affect the ability of entrepreneurs to confront and "solve" the problem of collective action. The first subtheme of Olson's work is the size principle. The second is Olson's "by-product theory," which leads directly to the concern for the role of material and nonmaterial incentives in creating and maintaining groups. Both propositions provide windows through which entrepreneurs can be introduced into the theory of collective action.

The size principle: Basically the size principle has been interpreted as implying that small groups are more likely to organize for collective action. According to Hardin (1982), this seemingly straightforward interpretation of the size principle is not accurate. Hardin argues that the analysis of the size principle has been muddled because there are almost irresistible pressures to merge two different typologies of groups that Olson proposed.

The first of Olson's typologies distinguishes between "privileged groups" and "latent groups." This distinction is based directly on the logic of collective action and is related to the benefit/cost ratio members of groups experience. Groups are privileged if a sufficient number of individuals in the group experience a positive benefit/cost ratio and therefore contribute to the collective good (of course, there are numerous conditions *ceteris paribus*).

Olson's second typology is based the actual number of individuals in a group—groups can be small, intermediate, or large. The smaller the group, the lower the organization costs and, hence, the greater the probability that the group will form and be maintained (Olson 1965: 45).

These two typologies get mixed together because *empirical* observation tells us that small groups are more likely to be able to organize successfully to pursue collective actions—empirically they are more likely to be "privileged" than are intermediate or (even more so) large groups (again *ceteris paribus*).

While the tendency to merge these two typologies has created numerous theoretical problems, there are important insights into the problems of collective action and the entrepreneurial process that can be derived. Small groups are propelled toward their privileged status because they are likely to be more homogeneous in social attributes, reducing transaction and information costs. Small groups can also more easily solve the free rider problem because they can better monitor the conformity of individual group members to group activities. Monitoring is harder in larger, more heterogeneous groups (Taylor 1982; Dawes et al. 1986; Ostrom 1990).

Privileged groups can also exist if there is at least one group member who is willing to provide the public good, either by unilaterally bearing the cost of provision or by reducing the costs other potential members of a collective group may bear. Making subsidies available to help overcome the obstacles to collective action is a critical role for the entrepreneur. The entrepreneur can reduce information and communications costs, making it easier for challenging groups to organize to contest the status quo (e.g., Frohlich and Oppenheimer 1990--APSA San Francisco convention paper "Testing Leadership Solutions to Collective Action Problems").

Walker (1991) stresses the importance of patrons in subsidizing group formation and group maintenance, because the process of political mobilization often is driven from the top down, rather than the bottom up. Many groups are begun at the instigation of leaders of corporations or government agencies, who recruit entrepreneurs and sponsor their efforts in order to achieve specific policy goals. According to Walker, the spread of groups during the 1960s and 1970s was a direct result of the increase in the number and types of patrons who could subsidize nascent groups.

These factors all affect the privileged status of different groups: they help entrepreneurs create privileged groups out of latent ones. In turn, they give entrepreneurs resources to mount challenges to the status quo in a variety of issue domains, significantly broadening the range of issues represented by interest groups.

The size principle and the concept of privilege have a direct bearing on our theory. When used in the analysis of American politics the term "privileged" often refers to the primacy of capital (see for example Lindblom 1977; Elkin 1985). This privileged position is even more pronounced in local politics because of the mobility of capital and the reliance of local governments on property tax resources. The size principle increases the importance of local business: Given the homogeneity of interests and the small number of business actors involved in local communities, business interests may constitute a "privileged" group in Olson's sense as well as in Lindblom's. In short, in the local market for public goods, the two forms of "privilege" reinforce one another. This bias creates barriers to public entrepreneurs who might seek to challenge the probusiness orientation underlying

many local policies, but at the same time this privileged status may present other probusiness entrepreneurs easy solutions to the collective action problem.

In this light, consider the potential role of neighborhood organizations as a basis for a political entrepreneur in local government. First of all, neighborhoods may meet the small size criterion and they certainly tend to be more homogeneous than entire cities or geographic regions. Moreover, neighborhoods are usually characterized by frequent interpersonal interactions between members. Second, to the extent that neighborhoods respond to threats, such as a proposal for a new highway exchange or a new shopping mall, their shared interests are enhanced. These conditions will enhance the likelihood that neighborhood groups can become privileged, easing the problem of collective action.

We argue in Chapter 4 that neighborhood groups do in fact perform two critical functions in the careers of some entrepreneurs. First, because they are small and relatively homogeneous neighborhoods provide a relatively "cheap" base for collective action for policy proposals. Second, they provide a critical mechanism for "certifying" the credentials of an entrepreneur, thereby allowing an entrepreneur to move from a small neighborhood group to a larger collectivity which may be necessary to implement broader political changes. Success at the neighborhood level certifies the individual entrepreneur's reputation as an honest broker who can be trusted.

Olson's by-product theory and the incentives that entrepreneurs control: Olson's "by-product theory" highlights the range of incentives that entrepreneurs can manipulate to solve the collective action problem. In his analysis, two classes of benefits derive from group membership: collective benefits and selective ones. Collective benefits are received jointly and thus excluding non-contributors is difficult. In turn, collective benefits may be insufficient inducements for overcoming the free-rider problem. Selective incentives are targeted on contributors and can thus motivate membership activity. In this way, selective incentives help solve the collective action problem by improving the benefit/cost ratio of collective action. The by-product theory suggests a loose coupling of collective and selective incentives: Members are tied to a group by selective incentives and leaders are therefore free to fashion policy positions without fear of losing members. This component of Olson's and related work highlights the importance of selective incentives, which entrepreneurs can manipulate, and it explains why entrepreneurs may have considerable autonomy in their policy actions once they have identified and mobilized a group.⁵

But the by-product theory has been hotly debated. From our perspective, the most important aspect of this debate on the by-product theory is the finding that entrepreneurs can manipulate a whole range of non-material incentives to overcome problems of collective action.

Olson's analysis emphasizes the importance of economic incentives in decisions about whether or not to contribute to collective action. But non-monetary incentives can also drive the decision of individuals to join a group and to participate in collective action. The effort in political science to identify these other incentives trace to the work of Wilson (1973) and Clark and Wilson (1961).

Wilson argues that in addition to material rewards, other nonmaterial benefits include solidary benefits, such as fun and friendship that derive from working with others, and purposive (or "expressive") benefits, which are intangible rewards from contributing to the group because of its stated goals.⁶ Entrepreneurs can use both of these goods to overcome collective action problems.

The Non-Material Incentives Available to Entrepreneurs: The policy goals an entrepreneur advocates may themselves be important in mobilizing people to join and contribute to an organization (Hansen 1982). The collective goals of the organization are a unique asset which can play a central role in the marketing strategy of the public entrepreneur. These collective benefits give entrepreneurs a differentiated product that distinguishes the organizations they create from private firms offering only material benefits—that is, the entrepreneur offers policy benefits that may be coupled with competitively priced services. While selective benefits can induce more people to join the interest group, the political benefits cause consumers to *choose* to join a particular group rather than simply purchasing the selective benefit in the private market. Thus collective goals must be central to the public entrepreneur's marketing strategy.

But from our perspective, even more important is that the entrepreneur can change the beliefs that people have about their importance in an organization. By using a variety of interpersonal skills and by forcefully advocating a compelling vision of the future, a successful entrepreneur can make people feel engaged in a "team" production process. The successful entrepreneur can make people feel that their contributions are important. To the extent an entrepreneur can do this, individual incentives to free ride (or shirk) fall, monitoring costs are reduced, and groups can be motivated into "privileged" status.

As Taylor (1987: 25) argues "the entrepreneur is *not* just 'an innovator with selective incentives,' or someone who simply concentrates or centralizes resources. What is perhaps more characteristic of public entrepreneurship is its role in changing beliefs—beliefs about the public good itself, about what others have done and are likely to do and about others' beliefs." Similarly, according to Rothenberg (1988), during the "experiential search" process he believes characterizes the retention decision members of organizations must make, members gather information about the benefits/costs of membership and then decide whether or not to remain in the organization.

Entrepreneurs can affect this search process. Most importantly, Rothenberg argues that many individuals overestimate their own importance and are induced to remain members of the organization even though an "objective" benefit/cost analysis might induce them to quit or free-ride. The entrepreneur encourages people to think that their contribution is critical thus affecting decisions about membership and contribution.

In short, the entrepreneur can provide selective incentives to help overcome the collective action problem. And the entrepreneur can also provide the required monitoring to make conditional cooperation possible. But the entrepreneur can also manipulate collective benefits and psychological variables to change the benefit/cost ratio members and potential members of groups experience.

This manipulation of the benefits and costs of cooperative behavior is at the core of the analysis of entrepreneurs developed in transaction cost economics, a perspective that is beginning to strongly affect the study of political leadership. Transaction costs economics shows that the problems facing the private sector entrepreneur trying to organize a joint production processes overlap with the problems of public entrepreneurs trying to solve collective action problems.

Transaction Costs, Contracting, and the Role of the Entrepreneurs: Alchian and Demsetz (1972: 783) define the entrepreneur by the right: "(1) to be a residual claimant; (2) to observe input behavior; (3) to be the central party common to all contracts with inputs; (4) to alter the membership of the team; and (5) to sell these rights..." While the team-building task of the private-sector entrepreneur is assisted by the ability to control the nature of the "nexus of contracts" that constitute firm-like coordination, contracting is by no means a panacea for overcoming problems associated with free-riding and shirking (Jensen 1976; Demsetz 1988). Much of Williamson's (1985) analysis concerns the efficacy of various contractual arrangements for achieving incentive alignments in various contexts. Yet, contracts can never be fully specified and contracting parties must frequently rely on reputation, trust, and other nonmaterial incentives.

The private-sector entrepreneur improves coordination, communication, and commitment within firm-like contractual arrangements. Commitment to the continuing association of the same people makes it easier for firm-specific and person-specific information to be accumulated and reduces monitoring costs.

Entrepreneurs with exceptional interpersonal and team-building skills will have an edge in assembling teams in an efficient manner. Often, such teams are expected to be short-term because of the uncertainty inherent in the task at hand. The entrepreneur, then, must find ways of establishing good communication flows and high levels of commitment while at the same time retaining the

organizational flexibility that is required to make the most of changing opportunities. Often the successful execution of these tasks are a direct results of the interpersonal skills of the entrepreneur.

Bianco and Bates (1990) use a transaction costs perspective in their game theoretic approach to the study of political leadership. They argue that there are two known solutions to collective action problem. The first is iteration and retaliation. Here the game theoretic results are clear and compelling: In repeated games it is possible to sustain cooperation and free riding is no longer *the* dominant strategy (also see: Axelrod 1981; Hardin 1982; Taylor 1987; Bendor and Mookherjee 1987). Alternately, leaders or entrepreneurs can also produce cooperative outcomes. The entrepreneur has a central role in negotiating contracts, monitoring conformance with these contracts, and enforcing penalties for defection. But central to the analysis developed by Bianco and Bates is the importance of the capabilities of the leader. One component of capability is "reputation"—the beliefs followers have about the leader's trustworthiness and the ability to enforce contracts.

Beyond carefully tailoring contractual arrangements, entrepreneurs improve the productivity of teams and firms by creating appropriate psychological expectations, demonstrating trustworthiness, and paying attention to corporate culture (Kreps 1990). Miller (1991) specifically argues that no matter how smart the manipulation of material incentives, psychic rewards and internal commitment/motivation are always more effective tools for getting cooperative behavior (also Brehm and Gates 1993).

In short, for the successful entrepreneur solidary and expressive benefits are as important as material ones. And the most successful entrepreneurs efficiently reduce free-riding (and associated monitoring costs) by manipulating nonmaterial incentives to create a team-like atmosphere where individuals feel they are important to the achievement of the goals and objectives of the group. *Networks and Entrepreneurs:* Another solution to the organizational dilemmas that entrepreneurs face is to make use of networks of firms and individuals. According to Powell (1991: 271), networks are "lighter on their feet" than hierarchies. In networks, transactions occur neither through discrete exchanges nor by administrative fiat, but through individuals engaged in reciprocal, mutually supportive actions. Again, like any productive relationship, networks take considerable effort to establish and sustain, and this may constrain both partners' ability to adapt to changing circumstances. A mutual orientation - knowledge which the parties assume each has about the other and upon which they draw in communication and problem solving — is established (Granovetter 1985).

Networks are particularly apt for circumstances in which there is need for efficient, reliable information (Powell 1991: 272). This makes networks particularly useful to entrepreneurs, who must make the best use of available information if they are to achieve high profits. But given the loose

nature of the relationships established in networks, trust is vital, just as it is to the maintenance of high-performance firm-like arrangements.

For public entrepreneurs developing trust in relationships and support networks is vital to the pursuit of their goals. According to King (1988: 461), the impact of entrepreneurs in the domain of school choice was enhanced by their networks and relationships. These networks "magnified the individuals' influence, pooled resources, and created synergism." Public entrepreneurs capitalize on their connections, to establish and maintain supportive networks within their particular policy communities (Kingdon 1984: 189-190; Heclo 1978; and Smith 1991). Of course, these actions are not simply taken for purely instrumental reasons. Kingdon (1984: 130) suggests that much of the reward of public entrepreneurship comes from "solidary" incentives, and from simply playing the policy game: "They enjoy advocacy, they enjoy being at or near the set of power, they enjoy being part of the action. They make calls, they have lunch, write memos, and draft proposals, probably for the other [e.g. instrumental] reasons we have discussed...but in combination with the simple pleasure they take in participating." This evidence suggests there are many pecuniary and non-pecuniary rewards for entrepreneurs who are adept at assembling and coordinating teams, or becoming skilled networkers, no matter what their locus of activities.

Entrepreneurs thus are defined by their vision of opportunities, their willingness to take risks to pursue their vision of the future, and their ability to organize collective groups or teams to pursue that vision. The public entrepreneur brings these talents and related proposals to the public market place. That market is structured by supply and demand factors.

The Market for Entrepreneurs

James Q. Wilson (1989) argued that it is impossible to model the process through which public entrepreneurs emerge—that the emergence of such entrepreneurs is a rare event driven by idiosyncratic factors that are hard to identify and model. Earlier, Shackle (1972) questioned the ability of social scientists to model the emergence of private sector entrepreneurs. We recognize that few economists have examined the factors associated with the supply and demand of private sector entrepreneurs. The most notable exception is Casson (1982), who developed an explicit model of the market for private sector entrepreneurs. In this chapter, we develop components of a theory of a market for public sector entrepreneurs. We use this market approach to identify systematic regularities in both the supply of and the demand for entrepreneurs.

In the previous chapter, we showed that when key assumptions of the neoclassical model of the market are relaxed, the *potential* for entrepreneurship emerges. But ultimately, we are led to confront what we consider to be the fundamental task of social science: testing theoretical propositions

with empirical data. Our theoretical analysis identified the conditions of supply and demand that *may* affect the probability that an entrepreneur will emerge in the local market for public goods. But our research is informed by the need to specify these conditions in a manner that, to the extent possible, can be empirically tested to identify those factors that *actually* have an effect. As we move from the domain of theoretical exploration to the domain of empirical work, we specify more exactly the institutional milieu in which local entrepreneurs operate, examining how the forces structuring the supply and demand for the public entrepreneurs we study are embedded in the local market for public goods.

By specifically identifying the factors that shape the emergence of public entrepreneurs, we return to a fundamental task proposed by Kirzner (1979: 12): we seek to satisfy the need know more about the "institutional settings that are most conducive to opportunity discovery." Our research strategy also resonates with North's argument that the "kinds of information and knowledge required by the entrepreneur are in good part a consequence of a particular institutional context" (North 1990: 77).

Modeling the Market for Entrepreneurs

We begin with a simple market model for entrepreneurs, building on the work of Casson (1982). While Casson was specifically concerned with modeling entrepreneurship in the private market, his analysis identifies challenges facing all entrepreneurs, including ones in the public sector. For Casson, entrepreneurs are motivated by profit, but the extent of entrepreneurial profits is driven by the nature of the goods the entrepreneur is introducing and the ability of the entrepreneur to control competition in the market. In the private sector patent protection, monopoly control over information or raw materials, and the creation of entry barriers all increase the potential for entrepreneurial profits. But entrepreneurs in the public sector face additional problems rooted in the institutional milieu in which they operate.

In particular, public goods have many characteristics that present problems which fundamentally affects both the supply of and the demand for public entrepreneurs. More specifically, Casson notes that the nature of public goods, especially the well-known problems of exclusion and free-riding, increases the challenges public sector entrepreneurs face. Exclusion is based on the custody of physical property and the right of the "owner" to defend such property from others who have not paid for its use. Maintaining the custody of public goods is difficult and laws governing the assignment of property rights for public goods are murkier than for private goods. Moreover, the pecuniary profits public entrepreneurs can gain are limited. These factors reduce the potential reward for public sector entrepreneurship. Moreover, many of the mechanisms private sector entrepreneurs

use to make new markets and to protect their profits have very few public sector counterparts (Casson 1982: 150-152).

The identification of these types of institutional factors that affect the supply and demand conditions in the market for public sector entrepreneurs is theoretically critical. In the following sections, we add contextual details of the institutional setting public sector entrepreneurs face, with the goal of ultimately applying the analysis to the study of entrepreneurship in the local market for public goods.

Casson's Market for Entrepreneurs

Casson argues that entrepreneurs specialize in "judgmental decisions" that coordinate scarce resources to produce and manage change (1982: 23). Coordination problems emerge even in the most smoothly functioning markets because information is never perfect: uncertainty and transaction costs always make coordination costly and incomplete. Opportunities emerge as new information becomes available, making the existing allocation of resources inefficient. Thus change is inevitable, leading to opportunities for entrepreneurs to bet on alternative futures that yield higher profits (Casson 1982: 25).

Casson builds on these fundamentals to develop the idea of a market for entrepreneurs. In general terms, Casson's market brings together judgmental decisions and entrepreneurs (p. 327). In so doing, this market performs three important functions. First, on the demand side, the market identifies judgmental decisions—that is, it identifies opportunities where some discontinuity in the market exists and where some entrepreneurial profits are possible. Second, the market identifies entrepreneurs and helps determine the supply of entrepreneurs. And third, the market matches potential entrepreneurs to judgmental decisions: that is, it establishes a clearing mechanism reconciling the demand for entrepreneurs with their supply. Thus, the "good" being exchanged in this market is a matching service that ultimately leads to the "correct" entrepreneurial decision being made. But since the entrepreneurial decision is a highly heterogeneous good, the matching process is always difficult and the market itself may be subject to uncertainty and inefficiencies. In Casson's analysis, one of the key factors in the market for entrepreneurs is the difficulty in screening out "false" entrepreneurs, individuals who seek the rewards of entrepreneurship without making the proper judgements. Most markets, especially markets for complex goods, rely on intermediation to facilitate adjustments and, most importantly, to screen for quality. But since entrepreneurship is not a routine regularized "commodity," screening for the quality of entrepreneurs is obviously difficult. We argue later that the reputation of entrepreneurs, garnered through repeated political "trades," is a

critical factor in the local market for public goods (on the issue of reputation see Williamson 1975 and Barzel 1987).

The Demand for Entrepreneurs

The demand for entrepreneurs can be viewed as fundamentally a function of two factors: (1) the rate of change in the technologies of production and (2) the rate of change in the preferences of consumers. More rapid change in either of these factors leads to a greater demand for entrepreneurs to present new alternatives. These factors are often exogenous to a given market: technology or tastes change for reasons outside a specific market and the entrepreneur seizes the emerging opportunities. But in many markets, entrepreneurs do not wait for change. Instead they introduce new products and create new preferences—that is, the demand for entrepreneurial products can be endogenous to a given market.

While change can occur in a variety of ways and at a variety of speeds, one widely used model of industry and product evolution is the simple "S-curve." Porter's model of the S-curve is typical. As illustrated in Figure 2.2, Porter divides the product life cycle into four critical stages: introduction, growth, maturity, and decline (Porter 1980).⁸ The concept of product life cycles has been used by economists to study private sector goods and the S-curve has also been widely used by political scientists in the study of the diffusion of public policy innovations (see, e.g., Gray 1973; Menzel and Feller 1977; Clark 1985; Glick and Hays 1991).⁹ In the following discussion, we use the term "products" to encompass concrete goods and services as well as more abstract political ideas and policy proposals.

Each stage of product development presents different implications for competition and for the opportunities presented to potential entrepreneurs. At the introduction stage of product development, truly creative entrepreneurs experiment with alternate and sometimes radically different visions of the future. The risks here are high and the probabilities of success low. But those entrepreneurs whose vision of the future is correct and who "bet" on the right alternative stand to earn the highest entrepreneurial profits. Individuals who innovate and create at this stage may constitute the "dynamic few", the focal point that has motivated so many biographical studies of entrepreneurs.

At the growth stage of product innovation, the likelihood of entrepreneurial activity is at its maximum. At this stage, the opportunities for entrepreneurial profits through arbitrage and the adoption of innovation are greatest. As products enter this rapid growth phase, discontinuities emerge as some sectors of the market get "stuck" in old patterns of demand or consumption, while new alternative goods or policies transform other sectors. Entrepreneurs can seize the opportunities inherent in these discontinuities. During the growth stage, an entrepreneur need not invent a new

product but can reap profits by introducing an innovation to a new market segment. Given the geographical and spatial nature of local politics, this growth stage is particularly important in studying the local market for public goods. For example, an entrepreneur can advocate the introduction of a policy found in a neighboring community into his or her own community and gain credit for the diffusion of an already established idea.

As policies and products move through the growth phase, opportunities for entrepreneurship begin to disappear. For example, as the diffusion of innovation unfolds, buyers become more acquainted with the products. The products themselves become more standardized. Markets that trade homogeneous commodities have fewer possibilities of product differentiation and entrepreneurial activities. In short, over time, the "commoditization" of goods, services, and ideas reduces entrepreneurial profits.

Porter has identified other changes that further restrict entrepreneurial profits at this stage of the product life cycle. As products mature and become more like commodities, technologies are tested, potential buyers are identified, and the size of markets established. Successful strategies are imitated and poor strategies abandoned. The resulting reduction of uncertainty leads new entrants into the market and risk averse actors enter the market and compete with earlier, more entrepreneurial entrants.

Entry barriers built on proprietary information and specialized technology tend to erode, as do barriers caused by shortages of qualified, specialized personnel. Porter argues that the rate of diffusion of proprietary technology depends on the particular industry: "The more complex the technology, the more specialized the required technical personnel, the greater the critical mass of research personnel required, or the greater the economies of scale in the research function, the slower proprietary technology will diffuse. When heavy capital requirements and economies of scale in R & D confront imitators, proprietary technology can provide a lasting mobility barrier." (1980: 173). In the local market for public goods, most of these barriers are low, allowing for rapid diffusion of new ideas and narrowing the window during which the local entrepreneur can maintain extraordinary profits from new ideas.

Finally, at the maturity stage, the profits from marketing the product are pushed down to "normal" market-level returns, and the opportunities for entrepreneurship continue to dwindle as the market approaches a state of equilibrium. For many products, a phase of decline occurs sometime later.

In Schumpeter's analysis, as markets approach these final stages of maturity and decline, a new burst of entrepreneurial activity can erupt as energetic individuals seeking higher profits than can

be obtained within the existing arrangements create new markets and new products. This is Schumpeter's "creative destruction." existing products, ideas, markets, and the institutions based upon them are swept away by the next wave of entrepreneurs seeking opportunities for higher profits.

There are many variants on the use of the S-curve in analyzing the development and the diffusion of policy innovation. The relevant stages have been divided up in different ways. For example, Schon (1971) and Van de Ven (19xx) argue that issues often develop after a disruptive event. In the next stage, solutions surface, policy networks galvanize, and debate occurs. Some ideas become legitimated and reach the "agenda." Ultimately, the idea becomes institutionalized: it is taken for granted and creates entry barriers against new and possible better ideas. Unfortunately, these models lose explanatory power at the critical stage: why do some ideas reach the agenda and become legitimated and others do not? We believe that in many cases a successful entrepreneur can make the difference, by attracting support to the idea and giving it currency.¹⁰

Most important to our argument, however, is that the pattern of diffusion means that those entrepreneurs active in the early stages of diffusion of an innovative idea are most likely to bear greater risks but they are also more likely to achieve higher rewards for success. In contrast, entrepreneurs entering the policy cycle later earn corresponding lower returns.

The Demand for Public Entrepreneurs: The demand for public entrepreneurs has not been widely studied. In perhaps the best-known work in political science that addresses the demand for policy, Kingdon (1984) analyzes the role of entrepreneurs in discovering "policy windows" and in joining the multiple "streams" of the policy process. Once a window opens, policy entrepreneurs seize the resulting opportunities. The entrepreneur couples the problem stream and the political stream, in the process grafting the entrepreneur's policy idea (or "product") onto the resulting flow.

For Kingdon demand is largely exogenous. Indeed, since Kingdon relies on a variant of March, Olson and Cohen's (1972) "garbage can" model, few elements of policy change are predictable. In contrast, we believe that the demand for public entrepreneurs can be understood using a more structured approach derived from a framework similar to that for private sector entrepreneurs. More rapid change in production technologies or in political preferences create more demand for entrepreneurial policies, and thus, for public entrepreneurs.

In addition to responding to emerging changes in political preferences, public entrepreneurs can themselves be catalysts of change, leading and mobilizing demand, rather than simply following it. In Chapter One, we argued that entrepreneurs are primarily defined by their alertness to opportunity. If demand is obvious to many observers of a market, then an alert entrepreneur is not required to respond to such obvious demand-any politician can sense demand and the political

support for new policy proposals. Risks in such a situation are low, and the returns from acting to satisfy such demand would also be low.

However, the nature and intensity of political demand is often not obvious. Tastes and political preferences, to the extent that they are well-formed by most of the citizenry, are changing all the time. So too are objective economic and political circumstances. Entrepreneurs are alert to *latent* demand that is not fully formed or not yet well-understood by others. Wilson (1980) uses this approach to define entrepreneurial politics, specifically in regulatory politics, but his argument is applicable to a broader range of policy arenas. For Wilson (1980:370) an entrepreneur "takes advantage of a crisis or scandal ... mobilizes latent political support ... and uses the media to put opponents on the defensive by associating the preferred solution with widely shared values."

In the context of the local market for public goods, a crisis might be engendered by high taxes, deteriorating services, or overly rapid growth. The entrepreneur senses an emerging demand from citizens to do *something* about the problem and then uses his or her entrepreneurial skills to change preferences.

This latent or anticipated demand approach to modeling entrepreneurial behavior has parallels in the political science literature on agenda setting. Cobb, Ross, and Ross (1976) suggest three models of agenda setting: "outside access", in which citizens are the major source of issues; a "mobilization model", in which politicians or bureaucrats seek to create the appearance of mass support for their policy; and "inside access", in which outside support is not critical and political insiders control the issue. Milward and Laird (1990) argue that entrepreneurs use one or more of these approaches to bring favored issues to the forefront of the policy agenda. Wilson's latent demand model of entrepreneurial politics combines elements of the first two models; entrepreneurs sense latent demand and they attempt to mobilize and to create not only the appearance of mass support, but also true mass support.

In the context of multiple local governments, many problems, ideas and solutions are common to different communities. Solutions often come from the "bottom" and percolate upward, rather than from the top down (Osborne and Gaebler 1992). Entrepreneurs generate innovative local policies and, if these policies are popular and/or successful, the innovations are taken up by other politicians. This process has been modeled using the S-curve described above. We model some of these conditions in our empirical analysis in the following chapters.

The Supply of Entrepreneurs

The supply of entrepreneurs is determined by the size of the population of potential entrepreneurs, by the benefits and costs of engaging in entrepreneurial action, and by any economic,

political, cultural, or religious barriers that limit their emergence. Thus, two classes of questions pertain to the study of the supply of entrepreneurs. First, is the question of the size of the *potential* population of entrepreneurs. Second, is the question of the factors that affect the rate at which these potential entrepreneurs are *converted* into actual entrepreneurs.

The range of issues under debate concerning the supply of entrepreneurs is as extensive as the agreement is small. For example, for Schumpeter entrepreneurial skills, like any other special trait, has a distribution in a given population that is "Gaussian-though more plausibly a skew-law" (Business Cycles, 1939: p. 99). However, Schumpeter did not have any empirical evidence to support this claim. Moreover, he did not address the underlying conditions that created his hypothesized distribution, although in his later work he did express concern that the supply of entrepreneurs was declining. On the conversion side, based on empirical historical evidence, Schumpeter argued that waves of entrepreneurship tend to clump together. But his theory did not explain why this empirical pattern occurs.

Schumpeter's failure to provide definitive answers to these theoretically important questions is not surprising-forty years after his seminal contributions, the debate still continues. As Livesay argues in his overview of the history of the study of entrepreneurship, after "an enormous expenditure of effort by the 'new economic historians' (as well as present-oriented economists) has produced a lot of debate, not much factual information, and little if anything in the way of satisfactory explanatory theory" (Livesay 198xx: 12). While Livesay was concerned mostly with the discipline of economics, in fact, there are diverse perspectives on the supply of entrepreneurs; many of these perspectives are driven by the boundaries and paradigms of different disciplines.

In the following pages, we review briefly some of the most important perspectives on the underlying supply of entrepreneurship. The distinguishing characteristics of these works is how little agreement there is across studies of the supply of entrepreneurs.

An entire genre of work studies the psychological and sociological characteristics of entrepreneurs. Max Weber, in *The Protestant Ethic and the Spirit of Capitalism*, presented the first systematic attempt to identify the preconditions of modern entrepreneurship. Weber argued that the Protestant ethic provided a necessary but not sufficient condition for the rise of capitalism. Among the most important elements in the Protestant ethic that Weber identified was the shift in the attitude toward work. Under Calvinism work became the means of salvation, and success in this world became an indicator of success in the next. Moreover, Calvinism's emphasis on honesty transformed contracts and commerce, by reducing transaction costs and increasing certainty in the contractual

dealings underlying any modern market. These mores allowed trust to be developed outside of kinship ties.

But Weber's concept of the Protestant ethic is disputed. Shapero and Sokol (1982: 75) argue that: "There is nothing in Protestantism which leads automatically to capitalism; its importance was rather that it undermined obstacles which the more rigid institutions and ceremonies of Catholicism imposed. The capitalist spirit is as old as history..."

Despite such reservations, the study of the transaction costs of kinship, the importance of "modern" values, and various aspects of religious beliefs in propelling entrepreneurship form a continuing theme in the work of cultural anthropologists studying the economic transformation of the economies of less developed countries (see for example the articles in Berger 1991).

Schumpeter also paid attention to the psychology of the entrepreneur. In his work, the entrepreneur is driven by strong psychological needs, including the dream of creating a private kingdom, the will to conquer, and the inordinate joy of accomplishing tasks and creating new products, ideas, and institutions. A good deal of work exploring the psychology of entrepreneurial behavior has developed since Schumpeter. McClelland's work (1961) is the bedrock upon which most of the subsequent studies of the psychology of the entrepreneur has been built. McClelland's research is based on a link between entrepreneurial behavior and the need for achievement (termed "Nach"). Causally, people with high needs are driven to become entrepreneurs.

Other psychological work (e.g., Rotter 1966; Brockhaus and Nord 1979) looked in more detail at the "locus of control" (that is, whether the outcome of events is perceived as being within or beyond personal control), risk-taking, problem-solving style, values, and other characteristics of entrepreneurs. Welsh and White (1981) summarized many of these studies to identify eleven personal characteristics that were needed for successfully launching a business venture. However, in an excellent review of this literature, Brockhaus and Horwitz conclude that from the viewpoint of psychology there is "no generic definition of the entrepreneur" (19xx: p 42).

In reviewing the literature on leadership, Van de Ven (19xx) concluded that "no empirical evidence was found to support that there are a finite number of characteristics or traits of leaders and that these traits differentiate successful from unsuccessful leaders." Van de Ven further warned that the effort to identify the traits and personality traits of leaders was chimerical. Brockhaus and Horwitz (19xx) believe that similar efforts to identify such traits in entrepreneurs are likely to fail.

McClelland's work is also criticized because it is not rooted in the historical or cultural milieu in which entrepreneurs operate (Gasse 1982). Many sociologists and anthropologists stress the importance of the marginality of certain ethnic groups in encouraging entrepreneurship. The high rate

of entrepreneurship among Jews is a long standing empirical fact, often explained by their marginal position in so many of the societies in which they have located. More recently the overseas Chinese and Indians have joined the "club" of ethnic groups that supposedly support high levels of entrepreneurship. The conditions of their diaspora, and the resulting marginality, conditions similar to those experienced by Jews, are credited with creating a large potential population of entrepreneurs in these groups (see, for example Berger 1991). However, the number of ethnic groups that support disproportionate numbers of entrepreneurs is in fact so extensive as to dilute any reasonably sound theoretical argument. Shapero and Sokol (1982) list about a dozen ethnic groups with high rates of entrepreneurship, including Jews, Lebanese, Ibos, Parsis in India, Bataks in Indonesia, the Mendocinos in Argentina, the Cubans in Florida, and the "pied noires"~the displaced French colonists from Algeria, Tunisia, and Morocco.

Not surprisingly, some economists have made forays into this debate. For example, Ronan (1983) argued that the supply of entrepreneurial talent is endogenous to the economic system and can be "stimulated by a climate that will ensure the entrepreneur's freedom to innovate, to choose his means, and most importantly, to reap his due reward" (1983: 3). Psychologists and cultural anthropologists have problems with this typical economic's approach to entrepreneurship. Many anthropologists argue that the supply of entrepreneurs and especially the conversion process that turns potential entrepreneurs into actual ones is much more complex than the benefit/cost analysis underlying the Ronan's approach.

For example, Berger (1991) argues that while economists view the supply of entrepreneurs as the product of market forces, "anthropologists, historians, psychologists, and sociologists emphasize in varying and often contradictory terms, the influence of noneconomic factors, such as social norms and beliefs, psychological motivations for achievement, the legitimacy of entrepreneurship, questions of social 'marginality,' and the 'internal fit' between any and all of these and the rise of modern entrepreneurship." (p. 3-4)

From this cultural anthropological perspective, entrepreneurship is rooted in a cultural process and the very innovativeness that defines entrepreneurship can only be understood in the context of culturally imposed boundary conditions that define newness and propriety (Bartlett 1953 is the classic work). Lavoie (1989) develops this idea:

The entrepreneur is typically pictured as a loner bucking the crowd, a maverick who sees things differently from everybody else. This view contains an element of truth, of course, in that the entrepreneur comes upon a new reading of his situation that may be

qualitatively different from the readings other have been able to make. But his ability to read new things into a situation is not primarily due to his separateness from others but, indeed, to his higher degree of sensitivity to what others are looking for." (Lavoie 1991: 49; also see Landa 1991 (in Berger)).

In this light, social and cultural networks, social institutions, legitimacy, and the distribution of psychological characteristics supporting innovation are critically important in driving the conversion of potential entrepreneurial energies into actual entrepreneurship." Berger argues that it is culture that determines the way in which entrepreneurial energies are channeled: "In one type of culture, individuals high on the entrepreneurial motivation scale may become successful businessmen, and in another type, they may invent a new twist in the ritual of shamanism." (1991: 21)¹²

While Mark Granovetter, a sociologist, hasn't extended his analysis of the embeddedness of entrepreneurs in social networks to include the option of shamanism, he has articulated a well received version of the effects of networks on the conversion of potential to actual entrepreneurs. For Granovetter, "attempts at purposive action are embedded in concrete, ongoing systems of social relations." (1985: 487). Using the example of trust in business dealings and attempting to reinterpret Williamson's theory of transaction costs from a sociological perspective, Granovetter argues that "social relations between firms are more important, and authority within firms less so, in bringing order to economic life than is supposed in the markets and hierarchies line of thought" (p. 501).

Aldrich and Zimmer (1986) use this network perspective to help explain patterns of entrepreneurship. They conclude that "entrepreneurship is a social role, embedded in a social context. Investigators cannot treat entrepreneurs in isolation as autonomous decisionmakers or lump them together with others with similar social characteristics, without regard to context." Instead, they argue we should be concerned with "the effects of social networks in facilitating or inhibiting the activities of potential entrepreneurs." (p. 20)

Political scientists have not been drawn into these debates. In turn, very little work has been done identifying the conditions that define either the underlying supply of public entrepreneurs or the mobilization of potential public entrepreneurs into actual ones. We acknowledge the value of these inquiries by other social scientists, but we also see them as doing little to facilitate rigorous empirical testing. In our view, progress in developing theories of entrepreneurship can best be made by focusing on objectively verifiable regularities, such as the costs and benefits to entrepreneurship. We take this approach throughout the remainder of the book. However, in chapter 6, we do extend our analysis to consider aspects of the embeddedness/network argument.

The benefits and costs of entrepreneurship

Potential entrepreneurs have energies and talents they could invest in alternate spheres of activity. The rate at which they are attracted to the local *public environment* (as compared to some other domain such as private business) is a function of the costs they face in entering the public arena and the benefits they garner if they succeed as entrepreneurs. In our approach, public sector entrepreneurs compare their expected benefits (defined in terms of power, financial rewards, policy influence or other rewards) to the expected cost of entrepreneurial activity (defined in terms of money, time, energy and opportunity costs). This calculation ultimately informs the decision to allocate energies and resources to public sector activities or to invest these scarce resources in other domains.

The level of many of these costs and benefits are embodied in measurable facets of local government. For example, we argue that many of the costs facing public entrepreneurs are a function of the collective action problem and the ease with which this problem can be solved. In turn, the costs of solving the collective action problem in local government is a function of the institutional arrangements of that locality, in particular the structure of the local electoral system, which affects the costs of the organizing a political base for entrepreneurial politics.

Similarly, the benefits (or "profits") entrepreneurs reap are a function, among other things, of the powers they can hold and resources they can control should they win elective office. More specifically, in local government, the tax base and the budgetary slack of their local community may be able to provide the opportunity for a successful entrepreneur to reallocate resources to achieve policy goals.

Limiting the Supply of Entrepreneurs: Barriers to entry.

Suppliers in any market have strong incentives to limit entrepreneurship. New entrepreneurs can disrupt existing business practices, challenge existing products with new ones, reduce profits, and drive current market participants into bankruptcy or other forms of exit. Even entrepreneurs develop strong incentives to limit the entry of other entrepreneurs into the market.

Casson's (1982: 109) analysis shows the competitive threat to entrepreneurs from other entrepreneurs:

if two or more entrepreneurs compete to exploit the same opportunity, then normally neither of them will obtain any reward...**The** reason why competition eliminates rewards is that the information exploited by the entrepreneur is an indivisible good. Once the information has been acquired, the additional cost involved in its exploitation

is zero. Thus so long as a positive reward accrues to the information, it pays each entrepreneur to bid away from his competitors the resources required to exploit it. Consequently competition between entrepreneurs bids down the reward for information to zero.

In short, existing suppliers have incentives to limit the entry of new entrepreneurs *and* even entrepreneurs have incentives to limit the entry of other entrepreneurs. This, according to Baumol, (1983 p.42 in Ronan's book) helps explain the fluctuating wave-like supply of entrepreneurs identified by Schumpeter. For Baumol, there are random outbursts of entrepreneurial activity that drive the economy away from stagnant equilibrium. However, as these entrepreneurs become successful, opposition by losers emerges, and these losers in turn organize to impose restraints on entrepreneurial activity, mostly by erecting entry barriers to limit competition. In Baumol's analysis, institutional restraints on entrepreneurship are thus neither exogenous nor historical accidents. He argues that the very success of entrepreneurs stimulates the imposition of laws, rules and regulations that constrain future entrepreneurial activity.

The Supply of Public entrepreneurs

Perhaps most important for our analysis is that government institutions, rules and regulations all affect the costs and benefits of public entrepreneurship. As is well-known, private sector actors often seek public sector regulation to gain higher than market rates of returns or "rents" (Tullock 1967; Stigler 1971; Krueger 1974; Buchanan et al. 1980). Public sector actors can also pursue a rent-seeking strategy, erecting entry barriers to limit competition. Among the most important political entry barriers are the rules and regulations of elections (registration, timing, access to the ballot, etc.) that favor some groups over others. Entrepreneurs often shop between alternate institutional and political venues to find lower entry barriers (Baumgartner and Jones 1993). They sometimes even have to change the "rules of the game" in order to eliminate the entry barrier.

There are public sector parallels to other kinds of entry barriers private sector firms enact to limit competition (Porter 1980 describes a whole range of these business strategies). For example, private sector firms try to erect entry barriers by differentiating their product in terms of innovative features and by convincing consumers that these features are worth higher prices. Public entrepreneurs often stress their unique experiences, their concern or commitment, or some other personal quality. And certainly, the presumed uniqueness of the policy ideas the entrepreneur is advocating may be the defining characteristic of entrepreneurial politics.

Entry barriers are also related to the "switching costs" that consumers absorb as they change products. In the local market for public goods, these costs can be incurred if a community changes its politicians or its policies. Moving from established and well-known policies to new and innovative ones may maximize switching costs. Incumbent politicians facing challenges by entrepreneurial politicians often suggest that switching costs are high and that their own policies should be given more time to work. Entrepreneurial politicians may succeed in convincing the public that the added costs (often embodied as higher risk) associated with the new policies are worth paying for because of long-term gains and improved quality of life.

The importance of access to distribution networks is critical to success in the private market: success is often contingent on getting your products to consumers. Similarly, in the public sector access to citizens is critical, and this is done increasingly via the media. Politicians must get their ideas before legislators or bureaucrats, and, often more, importantly voters. Incumbent politicians at all levels have advantages in gaining access to citizens, for example, through mailings at government expense and the ability to get press coverage easily (Parker 1991).

Electoral barriers have a very specific role in affecting political entrepreneurship in the local market for public goods. Local governments use two basic forms of representation: district systems versus at-large systems. Research demonstrates how these alternate electoral systems impose different costs on groups seeking access to the ballot and the policy making process (see e.g., Lineberry and Fowler 1967; Morgan and Pelissero 1981). We extend that line of analysis by showing that compared to district systems, at-large systems pose higher entry costs to political entrepreneurs. Entrepreneurial politicians operating in an at-large system must contact and attract a larger number of voters to challenge incumbents than they would face in a district election system. We show this relationship empirically in Chapters 3 and 4, here we illustrate it graphically.

Figure 2.3 shows the demand and supply curves for entrepreneurship in the local market for public goods. The flat part of the SS' curve is, according to Casson, driven by the alternate wage rate—that is, there is some point on the axis labeled "expected rewards to entrepreneurial activity" below which entrepreneurial activity will not occur. This is similar to Porter's concept of the "entry deterring price."

Figure 2.3 presents two alternative paths for the supply curve after the rewards exceed the minimum level. Using the example of different electoral systems, SS'_d represents the supply of entrepreneurs in a district system and SS'_a the supply of entrepreneurs in an at-large system. For any given level of demand, the supply of entrepreneurs is higher in the district election system, because

the costs of entrepreneurship are lower. Any entry barrier that affects the costs of entrepreneurship will act in a similar manner to reduce supply.

Figure 2.3 goes here

Testing the Model in The Local Market for Public Goods

In this first section of this book, we have developed a theory of public entrepreneurship informed by theoretical discussions emerging from several social science disciplines. In particular, we have found economist's discussions of entrepreneurship to be most useful for helping us to think about the process of public entrepreneurship. Creating strong social science theory is difficult, but actually translating the concepts and propositions of a theory into testable hypotheses is harder still. We are empirical social scientists and we believe that any theory must be put to empirical tests. This is the task we undertake in the rest of the book.

As we translate our theory into testable hypotheses, "slippage" inevitably occurs. For example, the most rigorous testing of our theory of public entrepreneurs would take our supply and demand framework and translate it into a model containing the precise identification and specification of the factors that define each function. These functions would then be estimated simultaneously. However, as our review of the literature shows, neither the supply- nor the demand-side research identifies the indicators that should be included in either function. And, the variables that do appear in the analysis of the demand-side (mostly from economics) do not even share the same disciplinary roots as the variables that most frequently appear in the supply-side literature (drawn mostly from sociology, cultural anthropology, and psychology).

Our modelling work, our empirical testing of our models, and our interpretation of our empirical results are all consistent with the theory of the supply and demand for public entrepreneurs that we have developed here. We are aware, of course, that our empirical work falls short of the ideal standards that could conceivably be achieved using a more elegant mathematical approach to testing an integrated model of the supply and demand of entrepreneurs. But we make no apology for that. Inevitably, if we are to make advances in our understanding of empirical reality, we must be prepared to make a trade-off in our modelling techniques between their methodological sophistication and their appropriateness, given the empirical data we have to work with. Consequently, in the empirical analysis that follows, we look at the emergence of entrepreneurs in local governments as a function of conditions found in three domains. First, we believe that some entrepreneurs are highly attentive to the changing demographic and economic conditions of communities. In particular, the

changing racial composition of suburbia and differences in the rate and composition of growth provide opportunities for entrepreneurial activity (e.g., Eisinger 1988; Clarke 1990; Schneider and Teske 1993). Second, we believe that the service levels and taxes of local government is another domain that provides opportunities for entrepreneurship. Beginning in the 1970s, the entire fiscal and service environment of local government has been subjected to continued assaults from repeated recessions, declining levels of intergovernmental aid, and changing expectations about services and taxes. While some local entrepreneurs have linked social and fiscal issues (Clark and Ferguson 1983), most have treated these domains as separate "markets". Third, we believe that the responses of entrepreneurs to opportunities are affected by the nature of the political system and the costs and benefits that the political system imposes on potential entrepreneurs. Finally, given the highly decentralized nature of local government in the United States and the wide ranging differences across metropolitan areas, we root our empirical analysis in the specific regional milieux which strongly structure the opportunities and policy tools available to the entrepreneur.

Endnotes

1. Kuhn (1963) provides analogous evidence from the natural sciences of how entrepreneurial scholars have successfully framed unsolved problems or "anomalies" in such a way as to place their own preferred set of research questions at the center of the new paradigms in which "normal science" is conducted (Kuhn 1963). McClosky (1983) and Blinder (1989) provide similar evidence regarding the conduct of economic research; Almond (1990) and Lowi (1992) make similar claims about the framing of what constitute appropriate research problems and methods- in the discipline of political science.

2. A brief description of the Edgeworth box will go here.

3. First, note that while we use the term entrepreneur there is an evolving political science literature on "leadership" that is quite different from the literature we have used in developing our concept of entrepreneurship. The literature on entrepreneurs is particularly indebted to the Austrian school of economics, of which the political science literature makes little or no use. Consequently, the points of intersection between the literature on entrepreneurship and the literature on leadership are not as frequent as one would expect.

Additionally, (and not surprisingly) much of the political science literature is centered on leadership in Congress and how Congressional leaders organize and maintain coalitions. This work is often historical and set within a very specific set of institutional patterns and constraints. There is also a focus on how Congressmen use their resources to win reelection. For example, Cain et al.'s book, *The Personal Vote*, explores the ways in which a politician can maintain constituency support through a mixture of collective (policy) benefits and selective (constituency service) benefits. There are a number of other works that deal with the issue of allocating time and resources to win reelection. While this work contains many important arguments documenting how congressmen create and maintain collective support for their leadership, its context is fairly specific to Congress and the extent to which the arguments developed are directly translatable to the local political milieu with which we are interested is open to question.

4.4. Later in this book, we explore two distinctly different arenas of local government in which entrepreneurs are found. One arena is bureaucratic: we call entrepreneurs operating in this sphere "managerial entrepreneurs." In chapter 5, we identify a set of individuals who hold bureaucratic positions in local governments and who are dedicated to introducing new management principles to increase the efficiency and productivity of local services. Managerial entrepreneurs can seek, for example, to privatize components of local service delivery or introduce bureaucratic/professional reforms to enhance the quality and reduce the costs of local services by changing established bureaucratic decision rules. Managerial entrepreneurs will face resistance from entrenched interests and must create new constituencies (both within the specific bureaucracy and among external leaders) in order to change these practices.

Managerial entrepreneurs usually do not "deal" in votes and mass organization, and compared to entrepreneurs seeking elective office, they may need to concentrate only on smaller elite-based organizations. There are many biographical studies that focus on the specific problems and strategies of managerial entrepreneurs. In chapter 5, we consider more fully the managerial entrepreneur in the local market for public goods and we develop more fully theoretical propositions and expectations concerning their emergence, strategies, and success. Right now we are not concerned with this class of entrepreneurs. Instead, we focus on "political entrepreneurs."

5. The components of the theory are enumerated by Moe (1980: 74): a) members of latent groups can only be induced to join through the operation of selective incentives, yet b) the sale of selective incentives yields a surplus (in successful groups) that can be used by group leaders for lobbying and other expenditures on collective goods; it follows that c) these political activities are by-products of the operation of selective incentives—they have nothing to do with why members join, but are made possible because members join; therefore d) the leaders of latent groups may pursue any collective goods they wish without fear of losing member "support," since contributions are independent of political considerations.

6. Of course, these typologies of benefits also include the selective benefits discussed above: those tangible returns with monetary values and are derived from contributions which are at the core of Olson's theory. Note that one could argue that these alternative motivations can still fit into Olson's argument: the decision calculus just requires more input factors.

7. Vernon 1966 is often credited with introducing this idea.

8. There are problems with the simple S-curve of product evolution—for example, not all products follow this cycle and the rate at which different products enter different parts of the curve varies widely (see Scott and Storper (1987) or Maillat and Lecoq (1992)). Porter (198xx) also notes that industry evolution is affected by long-run changes in growth, demographics, the reduction of uncertainty with time, and the diffusion of proprietary knowledge that all affect the shape of the curve.

9. For critiques and comments on this approach to studying policy diffusion see Walker 1973 or Berry and Berry 1990).

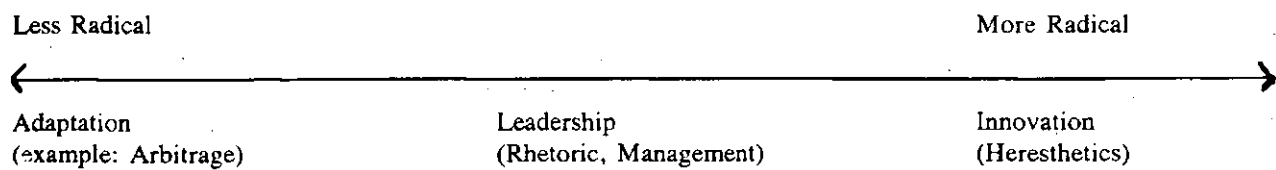
10. Recent models of the diffusion of innovation across American communities have concentrated on regional issues of geographic proximity, general indicators on policy innovativeness (e.g., Walker 1969), and issue specific factors that are associated with the propensity to adopt a new policy (see Gray 1973; Berry and Berry 1990; Glick and Hays 1991).

11. Sociologists have also adopted a similar position. Witness Granovetter's (1985) concept of "embeddedness." And while Granovetter is not directly concerned with entrepreneurship, his concern for networks and the rooting of economic behavior in ongoing social relations is identical to the argument discussed here. Also see Birly (19xx?)

12. Schumpeter recognized the importance of some of these conditions. In *A Theory of Economic Development* (Oxford U. 1961), Schumpeter stressed the importance of the legitimacy of entrepreneurship in driving the conversion of potential entrepreneurs into actual ones (also see P. Kilby (ed.), *Entrepreneurship and Economic Development* (Free Press, 1979).

Figure 2.1

The Range of Entrepreneurial Actions

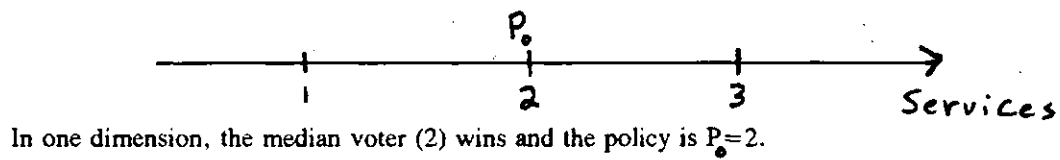


Entrepreneurs can engage in a wide range of activities that have different effects on policy outcomes and on society.

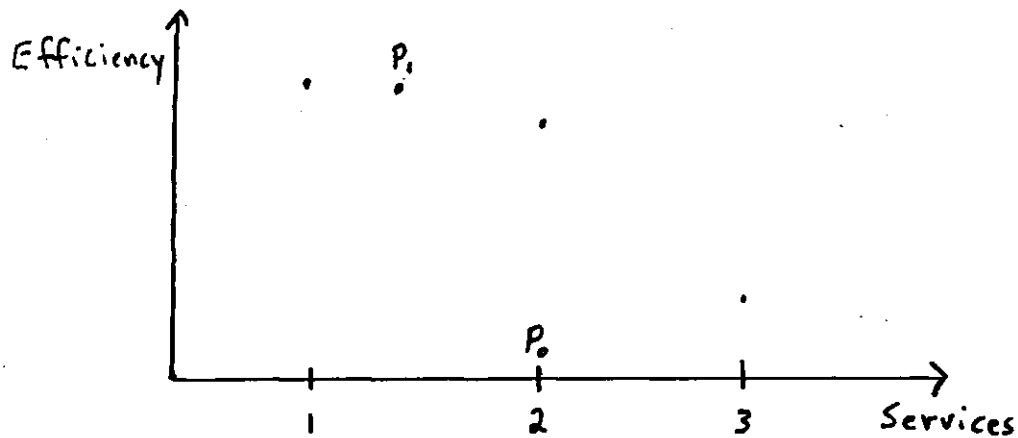
Figure 2.1.1

Heresthetics: Adding a New Dimension to a Policy Debate

Quantity of Services, considered in one dimension



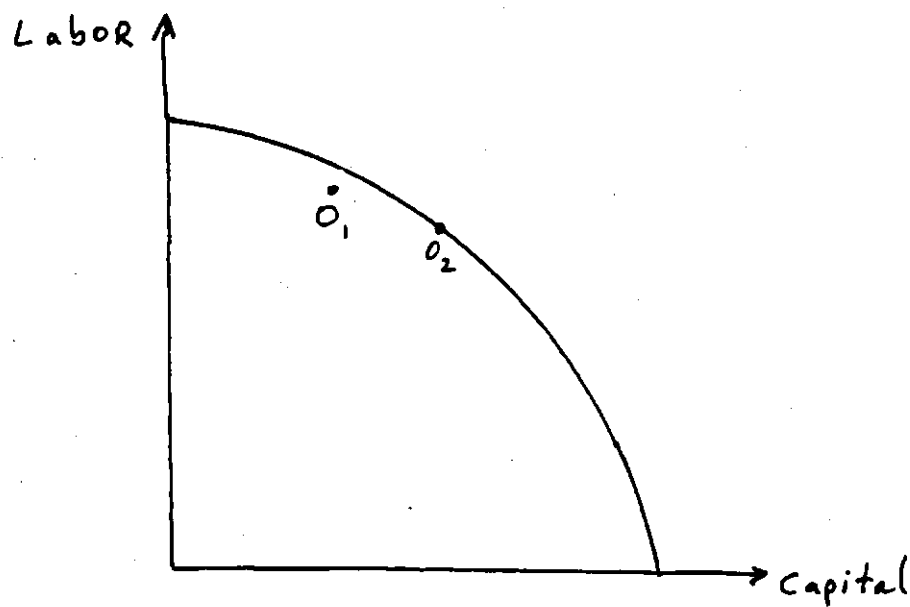
Services considered in two dimensions



An entrepreneur can introduce a new dimension to the debate, relating to the efficiency of the services that are delivered. The entrepreneur now offers policy P_1 . This policy is closer in Euclidean space to both voter 1 and voter 2, who now combine to outvote the previous outcome P_0 .

Figure 2.1.2

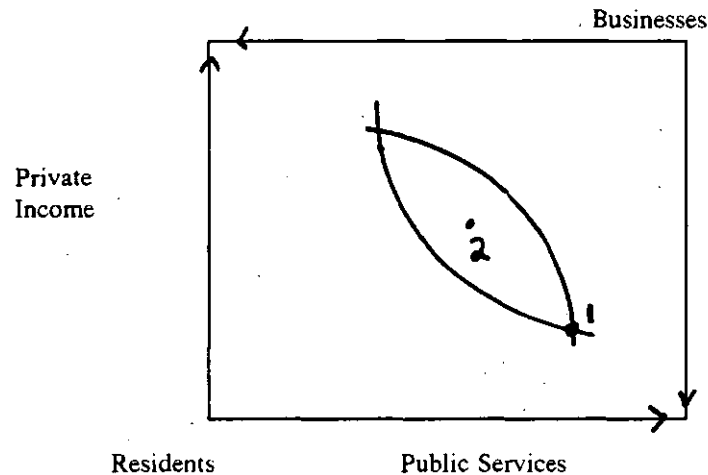
Government Production Frontier



The entrepreneur's management (more capital, less labor) and rhetoric skills increase output from O₁ to O₂. The production frontier maps a series of data points that form an "envelope" of what the most efficient communities are able to achieve.

Figure 2.1.3

Arbitrage as an Entrepreneurial Activity



The entrepreneur brokers a deal to create a business improvement district. This moves the outcome from point 1 to point 2.

Both groups (residents and business) are better off. Businesses pay more taxes, but they get more public services to improve the business climate in their district. Residents get to keep more of their income, while services they did not want are diverted to the business district.

This arbitrage activity is illustrated with an Edgeworth box, which economists use to show the gains from trade between two parties. When both parties can move to a higher indifference curve upon which they increase their utility, they will do so. Such possible trading areas make up the "contract curve". However, for a variety of reasons, parties may be off the contract curve at a point that is not a "Pareto optimal" policy. The entrepreneur reaps some of the gains from trade by showing both parties how they can do better.

Figure 2.2

The S-Curve of Innovation

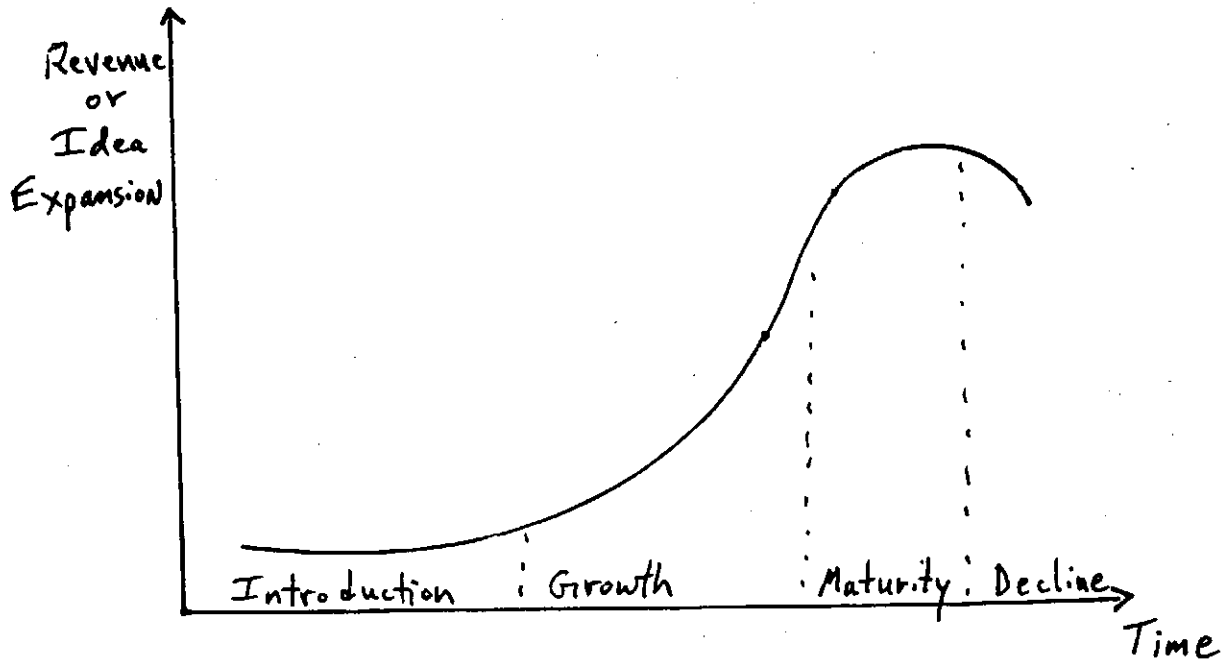
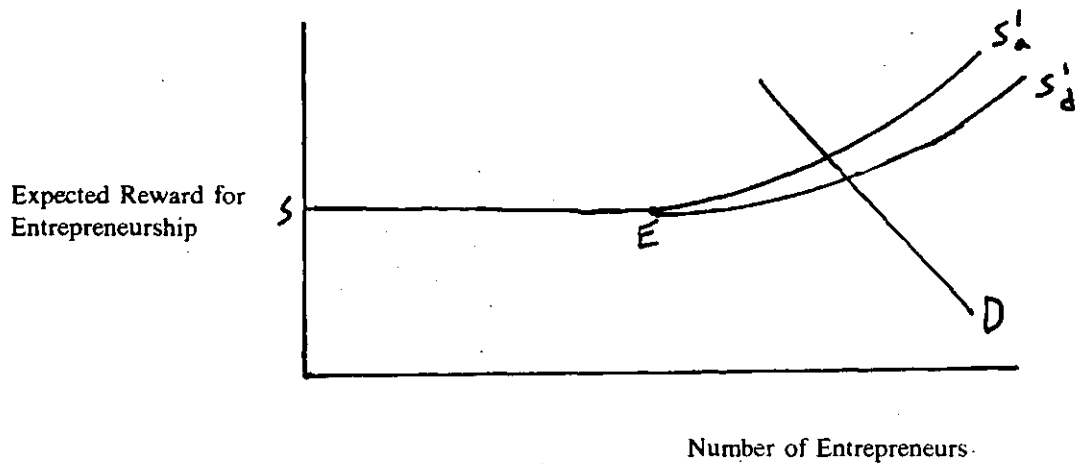


Figure 2.3

Supply and the Demand in the Local Market for Entrepreneurs



The portion of the Supply curve from $S \rightarrow E$ is below the reservation or the entry deterring price, which is determined by opportunity costs and any other expected costs of failed entrepreneurial activity.

S'_a is the supply curve in a municipality with district elections, while S'_d is the supply curve in municipalities with at-large elections. For any given level of demand, the supply of entrepreneurs will be lower in the at-large city because of entry barriers and the higher cost of mobilizing challenges to the status quo.

Part 2: The Decision Calculus of the Public Entrepreneur

In this section we explore empirically the conditions that affect the probability that an entrepreneur will emerge in different communities in our sample of suburbs. We focus on the interplay between the structural conditions of elections, organizations, budgets, and fiscal resources in a community and how these factors create opportunities and resources that can entice a potential entrepreneur into the public sector.

The costs of entrepreneurship are partly a function of the collective action problem entrepreneurs face and the ease with which this problem can be solved. Similarly, the benefits (or profits) entrepreneurs reap are a function of the rewards available from winning office. Some of the rewards are obviously psychic—related to the joys of creating new policies and affecting change. In this section, we show that as the costs of public entrepreneurship drop and as the benefits rise entrepreneurs are more likely to be found.

We root our empirical analysis and the identification of the benefits and costs of entrepreneurship firmly in the local market for public goods, in which local services are delivered by multiple municipal governments in packages that are paid for using a revenue system in which local property taxes are central. In this arena, governments are in competition with one another and use their taxes and services to lure desirable households and business firms.

In chapter 3, we present an analysis of the factors that affect the emergence of all the public entrepreneurs we identified. In chapter 4, we focus on one of the central areas of policy and politics that preoccupy the suburban governments we study—the politics of growth. We show how the changing conditions of suburban growth and changing public attitudes toward growth produce opportunities for political entrepreneurs. In chapter 5, we turn to the study of managerial entrepreneurs. In many cities, city managers play an important role in developing new ideas and energizing local bureaucracies.

In each of these chapters we seek to identify empirically those factors that increase the likelihood of finding an entrepreneur.

Chapter Three:

The Emergence of Political Entrepreneurs

The Independent Party had controlled the village of Malverne, Long Island for 62 years, almost since its founding. And Cathy Hunt was sick and tired of it. Although Hunt had been active in many civic organizations, including co-founding and leading the Malverne Civic Association and chairing an "Adopt-A-Station" committee to improve commuter rail station conditions, she had never run for elective office. But Hunt was aware that Malverne faced serious problems; its tax rate had reached the legal maximum and ranked in the top 10% of villages in the county. As a result, the village had to borrow funds to pay for current services.

In 1987 Hunt, a 40 year old high school-educated former executive secretary, led a group of concerned citizens to form a new party, the "Home Pride Party", to challenge the long-entrenched status quo. Their opponents in the Independent Party had not faced a contested election for 21 years. The Home Pride slogan was "We are not politicians! We are concerned citizens!" Hunt promised to be a full-time mayor, even though the position paid only \$7,500. She argued: "Today government must be run like a business. Can you imagine a successful business where the boss is never around?"

The central issues in their campaign included road repair, long range planning to improve the local budget, and opening up the governmental process to more citizen input. As the incumbents tried to protect their positions, the campaign turned aggressive and even "dirty." After the election, Hunt filed multi-million dollar libel and slander suits against her opponents for the misleading information she claims they disseminated during the campaign.

To her surprise, she and her entire slate won the Mayoralty race and half the Board of Trustees. After winning, Hunt replaced several entrenched village employees from the old regime, hired a consultant to recommend solutions to the road repair problem, looked for new sources of external grant funds, and addressed rapidly increasing solid waste disposal costs. She also planned to meet with all village employees to seek their input into solving these problems. She worked to reduce both the \$300,000 accounts payable deficit and the \$2 million in long term debt the previous regime left behind!

Despite these impressive changes in local politics and policies, Hunt wanted to do more. She told the regional newspaper, *Newsday*: "I'm finding that government works slowly and that's frustrating to me. I'm a compulsive person." Using an innovation new political party and her own energetic leadership, Hunt transformed the politics and policies of Malverne.

In Naperville, Illinois, a rapidly growing suburb outside of Chicago, Mayor Margaret Price was also pursuing entrepreneurial policies. Naperville's rapid growth had long been supported by a strong progrowth coalition, but as growth accelerated, opponents emerged and coalesced into an antigrowth group that was able elect three council members in 1985.

Price brokered compromise solutions to the disruptions of growth, by advocating "managed

growth." She argued that the city needed to annex new development to control density and the type of development in the community. The *Chicago Tribune* quoted her as defending developer impact fees because, "unless you have some mechanism for sharing development costs, a community will become no-growth because of high taxes." In the course of balancing Naperville's contending coalitions, Price spearheaded development of a much needed master land use plan. Price sought to broker a compromise between competing interests by changing attitudes and improving communications. Price told the *Chicago Tribune*: "I've tried to dispel the 'we-versus-they' attitude and tried to achieve better communication between our business community and homeowners."

The 53 year-old Price was first elected as Mayor in 1983, winning by a 2:1 margin over the eight-year incumbent, a real estate agent who had helped Naperville become the fastest growing town in Illinois. When three strongly antigrowth council members were elected in 1985, the level of political conflict in the town accelerated greatly. As a political response to this challenge, in 1987 Price supported a council coalition that won a fierce electoral fight, and she was reelected by a 2:1 margin. Price told the *Tribune*: "All the council candidates who won have experience in city government and can take part immediately without a transition." They included a county personnel director and a planning commission chair.

Although Price had substantial experience in public service, she, like Cathy Hunt in Malverne, New York, never expected to be at the center of such a political storm. According to the *Tribune*, she noted: "If anyone had told me 10 years ago that I would be sitting in the mayor's chair, I would have laughed at them."

Price originally got involved in civic affairs to protect the ambience of her adopted town: "Naperville had the feel of a small, Midwest town, not a suburb. It looked like home." Her civic career started slowly; she helped found the Maplebrook II Homeowners Association in 1968. Next she observed council meetings for the League of Women Voters and helped the League successfully champion a city manager reform government structure. She served for 7 years on the planning commission. She ran unsuccessfully for council twice. But persistence paid off: she finally won election in 1978. According to the *Tribune*, she noted: "I decided to run because there was discussion about changing our form of government from the council-manager form back to a commission form of government. I thought that would be a giant step backwards." In a sense, she wanted to protect institutional rules of the game.

Price, like Cathy Hunt, is a part-time mayor, who essentially serves full-time. With a \$15,000 annual salary, it is clearly not pecuniary rewards that are motivating her entrepreneurship: "I'm not complaining, I chose this job and I enjoy it. . . . Actually, I feel that serving in local office is more of

a public service-type job than political. I see my mayoral position as a progression of my involvement in community service organizations." This progression is not finished. Following the same strategy she used to launch her career at the city level, offering extensive service in neighborhood organizations to build a base of support, Price extended her entrepreneurial actions to the regional level: she worked with officials in neighboring suburbs to procure Lake Michigan water sources. Price argues: "With the present growth in DuPage County, cooperation between suburbs becomes even more important."

Local Political Entrepreneurs

These stories are not unusual and they give flavor to the nature of entrepreneurship occurring in local governments across the United States. Indeed, in our nation-wide survey of local government, we literally found hundreds of examples of public entrepreneurs, both women and men, African-American and white, young and old, who were challenging local politics in similar fashion to Hunt and Price. Their goals, issues, techniques, and results were different: some entrepreneurs fought for economic development, some opposed further growth, some fought to reduce taxes or to improve the delivery of government services. What they have in common is that they advocated *dynamic political change* in their community.

Hunt, Price and others in our study are not "great figures" in history. Outside of their towns and neighboring communities, probably few people have ever heard of them. They may not seek or achieve higher political office outside of their community. In part, that is our point about local political entrepreneurs—they need not be national figures like Admiral Rickover or Robert Moses, about whom whole books could and have been written. They are, instead, individuals who are acting to take advantage of the opportunities for entrepreneurial activity that are abundant in American local politics. This is especially true in the setting of small and moderate sized suburbs outside of most American cities. Throughout our history, Americans have shown a persistent desire to tinker with their local government. In turn, there is almost always demand for change at the local level. And this demand for change might have increased in the particularly difficult fiscal environment of the 1980s. Citizens who otherwise might not have become involved in politics often pursued opportunities by forming new groups or by running for office. In some towns, especially when politicians did not respond to the need for changed policies, high-level bureaucrats, especially city managers, sometimes pursued these opportunities (see Chapter Five). But in other cities, no entrepreneur emerged to seize opportunities. In this chapter, we try to explain and model the important elements of local political institutions and environments that shape the benefit/cost calculations public entrepreneurs make in successfully pursuing such opportunities.

Our goal in this chapter is to identify the conditions that affect the probability with which an entrepreneur emerges in any given community. We argued in Chapters 1 and 2 that the costs of entrepreneurship are partly a function of the collective action problem entrepreneurs face and the ease with which this problem can be solved. Similarly, the benefits (or "profits") entrepreneurs reap are a function of the rewards available from winning office. In the case of Mayors Hunt and Price, the rewards are not monetary, as they work long hours for low pay. Some of the rewards are obviously psychic-related to the joys of creating new policies and affecting change. The potential for these rewards may be measured by, among other things, the budgetary slack of their local community, which affects the entrepreneur's ability to reallocate resources to achieve policy goals and by the structure of the electoral process that affects the costs of winning public office and the likelihood that the office possesses the resources to affect change.

These factors affect the decisions made by *individual* entrepreneurs. But these individual decisions can have wider effects. At a more *systemic* level, entrepreneurs can affect the political equilibrium within and across communities in metropolitan areas, introducing new ideas and policies that other communities adopt or emulate.

Entrepreneurs in the Local Market for Public Goods

We are concerned with entrepreneurs in the local market for public goods—a market in which bundles of local services are delivered by multiple municipal governments that are paid for using a revenue system in which local property taxes are central.' In this arena, governments are in competition with one another and use their taxes and services to lure desirable households and business firms (Peterson 1981; Schneider 1989). In the resulting competition, some forms of local political entrepreneurship may temporarily create disequilibrium, upsetting existing local public service and tax arrangements and altering the relationship between communities in a region. However, over time, many entrepreneurial innovations are absorbed and institutionalized into new political arrangements and a new balance between communities emerges. The tax/expenditure limitations movement of the 1970s (e.g., Clark and Ferguson 1980), the concern for economic development policies of the 1970s and 1980s (e.g., Eisinger 1988), and the recent antigrowth movement (e.g., Schneider 1992; Logan and Rabrenovic 1990) may all be examples of opportunities seized by entrepreneurs in local government and whose actions created the dynamics of punctuated equilibria.

Oakerson and Parks (1988) argue that in local politics, entrepreneurship often occurs in the context of professional associations that link managers across different local governments. Clearly, much entrepreneurial activity concerning local service efficiency is managerial-especially with regard to the introduction of new technologies within a given service domain. We found that more common

than managerial entrepreneurship was the emergence of elected politicians who play critical entrepreneurial roles.

One of the most important types of local political entrepreneurs active in recent years exploited the opportunities emerging from the politics of growth. These "growth entrepreneurs" can be divided into several subclasses. First we found entrepreneurial politicians who were in favor of growth and who advocated using the vast array of traditional tools of local government (such as tax abatements and debt financing) to lure business firms. These politicians had their greatest successes in the 1970s and early 1980s. But eventually what Blair et al. (1984) called the "market for jobs" became so fully developed that most opportunities for political entrepreneurs advocating these traditional tools were identified and entrepreneurial profits bid away in the intense interlocal competition for economic development that characterized the 1980s (Milward and Newman 1989; Schneider 1992). Indeed, so many of these traditional local progrowth tools are so routinized that they are now handled by a cadre of bureaucratic managers (e.g., Blair et al. 1984; Eisinger 1988). This "life cycle" replicates the S-curve pattern of innovation in private markets: over time innovative products (in this case, growth policies) are transformed into standard "commodities," competition dissipates initial high entrepreneurial profits, and entrepreneurial leadership is replaced by routine processes handled by bureaucratic managers.

As the profits of traditional progrowth policies dwindled, not surprisingly, a new class of growth entrepreneurs is now emerging advocating a whole new range of what Eisinger (1988) calls demand-side policies to promote economic development. This evolution in policy tools is congruent with our theory of entrepreneurship in local government -- as the last set of innovative tools became "traditional", the payoffs dwindled and a new generation of political entrepreneurs emerged to create policies with potentially higher rewards. Over time, we expect the life cycle of these new demand-side policies to replicate the life cycle of the last round of innovative growth policies: to the extent that new demand-side policies are successful, political entrepreneurs in other communities will advocate them. Ultimately the political profits attached to these innovative policy tools will decline and they too will become standardized bureaucratic products. However, while this process unfolds, many political entrepreneurs will make their careers and, at the systemic level, the entire package of growth policies local governments offer will be transformed.

This new generation of entrepreneurs, advocating innovative approaches to economic development, supports local growth. But as the Naperville Illinois case illustrates, even more radical challenges are emerging from antigrowth entrepreneurs — entrepreneurs whose political careers are built on questioning the very value of growth itself (Logan and Molotch 1987; Logan and Zhou 1980;

Schneider 1992). In Chapter Four we explore in more detail these types of progrowth and antigrowth entrepreneurs.

Another type of local political innovator that we found in our study focuses more on services and taxes, emphasizing efficiency enhancing reforms. Borrowing a term from Clark and Ferguson (1983), many of these "new fiscal populists" fit the profile of an entrepreneur - that is, they are politicians who challenge the existing service/tax arrangements in local governments by advocating policy reforms to reduce local taxes and improve the efficiency of local government services. Certainly, there were many such entrepreneurs in local government in the late-1970s and the early 1980s, when economic slowdown and cuts in intergovernmental aid required local governments to try to do more with fewer resources.

The responses to the changing conditions of the 1980s motivated one of the most recent popular studies of public entrepreneurship, Osborne and Gaebler's *Reinventing Government*. Osborne and Gaebler argue that there were fundamental structural changes in the environment during the 1980s that increased the need for flexible and adaptable responses on the part of both public and private organizations. At the state and local level, the cutbacks in federal and state aid, coupled with property tax revolts and the steep recession of 1982, combined to drive these governments into despair.

But the crisis presented many opportunities for innovation. Osborne and Gaebler argue that local governments were the first governments to face these challenges and entrepreneurs in many local governments emerged to seize the opportunities inherent in the revolution in demands and constraints in the local market for public goods. According to these analysts, given these circumstance: "local leaders had no choice but to change the way they did business. Mayors and governors embraced 'public-private partnerships' and developed 'alternative' ways to deliver services. Cities fostered competition between service providers and invented new budget systems. Public managers began to speak of 'enterprise management,' 'learning organizations,' and 'self-reliant cities.' States began to restructure their most expensive public systems: education, health care, and welfare" (p. 17). Many of these innovations are in various stages of testing and diffusion, and the entrepreneurs pushing them are also in various stages of seizing the profits (or suffering the risks) of policy innovation.

No matter the type of entrepreneur and no matter what the exact factors that motivated his or her emergence, the entrepreneur to be successful needs to create a political coalition by which to challenge the status quo. The new fiscal populist seized on dissatisfaction with rising local taxes and the middle class predisposition for the norm of efficiency to challenge existing political/bureaucratic alignments. Often these new fiscal populists not only challenged the political leadership in their communities but actually changed the rules of the game. For example, through initiatives and

referenda some entrepreneurs created a requirement that extraordinary legislative or voting processes be followed to allow higher taxes. The entrepreneurs identified by Osborne and Gaebler mobilize citizens, redefining them as customers who are empowered to demand change. Many of these entrepreneurs radically change the institutional structure of the bureaucracies they govern, often by engaging in decentralized participatory management to mobilize, motivate, and energize their employees. In so doing, these entrepreneurs fundamentally shift the rules of the game in favor of citizens and away from entrenched organizations.

Similarly, to be successful, the antigrowth entrepreneur must fracture the existing progrowth political alliance found in many communities and create a new political alliance. Neighborhood and community organizations that are faced with rapidly accumulating costs of growth usually provide the organizational basis for the antigrowth entrepreneur. This alternate organizational base is often mobilized as the antigrowth entrepreneur introduces a new dimension in local debates over growth, a dimension that emphasizes what Logan and Molotch (1987) call the "use value" of land, replacing the traditional concern for its exchange value (Schneider and Teske 1993).

Stalking the Local Political Entrepreneur

No simple theory exists to explain entrepreneurship in the private market. And any useful theory of public entrepreneurship is necessarily complex. In the previous chapters, we developed a core set of ideas that must inform any theory of public entrepreneurship. Many components of our theory are empirically testable. Starting with this chapter we engage in such empirical analysis. In the empirical analysis presented here and in the next chapters, we begin to identify the conditions that affect the emergence of entrepreneurs in the local market for public goods. Following our theoretical developments in chapters 1 and 2, we believe that entrepreneurs are motivated to enter the public arena (*ceteris paribus*) by the benefits and costs of political entrepreneurship. More specifically, we argue that entrepreneurs are more likely to emerge in the local market for public goods when there are factors that make entrepreneurial profits more likely and where local conditions facilitate a solution to collective action problems.

Methodology

In constructing empirical tests of our theory, we faced the difficult problem of discovering the extent of entrepreneurial activities in local governments around the country. Rather than drawing on secondary source materials, such as the Innovation Awards of the Ford Foundation, the numerous case studies reported in works such as Osborne and Gaebler (1991), or program-specific innovations that are being developed around the nation (such as reported in *Governance* magazine), we surveyed municipal governments directly. We created a sample of all incorporated suburban municipalities

greater than 2,500 population in the largest 100 metropolitan areas in the nation. With certain restrictions on the selection of communities, this produced a set of about 1,400 communities in over 20 states.²

We developed a questionnaire that we sent to city clerks in each of these communities. We chose to survey clerks because we believe that they are knowledgeable about the politics and political history of their communities. Moreover, as part of their jobs, they are usually given the responsibility of responding to inquiries about their communities. In short, they make more than credible respondents.

Our survey instruments are reproduced in Appendix xxx. Since asking city clerks to identify local leaders who are "alert to disequilibrium" or who engage in "creative discovery" stretched the norms of language (even if the phrasing would be more theoretically pure), we asked clerks if, during the past several years there had been any individual in their community whose "policy proposals and political positions represented a dynamic change from existing procedures." If clerks identified such a person, we then asked a series of questions about what that person did that made them entrepreneurial. We also asked all of the clerks about the political structure of their community and we asked them to rate the relative political strength of various groups in the community. With three follow-up letters, we received nearly 1,000 responses. We then matched the information we received from the clerks with data published by the U.S. Census and various state and local reports covering a wide variety of demographic, fiscal, economic and political factors. Because our questionnaire asked clerks to name entrepreneurs who emerged over the last several years, we use specific conditions of communities from the early 1980s to predict the emergence of an entrepreneur.

From the sample of 1,400 communities, we received 953 useable responses, of which 257 clerks nominated someone as a political entrepreneur. Thus entrepreneurs were found in approximately 30 percent of the cities in our sample.⁴ Of these entrepreneurs, 43 percent were mayors, 26 percent were members of the city council, 23 percent were city managers or bureau chiefs, and the remainder were from business or from other private activities.⁵

In the analysis of political entrepreneurs in this chapter and the next, we use probit analysis to identify the conditions that affect the likelihood of finding an entrepreneur in a community. We analyze the emergence of a local entrepreneur as a dichotomous (0,1) variable (with 1 meaning an entrepreneur was reported in the community). Probit is an appropriate technique when a dependent variable takes on only two values. Probit analysis also has a very nice feature: the probit coefficients can be manipulated to show how a change in an independent variable affects the probability of finding the event measured by the dependent variable. In our work, we thus identify not only the

objective local conditions that affect the probability that an entrepreneur was found in a given community, but using probit to conduct "sensitivity analysis," we also measure how various local conditions affect the likelihood of finding an entrepreneur.

In our empirical work, we investigated 4 specific classes of community conditions to see how they affected the probability of finding an entrepreneur. These are:

Regional location. It is well-known that patterns of political practices, local government services, and demographic change in localities varies markedly across regions of the country. We control for regional location in two ways. First, and most simply, we divide our communities into the 4 largest geographic regions defined by the Census: the South, West, North Central, and Northeast. We create a series of dummy variables noting regional location and include these dummy variables in our probit analysis. At minimum, we use regional location as a control variable. However, in the analysis we present in Chapter 4, these variables have important substantive implications.

Second, to correct for more specific regional differences in the distribution of community conditions, all the independent variables have been adjusted by metropolitan means and standard deviations (that is, they have been turned into z-scores by MSA). Through this transformation, the independent variables reflect the standing of a community relative to its neighbors (Schneider 1989).

Political factors. We model explicitly many of the political conditions that affect the benefits and costs of entrepreneurship in the local market for public goods. We focus on two sets of political conditions—the electoral conditions in a community and the structure of the office of the chief political executive.⁶

We believe that the office of the mayor is a critical institutional position for many local political entrepreneurs, as it maximizes access to the resources necessary to implement the programs and policies the entrepreneur desires in the pursuit of his or her vision of the future. If the office of the mayor is full-time, the rewards of the office are even greater. We thus create a variable that is set to the value of 1 in cities with a full-time mayor and 0 in cities that have either a part-time mayor or no mayor at all.

There may be entry barriers facing an entrepreneur who seeks to win election to office as mayor. For example, the term of office for mayor in the local governments in our sample is almost evenly divided between 2 and 4 year terms. While a longer term may make the office a more valuable resource for the entrepreneur, it also reduces the frequency of electoral opportunities an entrepreneur has to challenge the established coalition. Similarly, considerable variation is found across communities in the rate at which the mayor's office turns over. We include in our analyses the length of the term of office and the number of different mayors a community had during the last 10 years,

using these measures to reflect entry barriers facing the entrepreneur.

Previous studies have documented that the extent of structural political reform affects local politics. Following the established literature, we assess the effects of three aspects of reform on the emergence of local entrepreneurs; however, we reinterpret these conditions through our theoretical lens. First, we assess the effects of the office of city manager on the emergence of entrepreneurs. The office of city manager, like the office of mayor, may increase the probability of finding an entrepreneur, by providing a visible, attractive springboard for the pursuit of alternate policies. City managers sometimes are themselves entrepreneurs, seeking to accumulate a record of success in order to move on to larger and more prestigious communities. Moreover, a city manager may provide expertise and advice to an entrepreneurial mayor. We thus include a dummy variable reflecting the office of manager.

Second, we are concerned with the nature of the local system of representation. Because collective action problems are easier to overcome in smaller constituencies than in larger ones, we believe that cities using district elections rather than at-large elections will be more likely to provide organizational opportunities for an antigrowth entrepreneur. The relative ease in which collective action problems can be surmounted in these smaller constituencies expand the "profitable" opportunities available to an aspiring antigrowth entrepreneur, increasing the likelihood that an entrepreneur will emerge.⁷

In addition to a city manager and at-large elections, the third most common reform of the political structure is the adoption of non-partisan elections. We examine the effects of this reform on progrowth entrepreneurship, although we have no *a priori* expectation about the effects of this political variable on entrepreneurship.

We are concerned with the organizational milieu in which local politicians operate and the extent to which different groups in a community may provide a springboard for political entrepreneurship. All political entrepreneurs must assemble a coalition to support their proposed policy changes. We want to assess how the strength of various political groups in the local environment affect the emergence of entrepreneurs. We asked the city clerks to rate the political importance of a variety of local groups on a scale of 1-5 (with 1 being not very important and 5 being very important). We relate the strength of 4 key groups to the emergence of the entrepreneur. First, we measure the importance of local political parties, which may provide an avenue through which the entrepreneur can launch a career. Second, we measure the strength of business groups, such as the Chamber of Commerce. Business groups are themselves in a privileged position in local government; they control many resources that politicians need and they can help provide selective incentives to

help overcome collective action problems. Thus, they can reduce the costs of entrepreneurship. However, they may also be strong supporters of the *status quo* putting limits on entrepreneurial politics.

Tax payer groups constitute our third group. Taxpayer groups often provide a launching platform for politicians in cities where unhappiness over taxes and services is high. These groups are frequently found in local governments and have been particularly important in recent years as cities have felt the pressure of declining intergovernmental aid and rising taxes. We believe that these groups may act as a "safety valve" in local politics, channeling energy and potential discontent, thus substituting for new entrepreneurial activity.⁸

Finally, of great theoretical importance are neighborhood organizations that can act as a springboard for the entrepreneur. By lowering organizational costs and by providing a mechanism by which to build a reputation as a reliable and trustworthy political actor, neighborhood groups can directly ease the costs of entrepreneurship.⁹

We believe that there is an important relationship between neighborhood groups and the form of election. Neighborhood organizations and district systems of representation both increase the spatial representation of interests (Welsh and Bledsoe 1988), and thus may be substitutes for one another. In contrast, at-large electoral systems downplay spatially defined concerns. Consequently, in at-large systems of representation, neighborhood groups may represent a major avenue by which an entrepreneur can minimize start-up costs. To reflect this contingent relationship, in the probit model we include an interaction term between the form of election and the reported strength of neighborhood groups in a community. This interaction term assumes a value of 0 in cities with district elections, but is the reported strength of the neighborhood group in cities with at-large elections.

Fiscal and Budgetary Factors: The local tax base of a community is a fundamental fiscal resource that can attract public entrepreneurs. A strong tax base gives communities a wide range of policy options for the entrepreneur to pursue. Since communities with a strong tax base can provide good services at a moderate tax rate or moderate services at a low one (Schneider and Logan 1982), a strong tax base represents a public resource entrepreneurs can use in pursuing their vision of the future.¹⁰

A second fiscal variable, the comparative local tax rate, is more likely to reflect the community's potential support for an entrepreneur. When local taxes are high relative to the taxes of other communities, an opportunity may exist for an entrepreneur to advocate innovations that increase the efficiency of local services, limit expenditures, or redirect patterns of growth that residents might associate with higher taxes. Thus we hypothesize that both a higher comparative tax base and a higher tax rate will increase the probability that an entrepreneur will emerge in a given community.

Entrepreneurs will also be attracted by the possibility of redeploying local budgets to achieve the policy goals they prefer. Following Peterson (1981) we divide local expenditures into three categories: developmental, allocational, and redistributive." According to Peterson, within the types of expenditures that constitute local budgets, allocational expenditures are the most unconstrained. In Peterson's analysis, cities have little leeway in their expenditure decisions over redistributive services (which they must avoid) and over developmental expenditures (which they must pursue in a non-political professional manner). This leaves allocational expenditures as the domain over which local politicians have the most influence. From our perspective, high allocational expenditures create slack resources that increase public sector opportunities for entrepreneurial profits — these slack resources can be most easily reallocated by the entrepreneur to pursue preferred policies (Schneider and Teske 1992).

Demographic factors: The probability that an entrepreneur emerges will also be related to the demographic make-up of the community. Demographic conditions reflect opportunities for the entrepreneur to advocate new policies and reflect the relative ease with which entrepreneurs can organize the citizenry into collective political action. One important variable affecting the ease of organizing for collective action is the stake that individual citizens have in local tax and service issues. We hypothesize that communities with a greater concentration of renters, individuals without a location-specific investment in property, will be harder to organize than communities with a larger concentration of more firmly anchored homeowners (Cox 1982).¹²

Donovan and Neiman (1992) identify what they call a "social bias" theory linking social status with the political skills and economic resources that facilitate mobilization against development (also see Baldassare and Protash 1982). Thus communities with lower median income may present greater organizational barriers to an entrepreneur.

As we noted above, conflicts over growth are endemic to local politics. Rapid growth can strain existing services, increase pressure on taxes, and mobilize local citizens who see the quality of life in the community changing. We thus test the effects that rapid growth in a community has on the emergence of a political entrepreneur.

We also believe that the growing racial heterogeneity of suburban communities may create the conditions for political entrepreneurship by providing a base for new political demands or by counter-mobilizing existing residents to the demands of a growing racial minority population. Specifically, we hypothesize that a larger black population can add a new racial dimension to local politics that can increase the probability of local entrepreneurial political behavior. We also include the distance a suburb is from the central city as a control variable, since this condition is often directly correlated

with a variety of economic and social conditions of suburban communities (Dye and Garcia 1978).

The Effects of Community Conditions on the Emergence of Entrepreneurs

In the following section we estimate separately the effects of each of the categories of these variables on the probability of finding an entrepreneur. We experimented with a variety of models that combine classes of variables into large equations containing increasing numbers of indicators. The problem with this approach is multicollinearity: as more and more indicators were added to our estimating equations, we became uncomfortable with the increasingly complex interactions between the independent variables. Given multicollinearity—which is a reflection of reality and cannot be solved (either mathematically or empirically) by adding more cases—we opt for the less than perfect solution of reporting 3 separate probit analyses (we incorporate the regional variables into the other models). Following the analysis of each probit equation, we report a sensitivity analysis that shows how manipulating specific important conditions affect the likelihood of finding an entrepreneur. By comparing across these sensitivity and probit tables, the relative importance of various conditions becomes clear.

Table 3.1.1 reports the results of a probit estimation of the effects of local political conditions on the emergence of a local entrepreneur controlling for region and Table 3.1.2 reports the corresponding sensitivity analysis.¹³ Two variables stand out as the most important. First, where cities have a full time mayor, the probability of finding an entrepreneur increases dramatically. In fact, this variable has the single largest effect of variable in any model we test. *Ceteris paribus*, the probability of finding an entrepreneur in cities with full-time mayors is almost 10 percent higher than in the sample as a whole. As we noted earlier, entrepreneurs in general are defined by a vision of the future that differs from present conditions and by their energy and commitment to changing existing policies to fulfill that vision. In the private sector, entrepreneurs often build new companies or take over existing ones. However, in the public sector, entrepreneurs usually face established organizations and building new local government agencies *de novo* is difficult (see Lewis 1980; but see Caro's (1974) study of Robert Moses). In turn, entrepreneurs are attracted to the office of mayor, the equivalent of the local political CEO, as a means of pursuing their vision. Moreover, if the mayor's office is full-time rather than part-time, the attractiveness of the office to a progrowth entrepreneur increases, because the entrepreneur's ability to pursue alternate preferred policies is enhanced.

Similarly, the office of city manager increases the visibility and the resources of launching an entrepreneurial career. City managers are important in increasing entrepreneurship, but not as important as a full-time mayor's office. Compared to the 10 percent increase in probabilities associated with a full time mayor's office, the probability of finding an entrepreneur increases by

about 5 percent in cities with managers.

Two groups affect the emergence of entrepreneurs. Strong business groups increase the likelihood of finding an entrepreneur. Following Stone (1989), we believe that business groups reduce the costs of solving collective action problems in communities and, therefore, reduce the costs facing local entrepreneurs. In chapter 4, we will see that emergence of one kind of entrepreneur, the progrowth entrepreneur, is particularly linked to a strong Chamber of Commerce. In contrast, strong tax payer groups lessen the likelihood of a political entrepreneur emerging.

Note the joint effects of these four political conditions on the probability of finding an entrepreneur is quite strong. Setting the conditions to maximize the likelihood of finding an entrepreneur, the joint probability of finding an entrepreneur in a city with a full time mayor, a city manager, strong business groups, and weak taxpayer groups is .54, over 75 percent higher than the sample mean. Similarly, in cities with either a part-time mayor or no mayor, with no city manager, weak business groups and strong tax payer groups, the probability of finding an entrepreneur is only .16, just about half the sample mean.

Table 3.2 reports the effects of fiscal and budgetary variables on the likelihood of finding an entrepreneur. Empirically, two variables affect the emergence of an entrepreneur. Using the appropriate one-tail significance test, as predicted the size of slack budgetary resources measured by allocational expenditures does increase the likelihood of finding an entrepreneur. In contrast, high social expenditures reduces the likelihood of an entrepreneur emerging. From Peterson's perspective, cities that are high spenders on these social consumption goods could be viewed as "inefficient" by their residents—that is, they are spending their money on activities that are not in the city's interests. As in any market, offering goods that are not wanted, should give rise to entrepreneurs who would argue for cutbacks in "unnecessary" and "uncompetitive" services. However, our empirical evidence is to the contrary—that cities that invest in human capital seem less likely to support entrepreneurial politicians. Investments in human capital and local community development may make sense in suburbs where outlays for such services are low (Schneider 1989) and where, because the extent of redistribution is limited by the relatively narrow income range in many communities, conflict over these services may be lower (Schneider 1986--JOP paper on homogeneity).

Next we turn to the effects of demographic factors, most of which reflect the extent of demand for entrepreneurial activity. See Table 3.3. As we hypothesized, higher concentrations of renters reduce the probability of finding an entrepreneur, because these renters present higher organization costs. However, more affluent communities that may be easier to organize are not more likely to support entrepreneurs. We also found that the more rapid growth was associated with a

higher incidence of entrepreneurship-that the disruptions caused by such growth increase the opportunities available to entrepreneurs.

But of the demographic variables, the sensitivity analysis in table xx shows that it is the percent black that is the most important variable-that communities with large black populations were more likely to support entrepreneurs than communities with smaller black populations. We believe that increasing opportunities for entrepreneurial activities emerge in communities that must come to terms with increasing ethnic diversity.

Detailed Characteristics of Local Public Entrepreneurs

More than 50 of the 257 entrepreneurs named by city clerks were government bureaucrats, mostly city managers coupled with a handful of other high ranking bureaucrats. Since these managerial entrepreneurs do not directly stand for elections and since they work full-time in career government positions, we examine the conditions affecting their emergence, strategies and constraints separately in Chapter Five. The remaining "political" entrepreneurs have one thing in common: they act in the larger political and electoral environment of their community, by seeking and often winning election to office.

To learn more about the characteristics, goals and strategies of political entrepreneurs, we sent a second wave survey to the same city clerks of the nearly 200 political entrepreneurs who identified an entrepreneur in the first wave (see Appendix B for the actual questions on that survey). With three follow-up letters, we received 117 usable responses (a response rate of close to 60 percent). From these surveys, we developed the following profiles of political entrepreneurs in the local market for public goods.

Background and Personal Qualities of the Entrepreneur

Not surprisingly, most of the entrepreneurs we identified had roots in local businesses: 8 percent of the entrepreneurs were from the law profession, 4 percent from real estate, 4 percent from insurance and 33 percent from other business activities. In chapter 6, we explore in more detail the relationship between the composition of the local business environment and local public entrepreneurship.

Close to 14 percent came from educational backgrounds and 15 percent came from public administration. Very few entrepreneurs built their careers entirely within the political sphere (only 3 percent). Yet once they were bitten by the "political bug," they kept on going: 81 percent of the entrepreneurs ran for another local office; 8 percent ran for a county office; and 6 percent ran for either a state or national office. By demonstrating energy, commitment, and new ideas, entrepreneurs may view their activities as a springboard for career advancement.

In line with the need for high levels of energy, public entrepreneurs were fairly young: the 30-40 age group is the modal category, followed by the 40-50 age group. These entrepreneurs were highly educated: two-thirds of them had at least a college degree. The modal category was "finished college" 42 percent, followed by the category "an advanced degree"--21 percent. Not surprisingly, given the racial makeup most suburbs, James Garner, the black mayor highlighted in our sidebar, was an exception: almost all the entrepreneurs were white (95 percent).

Given the characteristics and activities of entrepreneurs that we discussed in Chapter 2, it is not surprising these entrepreneurs were ranked high on such personal qualities as self-assuredness, intelligence, energy, and a sense of civic obligation. Despite the importance of the concept of the Protestant ethic in Weber's discussion of entrepreneurship, religious conviction was not ranked high compared to other politicians.

Use of Rhetoric, Images, and Ideas

In Chapter Two we argued that the successful use of rhetoric to persuade and change preferences is a critical aspect of entrepreneurial leadership. Correspondingly, the communications skills of the entrepreneurs were rated highly. Over two-thirds of the clerks said that, when compared to other politicians in surrounding communities, the entrepreneur was "much higher than average" in public speaking ability and the ability to use newspapers to communicate with the citizens of the community. These types of more local communication media are more important than television in most of the suburbs we analyzed.

While some entrepreneurs introduced true innovations, others relied more on adaptation of ideas from elsewhere. Nearly 40 percent of the clerks said that the images and ideas offered by the entrepreneurs were totally new to their community. But 51 percent said that these ideas were major modifications of existing programs. Almost one-third of the clerks reported that the entrepreneur's ideas were very different from the ideas raised in political campaigns in neighboring communities and over 20 percent said that these ideas were very different that the ideas raised in campaigns in other communities in the state or region.

Congruent with our theory, political entrepreneurs clearly emphasize visions of the future in the messages they send. Almost 61 percent of the entrepreneurs frequently used images of the future in their appeals. In contrast, only 28 percent frequently compared the present state of their communities to the past and only 19 percent frequently compared the conditions in their communities to other neighboring communities.

What were the specific components of the images political entrepreneurs most frequently used? Almost all of the aspects of community life we measured were heavily used. The most

commonly used theme was the general quality of life in the community (used "frequently" by 81 percent of the entrepreneurs). This was followed by the quality of the neighborhoods in the community, the quality of parks and the quality of infrastructure, which were all used frequently by about two-thirds of the entrepreneurs.

The Group Environment of Local Entrepreneurship

All entrepreneurs must solve collection action problems. Political entrepreneurs must form coalitions in order to be elected and to govern. The local political milieu offers a broad range of groups upon which political entrepreneurs can base their careers and from which they can assemble political coalitions to support their policies. Here, we study the relationship between several types of local groups and the careers and coalitions of political entrepreneurs.

Some groups reflect the traditional power bases of local politics. Business groups, such as the Chamber of Commerce, represent one of the most enduring basis for political power in local communities. Other groups, such as good government groups and taxpayer groups, have also been historically active in local politics over most of this century. More recently, neighborhood groups and environmental groups have increased their visibility and impact on local politics, providing new issues and new organizational possibilities for political entrepreneurs.

There are several other groups that affect politics in some communities, especially large central cities, whose effects in suburban communities may be muted. In cities in the Northeast and Midwest, political parties can be critical to the career of any politician. While the decline of local party organizations has been well documented, political parties still represent a major source of labor and money for many politicians. And while local elections in many cities are officially nonpartisan, local parties still control access to the ballots in a large number of communities. (See the sidebar on Thomas Tarpey and his use of the local political party organization in River Grove, Illinois).

Municipal workers can also provide a base of support for political campaigns and for launching new policy positions. Again, the effects of municipal workers is well-documented in the study of central cities, and Schneider (1989) shows that in suburbia an organized local public sector work force can also be a significant political force. Similarly, studies of central cities have clearly documented the importance of racially-based alliances in launching political careers and policy changes. While these studies are mostly oriented toward the study of central cities, the growing racial diversity of suburbia and the increasing number of black families finding homes in suburban communities is transforming the demographic makeup of many suburban communities and creating new possibilities for racially-based politics.

We identified 8 specific types of groups and asked our respondents to judge the role these groups played in the political lives of the political entrepreneurs. The groups we identify include: business groups; taxpayer groups; good government groups; neighborhood groups; environmental groups; political parties; municipal employee organizations; and racially-based groups. We asked two questions designed to assess the group basis for entrepreneurial careers. First, we asked city clerks to judge how important each of these groups were in the career of the political entrepreneur.¹⁴ We then

asked the clerks if each of these groups were part of the coalition that the political entrepreneur assembled in order to win election.¹⁵ While we recognize the absence of comparative information for non-entrepreneurial politicians, we present the following information to illustrate the group basis for entrepreneurial careers in local politics..

The Importance of Different Groups In the Careers of Political Entrepreneurs. Neighborhood groups are the single most important group in the careers of the political entrepreneurs we studied. Across the entire set of entrepreneurs, the mean importance assigned to neighborhood groups was the highest of all eight groups. Moreover, there was no regional variation in this pattern: in all 4 of the major census regions, neighborhood groups were always ranked the most important group. Even more telling, if we look only at the high end of the scale—that is, where a particular group was *very important* for the career of the entrepreneur—the pattern is even more pronounced: Over half of the clerks judged neighborhood groups as very important for the careers of the political entrepreneur.

We believe that neighborhood groups play several roles in entrepreneurial politics at the local level: they minimize the costs of collective action; they provide a relatively low cost milieu from which entrepreneurs can launch challenges to the status quo; and they serve as intermediary organizations that can screen out opportunistic behavior and provide the entrepreneur with a reputation as a trustworthy leader. These data confirm the relationship between entrepreneurs and neighborhood groups.

Following the singular importance of neighborhood groups, business groups and taxpayer groups also were judged important in the careers of these entrepreneurs. The role of business groups in local governments is well understood and their importance in propelling entrepreneurs is confirmed in the empirical data presented earlier in this chapter. In contrast, the role of taxpayer groups needs further research.

At the bottom of the scale are racially-based groups, with an average score just half that of neighborhood groups. While many central city politicians have launched careers and challenges to the existing power structure in their communities, the demographic makeup of suburbia has historically reduced the opportunities of politicians to launch race-based challenges to the status quo, but with the changing demography of suburbia, new opportunities may be emerging.

We examined the regional pattern for responses to each of the eight groups and discovered some regional differences. Among the most important is the greater role of racial groups in the South—a region where there has historically been a larger black population in suburbia. Neighborhood and environmental groups are more important in the West than in other regions. As we will show in the next chapter, this may in part be driven by the importance of antigrowth entrepreneurs in the West. In the Northeast, parties and municipal employee organizations are significantly more likely to have been important to the careers of political entrepreneurs than entrepreneurs in other regions. In contrast, these groups are particularly weak in the west, a difference in part explained by the strong nonpartisan tradition in the west and the strong history of local parties in the northeast.

Groups and the Coalitions Entrepreneurs Assemble. In addition to the role each specific group played

in the entrepreneur's political career, we also asked clerks whether or not each group was part of the coalition the entrepreneur assembled. Obviously there is an overlap between this question and the previous measure: entrepreneurs are likely to bring groups that were important to their career into their electoral coalition. Paralleling the previous analysis, we found that neighborhood groups are the most commonly included group in entrepreneurial coalitions. Racially based groups are by far the least common.

While taxpayer groups were important to the careers of many entrepreneurs, they are not included as often in entrepreneurial coalitions as we expected. While taxpayer groups ranked as the second most important group in career patterns, they were ranked third from last in terms of their inclusion in coalitions. In contrast, good government groups were included in a much higher percentage of coalitions than would be expected from their importance in the careers of entrepreneurs, ranking second in their frequency of inclusion in coalitions.

This difference between good government and taxpayer groups may reflect the stability and continuing involvement of good government groups in local politics—they have reputations to protect and may be reliable coalition members. In contrast, in the Post-Proposition 13 world of tax revolts, taxpayer groups may be politically volatile and pose difficult problems for entrepreneurs who may need to finance new policies.

Techniques for holding coalitions together. Our data provide some insight into how political entrepreneurs maintain their coalitions. First, and most importantly, political entrepreneurs emphasize feelings of "solidarity": 72 percent of our respondents reported that the entrepreneur made individuals feel like they were part of a team that was trying to accomplish an important job for the community. Similarly, 66 percent used the friendship of individuals in the coalition to maintain group support. But the coalition was also driven by the importance of specific "purposive" policy goals: 56 percent of the entrepreneurs stressed public policy goals to maintain their coalition. In contrast, selective benefits were much less important. Only 35 percent of the entrepreneurs reportedly relied on the dissemination of information through newsletters. Less than one-quarter (22 percent) relied on possible professional or personal benefits people might gain from being part of a winning coalition, and only 6 percent offered very specific selective benefits such as group insurance or travel discounts.

These results show that selective benefits or the promise of some political patronage from the entrepreneur's victory do not form the core strategy for holding the entrepreneur's political coalition together. Instead, a vision of policy success and the feeling of being part of an important and cohesive team are the most common strategies entrepreneurs used to solve collective action problems. This evidence parallels the conclusion that Miller (1992) reaches in his analysis of assembling and maintaining teams in hierarchical organizations.

The Functions and the Bases of Public Entrepreneurship

In chapter 2, we argued that every entrepreneur faces three specific tasks. Entrepreneurs must discover or create opportunities, they must assume some risks in assembling the resources to develop and pursue alternatives to the status quo, and they must overcome collective action problems to

achieve those alternatives. The data in this chapter bear on these activities.

In the local market for public goods, opportunities for entrepreneurship emerge from a variety of factors. For example, we found that rapid growth and racial diversity in communities systematically create opportunities for political entrepreneurship. But the opportunities created by these and other conditions must be seized by entrepreneurs and the rate at which entrepreneurs emerge to seize these opportunities is a function of the rational pursuit of power, profit, and policy success: that is, some opportunities will be seized because the benefits outweigh the costs of entrepreneurship, while similar opportunities in other communities will not be seized because the political or social structure impose high costs.

Thus, while entrepreneurs assume risks, they do not do so casually. Rather they calculate the extent of risks and the possible rewards for entrepreneurial activity. When the potential benefits for entrepreneurial success in a community are high, such as occur in communities with slack budgetary resources or in communities with a more rewarding full-time office of mayor, entrepreneurs are more likely to emerge. When the costs of organizing collective action are relatively low, as in communities with higher concentrations of homeowners or with strong business groups, entrepreneurs are also more likely to emerge. In solving these collective action problems entrepreneurs use their superior skills of rhetoric and organization to create a sense of teamwork. And they provide a vision of a new future to motivate their supporters.

In the next chapter, using these insights, we look in more detail at entrepreneurial activity in a domain that is at the center of local politics: the politics of growth.

Endnotes

1. For a fuller description of the local market for public goods see Schneider 1989.
2. In terms of sample construction, we began with all incorporated suburbs with populations greater than 2500 in 1970 located in the 100 largest metropolitan regions of the United States (with the caveat that not more than three metropolitan areas from any single state be included). This produced a set of over 1400 suburbs in 55 metropolitan regions, of which clerks in 963 communities responded to our survey. However, limits on data availability further reduced the number of cases for analysis.
3. We recognize that this operational definition is broad, encompassing entrepreneurs who change local politics, alter equilibria, develop and implement new ideas or policies, etc. As will become evident as the book develops, we used a combination of follow-up surveys, objective data from various Census reports, and selected case studies to explore in more detail what these entrepreneurs have done and how their actions and positions actually differed from previous policies.
4. Since this is the first large scale survey of suburban municipalities, it is impossible to say whether the 27 percent rate of entrepreneurship is high or low. However, in a comparative study of economic development strategies in close to 200 cities, Clarke (1990) finds "innovative" programs in 5-21 percent of the cities surveyed. Since her numbers are for individual programs, it is not unreasonable to assume that a joint set of programs that might define an entrepreneur will be found in the proportion of cities we report.

In addition to this face validity, we took a sample of cities with entrepreneurs "nominated" by the resident city clerk and mailed a survey to city clerks in neighboring cities asking if in their opinion the nominated individual was indeed entrepreneurial. Our response rates exceeded 50%. Of these responses, about half of the city clerks said they did not know enough about the politics of the other city to answer the questions. Of those clerks that did volunteer responses, over 75% confirmed

the entrepreneurship of the individual we asked about, essentially validating the results we report.

5. Clerks were informed that the survey was part of a large nationwide study of political entrepreneurs. The questionnaire began with a series of questions about the local government structure and local politics. Clerks were then asked to name someone who met our definition of an entrepreneur. Those clerks who "nominated" an entrepreneur were then asked a series of open- and closed- ended questions about the entrepreneur's activities. Clerks could nominate 1 or more entrepreneurs in the 1980s. They were also given the opportunity to name any entrepreneurs from the 1970s.
6. We also experimented with a variety of measures of the size, structure, and degree of electoral competition of the city council, but these had no effect on the probability with which an antigrowth entrepreneur emerged.
7. Research into the link between reformed systems of local government and various political/policy outcomes is long standing. While Donovan and Neiman (forthcoming) show how the initiative and the referendum can further the antigrowth movement, we have no data on the availability of such tools across the suburbs in our sample. We believe that other aspects of local governmental reform can inhibit the rise of antigrowth entrepreneurs, especially by diluting the importance of neighborhood based politics.
8. This measure of group importance, and the ones used in subsequent estimations, are based on the responses of city clerks to a question asking them to evaluate the importance (on a scale of 1-5 with 5 being the most important) of a named group in the local political environment. These indicators are standardized to make them similar to the other variables used in the analysis.
9. One could argue that the barriers to entrepreneurship these demographic conditions reflect are absolute, not relative~i.e., the relationship between size and the collective action problem is independent of the metropolitan area in which a suburb happens to be located. We thus considered

whether or not to standardize these measures. However we believe that in general it is best to analyze many aspects of politics in suburbs in a regional context, essentially comparing a suburb to its neighbors. In either case, the results using standardized or nonstandardized variables are identical.

10. The tax base is measured as the per capita true value of property in the community. The tax rate is the effective tax rate. These measures are adjusted for differences in assessment practices, using state and county reports.

11. Expenditures on business-related "developmental" services are measured by combining local per capita expenditures on streets and highways, sewers, sanitation, water transport, water supply, gas, electricity, and transit. Redistributive services are defined as health, hospitals, urban renewal, and welfare. Allocational expenditures are for "housekeeping" functions (general administration, general government, financial administration, and buildings) plus public safety (police and fire).

12. Of the variables we use in the following analysis, percent renters and percent black are from the 1980 Census of Population. Population growth is the 1970-1980 rate of growth. Since 1990 Census data are not yet available for individual communities these are the only data available. Moreover Donovan and Neiman (forthcoming) show that the lagged rate of growth is more important than the current rate of growth in determining local growth politics. Distance is measured as the straight line linear distance between the outer boundary of the central city and the inner boundary of the suburb.

13. The number of cases in the probit estimate is less than the full number of cases for which we have information on the emergence of a local entrepreneur. Only those cases for which we have information on every independent variable is included in the estimation. Missing data on the fiscal variables, which are not centrally collected but are gathered from state and county reports, account for the elimination of most cases.

14. Clerks were presented with the type of group and then asked to judge the importance of that

group to the career of the entrepreneur using a 3 point scale where 1 = not important at all; 2 = somewhat important; and 3 = very important.

15. Here clerks were presented with a list of the 8 types of groups and asked to check if that group was part of the coalition the entrepreneur assembled or tried to assemble.

Sidebar:

Mayor James Garner: A Case of Black Political Entrepreneurship

In many cases members of racial minorities are taking an entrepreneurial role in spearheading policy change. An excellent example is provided by Mayor James Garner in Hempstead, New York. In 1987, Garner became the first black mayor ever elected in any community on Long Island. He faced a situation in his Village of 50,000 people described by *Newsday* as having "one of the most serious drug problems on the Island, a depressed economy, a faltering school system, declining real estate prices and high taxes." In contrast to affluent suburbs in Nassau County that are among the greatest concentrations of wealth in America, the Village of Hempstead includes many low income residents, and a population that is nearly two-thirds black. Garner noted: "It's the only village on Long Island with a racial mix like this." (New York Time Dec 1992).

Garner, 45, grew up in rural North Carolina and migrated to Hempstead in 1969, taking a position as a cargo agent at JFK airport. He showed entrepreneurial tendencies, by opening his successful Grand Central Exterminators business in 1977. Then-Mayor Milhim appointed Garner to the Board of Trustees in 1984 and he was elected to the Board in 1985. Disenchanted with the two-term Milhim's policies, Garner defeated him in the Republican primary in 1989 and then defeated Milhim, running as an Independent, and a black Democratic candidate, winning over 50% of the votes. In the election, Garner received considerable help from the National Republican Committee, which was seeking stronger ties with black voters. After his election, Garner met with President Bush several times.

Like many of our entrepreneurs, Garner was not a career politician. *Newsday* quoted Garner as saying, "I never thought I'd be a trustee, let alone mayor. I got interested in politics as a businessman because I saw that politics and business should go hand in hand."

Garner campaigned strongly by focusing on what have traditionally been urban rather than suburban issues: crime and drugs. After his victory, he stated: "This was not a campaign, this was a movement. We have a message and our message is that we will stamp out all drug dealers in Hempstead." Indeed, Garner's first important policies were aimed at improving local law and order. He added 18 new police officers to the Village base of 90, passed a local ordinance to allow the aggressive elimination of "crack houses", and pushed to publish the names of prostitute's clients to reduce the prostitution problem. Garner's goal was to reduce Hempstead's reputation for crime and to bring new business into the Village to stimulate the economy. This was difficult; like many other firms, Abraham & Straus, after occupying what was once the largest suburban department store in the nation in downtown Hempstead, moved to more affluent suburbs in the early 1990s.

As a result of his popularity in Washington, D.C., Garner aggressively sought federal funds to fight crime in Hempstead. He has faced a difficult challenge in trying to work with, but maintain

some independence from, the strong Nassau County Republican political machine, which has traditionally not been aligned with black Long Islanders. This problem is exacerbated by the strong association of all four Village Board of Trustees members with the County party machine.

Thus, Garner shows how minorities in older, less affluent suburbs are beginning to come to political power, just as minorities in central cities did a generation ago. Former mayor Milhim ran a campaign that many considered racially divisive (especially as he faced 2 black challengers), but it did not succeed. That Garner is a black Republican made him all the more exceptional, but his entrepreneurial background in business illustrates the important link between such activities in the public and private spheres.

Sidebar:
Mayor Thomas Tarpey

Thomas Tarpey is an example of a local entrepreneur who used his energy, his persistence, his personality, and a strong organization to change politics in his community. Now 53 years old, Tarpey is the-part-time mayor and a retired police chief of River Grove, Illinois, a middle-class suburb with about 10,000 people, which sits only 12 miles west of Chicago's downtown loop.

In 1980, after several policy disagreements, incumbent Republican Mayor Elmer Wolf demoted Tarpey from his position of police chief and placed him on the midnight shift. A few years later, Tarpey decided to fight 50 years of Republican control in River Grove and narrowly defeated the 12-year incumbent Wolf in 1985. According to the *Chicago Tribune* Tarpey believed that: "Nobody gave me a fiddler's chance in hell."

Once elected, Tarpey moved to improve the reputation and working of local government. According to the *Tribune*: "He has fashioned himself a reformer who made public records at the village hall readily accessible and no longer allowed his predecessor's son-in-law a lucrative contract to annually grade the suburb's alleys."

Tarpey soon gained positive media exposure from his adept handling of the town's response to a major flood of the Des Plaines River in 1986. His performance propelled him to the Democratic nomination for state representative in 1986 and prompted the Republicans to try to get him to switch parties. He dropped out of the race, mysteriously, in part because of rumors surfacing about his former drinking problem (he was a publicly-announced recovering alcoholic).

Tarpey has been particularly skillful at maintaining his power by using political skills more often seen in urban machines than in the suburbs. According to the *Tribune*: "What has boosted Tarpey's value as a political commodity, his supporters say, is his grassroots political organization and his unassuming style...Tarpey has survived by making an effort never to miss a baptism or a wake, pressing the flesh with the skill of the best ward heeler... While some local political parties vanish between elections, his TEAM party has a permanent headquarters, claiming a membership of 150 and meetings every Monday."

According to one former village official: "Tom is a damn good public relations man." A local real estate broker says: "Our mayor is visible. Like Mayberry's sheriff, Andy Taylor, he's out there walking door-to-door."

Tarpey ran unopposed in his last mayoral contest and continues to have a vision of the future for his town: "I've got a million goals ... I'm willing to go along with anything if the town wants it."

**Table 3.1.1: The effects of political conditions
on the probable emergence of an entrepreneur:
Probit results, 788 suburban municipalities**

	Coefficient	Std. Error	p>t
Full-time Mayor	.31	.14	.03
Turnover	.08	.10	.41
Term length	.01	.10	.92
Manager	.30	.11	.01
At-large	.01	.28	.97
Nonpartisan	-.05	.14	.74
Parties	.01	.04	.81
Business Groups	.09	.04	.04
Taxpayer Groups	-.10	.04	.02
Neighbor Groups	.06	.06	.32
Interaction	-.02	.08	.71
West	.02	.18	.88
North Central	.18	.13	.16
South	.01	.17	.97
Constant	-.96	.26	.00

Number of observations: 787

Chi square: 25.43 (14 degrees of freedom)

Prob>chi square: .03

Notes:

Full time Mayor: 1=full time mayor; 0=part time mayor. Manager: 1=city manager; 0=no city manager. At-large: 1=At-large elections; 0=district elections. Nonpartisan: 1 =nonpartisan elections; 0=partisan. Term 0=2 year term; 1=4 year term. Turnover: the number of different mayors in the last 10 years; Business groups: reported strength of business groups such as the Chamber of Commerce: 1 =not very important; 5=very important. Taxpayer Groups, Neighborhood Groups; Parties: same as Business Groups. Interaction: =0 in district cities; =value of neighborhood group in at-large cities.

Source: Survey of city clerks. West, North Central, South: four main geographic regions delineated by U.S. Bureau of the Census (Northeast is the omitted category).

**Table 3.1.2: Sensitivity Analysis: The effects of political variables on
The probability of finding an entrepreneur.**

	Full time mayor	Manager	Chamber of Commerce	Taxpayer Groups	Joint Probability
Maximum effect	.40	.35	.34	.35	.54
Minimum effect	.29	.24	.27	.26	.16

In the set of communities for which this particular probit was estimated the mean probability is .31. To estimate the maximum effect we set the dichotomous variables (Full-time Mayor and Manager) to 1. We set them to 0 to estimate the minimum probability. The two group variables have a range of 0-5. We estimate the minimum and maximum probabilities by setting the variable to either + or - 1 standard deviation from the mean (depending on the direction of the sign). The joint probability manipulates all four conditions simultaneously.

**Table 3.2.1: The effects of fiscal and budgetary conditions on the probable emergence of an entrepreneur:
Probit results, 658 suburban municipalities.**

	Coefficient	Std. Error	p > t
Allocational Expenditures	.11	.06	.08
Developmental Expenditures	-.06	.06	.30
Redistributive Expenditures	-.16	.06	.01
Tax Rate	.08	.05	.13
True Value	.09	.06	.13
West	.14	.15	.36
North Central	.20	.12	.11
South	.07	.17	.70
Constant	-.66	.10	.00

Number of observations: 658

Chi square: 17.31 (8 degrees of freedom)

Prob > chi square: .02

Notes:

All variables are z-scores standardized by MSA means and standard deviations, that is, they are measures of the position of a community on that condition relative to its neighbors.

Source: True value and tax rates: state and local sources, adjusted for differences in assessment practices. Expenditures: 1982 Census of Governments, Finance, File A. West, North Central, South: four main geographic regions delineated by U.S. Bureau of the Census (Northeast is the omitted category).

**Table 3.2.2: Sensitivity Analysis: The effects of budgetary variables on
The probability of finding an entrepreneur.**

	Allocational Expenditures	Social Expenditures	Both
Maximum effect	.34	.35	.39
Minimum effect	.26	.24	.20

In the set of communities for which this probit was estimated the mean probability is .30. To estimate the maximum effect we set the variables at either + or - 1 (since these are z-scores the mean=0, the standard deviation=1).

**Table 3.3.1: The effects of demographic conditions on
the probable emergence of an entrepreneur:
Probit results, 829 suburban municipalities**

	Coefficient	Std. Error	p > t
Median Income	.00	.06	.96
Renter percent	-.11	.05	.06
Distance	-.07	.05	.16
Growth 1980s	.11	.05	.02
Black percent	.12	.05	.02
West	.17	.14	.22
North Central	.26	.11	.02
South	.07	.14	.61
Constant	-.68	.08	.00

Number of observations: 829

Chi square: 18.61 (8 degrees of freedom)

Prob > chi square: .01

Notes:

All variables are z-scores standardized by MSA means and standard deviations, that is, they are measures of the position of a community on that condition relative to its neighbors. Median Income: Relative Community Income 1980. Growth 1980: z-score of Population 1990/Population 1980.

Source: Renter percent, black percent, population 1980: 1980 Census of Population and Housing. Population 1990: counts generated by PL 94-171. West, North Central, South: four main geographic regions delineated by U.S. Bureau of the Census (Northeast is the omitted category). Distance: maps.

**Table 3.3.2: Sensitivity Analysis: The effects of demographic variables on
The probability of finding an entrepreneur.**

	Renter %	Black %	Growth	Joint Probability
Maximum effect	.33	.34	.28	.42
Minimum effect	.26	.25	.21	.19

In the set of communities for which this particular probit was estimated the mean probability is .29. To estimate the maximum effect we set the variables at either + or - 1 (since these are z-scores the mean=0, the standard deviation=1).

Part 3: The Milieux of the Public Entrepreneur

In this section, we turn to an investigation of the broader social and political milieu in which public entrepreneurs most operate. Even more than most economic and political actors, the successful public entrepreneur can not be a solitary "Robinson Crusoe," but must constantly be interacting with others in the community. Political entrepreneurs are likely to learn some of the requisite skills in the business sector and can build up important contacts through business networks. To develop innovative ideas, to see a demand for new services, and to build a political coalition upon which to succeed, a political entrepreneur must have political interaction and connections.

In Chapter 6, we analyze the business sector and consider the emergence of entrepreneurs as a function of the local and metropolitan environment. In essence, this chapter focus on the larger issue of the supply of entrepreneurs. Entrepreneurs engaged in deal-making and brokering activities in the private sector may be able to carry over those same skills into the public sector. If they are local businesspeople, they may also benefit themselves from improved economic development or quality of life in the community. On the other hand, if entrepreneurial opportunities in the larger metropolitan region or in the local private sector are substantial, then the opportunity costs of pursuing political entrepreneurial opportunities will be substantial. Thus, we analyze in particular those sectors most closely related to private sector entrepreneurship — the high tech sector and the finance, insurance and real estate sectors.

In Chapter 7, we turn to the issue of the demand for entrepreneurs by local citizens with high levels of information. Here we use a different data set, a survey of both established residents and recent movers to Suffolk County, New York, to understand how citizens gather information, and how accurate is the information they gather. Some of these citizens, many of whom we show to be recent movers to that community, may themselves act as entrepreneurs by providing benefits for others in that community through their entry choice. As a group, they combine their exit, entry, and voice powers to influence local politics. Informed citizens like the subset of the community that we identify are most likely to provide support for entrepreneurs and for change.

Chapter 4:

Entrepreneurs, Policy Dimensions, and the Politics of Growth

In this chapter, we show how the politics of local growth provide opportunities for political entrepreneurship. In Chapter Three, we argued that entrepreneurs can affect political outcomes by manipulating the terms and the ideas of policy debates. In this chapter, we show how the politics of local growth can be understood as a conflict over the way in which citizens think about growth. We start this chapter by reviewing the role that entrepreneurs can play in defining the ideas that structure policy debates. We then turn to the literature on the growth machine and regime politics.

Using a property rights perspective, we show that at the core of these two models of local politics is the assignment to business interests of the property rights to growth. We then argue that the politics of the entrepreneurial state—documented, for example, by Eisinger (1988) and Clarke (1990), and the politics of no-growth, documented, for example, by Logan and Molotch (1987) and Schneider (1992), can be understood as conflicts over the assignment of these property rights. Finally, we present empirical evidence showing the conditions under which different types of entrepreneurs concerned with the politics and ideology of growth emerge in suburban municipalities.

Political entrepreneurs and the manipulation of ideas

Ideas are important. They help structure the options individuals, organizations, and entire policy systems consider and they help create and maintain political equilibria (Baumgartner and Jones 1993). By challenging existing ideas, entrepreneurs can force people to think about a wider set of alternatives than they ordinarily consider. The resulting mobilization of otherwise quiescent individuals can disrupt existing political arrangements and create opportunities for entrepreneurs to seize. But to create these opportunities, entrepreneurs must overcome the inertia built into the status quo and overcome the active resistance of the groups that benefit from present institutional arrangements.

Established institutions are difficult to change. North (1990) argues that institutions make it possible for individuals to avoid thinking about problems or confronting choices. For North, institutions and the corresponding incomplete processing of information:

accounts for ideology, based upon subjective perceptions of reality, playing a major part in human beings' choices. It brings into play the complexity and incompleteness of our information and the fumbling efforts we make to decipher it. It focuses on the need to develop regularized patterns of human interactions in the face of such complexities, and it suggests that these regularized interactions we call institutions may be very *inadequate* or very far from optimal in any sense of the term (1990: 23).

Regularized behaviors, such as the use of heuristics and standard operating procedures, that are embedded in institutional arrangements save computational time. And the inertia of these routines helps maintain the status quo even if present outcomes are far from optimal.

Political entrepreneurs can challenge the status quo by using rhetoric and heresthetics to make people think differently about political institutions and practices and to lead people to challenge what may otherwise seem like fixed parameters in the political world. One way entrepreneurs can do this is by reframing choices. As Tversky and Kahneman (1981) show at the individual level, reframing can break through existing routines and lead people to rethink their choices, behaviors, and habits.¹ At the organizational level, introducing new management styles or creating a new institutional "ethos" can break through established operating procedures and cause new, energetic and more efficient production and provision of services. Osborne and Gaebler's (1992) study of local governmental innovations is full of examples of reinvigorated decision-making and policy innovations brought about by the reconceptualization of the strategies, choices, and options available to local governments. Riker (1986), Derthick and Quirk (1985), and Baumgartner and Jones (1993) all demonstrate how reframing political choices can lead to dramatic systemic changes, causing seemingly stable policy systems to change rapidly. Entrepreneurs are critical to the reframing process.

By reframing problems and recasting the terms of political debates, entrepreneurs challenge institutional regularities and change political systems. By breaking through "regularized patterns" of interaction, entrepreneurs make people think about new solutions to problems, and in so doing, mobilize forces that can make the world look more like the entrepreneur's vision of the future.

We accept Riker's (1990) distinction between rhetoric and heresthetics. Using rhetoric, a politician tries to change the outcome of a policy debate by shifting preferences within the existing dimensions of current policy discussions. To use Riker's terms, rhetoric seeks to relocate people's "ideal points" on existing parameters (1990: 54) and it involves the use of persuasion to make people change their minds and their tastes. Rhetoric tries to shift *people* within the parameters of existing policy conceptualizations rather than changing *alternatives*. An entrepreneur using rhetoric will try to create a new constellation of opinion within the parameters of present debates.

The goal of the heresthetician is different. Rather than trying to move people within an existing spatial configuration, heresthetics changes "the space or the constraints on the voters in such a way that they are encouraged, even driven, to move themselves to the advantage of the heresthetician" (Riker 1990: 47). The heresthetician thus redefines the very ideas underlying the debates that are taking place. This is most dramatically accomplished by introducing new dimensions to ongoing debates: "the distinguishing feature of the heresthetic is that voters are induced to change

sides, not by persuasion, but by reinterpretation of the issue" (1990: 49). Compared to the goals of rhetoric, the goals of heresthetics is more ambitious because the heresthetician does not accept the terms of a debate as "given."

As Riker called attention to the fundamental instability of political arrangements brought about by the ability of herestheticians to induce policy changes and to disrupt equilibria in a wide range of circumstances, other analysts responded by noting that stability is in fact much more common and more enduring than Riker's analysis predicts. The most commonly offered solution to this disjunction between the widespread disequilibria predicted by theory and the widespread stability discovered by empirical observation is that institutions built on standard operating procedures limit choices and create stability despite any underlying disequilibria of tastes (this argument is built on the idea of "structure-induced equilibrium" presented by Shepsle 1979).

Building on Riker's concern for the ever-present potential for change, but recognizing the importance of structure-induced equilibrium, Baumgartner and Jones argue that ideas (or to use North's term, "ideologies") are central to policy stability and policy change. Baumgartner and Jones argue that policy stability is linked to a definable institutional structure that limits access to the policy process. The effectiveness of such an institutional arrangement requires a powerful supporting idea that legitimizes existing policies and limits political challenges. Politicians who benefit from this status quo use positive images and rhetoric to reinforce the link between policy ideology and the existing core political practices. The "tight connection" between institution and ideas provides support for the prevailing distribution of political advantage and creates the conditions for a structure-induced equilibrium.

However, stability is not permanent, in large part because the ideas that people hold about issues can change or, more importantly, these ideas can be changed. For Baumgartner and Jones, "change in issue definition can lead to destabilization and rapid change away from the old point of stability. This happens when issues are redefined to bring in new participants. Similarly a change in institutional rules of standing or of jurisdiction can rupture an old equilibrium" (1992: p. xxx). The destruction of policy monopolies, and the equilibrium that these structures induce, is almost always associated with a change in the intensities of interest that groups have in an issue. By reframing issues, entrepreneurs lead people to look at existing policies in a new light, changing intensities of interest and mobilizing political forces to challenge the status quo.

Entrepreneurs, Change, and the Politics of Local Growth

We use the politics of local growth, a central issue of local politics, to explore the role of entrepreneurs in changing ideas and challenging existing institutional arrangements based on those

ideas. In the next section, we explore the nature of property rights and we show how the assignment of the property rights to growth has created an institutional arrangement tightly linking ideology to political arrangements. We then show how challenges to these property rights leads to opportunities for entrepreneurial politicians.

Political opportunities and the assignment of property rights. Libecap (1989) defines property rights and describes the link between these rights, political power, and policy outcomes:

Property rights are the social institutions that define or delimit the range of privileges granted to individuals to specific assets, such as parcels of land or water. Private ownership of these assets may involve a variety of rights, including the right to exclude nonowners from access, the right to appropriate the stream of rents from use of and investments in the resource, and the right to sell or otherwise transfer the resources to others. Property rights institutions range from formal arrangements, including constitutional provisions, statutes, and judicial rulings, to informal conventions and customs regarding the allocations and use of property. *Such institutions critically affect decision making regarding resource use...* (1989: 1, emphasis added)

As Libecap argues, the assignment of property rights affects the distribution of the benefits and costs of assets and, by allocating decision-making authority, these rights determine the standing of actors in economic and political systems and define the resources they bring to negotiations over programs, laws, and policies.

Conflict emerges because property rights are usually underspecified. According to Barzel: "Because of the complexity of transactions and the costliness of metering and policing the attributes [of many goods], not all attributes are priced...Because it is costly to measure commodities fully, the potential of wealth capture is present in every exchange. The opportunity for wealth capture is equivalent to finding property in the public domain; in every exchange, then, some wealth spills over into the public domain, and individuals spend resources to capture it" (1989: 3).

These abstract ideas find concrete manifestations in the politics of local growth. As growth occurs in suburban communities and as land values rise, property rights may become more valuable. And as growth occurs, the assignment of property rights almost certainly becomes more contentious.

Consider, for example, the conversion of land from agricultural to residential use. Farmers may have assumed the right to spray their property with pesticides or herbicides in order to pursue

their livelihood. As suburban growth proceeds, properties bordering farms are converted to residential use. The new property owners will contest the rights of the farmer to continue using the chemicals the farmer needs. The specific rights of farmers to use pesticides and residents to be free from the spill-overs of such use must now be negotiated and more fully specified—a highly contentious political process. Similarly, consider the rights of neighborhoods to be free of traffic congestion. As development occurs and as land is converted to more intense commercial or industrial activity, local traffic inevitably increases. Neighborhoods that have been accustomed to quiet streets with light traffic may now find themselves surrounded by shopping malls or commercial development. And they may find themselves swamped by the new traffic resulting from this growth. Who has the property rights to the streets: the neighborhoods that want quiet or the business that want more intense development?

Thus there are perpetual conflicts as individuals or groups seek to assign or modify property rights. This political process can be highly intense, because the assignment of property rights ultimately affects the distribution of wealth and the ability of actors to shape the outcomes of political conflicts.

Groups with vested interests in the status quo have significant advantages in political bargaining because they have usually used the present assignment of property rights to solve collective action problems. Moreover, they will have established ties to politicians and other political actors, further reducing the costs of collective action (Libecap 1989: 6). Thus, groups already benefitting from the present distribution of wealth are more likely to be organized politically. And because changes in the status quo threaten to remove a benefit they are already enjoying and the threat of loss tends to be weighed more heavily than the benefits of potential gain motivating the challengers (Quattrone and Tversky 1988), these already organized groups are even more likely to mobilize their resources more effectively in defense of the status quo (Walker 1991).²

According to Libecap there are three factors that can produce pressure to change the existing assignment of property rights: shifts in relative prices; technological changes in production or enforcement; and, for our purposes most importantly, *'shifts in preferences and other political parameters'*. In our analysis, the first two factors are largely exogenous to the politics of local government. However, shifting preferences and changing political parameters is *exactly* what political entrepreneurship is all about.

Political entrepreneurs can use rhetoric to change preferences. They can introduce new dimensions to political debates to fracture the existing equilibrium. And they can help solve collective action problems and mobilize new groups to challenge the prevailing distribution of power embodied by existing groups supporting the status quo. While technological changes or other social trends may

increase the opportunities for successful challenges to the status quo, ultimately an entrepreneur must see these opportunities and seize them.³

The Growth Machine and the Politics of Property Rights

In the study of local politics, analysts have identified a core ideology and a core institutional arrangement built on it. At this core of many models of local politics is the growth machine: the alliance of local business interests and politicians united in the pursuit of growth and economic development. The businesses forming the core of the growth machine are ones that profit most directly from intense local land use and the associated profits of growth. These businesses include real estate, insurance and construction companies supported by banks, utilities, and the local media. The intensity of these interests and the resources they control make a business-based coalition a relatively unified force that can attract the participation of local politicians who enact laws and policies in pursuit of growth. This political arrangement has a strong supporting ideology in the long-standing American belief that growth is good and that growth is associated with "human progress" (see Molotch 1976; Logan and Molotch 1987; Elkin 1985; Garreau 1991).

The Growth Machine and the Property Rights of Growth. This arrangement assigns the property rights of growth to those advocating the value of land for development purposes and shifts political power toward land speculators, developers, and what Logan and Molotch (1987) call "rentiers" at the expense of "ordinary" citizens who gain enjoyment from their use of land.

There are strong reasons why businesses have captured these rights. Cities operate at the cusp of the demands of capital and the practices of a democratic society. As Elkin (1985), Stone (1989), and others have argued, in our democratic capitalist system the basis for all political authority in local governments rests on balancing two fundamental and often contradictory forces: the popular control of the formal machinery of government (embodied most obviously in the electoral process) and the private control of capital. For local governments, who are given responsibilities for raising money to support services by taxing local wealth, the balance between these forces gives rise to a fundamental corollary—local government conduct is constrained by the need to promote investment activity in an economic system dominated by private ownership.

This accommodation is biased by what Lindblom has called the "privileged" position of business in American politics resting in the dominance of the ideology of markets and the sanctity of capital. This privileged position is even more pronounced in the local political scene because of the mobility of capital and the reliance of local governments on local property tax resources. The nature of collective action may give local business added advantages. In particular, the "size principle" may increase the importance of business: Given the homogeneity of interests and the small number of

business actors involved in local communities, business interests may constitute a "privileged" group in Olson's sense.⁴

The concept of privilege is central to Stone's analysis of regime politics. For Stone, in the day-to-day political environment, coalitions are motivated by the importance of "small opportunities"--that is, Stone argues that people are not motivated or propelled by a grand vision but by the pursuit of particular projects. Any group that has the capacity to further small opportunities is in a strong position to attract allies rather than activate opponents. There are many types of resources that can be used as incentives to cement political coalitions by allowing individuals to seize small opportunities, including organizational support (such as money, credit, donations, business contacts, prestigious endorsements); technical expertise to allow the in-depth analysis of problems; and media coverage.

All of these resources are distributed in favor of business groups. While the business elite does not have a monopoly on any one of these resources, it controls substantial amounts of each. This makes it easier for groups to deal with business elites than to try to construct coalitions without them. In turn, the ability of the downtown elites to control these selective incentives keeps them at the center of the governing coalition. In short, in local politics, Olson's concept of "privilege" reinforces Lindblom's.

The core *idea* uniting the growth machine is that growth is good, because it brings jobs, enhances the tax base, and pays for local services at moderate tax prices. The core *institution* of the growth machine encompasses "downtown" business interests that maximize their profits with local growth (although downtown need not literally be a traditional central business district but could also be a regional shopping mall or office complex in one of Garreau's (1991) "edge cities"). Stone (1989) argues that cities have a wider range of choices than the "corporate regime" of the growth machine and proposes two alternatives: "caretaker regimes" and "progressive regimes." However, Stone shows how hard it is to transfer power away from corporate progrowth interests to other interests in the city, since business brings important resources to the coalition and business groups have become the "default" leaders of regime politics. In the city as growth machine, initial entitlements over the use of land are assigned to the members of the growth machine. In turn, progrowth policies *de facto* have high legitimacy.

Any challenge to the corporate regime requires a strong ideological commitment by leaders, with strong support from constituents. But challenges can be mounted by entrepreneurs who reconceptualize the terms of the debate between the interests of capital and the interests of residents. Challenges can be mounted by entrepreneurs who can solve the collective action problem of neighborhood groups to overcome the inherent privileges of local business interests. These challenges

to the assignment of property rights can open up windows of opportunities for entrepreneurs to negotiate between business interests and new claimants to power and policy. In short, challenging the equilibrium of the growth machine can create opportunities for extraordinary profits and opportunities for the political entrepreneur.

Progrowth and Antigrowth Entrepreneurs

While recent literature has been focused on the relatively new phenomena of challenges to the growth machine and the emergence of antigrowth entrepreneurs, in this chapter, we actually look at different ways in which political entrepreneurs seek profits in the politics of growth.

First, we begin with the analysis of *progrowth* entrepreneurs. We show that, even though progrowth policies and the growth machine are established fixtures of local politics, some entrepreneurs still seek to capitalize on the resources of the growth machine and the ideology of growth. We are particularly concerned with the emergence of a small number of politicians who are seeking to *shift* the debate about growth policies by introducing the more entrepreneurial approaches to growth identified by Peter Eisinger (1988; also see Clarke 1990). Thus we begin with a fundamental point: while the interests of capital and the growth machine are the dominant sources of power in local politics, entrepreneurial politicians can still seek profits by stressing the importance of growth and probusiness activities and by defining new opportunities within the established progrowth policy space.

We then move to the analysis of even more dramatic challenges to the present progrowth equilibrium and explore the emergence of *antigrowth* entrepreneurs. These individuals engage in more risky behavior, seeking to *redefine* the terms of the policy debate of growth. Antigrowth entrepreneurs often introduce a new dimension to the debate over local growth and they organize new groups to challenge the privilege position of the business groups at the heart of the growth machine. By so doing, these entrepreneurs challenge the "tight connection" between ideology and political institutions that structure so much of local politics and that assigns the property rights to growth disproportionately to members of the growth machine.

The Progrowth Entrepreneur in Local Government

While business interests form the privileged core of local political coalitions, they cannot succeed in the local political scene on their own. Most importantly, the business community must create a link to political leaders in order to have their preferences translated into local public policies. One important link in this translation are entrepreneurs who propose progrowth policies and create coalitions to overcome resistance to such policies (Mollenkopf 1983; Elkin 1985, 1987; Logan and Molotch 1987; Stone 1989). There are payoffs to be garnered by successful progrowth entrepreneurs:

they seek to advance their political careers by claiming credit for job creation and any tax stabilization resulting from economic growth. Perhaps more importantly, progrowth entrepreneurs gain access to the "selective incentives" controlled by business and can use these incentives to solve the organizational problems facing all entrepreneurs (Stone 1989).

In their search for political advantage, progrowth entrepreneurs can propose that policies found in other communities be introduced into their community. This aspect of entrepreneurship is evident in the diffusion over time of what have become "standard" progrowth tools (such as tax abatements and industrial revenue bonds) in a process studied by Eisinger (1988), the ACIR (1981), and others. Progrowth entrepreneurs can also propose that new and more innovative policies be tried. For example, Eisinger (1988), Clarke (1989), and Goetz (1990) show that recently entrepreneurial politicians have begun to advocate and experiment with more innovative progrowth policies that go beyond the standard tools-of economic development. But even if their policy positions or "product" is new, these progrowth entrepreneurs are motivated by the desire to gain political profit by their policy positions.⁵

Here, we look first at the emergence of progrowth entrepreneurs. We are interested in identifying the factors associated with the emergence of progrowth entrepreneurs as a class. Following Eisinger, we then divide progrowth entrepreneurs into those who advocate the use of more-or-less standard tools of economic growth (what Eisinger calls "supply-side" policies) to attract development and those entrepreneurs who use the new generation of "demand-side" progrowth tools. In an analysis limited by a small number of communities with these types of entrepreneurs, we identify some of the conditions that may affect the emergence of these specific types of entrepreneurs.

The Basis for Progrowth Entrepreneurship

Recall that in our survey we asked clerks if in the 1980s there had been any individual in their community whose "policy proposals and political positions represented a dynamic change from existing procedures." We then asked clerks a series of questions about the policy positions the entrepreneur took. In this analysis, we define a progrowth entrepreneur as an individual (a) who was identified by the clerk as an entrepreneur and (b) who advocated programs to attract new businesses or to retain existing ones.

Using this definition, progrowth entrepreneurship is a fairly common form of entrepreneurial activity: about 15 percent of the communities we surveyed had a progrowth entrepreneur and almost 60 percent of the entrepreneurs in our sample advocated progrowth policies of some kind.⁶ The first goal of this chapter is to identify the factors that affect the probability that a progrowth entrepreneur will be found in a suburb.

See Sidebar: The Progrowth Entrepreneur goes about here

Paralleling our approach in Chapter 3, we analyze the emergence of a local progrowth entrepreneur as a dichotomous (0,1) variable (with 1 meaning a progrowth entrepreneur was reported in the community) and we use probit analysis to identify the local conditions that affect the probability that a progrowth entrepreneur was found in a given community. We use the same variables and procedures reported in Chapter 3 and measure the likelihood of finding a progrowth entrepreneur as a function of regional location, and political, fiscal and demographic factors.⁷

The Regional Distribution of Progrowth Entrepreneurship. We begin by examining the regional distribution of progrowth entrepreneurs. Empirically, there is a regional pattern in the distribution of progrowth entrepreneurs; but this regional pattern is quite different from the distribution of antigrowth entrepreneurship document in previous research (Logan and Zhou 1990; Donovan and Neiman 1992; Schneider and Teske 1993). Using the four major geographic regions delineated by the Census bureau, the suburbs of the north central region are significantly more likely to host a progrowth entrepreneur than are suburbs in other regions. Among the suburbs in our sample, 21 percent of the suburbs in the north central region had a progrowth entrepreneur, compared to 12 percent in the northeast, 15 percent in the south and 17 percent in the west.⁸ Thus, while the west has been the geographic center of the highly visible antigrowth movement of the last 10 years, suburbs in the north central region have apparently concentrated on trying to attract business growth. This may be the direct result of the economic trends sweeping the regions during the 1980s, a time during which economic growth in metropolitan areas in the "rust belt" of the midwest fell behind other regions. The pattern may also be the result of differences in historical attitudes toward growth.

The Effects of Local Conditions on Progrowth Entrepreneurship

Political Conditions. In Chapter 3, we showed explicitly how structural conditions of local government affect the benefits and costs of entrepreneurship and thus change the probability with which entrepreneurs are found across local governments. Here, we find once again that a full time mayor and the office of manager are associated with the emergence of a progrowth entrepreneur. Other variables that reflect the structure of elections do not affect the emergence of progrowth entrepreneurs.

Table 4.1 goes here

The effects of group activity are important. First, and theoretically most relevant, there is a positive relationship between the reported strength of local business groups (such as the Chamber of Commerce) and the emergence of the progrowth entrepreneur. Local business groups stand to benefit directly from new programs that attract new businesses or implement policies to retain existing ones. And business groups can provide the resources to subsidize an entrepreneur advocating probusiness policies, in part by providing the resources necessary to overcome collective action problems and create political organizations.

We found a negative relationship between taxpayer groups and progrowth entrepreneurship. On one hand, taxpayer groups may be directly interested in progrowth policies that can lead to stabilization of tax rates. However, Barnekov and Rich (1989), Logan and Molotch (1987), and Schneider (1992), among others, argue that there are declining payoffs to local taxpayers from progrowth business policies. Taxpayer groups may have discovered this during the 1980s, putting brakes on the efforts of entrepreneurial politicians who promise programs designed to deliver benefits to taxpayers, but that in reality benefit mostly local businesses. To the extent that tax abatements and other concessions to businesses fail to stabilize local residential property taxes and represent "give aways" to business, taxpayer groups may now present barriers to progrowth entrepreneurship.

There is no relationship between the strength of neighborhood groups and progrowth entrepreneurship. A growing literature traces antigrowth sentiments to conflict between neighborhoods and "downtown" interests. Later in this chapter we show a direct relationship between the strength of neighborhood organizations and antigrowth politics.

In sensitivity analysis, clearly these factors matter. The effect of the office of mayor is particularly important—a city without a full-time mayor has only a .17 probability of housing a progrowth entrepreneur. In cities with full-time mayors, the probability literally doubles. Together the four political variables have a large combined effect. Setting all these political variables to maximize the likelihood of finding a progrowth entrepreneur, the probability rises to .45. Setting all the variables to minimize the likelihood of finding a progrowth entrepreneur, the probability falls to .09. *The effects of fiscal conditions.* Using a 1-tailed test of statistical significance, fiscal conditions significantly affect the probability of finding a progrowth entrepreneur in the way we predicted: higher taxes increase the likelihood of finding an entrepreneur, as does a weaker tax base. Citizens in communities with high taxes and a weak tax base may be more likely to endorse progrowth policies as a means of coping with high costs. We argued above that the relationship between economic growth and taxes may be tenuous at best and that organized taxpayer groups may no longer avidly support probusiness policies. Nonetheless, high taxes may create an opportunity for entrepreneurs to

advocate policies to alleviate these costs. And given high enough taxes, the lure of such promises may be compelling, despite the experiences of other communities.

Table 4.2 goes here

The effects of demographic conditions. We turn next to the effects of local demographic conditions. To explore the possibility of a relationship between income and progrowth entrepreneurship, we examine how local wealth (measured by community median income in 1980) affected the probability of finding a progrowth entrepreneur during the 1980s. Indeed, higher income communities are less likely to support progrowth entrepreneurs (thus communities with high income residents and with a strong tax base—that is, communities that are already winning in the competition between cities—are less likely to support entrepreneurs that may seek to change policies that citizens already believe are working well).

Table 4.3 goes here

We also relate the emergence of progrowth entrepreneurship to recent patterns of local growth. One possibility is that rapid rates of growth may reduce the likelihood of progrowth entrepreneurship—as communities absorb the costs of rapid growth (Logan and Molotch 1987; Feagin 1988), they may feel it necessary to curtail further expansion or certainly to reduce their support for more progrowth activities. However, rapid growth during the 1980s had no effect on the likelihood of finding a progrowth entrepreneur. Apparently recent population growth does not necessarily turn communities away from support of progrowth business policies.

Challenges to the Growth Machine

The progrowth entrepreneur proposes policies to encourage economic development. These progrowth entrepreneurs take advantage of the current distribution of property rights and the ideology that "growth is good." And they profit from the resources made available by local business interests. However, there are problems with the growth machine that are undermining its appeal, giving rise to political opportunities for a new generation of entrepreneurs challenging the politics of growth.

In many communities, residential support for progrowth policies has been replaced by growing opposition to further development. Such opposition can be widespread, transcending socioeconomic lines (e.g., Protash and Baldassare 1983; Fainstein and Fainstein 1983; Bollens 1990). Opposition is often organized around neighborhood groups seeking to protect their communities from

the deleterious effects of continued growth. These groups then provide fertile ground for a new class of politicians who challenge the policies of the growth machine (see especially Logan and Molotch 1987; Logan and Rabrenovic 1990).

There are at least two different types of entrepreneurs who contest the established policies of the growth machine. Ultimately, we argue that these entrepreneurs are proposing a redefinition of the property rights to growth, transferring these rights away from the traditional downtown interests that presently dominate the politics of growth.

The first type of entrepreneur has been identified by Peter Eisinger, and emphasizes new "demand-side" policies. This entrepreneur uses rhetoric to change people's attitudes toward growth (that is, the demand-side entrepreneur tries to move people's ideas within the existing policy domain favoring growth policies). In contrast, the second type, the antigrowth entrepreneur, seeks to introduce a new policy dimension to the politics of growth, and thereby shift the terms and outcome of the policy debate using the tools of heresthetics.

Eisinger's Demand-Side Entrepreneur

See Sidebar: A Demand-Side Progrowth Entrepreneur

The case of Sonya Cranshaw (see sidebar) provides a good illustration of the more proactive economic development efforts that have become increasingly common in recent years. Eisinger (1988) presents a comprehensive review of the "modern" tools of economic development offered by state and local governments. He identifies two fundamentally different approaches to economic development. Eisinger argues that traditionally subnational governments concentrated on "supply-side" policies. The strategic underpinning of the supply-side approach is for communities to maximize their comparative locational advantage, mostly by lowering the capital costs for businesses choosing to locate in a community. The ideological underpinnings of this approach are consistent with a capitalist system and local supply-side policies defer to the prerogatives of capital, relegating governments to a subsidiary and responsive role. The emblematic policy of this approach is tax abatements, which are offered to induce a firm to locate in a community by reducing the capital costs of building in the community.⁹

Eisinger (1988:73-74) enumerates the specific assumptions of this approach: First, is the idea that "private business possesses a special claim to efficiency, effectiveness, and vision...A second is the proposition that it is optimally efficient for the private sector, acting without government direction or constraint, to allocate resources functionally and geographically...A third is the conviction that the

marketplace is a valid testing and winnowing process for firms and entrepreneurs which will in the long run produce economic growth. This competition should, therefore, be allowed to run its course."

The demand-side entrepreneur challenges this ideology, but does not challenge the fundamental assumption that growth is good for local communities. As portrayed in Figure 4.1, the strategic objective of the challenge for Eisinger's demand-side entrepreneur is to shift public opinion on the single dimension of pro-economic development from favoring supply-side policies to favoring demand-side policies.

Figure 4.1 goes here

What "profit" does the demand-side entrepreneur seek in shifting opinions within the terms of the debate? First, there may be legitimate policy reasons for advocating the use of new economic development policies. Many supply-side policies are at the end of their product lives and have declining payoffs (see Schneider 1992). But for the entrepreneurial politician, more important is the fact that traditional supply-side policies are now standardized techniques that are found in the "tool box" of almost all local governments—they are more like commodities than they are specialized products. As standard policies, these tools are now in the domain of a cadre of professional managers (Blair et al. 1984), reducing the political profits available to political entrepreneurs. By introducing new demand-side policies, entrepreneurs can (or at least they promise they can) produce higher benefits for their community. And if these new demand-side policies are at the beginning of the product life, extraordinary profits for the entrepreneur and the community are possible.

The strategic task for the demand-side entrepreneur is to find the appropriate rhetoric to move people's opinions on the single progrowth dimension. This requires promoting a new idea of government-business relations and the capacity of government to "grow" the economy.

Eisinger argues that the demand-side policies have a fundamentally different ideological position on the relationship between capital and government. For Eisinger, the "demand-side model stresses the need to attract or develop industries that export beyond local borders...The policy implications of the demand-side export-base model require that planners encourage the development of only certain selected industries." (1988: 76) The demand-side entrepreneur argues that government must become a more active partner with private enterprise and that it uses its resources to help local industries develop new markets and develop and test new technologies. This is an ideological challenge to the passive government role. The entrepreneur must persuade people to believe in a new

more expansive governmental role. The ideology is technocratic and expansive, the policies are new, and the rewards for success are high.

Demand-side entrepreneurs who try to shift people's opinions can present a reconceptualization of the strategies and outcomes of inter-community competition. We draw on game theoretic terms to highlight the strategy that underlies traditional supply-side policies and then to develop the strategies used by the demand-side entrepreneur.

The Supply-Side Versus the Demand-Side Economic Development "Game"

Consider the case of two communities choosing whether or not to offer tax abatements. We portray this as a simple two by two game—each community can choose to offer an abatement or not to abate. While there are multiple outcomes, the supply-side politician stresses only the two highlighted boxes on the diagonal in panel 1 of Figure 4.2. That is, the choice the supply-side politician presents is simple: if our community gives tax abatements, then we will win. If we don't give tax abatements, some other community will give them, and we will lose. The two other outcomes of the choice situation are not discussed.

Figure 4.2 goes here

There is considerable empirical evidence that the outcome of this game is for all communities to offer tax abatements. This of course resembles the outcome of a prisoner's dilemma: individual communities hoping to profit by offering abatements, instead find themselves at the lower right corner of the game—a suboptimal result in which communities offer tax abatements that are not profitable and may actually cost them more than they get in return.

There are many theoretical solutions to the prisoner's dilemma game, some of which have real counterparts in choices over growth policy. One solution to this outcome would be to find a way to move all communities jointly out of the tax abatement game, shifting the outcome to the northwest corner of Figure 4.2. Regional pacts between state governors are common, in which they swear that they will not raid neighboring states for businesses. However, even with limited numbers of actors (that is governors), who interact frequently and over a wide range of issues, defections are common. At the local level the task is even harder, and it is almost impossible for a politician to unilaterally declare the end of tax abatements hoping that other cities will cooperate in moving to a more efficient outcome.

Demand-side entrepreneurs try to solve this dilemma by proposing a new economic development game. The demand-side entrepreneur rephrases the choice as follows: communities can

continue to offer traditional supply-side policies or they can now offer new demand-side policies. We depict the new demand-side game in Figure 4.3. To the extent that the entrepreneur can get people to accept this new game, they will obviously choose the demand-side policies the entrepreneur is "selling." In this new game, demand-side policies are the dominant strategy since a community choosing demand-side policies playing against a community offering supply-side policies always wins. And if all communities choose demand-side policies, the expanding economic pie still produces.net gains for the community choosing demand-side policies.

Figure 4.3 goes here

In short, the demand-side entrepreneur uses rhetoric to persuade local citizens to reconceptualize the economic development game and to shift the terms of the debate to favor the entrepreneur's preferred policies. To the extent that this occurs, the property rights to growth are shifted away from the existing growth machine in which local politicians are subservient to traditional downtown business interests and in which growth policies are institutionalized in the hands of bureaucrats. By using new ideas and a new ideological conceptualization of the role of government vis-a-vis business, the demand-side entrepreneur stands to garner extraordinary profits in the growth game.

Empirical Evidence on Supply versus Demand-side Policies

To gather information about the specific policy tools used by demand-side entrepreneurs, we mailed a detailed questionnaire to communities in which a political entrepreneur was reported in our first survey. Among other items, this questionnaire contained a battery of questions about the specific growth policies the entrepreneur advocated.¹⁰ These questions were designed to distinguish between entrepreneurs who relied on the traditional tools of economic development" and those who advocated the use of "demand-side" growth policies. Figure 4.4 lists the nine progrowth policies about which we queried clerks. Following Eisinger, we divided these policies into demand- and supply-side approaches to economic development.

Figure 4.4 goes here

We define a "demand-side" progrowth entrepreneur as someone who advocated two or more demand-side economic development policies. Similarly, a "supply-side" progrowth entrepreneur was

defined as someone who advocated three or more traditional tools.¹² Among all the progrowth policies we asked about, the most common were site development, tax abatements, industrial revenue bonds—all "supply-side" policies. In contrast, many fewer entrepreneurs used demand-side policies: 14 percent used venture capital funds; 15 percent advocated incubators; 8 percent encouraged foreign trade or encourage foreign investment; and only 7 percent are trying to impose limits on plant closings.

- Unfortunately, given the small sample size of 117 communities that responded to our second wave questionnaire, rigorous tests of the factors affecting the emergence of these specific types of entrepreneurs are not possible. However, comparative data does illustrate some patterns in the distribution of demand-side entrepreneurship. Table 4.4 presents the mean values of selected variables for communities with supply-side and demand-side entrepreneurs.¹³ We also present the mean values for these variables for the 800 communities that did not have progrowth entrepreneurs. These results highlight some systematic differences between the types of communities supporting different forms of entrepreneurship and they indicate some patterns for further research.

The Life Cycle of Growth Policies: One role of entrepreneurs is to introduce established products into new markets. Another and riskier role for entrepreneurs is to push truly innovative products or policies. Our data suggest that it is more common for progrowth entrepreneurs to advocate the use of the more established tools of economic development than it is for them to advocate more radical ones. While the payoffs for more innovative tools can be greater, so are the risks. Nonetheless, some entrepreneurs are pushing the more radical programs and some of these entrepreneurs will succeed, garnering large gains in their visibility and in their reputations.

Assuming that the number of demand-side entrepreneurs grows (especially as the rewards of traditional supply-side policies are bid away) and as their policies prove successful, the downside risks will become better understood and reduced. A winnowing out process will occur in which the best policies will be "certified" and the knowledge of how to enact and manage these policies will diffuse. Over time, a body of these (presently) innovative demand-side policies will become part of the standard tool kit of local politicians. Ultimately, they will be assigned to bureaucratic managers who have learned the techniques and methods of demand-side growth policies. This replicates the process by which the previously "innovative" supply-side economic development policies, such as tax abatements, became standard tools of local government.

The Regional Pattern: Among the other patterns that stand out is a distinct regional pattern in the distribution of the two types of progrowth entrepreneurs: supply-side progrowth entrepreneurs are disproportionately found in the north central region. While only 35 percent of all the suburbs in the

sample are in this region, twice that proportion of supply-side entrepreneurs are found there. Again this may reflect the more conservative attitudes of the region.

Political Incentives for Demand-Side entrepreneurship: Demand-side entrepreneurs are more likely to be found in communities with full-time mayors (one third of the cities with demand-side entrepreneurs had full-time mayors, while only 16 percent of cities with supply-side entrepreneurs had full-time mayors). We think there may be two related reasons for this. First, full-time mayors may possess the political capital and prestige to embark on more radical entrepreneurial policies. Second, many students of entrepreneurship argue that the most innovative entrepreneurs are likely to have personalities that allow them to believe fervently in a specific vision of the future and allow them vigorously to pursue that vision. Entrepreneurs seeking the more demanding job of full-time mayor may be more likely to have the personality characteristics and commitments that make them willing to embark on the innovative and risky policy paths outlined by Eisinger. Note, too, that communities with demand-side entrepreneurs are relatively larger than those with supply-side progrowth entrepreneurs. The successful pursuit of office in the more intense political environment of larger cities may increase the likelihood of finding an entrepreneur with the personality strengths to pursue more innovative policies.

While these factors are consistent with a theoretical approach to political entrepreneurship, given our limited empirical base, we present these findings as illustrative and as outlining areas for future research.

The Antigrowth Entrepreneur: Introducing New Dimensions into Local Growth Politics

The demand-side entrepreneur seeks to change the outcome of the policy debate by shifting people's preferences within an established progrowth policy dimension. The job of the antigrowth entrepreneur is more challenging. The antigrowth entrepreneur seeks to more thoroughly disrupt the existing progrowth equilibrium by alerting people to a new dimension of debate that differs from the existing conceptual framework of progrowth policies. In this, the antigrowth entrepreneur relies on the tools of the heresthetic.

Our present understanding of the origins and the successes of the antigrowth movement is limited. Research into the antigrowth movement has proceeded along a fairly narrow line. Most studies are predicated on the assumption that successful opposition to the demands of the growth machine rests on the mobilization of citizen groups. The usual mode of analysis of antigrowth movements relates some general measures of local political, economic, or social conditions to the extent of antigrowth attitudes and antigrowth policies. However, studies along these lines have reported decidedly mixed results (compare, e.g., Gottdeiner and Neiman 1981; Baldassarre and

Protash 1982; Albrecht, Bultena and Hoiberg 1986; Bollens 1990; Logan and Zhou 1990; Donovan and Neiman 1992).

We argue that, fundamentally, it is not enough that the Objective conditions in a given community may support an antigrowth movement — an antigrowth entrepreneur may be a necessary catalyst for change.

The Role of The Antigrowth Entrepreneur

The antigrowth entrepreneur presents an alternative policy dimension that can split the existing progrowth coalition. In order to win elections and justify their policies, progrowth politicians focus on the importance of economic development and the creation of new jobs. In contrast, existing case studies, mostly of large cities, show that the antigrowth entrepreneur stresses different values to mobilize opposition to "downtown," probusiness growth policies. Terms describing this alternative emphasis include Swannstrom's (1985) "urban populism," Gavel's (1986) "progressive city," Logan and Molotch's (1987) "use values," and Stone and Sanders' (1987) "progressive regimes." The underlying similarity of these disparate analyses is their agreement on how an alternative value, usually equality or the value of neighborhood preservation, can undermine the appeal of the progrowth coalition. Based on studies such as these and on empirical data we present below, we argue that the antigrowth entrepreneur introduces a new dimension to local political debates, fracturing the existing and apparently stable progrowth "equilibrium" and creating a new and more profitable outcome.¹⁴ Figure 4.5 illustrates this process.

Figure 4.5 goes here

But introducing a different dimension into local debate is just one part of the antigrowth entrepreneur's problem. In order to capitalize on any shifts in the terms of local policy debate, the antigrowth entrepreneur is faced with a fundamental political problem: the entrepreneur must overcome the difficulty of mobilizing residential groups to compensate for the relative ease with which local business groups can organize. Antigrowth coalitions are often based on a diffuse set of interests. Thus, a latent antigrowth coalition faces difficult collective action problems, problems that the antigrowth entrepreneur can help solve.¹⁵ This perspective helps explain why so many antigrowth movements have their roots in neighborhood organizations (see the sidebar on the antigrowth entrepreneur; also Logan and Rabrenovic 1990).

Sidebar: The Antigrowth Entrepreneur goes about here

The Neighborhood Basis for Antigrowth Activity. It is easier to solve collective action problems in neighborhoods than in larger spatial units, and it may be easier to solve these problems in suburbs than in large central cities. The homogeneity of interests, the lower transaction costs when social status is shared, and the frequency with which neighbors interact, especially when faced with a proposed development that threatens the character of a neighborhood, all ease the task of organizing a political base. To the extent that the antigrowth entrepreneur can mobilize a local community and successfully ameliorate or defuse a threat to a neighborhood, the entrepreneur establishes a reputation and a political base for further challenges to the growth machine.

In turn, these neighborhood organizations provide the functional equivalent of "screening" by which the quality and sincerity of a potential antigrowth entrepreneur is established. Most markets rely on intermediation to facilitate adjustment and to screen for quality-but screening for the quality of an entrepreneur is difficult (Casson 1982). Given the uncertainty and complexity of challenges to the growth machine and the potential profits of successful challenges to the established progrowth elite, many people who would not qualify as "true" antigrowth entrepreneurs may be tempted to offer antigrowth policies, engaging in "opportunistic behavior" (Williamson 1985).

Reputation is perhaps the most important screen by which to limit such opportunism. As shown in transaction cost economics, reputation is most directly and reliably built on a history of successful trades that produces confidence in the reliability of future transactions (Shapiro 1983; Bull 1983). We believe that service in local neighborhood and civic associations screens for quality, by testing for entrepreneurial ability and by allowing an individual to build a reputation for valued leadership traits such as reliability and honesty.

Our emphasis on the role of entrepreneurs leads to a less deterministic view of politics than embodied in most studies of antigrowth politics. Entrepreneurship by its very nature is not a routine, predictable part of the political scene. Thus the failure of existing studies adequately to explain or predict antigrowth policies is not surprising. Without an understanding of the presently nonroutinized nature of antigrowth politics, the standard approach of linking objective indicators of local conditions to policy outcomes simply will not work. Instead of looking at factors that may affect the adoption of local antigrowth *policies*, we look at the factors that affect the probable emergence of an antigrowth *entrepreneur*.

The Local Basis for the Antigrowth Entrepreneur

For purposes of this empirical analysis, we classify an antigrowth entrepreneur as an individual (a) who was identified by the clerk as an entrepreneur and (b) who advocated capping residential, commercial or industrial growth.¹⁶ As noted earlier, about 27 percent of the clerks identified an entrepreneur in their community. Using our definition, the antigrowth entrepreneur is relatively rare: only about 6 percent of the communities we surveyed had an antigrowth entrepreneur. In contrast, we showed above that progrowth entrepreneurs were more than twice as likely to be found.

In the following empirical analysis, we analyze the emergence of a local antigrowth entrepreneur as a dichotomous (0,1) variable (with 1 meaning an antigrowth entrepreneur was reported in the community) and use probit analysis to identify local conditions affecting the probability that an entrepreneur was found in a given community.¹⁷

Local Factors Affecting the Emergence of the Antigrowth Entrepreneur

Previous work has shown a clear regional pattern to the distribution of antigrowth entrepreneurs—they are disproportionately found in the West. Donovan and Neiman (1992) argue that this regional pattern rests on the distribution of political factors—the participatory political structures of the west make local governments more open to challenges to the status quo.

Similarly, we find that the probability of finding an antigrowth entrepreneur is a function of theoretically interesting political conditions. See Table 4.4. Note that the probability of finding an antigrowth entrepreneur increases when the representation system is based on districts rather than at-large and when the office of mayor is full-time.¹⁸ Even more important, note that the strength of neighborhood groups does increase the likelihood of finding an antigrowth entrepreneur in at-large cities but not in cities with district elections.¹⁹

Table 4.4 goes here

Table 4.4.2 reports in more detail the changes in the actual probability of finding an antigrowth entrepreneur as a function of changes in the most important conditions identified in Table 4.4.1. The effects of a full time mayor (regardless of the form of election) is striking: changing from no mayor to a full time mayor increases the probability of finding an antigrowth entrepreneur from 1 percent to 20 percent in at-large cities and from 5 percent to 37 percent in cities with district elections. The role of small scale organization in encouraging antigrowth entrepreneurship (district representation or neighborhood groups in at-large systems) is also clearly evident: for every condition

shown in Table 4.4, the probability of finding an antigrowth entrepreneur is considerably higher in cities with district elections compared to cities using at-large elections. The only condition in which the probability of finding an antigrowth entrepreneur in at-large cities approaches that in cities using district elections is the final cell in Table 4.4.2—that is, when neighborhood groups are extremely strong. We believe this clearly shows the relationship between spatial decentralization, the size of constituencies, and the intensity of the collective action problem facing political entrepreneurs.

In contrast, note that fiscal and expenditure patterns reported in Table 4.5 have no effect on the emergence of the antigrowth entrepreneur and the effects of demographic variables are also weak. In many previous studies, demographic variables have not been found to affect antigrowth activity. Our results, reported in Table 4.6, are similar: with one important exception—the relative rate of growth during the 1980s—the probability with which an antigrowth entrepreneur emerges is not affected by local demographic or fiscal conditions.²⁰

Tables 4.5 and 4.6 go here

Property Rights, Ideas, and Institutions

Local business form a privileged core of most local political coalitions and the resources they control give businesses extraordinary advantages in local politics. But business leaders must ultimately negotiate with political leaders in order to translate their preferences into policies. One critical political actor in this translation process is the progrowth entrepreneur—an individual who is willing to advocate new and expanded progrowth policies and who is willing to invest resources to construct a political coalition to enact these policies. An entrepreneur can be attracted to progrowth policies for a variety of reasons. At one level, economic growth may be consistent with an entrepreneur's personal vision of the future. The progrowth entrepreneur may also believe that the programs that he or she is advocating are beneficial to the community, for example, by creating jobs and by increasing the flow of tax revenues.

The rate at which potential entrepreneurs will be attracted to the political arena is a direct function of the costs and benefits facing that entrepreneur. And there are other incentives that will attract an entrepreneur to the domain of progrowth policies. The business community can directly reduce the costs of entrepreneurship, by providing resources the entrepreneur needs to pursue a vision of the future. And the business community can help provide the organizational core for the entrepreneur, subsidizing the costs of collective action.

Not only can the business community reduce the costs of progrowth entrepreneurship, it can also influence the benefits. Most local politicians, including the entrepreneurs we identified, are themselves members of the business community, many with backgrounds in law, insurance or real estate. By advocating progrowth policies, probusiness political entrepreneurs may be creating an economic environment they believe will benefit not only the community but their own businesses as well. Moreover, by maintaining good relations with the business community, progrowth entrepreneurs may expect future rewards from other members of that community.

The progrowth entrepreneur seeks to take advantage of the prevailing link between the ideology of growth and the privileged position of local business interests. The task of entrepreneurs challenging this core arrangement is more challenging. These entrepreneurs must change people's ideas either through rhetoric or through heresthetics. And compared to the progrowth entrepreneur, they face more severe collective action problems. While antigrowth entrepreneurship is more radical, the emergence of antigrowth entrepreneurs is nonetheless structured by a calculation of the benefits and costs of entrepreneurship.

The antigrowth entrepreneur is more likely to appear in a political environment in which the rewards for entrepreneurship are higher (e.g., a full-time office of the mayor) and in which the obstacles to successful collective action are reduced (e.g., district elections or strong neighborhood groups). We showed that the incentives and obstacles inherent in the local political structure are more important than economic and demographic factors in explaining the emergence of entrepreneurial political leaders who launch challenges to progrowth policies.

The antigrowth entrepreneur is central to attacks on the growth machine. But this form of entrepreneurship, while highly visible, is not unique. Rather antigrowth entrepreneurship is just the most recent form of a never-ending series of dynamic political challenges to prevailing practices in local governments. Over time, local governments have experienced waves of entrepreneurs who have seized opportunities to create new coalitions, using innovative ideas in the pursuit of local political office and preferred public policies. Right now, many local entrepreneurs are seizing on the politics of growth as a domain to gain high profits by pushing new policy products. But other issues, such as taxes or privatization or race, also provide opportunities. We have focused on the issue of growth because it is central to contemporary local politics and because the life cycle of entrepreneurial profits is so clear.

At one time, political leaders made reputations by pioneering in progrowth business development policies. Many still do. But, since the "market for jobs" is now so fully developed, most political opportunities for progrowth entrepreneurs using traditional supply-side policies have been

identified and bid away in a highly competitive market for economic development. In a process replicating private markets where entrepreneurial leadership is replaced by bureaucratic processes handled by managers, many traditional progrowth policy tools have been routinized and are now handled by a cadre of bureaucrats (e.g., Blair et al. 1984, Eisinger 1988).

As policy tools become standard procedures, entrepreneurs must seek innovative policies to appeal to local citizens. Eisinger (1988) shows that a new class of progrowth entrepreneurs is now emerging, as political leaders in a number of state and local governments experiment with a range of "demand-side" policies to promote economic development. This is to be expected: as the payoffs (or "profits") for traditional economic development policies have dwindled, political entrepreneurs create and experiment with new policies with potentially higher rewards. To the extent these innovative policies are successful, over time additional politicians will advocate them. Ultimately these new (and presently) entrepreneurial tools will themselves become standardized and transformed into bureaucratic SOPs. Following Schumpeter, as this occurs, the next generation of entrepreneurs will emerge advocating another yet another set of economic development tools and policies.

Endnotes

1. See Iyengar and Kinder (1987) for political and media applications of this insight.
2. Olson's (1982) study of the rise and decline of nations also shows how established groups can maintain control over property rights to the detriment of the society as a whole. The focus of law and the importance of legal precedents also matter. Friedman (1985) and Hughes (1977) provide studies of how the force of law can affect the ability of groups to renegotiate property rights.
3. Libecap's argument is centered on the definition and redefinition of entitlements. Coase's theorem argues that given certain conditions, the initial entitlements established by property rights do not matter, and negotiations and exchanges between involved parties can produce an efficient use of resources. The requirements for Coase's theorem to obtain include a) the complete specification of entitlements and their exclusive assignment to owners who can protect the use of their property; and b) the assumption of zero transaction costs—that is, entitlements can be easily transferred from one party to another. The assumption of zero transaction costs further assumes full information. Coase's theorem presents a problem for many social scientists because of its indifference to the wealth effects of initial entitlements. Coase is emphasizing efficiency over equity.

Calabresi and Melamed (1972) document four rules of entitlement that radically affect the distribution of wealth. As made clear in the graphical presentation presented by Fischel (1985:113), ultimately, in perfect conditions, trade will yield an equilibrium (point E in Fischel's graph). However, depending on who is assigned the initial property rights, Person "A" (Taney in Fischel's example) may have to transfer wealth to Person "B" (Marshall) or B may have to transfer wealth to A. The assignment of initial property rights matters! And entrepreneurs use the equity issue in their fights to assign the property rights of local growth.
4. This is the argument developed by Clarence Stone in his book, *Regime Politics*. See Chapter 2 for a more extended discussion of the size principle and the use of selective incentives by business based interest groups to overcome collective action problems.
5. For a variety of reasons the payoffs flowing from the standard tools of economic growth have declined, making the search for new policies by progrowth entrepreneurs understandable. For example, the diffusion of standard probusiness tools across local governments reduces the ability of a politician to claim credit for innovation. Moreover, as the last generation of pro-growth tools has become standardized, they are now handled by a cadre of professional managers, rather than political leaders, again reducing the payoffs to entrepreneurial politicians (Blair et al. 1984). The payoff to local communities flowing from the standard tools of growth have declined as competition for jobs has intensified (Milward and Newman 1989) and as the fiscal payoffs for job creation have declined (Schneider 1992).
6. In contrast, and not surprisingly, only 6 percent of the suburbs in our sample had *antigrowth* entrepreneurs (individuals who proposed innovative programs to either limit the growth of new firms or cap population growth).

7. It is important to remember that we are identifying those conditions that affect the probability with which a progrowth entrepreneur *emerges*. This is conceptually different from measuring the extent to which progrowth policies are already in place across communities. Here we are examining the conditions that affect the extent to which the economic development policies an entrepreneur advocates represent a "dynamic change" from existing policies. Clearly, communities that have entrepreneurs advocating development policies in a way that represents a dynamic departure from existing practices will be fewer than the number of communities that have already established progrowth policies.

8. This difference was statistically significant at $p < .02$.

9. Other policies in the supply-side tradition include tax increment financing, debt financing (through, for example, industrial revenue bonds), and subsidies to other land costs (through, for example, industrial and commercial site development subsidies).

10. We mailed a second questionnaire to all communities in which a political entrepreneur had been identified in the first questionnaire. Political entrepreneurs include mayors, councilpeople, private citizens, and business people named by the city clerks as entrepreneurs. We sent a separate follow-up survey to the clerks who named a city managers or bureaucrats as an entrepreneur. Of the 201 communities with political entrepreneurs, we were able to get complete second wave questionnaires from 117.

11. This is not an oxymoron. Remember, the question we asked was whether or not the entrepreneur was espousing policies that represented a dynamic *change* for their particular community. Thus, even though "standard" tools of economic development may be common nationwide, they are not universal. It is possible for a local entrepreneur to espouse these tools as new for a given community.

12. The mean number of traditional policies advocated by progrowth entrepreneurs was 1.7 with a standard deviation of 1.6. We define a "standard" supply side progrowth entrepreneurs as those progrowth entrepreneurs who were about 1 standard deviation or more above the mean in their advocacy of these traditional progrowth policies. The mean number of demand side policies advocated was .47 with a standard deviation of .94. Eisinger type entrepreneurs were defined as a progrowth entrepreneur who advocated 2 or more demand side policies (this is slightly more than the mean plus one standard deviation, but the distribution of responses made the use of this cut off more viable than the exact same definition used for the traditional progrowth entrepreneur).

13. In addition to these seven variables, we also report the standardized mean population size of each type of community because there is such a large difference. The means do not differ across types of cities for the other variables used in Tables 4.1 and 4.2. A complete table is available from the authors upon request. Note further that this second wave questionnaire upon which this table is build was mailed only to communities with political entrepreneurs only. There were a very few progrowth city managers and bureaucrats who were also named as entrepreneurs, but they are not included in this stage of the analysis.

14. What we mean by "profit" for the political entrepreneur is obviously more complex than the monetized concept that underlies economic theory. For the antigrowth entrepreneur, profits can accrue from mounting a successful campaign for political office, such as the office of mayor, or from changing local policies, such as tax abatements or environmental preservation, which affect the rate and composition of local growth.

15. While we have not yet collected the detailed studies of how various antigrowth entrepreneurs actually have overcome such obstacles to create opposing coalitions, the case studies cited earlier provide support for our position. More generally, Moe (1980), Taylor (1982), Doig and Hargrove (1987), Kirchheimer (1989) and others generate a series of observations concerning the strategies and methods of political entrepreneurs — observations that may help inform further research in this area. Also see Schneider and Teske (1992) for a more general theoretical development of the concept of the local political entrepreneur and the collective action problem.

16. Our model of antigrowth entrepreneurship is one of *change* from existing progrowth policies. Hence we define the antigrowth entrepreneur as someone who is pushing caps on growth in a community where these proposals represent a "dynamic change from existing procedures." To some extent this assumes that progrowth policies are the "default" condition in local communities (an assumption that is rooted in Peterson's explication of the incentives built into competitive cities, studies of the growth machine, and the widespread use of progrowth policies in cities). Further, we recognize that there is a vast variety of different tools that the antigrowth entrepreneur can advocate. Here we do not deal with these differences in policies. However, in ongoing work, we are gathering more data on the specific policies antigrowth entrepreneurs have advocated and the degree to which these do vary from previous policies.

Among antigrowth policies, the most common were the standard tools: review standards, capital improvements, linking traffic and growth. The more radical anti-growth policies are more rare: Only 6 percent have used sewer moratoria, 7 percent population caps, and 8 percent limits on residential rezonings.

17. In this research we are studying the frequency with which political leaders advocate antigrowth policies that represent a departure from the existing norms of the community. We are not studying the extent to which antigrowth policies are already in place. The frequency of dynamic change is probably lower than the frequency with which communities already hold these policies. But since we asked the clerks to name entrepreneurs in the 1980s and the antigrowth movement took root mostly during that decade, the extent to which this is a problem may be minimized.

18. To rule out the possibility that suburban cities with full time mayors are simply more likely than other cities to have someone whose visibility and policy positions attract the attention of the city clerk (increasing the probability that they will be named as an antigrowth entrepreneur) we tested to see if there were any significant differences in the positions (that is: mayor, city manager, city council member or private citizen) held by antigrowth entrepreneurs in cities with full time mayors and cities with part time mayors. Since there was no significant difference in the distribution of positions across the two types of cities, we believe that the office fundamentally affects the expected benefits and costs of entrepreneurship and the pattern reported in Table 4.2 does not result from clerks simply identifying full time mayors as antigrowth entrepreneurs because of their higher visibility.

19. That is, the coefficient on the neighborhood group variable is not significant while the coefficient on the interaction term is positive and significant at $p < .05$.

20. We also modeled the effect of changes in the size of local economic base on the emergence of the antigrowth entrepreneur. A large and growing business sector can provide the resources to support the growth machine, but too rapid growth in these sectors may strain the infrastructure of the local community and challenge the quality of life in a community. In results not reported, but available upon request, we found that the relative growth of these business sectors affect the probability of an antigrowth entrepreneur emerging in a town.

Sidebar: Eugene Moses
A Progrowth Entrepreneur

In 1982, mid-way through his four year council term, Eugene Moses was elected Mayor of Azusa, California, a suburban city outside of Los Angeles. Azusa had experienced considerable decline and its downtown had become the most run-down in the San Gabriel Valley; Moses called it "almost a skid row." Although Moses emerged as a progrowth entrepreneur with a focus on downtown, he faced significant opposition on his own city Council. For example, Councilman Decker argued: "Nothing has been done down there for the past 30 years. The downtown area is gone. May Company (department store) is not going to move in." Moses countered: "If we aren't going to bring new businesses in, then we should really help the existing businessmen improve and renovate their property."

Upon taking office, Moses dismissed a redevelopment consulting firm the Azusa Community Redevelopment Agency (CRA) had retained for showing no progress in upgrading the downtown area over the previous six years. Again, Moses received little council support and expanded the scope of the issue by circulating petitions among the citizens. After getting 500 names on his petition, Moses stated: "I think the council will have to listen to this. There are just too many people who want something done downtown."

His plan to improve the downtown included building new shops, theaters and restaurants that would not only serve the people of Azusa, but more importantly would attract tourists. Although his ideas were not fully adopted, he advocated successfully an historical-cultural commission to designate sites and to seek low-interest rehabilitation funding from the CRA, which he called "one of the most important things to happen in Azusa in years." His goal was to improve the town's aesthetic and historical appeal, the better to buttress his promotion of Azusa as the "Recreational Gateway to the (San Gabriel) Foothills."

In addition to this downtown-oriented progrowth approach, Moses developed other innovations. For example, he saved over \$125,000 annually by contracting with the county for provision of fire and paramedic services, and emphasized efficiency in local government operations. Moses' entrepreneurial reach exceeded Azusa's boundaries; he fought for a national nuclear weapons freeze, arguing that small cities like Azusa need to speak out on national issues.

Sidebar: Sonya Cranshaw
A Demand-Side Progrowth Entrepreneur

Sonya Cranshaw was a progressive village president in Hanover Park, a northwestern suburb of Chicago, who advocated balanced growth. In 1987 she brokered an impressive deal that should pay off well for the community.

One real estate development firm owned a large parcel of land upon which it sought to construct more single family residences. The village preferred moderate scale commercial development in that area. The Chicago Tribune quoted Cranshaw: "We felt we had an overabundance of residential development and decided to diversify our development...primarily to broaden our tax base, and to create some job opportunities for residents."

Rather than passively waiting for private market forces to structure patterns of growth for Hanover Park, Cranshaw led the village into playing an entrepreneurial role. The village purchased a large parcel of land from the residential developer, who then returned the \$650,000 purchase price to the village to pay for infrastructure investments that the developer needed to build residences on a portion of the land he retained. The village then sold pieces of the land parcel they had purchased to a commercial developer to construct a business park. In this commercial deal, the village was able to get the industrial park to pay for its own infrastructure.

Because of Cranshaw's entrepreneurial activities, the village got the business park where and when it wanted it, with attendant tax revenues and local job opportunities. The two developers were able to build the commercial and residential projects they wanted to build, and the village did not pay for expensive infrastructure.

Sidebar: Thomas Pellegrino
An Anti-Growth Entrepreneur

Thomas Pellegrino is the full-time Mayor of the village of Port Washington North on Long Island, one of the most affluent suburbs in the New York region. Pellegrino developed an anti-growth strategy to deal with the continuing pressure of growth.

Port Washington North was incorporated in 1932, with 681 people, but grew to over 3,150 by the mid-1980s. Like so many other suburbs around the country, the village expanded from a mere hamlet into a community of single family homes, garden apartments, shopping centers, industrial parks, and one the home of the world's largest magazine subscription services (Publisher's Clearing House).

Pellegrino earned his entrepreneurial designation by successfully limiting growth pressure, particularly by opposing proposed large-scale condominium projects, new commercial developments, and the expansion of the Publisher's Clearing House facilities. He argued that this commercial growth needed to be balanced by concern for the residential character of the village, the limited capacity of both the area Sewer District and the railroad station parking lot, and the need for a strong tax base. As is common with antigrowth entrepreneurs, Mayor Pelligrino found support in neighborhood organizations. In 1982 and 1983, he worked with two newly formed neighborhood groups, the Residents for a More Beautiful Port Washington and the Port Washington North Homeowners Association, to reduce the scale of the expansion of Publisher's Clearing House. This struggle resulted in fierce political and legal battles, in which Pelligrino stood on the side of residents against his village's largest employer. After losing court challenges, he supported a new ordinance to limit the height of future commercial construction in the village: "The intent of this legislation is, in my opinion, to protect the residences that abut these (industrial/commercial) areas." While fighting these battles over growth, Pellegrino managed to keep property taxes stable, while maintaining a high level of local services.

In 1993, Pellegrino was still the mayor of Port Washington North. Growth has continued to be a contentious issue, including a recent proposed shopping center that includes a fast food restaurant, the type of which has become increasingly unpopular in affluent NYC suburbs. Again, Pellegrino forced compromises on the part of the new businesses to meet the concerns of residents and their neighborhood groups. Pellegrino has used public input, mobilized through frequent public hearings, as a basis for a cooperative approach to members of the Board of Trustees in his pursuit of a slow and balanced approach to local growth.

**Table 4.1.1: The effects of political conditions on
The probable emergence of a progrowth entrepreneur:
Probit results, 788 suburban municipalities**

	Coefficient	Std. Error	p>t
Full-time Mayor	.54	.15	.00
Turnover	.17	.11	.13
Term length	.01	.11	.88
Manager	.26	.13	.04
At-large	-.12	.31	.71
Nonpartisan	-.01	.15	.91
Parties	.02	.04	.57
Business Groups	.09	.05	.07
Taxpayer Groups	-.10	.05	.05
Neighbor Groups	-.04	.08	.58
Interaction	.08	.09	.35
West	-.02	.21	.93
North Central	.33	.15	.02
South	-.03	.19	.86
Constant	-1.31	.29	.00

Number of observations: 788

Chi square: 32.45 (14 degrees of freedom)

Prob>chi square: .003

Notes:

Full time Mayor: 1 = full time mayor; 0 = part time mayor. Manager: 1 = city manager; 0 = no city manager. At-large: 1 = At-large elections; 0 = district elections. Nonpartisan: 1 = nonpartisan elections; 0 = partisan. Term 0 = 2 year term; 1 = 4 year term. Turnover: the number of different mayors in the last 10 years; Business groups: reported strength of business groups such as the Chamber of Commerce: 1 = not very important; 5 = very important. Taxpayer Groups, Neighborhood Groups; Parties: same as Business Groups. Interaction: = 0 in district cities; = value of neighborhood group in at-large cities.

Source: Survey of city clerks. West, North Central, South: four main geographic regions delineated by U.S. Bureau of the Census (Northeast is the omitted category).

**Table 4.1.2: Sensitivity Analysis:
The effects of political variables on the probability
Of finding a Progrowth Entrepreneur.**

	Full time mayor	Manager	Chamber of Commerce	Taxpayer Groups	Joint Probability
Maximum effect	.33	.21	.21	.22	.45
Minimum effect	.17	.15	.16	.16	.09

In the set of communities for which this particular probit was estimated the mean probability is .19. To estimate the maximum effect we set the dichotomous variables (Full-time Mayor and Manager) to 1. We set them to 0 to estimate the minimum probability. The two group variables have a range of 0-5. We estimate the minimum and maximum probabilities by setting the variable to either + or - 1 standard deviation from the mean (depending on the direction of the sign). The joint probability manipulates all four conditions simultaneously.

**Table 4.2.1: The effects of fiscal and budgetary conditions on
The probable emergence of a progrowth entrepreneur:
Probit results, 658 suburban municipalities.**

	Coefficient	Std. Error	p > t
Allocational Expenditures	.05	.07	.45
Developmental Expenditures	-.00	.06	.97
Redistributive Expenditures	-.05	.06	.35
Tax Rate	.09	.05	.09
True Value	-.12	.07	.09
West	.11	.17	.55
North Central	.28	.14	.04
South	-.04	.19	.83
Constant	-1.07	.11	.00

Number of observations: 659

Chi square: 13.78 (8 degrees of freedom)

Prob > chi square: .02

Notes:

All variables are z-scores standardized by MSA means and standard deviations, that is, they are measures of the position of a community on that condition relative to its neighbors.

Source: True value and tax rates: state and local sources, adjusted for differences in assessment practices. Expenditures: 1982 Census of Governments, Finance, File A. West, North Central, South: four main geographic regions delineated by U.S. Bureau of the Census (Northeast is the omitted category).

**Table 4.2.2: Sensitivity Analysis:
The effects of fiscal variables on the probability
Of finding a Progrowth Entrepreneur.**

	Tax Rate	True Value	Both
Maximum effect	.20	.21	.24
Minimum effect	.15	.15	.12

In the set of communities for which this probit was estimated the mean probability is .18. To estimate the maximum effect we set the variables at either + or - 1 (since these are z-scores the mean=0, the standard deviation=1).

**Table 4.3.1: The effects of demographic conditions on
The probable emergence of a progrowth entrepreneur:
Probit results, 829 suburban municipalities**

	Coefficient	Std. Error	p>t
Median Income	-.23	.08	.00
Renter percent	-.05	.06	.40
Distance	-.11	.05	.06
Growth 1980s	.05	.06	.39
Black percent	.09	.05	.11
West	.19	.16	.26
North Central	.39	.12	.00
South	.07	.17	.65
Constant	-1.17	.09	.00

Number of observations: 829

Chi square: 27.99 (8 degrees of freedom)

Prob>chi square: .03

Notes:

All variables are z-scores standardized by MSA means and standard deviations, that is, they are measures of the position of a community on that condition relative to its neighbors. Median Income: Relative Community Income 1980. Growth 1980: z-score of Population 1990/Population 1980.

Source: Renter percent, black percent, population 1980: 1980 Census of Population and Housing. Population 1990: counts generated by PL 94-171. Distance: maps. West, North Central, South: four main geographic regions delineated by U.S. Bureau of the Census (Northeast is the omitted category).

**Table 4.3.2: Sensitivity Analysis:
The effects of demographic variables on the probability
Of finding a Progrowth Entrepreneur.**

	Distance	Median Income	Joint Probability
Maximum effect	.19	.23	.26
Minimum effect	.14	.11	.09

In the set of communities for which this particular probit was estimated the mean probability is .17. To estimate the maximum effect we set the variables at either + or - 1 (since these are z-scores the mean=0, the standard deviation=1).

**Table 4.4: Selected Characteristics of Communities without
Progrowth Entrepreneurs and with Demand Side and Supply Side
Progrowth Entrepreneurs.**

	Suburbs W/Out Progrow Entre.	Demand Side Entrepreneur	Supply Side Entrepreneur
Full time Mayor	.13	.33(*)	.16
Manager	.59	.66	.73(*)
Business Groups	2.57	2.83	2.76
Taxpayer Groups	2.97	2.77	3.02
Tax rate 1982	0.00	.33	.44(*)
Growth 1970s	-0.02	.01	.02
Median Income	0.00	-.19	-.22
Population 1980	0.08	.72(*)	.33
Northeast	.38	.33	.11(*)
North Central	.35	.38	.70(*)
West	.14	.16	.14
South	.13	.11	.05

Number of observations: suburbs without progrowth entrepreneur 800; Demand side entrepreneurs 18; Supply side entrepreneurs: 37.

(*) difference between the reported mean in cell and mean for suburbs without progrowth entrepreneur significant at $p < .05$.

For variables Full time Mayor, Manager, and Northeast through South, entries are the percent of communities with each type of entrepreneurs that has the particular characteristic. That is, of the communities with demand side entrepreneurs, one-third had full time mayors, while only 16 percent of communities with supply side entrepreneurs had full time mayors. For the group variables, the entry is the average score on a scale of 1-5 of the reported political importance of the group (with higher numbers indicating greater importance). Tax rate through median income are the average z-scores: for example, the population in communities with demand side entrepreneurs is .7 standard deviations higher than its metropolitan regional average while communities with supply side entrepreneurs are only .33 standard deviations above average.

**Table 4.5.1: The effects of political conditions on
The probable emergence of an antigrowth entrepreneur:
Probit results, 788 suburban municipalities**

	Coefficient	Std. Error	p > t
Full-time Mayor	.78	.19	.00
Turnover	.04	.14	.76
Term length	-.12	.15	.41
Manager	.36	.18	.05
At-large	-1.01	.42	.01
Nonpartisan	.15	.21	.45
Parties	.05	.05	.36
Business Groups	.01	.06	.83
Taxpayer Groups	.02	.06	.74
Neighbor Groups	-.08	.09	.40
Interaction	.24	.12	.04
West	.61	.26	.02
North Central	.33	.20	.12
South	.46	.25	.06
Constant	-1.98	.39	.00

Number of observations: 788

Chi square: 35.11 (14 degrees of freedom)

Prob > chi square: .081

Notes:

Full time Mayor: 1 = full time mayor; 0 = part time mayor. Manager: 1 = city manager; 0 = no city manager. At-large: 1 = At-large elections; 0 = district elections. Nonpartisan: 1 = nonpartisan elections; 0 = partisan. Term 0 = 2 year term; 1 = 4 year term. Turnover: the number of different mayors in the last 10 years; Business groups: reported strength of business groups such as the Chamber of Commerce: 1 = not very important; 5 = very important. Taxpayer Groups, Neighborhood Groups; Parties: same as Business Groups. Interaction: = 0 in district cities; = value of neighborhood group in at-large cities.

Source: Survey of city clerks. West, North Central, South: four main geographic regions delineated by U.S. Bureau of the Census (Northeast is the omitted category).

**Table 4.5.2: Sensitivity Analysis:
The effects of political variables on the probability
Of finding an Antigrowth Entrepreneur.**

	Full time mayor	Manager	At-large	Interaction	Joint Probability
Maximum effect	.21	.09	.05	.17	.64
Minimum effect	.06	.05	.23	(NA)	.04

In the set of communities for which this particular probit was estimated the mean probability is .07. To estimate the maximum effect we set the dichotomous variables (Full-time Mayor and Manager) to 1. We set them to 0 to estimate the minimum probability. Because of the direction of the effect of the at-large variable, we followed the opposite procedure. We estimate the minimum and maximum probabilities of the interaction term by it to either + or - 1 standard deviation from the mean. The joint probability manipulates all four conditions simultaneously.

**Table 4.6.1: The effects of fiscal and budgetary conditions on
The probable emergence of an antigrowth entrepreneur:
Probit results, 658 suburban municipalities.**

	Coefficient	Std. Error	p > t
Allocational Expenditures	.07	.09	.43
Developmental Expenditures	.03	.08	.66
Redistributive Expenditures	-.15	.11	.16
Tax Rate	-.08	.08	.33
True Value	.01	.09	.83
West	.35	.22	.11
North Central	-.01	.20	.95
South	.26	.24	.28
Constant	-1.62	.15	.00

Number of observations: 659

Chi square: 8.94 (8 degrees of freedom)

Prob > chi square: .02

Notes:

All variables are z-scores standardized by MSA means and standard deviations, that is, they are measures of the position of a community on that condition relative to its neighbors.

Source: True value and tax rates: state and local sources, adjusted for differences in assessment practices. Expenditures: 1982 Census of Governments, Finance, File A. West, North Central, South: four main geographic regions delineated by U.S. Bureau of the Census (Northeast is the omitted category).

**Table 4.7.1: The effects of demographic conditions on
The probable emergence of an antigrowth entrepreneur:
Probit results, 829 suburban municipalities**

	Coefficient	Std. Error	p > t
Median Income	-.02	.09	.83
Renter percent	-.00	.08	.92
Distance	-.02	.07	.69
Growth 1980s	.17	.06	.01
Black percent	.13	.07	.07
West	.49	.20	.01
North Central	.25	.20	.14
South	.47	.20	.02
Constant	-1.77	.13	.00

Number of observations: 829

Chi square: 17.09 (8 degrees of freedom)

Prob > chi square: .04

Notes:

All variables are z-scores standardized by MSA means and standard deviations, that is, they are measures of the position of a community on that condition relative to its neighbors. Median Income: Relative Community Income 1980. Growth 1980: z-score of Population 1990/Population 1980.

Source: Renter percent, black percent, population 1980: 1980 Census of Population and Housing. Population 1990: counts generated by PL 94-171. West, North Central, South: four main geographic regions delineated by U.S. Bureau of the Census (Northeast is the omitted category). Distance: maps.

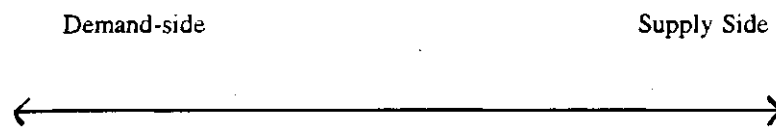
**Table 4.7.2: Sensitivity Analysis:
The effects of demographic variables on the probability
Of finding an Antigrowth Entrepreneur.**

	Black %	Growth	Joint Probability
Maximum effect	.08	.09	.11
Minimum effect	.05	.05	.03

In the set of communities for which this particular probit was estimated the mean probability is .17. To estimate the maximum effect we set the variables at either + or - 1 (since these are z-scores the mean=0, the standard deviation=1).

Figure 4.1

The Single Dimension of the Supply versus Demand Argument



**Figure 4.2: Hypothetical Payoffs for Use of Standard Supply Side Policies
From the Perspective of a Traditional Progrowth Politician:
The Case of Tax Abatements**

		Politician's Community	
		Don't Abate	Abate
Don't Abate	0, 0	- , +	
Abate	+ , -	- , -	

**Figure 4.3: Hypothetical Payoffs for Use of Supply and Demand Side Policies
From the Perspective of An "Eisingerian" Progrowth Entrepreneur**

Eisingerian Entrepreneur's Community		
	Use Supply Side Policies	Use Demand Side Policies
Use Supply Side	- , -	- , +
Use Demand Side	+ , -	+ , +

Figure 4.4: Demand Side and Supply Side Progrowth Policies
(Based on Eisinger 1988)

Supply Side Policies

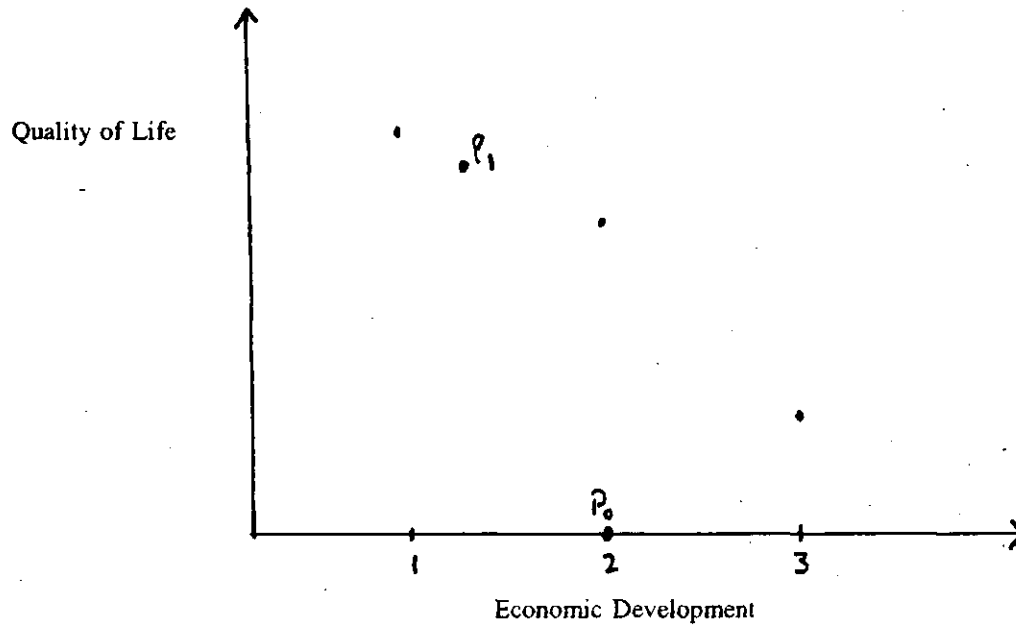
- tax abatements for firms
- city programs for industrial site development
- tax increment financing
- loan guarantees
- industrial revenue bonds

Demand Side Policies

- city venture capital funds for starting-up companies
- city financed incubator projects
- encouraging foreign investments in the city
- expanding foreign trade by local firms
- stricter laws regulating plant closings

Figure 4.5

Introducing a New Dimension to the Economic Development Policy Domain



An entrepreneur can introduce a new dimension relating to the local quality of life to the debate about growth. The entrepreneur now offers policy P_1 . This policy is closer in Euclidean space to both voter 1 and voter 2, who now combine to outvote the previous outcome P_0 .

Chapter Five:

Bureaucratic Entrepreneurs: The Case of City Managers

In this book we have so far focused on the emergence of political entrepreneurs, individuals who hold or who seek elective political office. Almost all the other entrepreneurs identified in our survey held bureaucratic office. In this chapter, we refine our theory of the public entrepreneur and apply it to bureaucrats.

Political scientists have long recognized that unelected bureaucrats influence the implementation of public policies. Some bureaucrats play an even more important role by shaping policy agendas and formulating new policies. Such bureaucratic entrepreneurship has been treated as a chance occurrence rather than as a phenomenon that can be explained systematically (Wilson 1989).

Similar to political entrepreneurs, bureaucratic entrepreneurs are actors who want to make a dynamic difference in their community's policies. Bureaucratic entrepreneurs engage in the act of "creative discovery" by exploiting new policy or management opportunities to push forward their ideas. Most studies still rely heavily on biographical studies of entrepreneurial leaders whose actions produced innovative or unexpected policy changes (see, for example, Caro 1974; Lewis 1980; Doig and Hargrove 1987; Kirchheimer 1989; Weissart 1991). According to Wilson, such studies show that the personalities and actions of individual executives are critical to explaining innovative bureaucratic change. Given this conclusion, not surprisingly Wilson (1989: 227) argues that: "It is not easy to build a useful social science theory out of 'chance appearances'." However, we have argued throughout this book that the emergence of entrepreneurs in the decentralized American system of local government is in fact systematically related to definable and measurable community characteristics. Our task in this chapter is to relate such conditions to the emergence of bureaucratic entrepreneurs. More specifically, since the overwhelming majority (85 percent) of the bureaucratic entrepreneurs identified in our study were city managers, we focus on these bureaucratic actors.

Suburban governments were buffeted by major changes in the 1970s and 1980s, including reductions in intergovernmental aid, intense citizen demands for new services and lower taxes, questions about the value of growth, and the increasing costs of basic service delivery. In response, some of our entrepreneurial city managers introduced, adapted, and implemented new policies, improved the efficiency of existing programs, and redirected the behavior of local public employees to meet these challenges.

Empirically, our work shows that in local government, entrepreneurial leadership will most likely come from elected politicians in the community, especially mayors and council members. But our research also shows that high-level bureaucratic employees, especially city managers, constitute a significant source of entrepreneurial talent. City managers, as the chief operating officers of their communities, are a well-defined professional group who share similar training in public administration and are linked together by professional organizations and overlapping career paths (Kammerer 1964;

Arnrnons and Newell 1989). Their training and their strategic position in government gives them the ability to discover or create opportunities.

In our model of public entrepreneurship, we argue that entrepreneurial managers should be conceived of as an *alternative* source of supply of entrepreneurial policies. That is, when politicians do not emerge to play an entrepreneurial role in communities that demand innovation or change, entrepreneurial city managers will sometimes emerge to seize the opportunities inherent in that unfilled demand.

Toward a Theory of Entrepreneurial City Managers

City managers work in complex environments. Policy innovation in state and local governments is often a "bottom-up" process of political and managerial entrepreneurship (see for example Eisinger 1988; Altshuler and Zegans 1990; Golden 1991; Sanger and Levin 1992; Osborne and Gaebler 1992). Local economic and fiscal conditions are constantly changing and the preferences and policy demands of politicians and citizens are often not stable. Local agency heads and politicians may present roadblocks to city managers trying to change policy directions. These processes clearly present challenges, but they also create opportunities for innovative and creative policy entrepreneurship: "the central act of creative leadership is to provide plausible strategies of action in an ambiguous environment" (Hargrove (1989: 79). In exercising leadership, entrepreneurial bureaucrats face two worlds: an internal world defined by the demands of managing the local bureaucracy, and a complex external world defined by the political, legal, and economic milieu in which cities exist. The goals, strategies and constraints entrepreneurial managers face differ across these two domains.

Internal issues relate to the ability of managers to motivate public sector employees to perform more efficiently. A critical task for every government manager is to get workers to comply with organizational goals. For entrepreneurial managers seeking change, the need to motivate workers to overcome inertia and be more productive is even greater.

External issues are defined by the constraints and opportunities presented **by** the changing environment conditions managers face and by their need to interact with local politicians, interest groups, actors in higher levels of government, and the media to create coalitions supporting new policies. In the following sections, we develop components of a theoretical approach to bureaucratic entrepreneurship in local government.

The Goals of City Managers

The concept of "opportunity" is critical to the study of entrepreneurship. Most economic theories argue that the pursuit of profits drives the entrepreneurial process: the supply of

entrepreneurs will increase with the potential for "entrepreneurial profits" (Ricketts 1987). But unlike business entrepreneurs, who can usefully be modeled as singlemindedly pursuing monetary profits, public sector bureaucrats pursue a combination of goals (Downs 1967; Wilson 1989). Clearly, city managers are interested in advancing their own careers, which usually means moving up to a larger city with a higher salary, more resources to control, perhaps more autonomy, and greater prestige within the profession (Kammerer 1964; Barber 1988). But career advancement and attendant higher salaries are not sufficient to understand why some city managers are more entrepreneurial than others: managers are also motivated by the desire to achieve specific policy goals, by the desire to solve problems, and by the desire to serve the public (see DeSantis, Glass and Newell 1992). Kingdon (1984) describes policy entrepreneurs as constantly shopping around for windows of opportunities through which to push their preferred policy ideas (see also Walker 1981). Kingdon and Walker both stress the importance of policy communities in determining which ideas have currency. Local managers are often involved in professional networks from which they learn about new policy ideas and to which their professional egos are tied (Oakerson and Parks 1988; Ammons and Newell 1989). While these studies focus on the strategies of entrepreneurs, they do not identify systematically the conditions under which they emerge.

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Whatever their specific goals, entrepreneurial managers face constraints, particularly in getting subordinates to implement new policies successfully. While entrepreneurs play a critical role importing and formulating new policies, ultimately their success is tied to how well policies are carried out. Mazmanian and Sabatier (1983) argue that leadership is the *only* bureaucratic variable crucial to successful policy implementation.

According to Miller (1991), managers, including ones working in the public sector, have available two basic approaches to persuade and motivate workers to implement their policies. The first, associated with Max Weber and Frederick Winslow Taylor and related to today's principal/agent models (see Moe 1984), focuses on control and hierarchy to achieve an "optimal" mix of incentives and monitoring techniques to influence subordinates. Wilson (1989) and Miller (1991) both note that even the most clever employment contract cannot overcome the problems of shirking in government agencies, problems which are far more severe in the public sector than in private firms.

An alternate approach, harkening back to Chester Barnard and Philip Selznick, argues that control mechanisms are not enough to guarantee achievement of the leader's goals. From this perspective, leaders must master motivational and rhetorical skills to inspire workers to work toward organizational goals. Ouchi (1980) argues, for example, that the problem of "performance ambiguity"

(which is endemic to the delivery of local public goods) is best managed by transforming the operating units of an organization into the equivalent of a "clan" united by "organic solidarity." Similarly, Wilson (1989: 156) argues that the best solution to shirking is to inculcate in workers a shared sense of mission, even if there are no financial payoffs. In suburban governments, city managers usually cannot motivate workers with financial rewards and they do not have large personal staffs to monitor bureaucratic behavior closely. Consequently, entrepreneurial managers must motivate subordinates using their own interpersonal skills.

The External World of the Entrepreneurial Manager

Many scholars of bureaucratic leadership argue that external relations may be even more important than internal implementation strategies. Lynn (1990) notes that entrepreneurial managers are more likely to focus on external agency issues, while non-entrepreneurial "administrators" focus mostly inward. Wilson (1989: 203) summarizes studies of successful executives: "all had one thing in common: They found or maintained the support of key external constituencies."

City managers face multiple constraints, including economic conditions that limit their options (Peterson 1981; Schneider 1989). Reduced intergovernmental aid, stagnating property tax revenues, and mandates imposed by higher levels of government (Lovell et al. 1979; ACIR 1985) can further constrain entrepreneurial opportunities. They also face political limits imposed by the actions of politicians and interest groups (Svara 1990).

Managerial entrepreneurs often try to develop technical expertise within their organization to provide a potent resource to bargain with external constituents and their elected sovereigns (see, e.g., Miller and Moe 1983; Niskanen 1975). As reform ideas and professionalization have become more widespread, city managers have gained power and autonomy (Ammons and Newell 1989; Nalbandian 1990), which has not been countered by a professionalization of city council or mayoral staff support (Protasel 1988). Thus compared to changes at the national level, the relative lack of full-time potential political overseers supported by large staffs, may give local bureaucrats more discretion to use expertise and to engage in entrepreneurial behavior.

Politically, bureaucratic entrepreneurship may also be constrained because the range, complexity and size of local programs are more limited than at higher levels of government, reducing the information asymmetry that is the source of much bureaucratic power. The relatively small size of the voting public may also encourage more direct bureaucratic accountability to voters in local jurisdictions. Local interest groups can also constrain managers by ringing "fire alarms" to which politicians will attend (McCubbins and Schwartz 1984), and the openness of local governments allows individual citizen demands to constrain bureaucratic autonomy (Sharp 1986). This combination of

economic, financial and political constraints can limit entrepreneurial behavior by managers.

But successful entrepreneurial managers learn to overcome these limits and they consciously underestimate bureaucratic and political obstacles (Sanger and Levin 1992: 111; see also Hirschman 1967). While the economic approach to human behavior assumes fixed preferences, a crucial feature of politics is that preferences can be changed (Wilson 1980; Jones 1989) and entrepreneurial managers may be able to change the preferences of other actors who otherwise might constrain them. They may also be able to manipulate policy agendas to achieve their goals (Hammond 1986; Hammond, Hill, and Miller 1986; Riker 1986).

Clearly, scholars need to synthesize many disparate themes to develop a more systematic theory of bureaucratic entrepreneurship. But development of better theory also must take place in conjunction with empirical evidence about where entrepreneurs are found and what they do. In the following section we analyze the conditions that increase the likelihood of finding an entrepreneurial city manager. To understand how and when city managers can emerge as entrepreneurs, we compare these conditions to the factors associated with the absence of entrepreneurial leadership and with the emergence of entrepreneurs in elected offices.

Where do Entrepreneurial City Managers Emerge?

The suburbs in our sample are host to a number of entrepreneurial city managers: almost 20% of the entrepreneurs named by city clerks were city managers. To understand the motivations and goals of bureaucratic entrepreneurs, we identify the conditions associated with their emergence. As in all our empirical work, one of our first concerns is with the possible effects of region. Municipalities in the south and west are more likely to have a city manager than are cities in other parts of the country.¹ However, entrepreneurial city managers are *not* regionally distributed: once the regional distribution of city managers is controlled, entrepreneurial city managers are not more likely to be found in any given geographic region. Absent a regional pattern of emergence, we turn to the effects of other local conditions.

We believe that citizens in some communities seek dynamic political or policy change and do not care as much who provides the impetus for change. In some communities entrepreneurial politicians will emerge, but when they do not, entrepreneurial managers might step forward as an alternative source of supply. Thus, while our specific interest here is in bureaucratic entrepreneurs, we believe that they cannot be studied in isolation: we identify the circumstances associated with the emergence of *bureaucratic entrepreneurs* compared to the emergence of *political entrepreneurs*.²

The growing literature on the relationship between mayors and managers shows several patterns. In some cities, managers are the dominant policymakers, in other cities mayors are, in other

cities neither is particularly active (see especially Morgan and Watson 1992, and Svava 1990). In some cities, managers cooperate fully with mayors, but in others, elected mayors and managers are competitive. As Whitaker and DeHoog (1991: 162) note: "elected mayors may be more likely to oppose the manager (to see him or her as a rival leader) and elected mayors may be more able to build popular support for their opposition to the manager." The most fundamental difference between them is that managers do not face the need to be elected to office directly by the voters of their city. The basis of their political support differs from that of politicians and their allegiance may be as much to professional norms of performance as it is to political pressures from elected officials (Gormley 1989). Thus, the literature (Stillman 1977; Browne 1985; Svava 1990; Morgan and Watson 1992) and our theoretical expectations suggest that political structural variables influence whether or not a city manager acts as a bureaucratic entrepreneur.

In Table 5.1 we present a multinomial logit analysis identifying the political structural conditions under which entrepreneurial managers *and* entrepreneurial politicians are likely to emerge, controlling for the four major geographic regions as defined by the U.S. Bureau of the Census.³ Multinomial logit goes a step beyond the probit technique we employed in previous chapters: using this multinomial approach we compare the relative probabilities of three outcomes rather than just two. Our dependent variable takes on three values: 0 when no entrepreneur was identified in a community (true in the majority of communities, $n=699$), 1 when an entrepreneurial politician was cited ($n=208$) and 2 when an entrepreneurial manager was named by the clerk ($n=49$).

Table 5.1 Goes Here

Following our previous analysis that identified the effects of political conditions on the benefits and costs of entrepreneurship we include several structural variables in this empirical analysis. These measures include whether or not the suburban community has an office of city manager and whether or not it has a mayor's office. We also measure the length of the mayor's term, and the degree of competitiveness in mayoral and council elections.⁴ For comparability, we analyze the impacts of most of the same variables as we did in Chapters 3 and 4. However, due to multicollinearity concerns, we analyze the political structural variables (Table 5.1) and the interest groups variables (Table 5.2) in separate equations.

Table 5.2 Goes Here

Obviously, a community must have an office of city manager for an entrepreneurial manager to emerge.⁵ Using a sensitivity analysis, the results of which are presented in Table 5.3, we found that if all communities had city managers, *ceteris paribus*, the average likelihood of an entrepreneurial manager emerging would almost double from .052, the sample mean, to .091. Conversely, if a community has a mayor, it is significantly less likely that a city manager will emerge as an entrepreneur. Table 5.3 shows that if no communities had mayors, the average likelihood of an entrepreneurial manager emerging would more than double, from .052 to .123.

Table 5.3 Goes Here

As the right-hand portion of Table 5.1 shows, *political* entrepreneurs are *more* likely to emerge when a community has a mayor's office, when the mayoral races are relatively competitive, and when the mayor's term is shorter. We believe that all of these factors increase the opportunities for political entrepreneurs advocating change to capture the office of mayor. Interestingly, a community having a city manager does *not* significantly affect the probability of a political entrepreneur emerging. This suggests that citizens seek political entrepreneurship first, regardless of whether or not the community has a city manager. Indeed, even most city managers prefer that mayors take an active policy leadership role (Wikstrom 1979: 273). If a political entrepreneur does not emerge, however, an entrepreneurial manager is more likely to promote dynamic policy change.

In earlier chapters, we showed that local demographic factors, such as race and growth, significantly affected the probability that an entrepreneurial politician will emerge, by creating a new dimension or political cleavage upon which to organize new political alliances. In contrast, these same demographic characteristics do not affect the probability with which an entrepreneurial city manager emerges.⁶ Entrepreneurial managers head existing organizations with resources and technical expertise and do not usually need to create entirely new political alliances to support their policy innovations, as some political entrepreneurs must do.

However, other constraints affect the emergence of entrepreneurial managers. In Table 5.2, we present a separate analysis exploring how the external interest group environment and local fiscal conditions, as measured by variables most relevant to a city manager's role as chief administrative officer of the community, affect the emergence of entrepreneurs. Entrepreneurial city managers are

significantly more likely to be found in municipalities in which local public sector workers are highly paid relative to the prevailing private sector manufacturing wages in that region.⁷ In contrast, a more heavily unionized local municipal workforce reduces the probable emergence of an entrepreneurial manager. Strong unions may oppose entrepreneurial managers who seek to focus on cutting costs. These same factors do not affect the probability of finding a political entrepreneur.

Municipal unions are an important internal group for managers, but entrepreneurial managers also need political support from external interest groups. In local politics some groups represent concentrated interests, such as the Chamber of Commerce, some represent dispersed citizens, such as taxpayer groups, while others represent citizens in specific geographic areas, such as neighborhood groups. We find that when taxpayer groups in a community are relatively *weak*, and thus unlikely to represent citizen interest in constraining taxes, an entrepreneurial city manager is more likely to emerge to do so. In contrast, entrepreneurial politicians are more likely to emerge when neighborhood groups are important, reflecting their need for geographic electoral support.

In short, entrepreneurial city managers are more likely to emerge to address efficiency issues, such as pay scales for government workers and taxes, particularly when local interest groups have not been able to address these issues effectively through elected politicians. To make this argument more concrete, the sensitivity analysis in Table 5.3 shows that, *ceteris paribus*, very weak taxpayer groups or weak municipal unions can more than double the likelihood of finding an entrepreneurial manager. In contrast, very high public pay ratios can triple that probability.⁸ Moreover, when these three factors are combined at their extreme values, the likelihood of an entrepreneurial manager emerging changes from virtually zero (.001) to more than 50 percent (.505).

The importance of local government efficiency issues in the emergence of entrepreneurial city managers may also help explain the policies these managers pursue. Entrepreneurial managers are significantly more likely than entrepreneurial politicians to support new user fees and development impact fees, and to contract out for services.⁹ (See the sidebar on City Manager Leonard of Perkasié, PA for an example of an innovative use of fees).

Morgan and Watson (1992: 438) argue that when mayors are not leading policy: "city managers may be compelled to play an active policy role, largely by necessity, but their leadership is likely to be less publicly visible and more formally constrained than would be the case for directly elected officials." To test these and other propositions, we examine in more detail the goals of entrepreneurial managers, constraints on their behavior, and their strategies for success: in other words, what do entrepreneurial city managers do?

The Actions of Entrepreneurial Managers

To gather more detailed information on the personalities, strategies, and ideas of the entrepreneurial managers, we sent a follow-up survey to the 49 city clerks who named an entrepreneurial city manager in our first survey. We asked for more detailed information on the career lines, personality traits, and strategic choices of the entrepreneur. We received 31 useable responses, providing us with detailed information on 63 percent of the city managers named as entrepreneurs. Although this is not a large sample, our entrepreneurial managers match closely to demographic information reported by ICMA for a much larger sample of the nation's city managers, in terms of age, gender, race, education, and political preferences. We present the following descriptive information as suggestive of patterns of local entrepreneurship.

New Ideas and Motivation

Existing theories argue that entrepreneurs have strong needs to achieve. Hargrove and Glidewell (1990) cite a strong personal incentive or a strong belief in specific policies, wide-ranging government experience, an open-minded evaluation process, an attraction to experimentation, and a willingness to risk failure. Similarly, Sanger and Levin (1992) find that entrepreneurs create personal missions, take risks, have a bias toward action and purposely underestimate constraints.

City managers are more likely to be innovative when they previously worked in another city and if they have a broader professional orientation (Wilson 1989; Carlson 1961; Rosenthal and Crain 1968). Of the 31 entrepreneurial managers in our sample, 67 percent play important roles in professional organizations. In their prior employment, 62 percent had been city managers in another town (while only 20 percent had moved up within their town's government, and 10 percent came from the private sector). Thus, nearly two-thirds of these entrepreneurs followed a city manager career track and a similar percentage were active in professional organizations.

What was the origin of their new policy ideas? As noted by Oakerson and Parks (1988), professional organizations are among the most important sources of new managerial ideas (about 75 percent of the clerks suggested that the entrepreneurial city manager got his/her ideas from such organizations). This was followed by newspapers (69 percent) and by other communities (64 percent). In contrast, local politicians and entrepreneurial city managers engage in limited cross-fertilization—only 21 percent of the clerks named local politicians as an ideas source, a result supported by Morgan and Watson's (1992) findings on the limited amount of mayor/manager team leadership in smaller communities.

We also asked clerks to identify the forces that entrepreneurial city managers were responding to as a motivation for introducing new ideas/policies. Congruent with other studies of entrepreneurs

(e.g., Lewis 1980; Hughes 1986), the single most common reason given was the city manager's own leadership (60 percent). But managerial entrepreneurship is not totally self-motivated. City managers respond to demands from local politicians (43 percent) and demands from citizens (40 percent). Thus, entrepreneurial managers get their ideas mainly from professional organizations, newspapers, and other communities, but the force that pushes them actually to introduce the ideas is most often their own leadership, buttressed by demands from politicians and citizens.

Compared to entrepreneurial politicians, entrepreneurial managers are much less likely (3 percent versus 21 percent) to introduce policy ideas that are very different from ideas in circulation in their metropolitan region. Many of the innovations managers introduce are defined by their professional networks and norms. In contrast, political entrepreneurs sometimes argue for radical changes to create a winning electoral coalition, proposals that need not stand rigorous tests of professional scrutiny.

Constraints on Entrepreneurial Managers

Armed with their ideas and their abilities, entrepreneurial managers face constraints. Congruent with arguments presented by Peterson (1981) and Schneider (1989), the most binding constraints on the innovative behavior of managers are financial and economic. Fully 78 percent of our respondents cited both tax limitations and growing fiscal problems as constraints on city managers, which DeSantis, Glass and Newell (1992: 449) also find to be important in their analysis of a larger sample of city managers. (See the sidebar on Manager Healy of Cambridge for innovative action under severe fiscal constraints). The intergovernmental system imposed further limits on the behavior of managers: 54 percent cited intergovernmental mandates and 46 percent cited changing intergovernmental aid as constraining factors. Local politicians (cited by 53 percent) are obviously important constraining factors on the freedom of city managers since they ultimately hire and fire managers.

In both the political and managerial domains, entrepreneurs need a coalition to support their policies. Entrepreneurial managers are more likely to work within the existing political power structure than are entrepreneurial politicians, who are more likely to challenge and alter it to be successful. Most entrepreneurial managers head existing organizations and do not have to build or maintain organizations as often as politicians. Thus, compared to political entrepreneurs, entrepreneurial managers in our sample are less likely to be the catalysts behind the formation of new neighborhood or taxpayer groups. But entrepreneurial managers are as likely as entrepreneurial politicians to form new business groups, a traditional component of the power elite in most communities (see Logan and Molotch 1987; Stone 1989).

Entrepreneurial Strategies

To overcome constraints, city managers need effective strategies. The ability to motivate subordinates to higher levels of performance is the most important internal task of an entrepreneur (Miller 1991). Teamwork is the dominant approach used by most entrepreneurial city managers. We asked the clerks whether the entrepreneur stressed a teamwork strategy or hierarchy, or some mix: 6 percent cited all teamwork, 58 percent cited mainly teamwork, 33 percent cited an even mix of the two approaches, 3 percent cited mainly hierarchy, and no one suggested all hierarchy. Similarly, the ability to inspire or motivate workers was rated "much better" or "better than the average city manager or similar local official" for 84 percent of the entrepreneurs, while the ability to monitor and control workers was similarly rated for only 65 percent (using the same five point scale). Rather than relying only on monitoring and control, entrepreneurial city managers try to inculcate a sense of mission through teamwork.

Without having to run for office, much of the work of entrepreneurial managers is not subject to rigorous public examination: by defining issues as technical, managers can often limit the scope of political debate (see Baumgartner 1989). On the other hand, some policies *require* an expansion of debate, especially when key politicians are opposed to an issue and an entrepreneurial manager believes there is broader political support. The main strategy of entrepreneurial managers is to handle issues quietly, behind the scenes (true for 70 percent). Only 22 percent of respondents said that the entrepreneur's main strategy for handling issues was to go public. This provides further support for the picture of entrepreneurial city managers working with existing power structures rather than trying to overturn them.

In building support, entrepreneurial city managers call on a wide range of the tools available to them. Of our respondents, 86 percent rated the entrepreneur's use of strategic information as "substantial" or "very substantial", 77 percent rated similarly the use of bureaucratic or technical expertise, 54 percent rated the use of local media, and 40 percent rated the use of rhetoric. Following Riker's (1986) description of how entrepreneurs can inject an added dimension to political debates in order to create new coalitions, fully 90 percent of the entrepreneurial managers had introduced new ideas or issues to create support across groups; and 66 percent linked two seemingly unrelated issues to create broader support.

Entrepreneurial managers need to sell new policies, not only to the citizenry but to elected politicians. We found that 42 percent of the entrepreneurial managers took political heat to shield politicians very or fairly often, 33 percent did so sometimes, while 25 percent rarely or never did so. Entrepreneurial managers were generous in sharing credit for policy innovations: 66 percent shared

credit very or fairly often, while 24 percent shared credit only sometimes, and 10 percent rarely or never shared credit. By helping politicians look good, entrepreneurial managers may build political capital in their efforts to implement innovative policies.

We recognize that 31 is a relatively small number of entrepreneurial city managers. Thus the information presented in this section of the chapter should be taken as suggestive, especially since we can not compare some of it to managers in communities without an entrepreneurial city manager. Still, these 31 responses do represent 63 percent of all of the entrepreneurial managers named from a nationwide sample of nearly 1000 suburban clerks. Their actions document some critical dimensions of entrepreneurial bureaucratic behavior that are congruent with existing studies of city managers who are active in policy development.

The Entrepreneurial City Manager

American suburban governments are part of a varied and open system filled with opportunities for entrepreneurial behavior. Several different actors can emerge as entrepreneurs who motivate dynamic change in local policies. In our survey, fully 20 percent of the entrepreneurs we found were city managers. But only about 1 in every 11 city managers in the sample was named as an entrepreneur. City managers are most likely to seize the opportunity to motivate dynamic change when the local political climate does not breed entrepreneurial politicians and when the particular city manager sees a potential benefit in doing so.

Given the professional and political differences between entrepreneurial city managers and local politicians, it is not surprising that the coalitions they build and the specific policies they advocate differ. Managers focus more on narrowly concentrated coalitions of power holders rather than on broader political interests. Moreover, entrepreneurial city managers are relatively more cautious in their policy proposals and more likely to advocate new ideas that have been "vetted" by their professional associations. In contrast, political entrepreneurs are more likely to advocate more untried ideas (such as no growth policies) and to create a broader mass political base in the community (for example, by supporting or creating new neighborhood based groups).

These differences in strategies are rooted in the definitions of success these different types of entrepreneurs seek. City managers seek to enhance their professional reputation and career mobility, which can best be achieved by successfully implementing professionally-approved policies that leaders or city managers in other municipalities will recognize. Moreover, managers are not closely allied to citizen and neighborhood groups. In contrast, entrepreneurial politicians seek to win broad electoral support, introducing completely new ideas and organizing new groups to challenge the status quo within their own community.

All entrepreneurs face constraints. City managers' employment and the adoption of favored policies are often dependent on the actions of a mayor and/or city council. But the growing fiscal problems of local government and an increasingly harsh intergovernmental milieu may present even stricter limits on the freedom of city managers to implement new policies. Given these limits, entrepreneurial city managers try to increase the efficiency of local service delivery by adopting approaches that are in good currency/such as user fees and privatization. Entrepreneurial city managers also turn inward, trying to improve the efficiency of their workforce by promoting teamwork and inspiring their workers to implement more efficient policies.

Existing biographical case studies of bureaucratic entrepreneurs provide some insight into their expected emergence and behavior, but leave many gaps that will be closed only with broad empirical evidence. Such efforts should shift the focus away from biographical studies of a few rare individuals towards the identification of systemic factors that affect bureaucratic entrepreneurship. Thus, we believe that bureaucratic entrepreneurs, while responding to a somewhat different set of incentives and constraints than political entrepreneurs, still use a rational benefit/cost expectation in pursuing their strategies. The emergence of managerial entrepreneurs and their behavior are not "random" events.

Endnotes

1. Nearly 60 percent of the communities responding to our survey have city managers, with a range from almost 90 percent in the western communities to only 25 percent in New England.
2. Although we allowed more than a single entrepreneur to be named, and several clerks did so, most of the respondents named only one in the 1980s. We do not see this as a major problem, however, because a community may not have room for more than one entrepreneur at one time. For example, Morgan and Watson (1992) found that it was rare for powerful mayors and managers to co-exist in the same city.
3. Multinomial logit is an appropriate technique given an unordered dependent variable that takes on more than two values (e.g., 0, 1, 2). See Aldrich and Nelson 1984 or Maddala 1983 for a methodological description of the technique. A positive coefficient on an independent variable indicates an increase in the likelihood that an entrepreneur will emerge in a community with that characteristic, holding all other variables constant.
4. These measures of importance are assessed by the responding city clerk on a scale ranging from 1 (not important) to 5 (very important).
5. About 60% of the communities that responded to our survey have city managers. Thus, it is reasonable to include a variable indicating whether or not a community has an office of city manager as an independent variable when explaining the emergence of entrepreneurial politicians. Since we utilized the same set of independent variables in the multinomial probit, this variable is also included in the estimation of the factors that affect the emergence of entrepreneurial managers.
6. We do not report these negative results here, but they are available from the authors upon request. The multinomial equations using the same variables used in Chapter 3 are not significant as a whole and virtually none of the individual measures are significant.
7. It is possible that a high pay ratio means that a community has higher quality workers, including the city manager. In this case, one could argue that the higher wages are attracting more talented managers who are more likely to be entrepreneurial. While we cannot yet rule out this possibility, we find the efficiency interpretation more plausible, but recognize that the two factors could be working simultaneously. See Chapter 6 for a further explanation of the impacts of this variable when interpreted to measure the attractions of the office to an entrepreneur.
8. The average likelihood of an entrepreneurial manager emerging in this analysis is .06. If all communities had very weak taxpayer groups, the average likelihood increases to .117. Similarly, if all communities had municipal labor forces that were not unionized (as 34 percent of the communities in the sample actually do have), the average likelihood would increase to .129. If all communities had public/private pay ratios equal to the largest ratio in the sample (which is 1.68), the average likelihood of an entrepreneurial manager emerging increases to .17.
9. Based on a simple chi-squared tests, managerial entrepreneurs are significantly more likely than political entrepreneurs to pursue each of these strategies at $p. < .02$.

Sidebar: Using User Fees

Paul Leonard of Perkasio PA

An innovative local manager identified in our survey of entrepreneurs is Paul Leonard of Perkasio, Pennsylvania, a rapidly growing borough of 6,200 people, 25 miles north of Philadelphia. Perkasio faced a major solid waste disposal problem in the late 1980s. Leonard's solutions were innovative enough to be reported on the front page of the *Wall Street Journal* in a story by Bill Paul "Pollution Solution: Pennsylvania Town Finds a Way to get Locals to Recycle Trash." (June 21, 1989)

As in many other jurisdictions, waste disposal was a growing problem as the borough's cost per ton skyrocketed 900 percent from 1981 to 1987. According to the *Journal*: "When town leaders proposed an incinerator, public opposition killed the idea."

Given this manifestation of the "not in my backyard (NIMBY)" syndrome, Perkasio needed a solution. But as the *Journal* noted: "federal and most state environmental officials haven't yet found a way to reduce the waste stream. Perkasio, it seems, is ahead of them."

As Leonard said: "We've let Adam Smith lead the way." Perkasio experimented with market incentives. According to the *Journal*: "Despairing of getting federal or state help, Mr. Leonard, the borough manager, decided to experiment. Although it wasn't the first community to try per-bag fees, Perkasio apparently is the first to have linked such fees with the threat of fines, a powerful incentive to recycle."

Leonard's innovation proved successful. After implementation of the program, the amount of garbage that needed to be disposed by Perkasio dropped by more than 50 percent, as people recycled as much as possible. Leonard acted as a "cheerleader" to develop a positive attitude about recycling in Perkasio: "We're not going to let the big guys dump on us anymore. Why should we pay to dispose of trash that companies needlessly produce?"

As with many successful entrepreneurs, Leonard is not yet satisfied. According to the *Journal*: "Leonard says he doesn't even want plastic garbage bags. He is considering switching to a heavy duty paper bag." While recycling is not his only area of responsibility, manager Leonard addressed the community's most pressing problem with an innovative solution that has earned him national attention.

Sidebar: Facing Fiscal Constraints

Robert Healy of Cambridge, Massachusetts

The case of Robert Healy the City Manager of Cambridge, Massachusetts, a large suburban city just across the Charles River from Boston, illustrates several of the themes of our research: Healy was hired as city manager in 1982. Perhaps Healy's most important challenge was dealing with the fiscal environment, specifically cuts in property tax revenue mandated by Massachusetts' Proposition 2 1/2.

According to the *Boston Globe* (February 13, 1990): "In 1981, after passage of Proposition 2 1/2, the city's bond rating was suspended by rating services that believed the measure to limit property taxes would make it difficult for Cambridge to make bond payments. The city rebounded, however, and its bond rating rose several times."

Healy was a major force behind the rebound. In the first year of mandated cuts in 1982, Healy was able to juggle the budget and find a few sources of surplus from previous years, allowing budget cuts to be made without too much pain for most of Cambridge's citizens. In 1983, Proposition 2 1/2 mandated a 15 percent cut in property tax revenue. With a preliminary budget proposal to the city council and community, Healy showed the extreme budget cuts that would be necessary to achieve this reduction: "The fat that people talk about does not exist in the city's budget. Next year, the public works department will barely be able to collect the rubbish."

This bleak vision of the future pushed the Cambridge city council towards action and also led to the formation of a citizen's initiative designed to force a referendum vote, which, under the rules of Proposition 2 1/2 could postpone the 15 percent cut for one year if 2/3 of the community voters voted twice to do so. Healy supported this referendum and it indeed met the stringent requirements for enactment. Thus, the 1983 budget was funded at the level of the previous year and cuts were put off until more fundamental changes could be made. With this success and others, the *Boston Globe* notes about Healy: "The walls outside his office are decorated with awards from professional groups such as the Governmental Finance Officers Association of the United States and Canada."

Healy, now 49 years old, and a Cambridge resident since birth, first came to work for the former city manager in 1974. With two decades of experience, he has also been able to innovate in other areas. He was a leading player in attracting commercial growth in the 1980s, which led to some anti-growth opposition. Healy argues that growth is linked to services and taxes: "I think balanced and controlled development have been important to the financial health of this city."

As an entrepreneur with innovative ideas, Healy attracts controversy. One Councilor notes: "His power under the charter is immense. He can set policy in areas that never reach the council. So, it is

extremely important that he be held accountable." But another Councilor notes that Healy can be a team player: "He tends to carry out policy that he believes is supported by the majority of the council."

Healy recognizes that he is controversial: "This is a complicated, diverse city and any decision you make is going to have 50 percent against and 50 percent for." The *Globe* notes that Healy "says he has had to make unpopular decisions that have not endeared him to neighborhoods, but believes this is the nature of the job."

Thus, Healy's case illustrates some of the constraints and opportunities that entrepreneurial managers faced in the 1980s. By going well beyond their simple job description, they were able to motivate change, when politicians could not or would not do so.

Table 5.1
MULTINOMIAL LOGIT ANALYSIS:
THE IMPACT OF POLITICAL STRUCTURE ON THE
EMERGENCE OF ENTREPRENEURS

	ENTREPRENEURIAL MANAGERS			ENTREPRENEURIAL POLITICIANS		
	Coeff	Std Er	P > t	Coeff	Std Er	P > t
CITY MANAGER	3.07	.75	.00	-.08	.18	.63
MAYOR	-.95	.56	.09	.82	.40	.04
MAYOR COMPETITIVE	-.16	.11	.15	.13	.06	.02
MAYOR TERM	.34	.38	.36	-.34	.19	.07
COUNCIL COMPETITIVE	-.01	.13	.93	.01	.07	.91
NORTH EAST	-.20	.54	.71	-.10	.29	.72
NORTH CENTRAL	.28	.49	.57	.08	.27	.77
SOUTH	.39	.53	.47	-.27	.32	.42
CONSTANT	-4.21	.94	.00	-2.23	.45	.00

NOTES:

Chi square=68 with 894 degrees of freedom

p. < .01.

Total N= 903.

N of entrepreneurial managers=49. Mean predicted value=.052.

N of entrepreneurial politicians=201. Mean predicted value=.216.

City Manager and Mayor=1 if city has office; 0 otherwise. The competitiveness of the mayoral and council races is measured on a 1-5 scale, with 5 most competitive. Mayor's term =1 if >2 years; 0 if < or =2 years.

SOURCE: The dependent variable and first five independent variables come from survey of city clerks. The regional variables are defined by the U.S. Bureau of the Census.

Table 5.2:
MULTINOMIAL LOGIT ANALYSIS:
THE IMPACT OF EXTERNAL GROUPS STRENGTH AND FISCAL CONDITIONS
ON THE EMERGENCE OF ENTREPRENEURS

	ENTREPRENEURIAL MANAGERS			ENTREPRENEURIAL POLITICIANS		
	Coeff	Std Er	P > t	Coeff	Std Er	P > t
CHAMBER	.15	.16	.35	.08	.09	.34
TAXPAYER	-.48	.16	.00	-.11	.09	.21
NEIGHBORHOOD	.02	.16	.89	.16	.09	.08
PAYRATIO	.45	.19	.02	.05	.11	.66
UNION	-.33	.18	.07	-.06	.11	.59
DEBT/PC	.18	.17	.28	.20	.11	.05
NORTH EAST	-.47	.57	.41	-.42	.30	.16
NORTH CENTRAL	-.03	.52	.95	-.01	.28	.98
SOUTH	.45	.58	.43	-.20	.34	.56
CONSTANT	-1.72	.73	.02	-1.42	.42	.00

NOTES:

Chi square=37 with 675 degrees of freedom

p < .01.

Total N = 685 (less than in Table 5.1 because of data for some communities was missing).

N of entrepreneurial managers = 49. Mean predicted value = .060.

N of entrepreneurial politicians = 201. Mean predicted value = .228.

The CHAMBER, TAXPAYER, and NEIGHBORHOOD variables are the reported strength of local chamber of commerce, taxpayer, and neighborhood groups with a range of 1-5, with 5 the strongest value. PAYRATIO = the ratio of the average public sector wage to the average Metropolitan Statistical Area manufacturing wage. UNION = the percentage of municipal workers that are unionized. DEBT/PC = the total debt of the community per capita.

Sources: UNION, DEBT/PC and the nominator of PAYRATIO are from 1982 Census of Governments. The denominator of PAYRATIO is from the Bureau of Labor Statistics. Each of these three measures is converted into a z-score based on the MSA pattern. The variable has a regional mean of zero and standard deviation of one, and measures the condition in a specific community relative to the metropolitan area average (see, e.g., Schneider 1989).

Table 5.3
SENSITIVITY ANALYSIS:
THE IMPACT OF CHANGING SIGNIFICANT VARIABLES FROM TABLES 5.1 and 5.2
ON THE PROBABILITY OF AN ENTREPRENEURIAL MANAGER EMERGING

PREDICTIONS AT

		Mean	High Extreme	Low Extreme
From	MAYOR	.052	.123	.048
Table 5.1	CITY MANAGER	.052	.091	.005
From	TAXPAYER	.060	.117	.022
Table 5.2	PAYRATIO	.060	.170	.016
	UNION	.060	.129	.013
	TAXPAYER, PAYRATIO and UNION Jointly	.060	.505	.001

NOTES: The mean prediction on an entrepreneurial manager emerging is .052 in Table 5.1 and .059 in Table 5.2. In this sensitivity analysis, we vary the significant independent variables to their extreme values above and below their own means, and let the other variables assume their values.

From Table 5.1, if there were no mayor in any community (mayor set to 0) the likelihood of an entrepreneurial manager emerging would increase to .123, while if every community had a mayor (mayor set to 1), the likelihood would fall to .048. Similarly, if all communities had a city manager, the likelihood would increase to .091, while if no community had a city manager, the likelihood would fall to nearly zero (which is true by definition).

From Table 5.2, taxpayer group strength, the public/private pay ratio and union percentage are varied to their extremes to determine the impact on the emergence of entrepreneurial managers with the impact of other variables held constant. In the last row, all three of these variables are set to their extreme values at the same time.

CHAPTER 6: The Local Market for Entrepreneurship: The Business-Government Nexus

We have relied heavily on economic concepts to develop a model of the market for local public entrepreneurs. In this chapter, building on the concept of the reservation wage for entrepreneurs discussed in Chapter 2 and the decision calculus underlying it (also see Casson 1982), we show an interrelationship between the private sector and public sector entrepreneurship. We demonstrate how opportunities in the private sector, especially in high-technology manufacturing and finance, affect the frequency of public entrepreneurship. In so doing, we modify the simple economic decision process underlying the concept of the reservation wage by considering how entrepreneurs are "embedded" in social networks.

In developing the concept of embeddedness, we combine insights from sociology and anthropology with more orthodox economic notions drawn from the study of labor markets and explore more fully the supply function for entrepreneurs. We also review evidence from a variety of fields to show how entrepreneurs use these networks to achieve their goals, by drawing on their social contacts for support and in discovering opportunities. This leads us to explore the extent to which the supply of entrepreneurial talent is affected by differences in organizational structure (Mohr 1969; Walker 1981), social milieux (Berger 1991; Maillat and Lecoq 1992) and the social and economic networks that define relationships across interdependent activities in regions (Granovetter 1985). We then return to the question of the demand for entrepreneurship and show how demand may be affected by the networks in which potential entrepreneurs are embedded. In so doing, we show parallels between the concerns of those scholars (mostly in such disciplines as sociology and anthropology) who focus on the entrepreneur as a socially embedded actor and the concerns of neoinstitutional economists, who acknowledge the critical role broader social institutions play in economic development.

This parallelism is especially evident in the work of Douglass North (1990) who characterizes institutions as social arrangements that "reduce uncertainty by providing a structure to everyday life." These institutions include "any form of constraint that human beings devise to shape human interaction...both in formal constraints ~ such as rules that human beings devise — and in informal constraints — such as conventions and codes of behavior" (pp. 3-4).

For North, society's institutional arrangements have consequences for economic development:

Incremental change comes from the perceptions of the entrepreneurs in political and economic organizations that they could do better by altering the existing institutional framework at some margin. But the perceptions critically depend on both the information that the entrepreneurs receive and the way they process that information...The actors must frequently act on incomplete information and process the information that they do receive through mental constructs that can result in persistently inefficient paths. Transaction costs in political and economic markets make for inefficient property rights, but the imperfect subjective models of the players as they attempt to understand the

complexities of the problems they confront can lead to the persistence of such property rights (North 1990: 8-9).

In North's view, the growth of the U.S. economy in the nineteenth century is clearly a success story. The basic institutional framework that evolved by the beginning of that century (especially the Constitution and the Northwest Ordinance, as well as norms of behavior rewarding hard work) induced the development of economic and political organizations that provided incentives for increased productivity and economic growth. Much of this growth was sparked by a wave of entrepreneurial activity. In contrast, North identifies other times and other countries where institutional frameworks have emerged embodying a set of incentives that foster organizations that are themselves unproductive and block others from undertaking productive activity. Such a path to inefficiency can persist because the transaction costs of the political and economic markets together with the subjective models actors carry prevent moves toward more efficient outcomes.

North's work is exciting. But the empirical work of neoinstitutionalists often does not adequately document the processes by which social arrangements and interactions may aid or hinder the entrepreneur. In developing our argument in this chapter, we cast our net broadly across several of the social sciences. By widening our focus to consider entrepreneurs within their broader social context, like North, we are led to see a causal arrow that runs from the broader social arrangements (both formal and informal institutions and organizations) to the emergence and activities of entrepreneurs themselves. This widened analytical focus leads us to augment the model of public entrepreneurship that we have developed to this point.

Entrepreneurs as Embedded Social Actors

Granovetter pioneered the development of the concepts of embeddedness and social contacts as modifiers of purely economic transactions. For Granovetter, social actors "do not behave or decide as atoms outside a social context...Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations" (1985: 487). Aldrich and Zimmer (1986) explicitly use Granovetter's concept of networks to explain patterns of entrepreneurship, arguing that "entrepreneurship is a social role, embedded in a social context. Investigators cannot treat entrepreneurs in isolation as autonomous decisionmakers or lump them together with others with similar social characteristics, without regard to context." Instead, Aldrich and Zimmer argue that researchers should be concerned with "the effects of social networks in facilitating or inhibiting the activities of potential entrepreneurs" (1986: 20; also see Lavoie 1991).

The importance of social embeddedness to entrepreneurs is supported by studies of the origins of business entrepreneurs. Birley (1991: 109) argues that contacts are usually the main source of new

ideas that entrepreneurs see and exploit. Entrepreneurs tend to form smaller, for-profit organizations, and they tend to start businesses similar to those in which they were previously employed, in the same location, and with previous colleagues as partners. That is, entrepreneurs situate their new firms in the networks in which they previously operated. For these private sector entrepreneurs, clearly a local network is in place that eases the burdens of entrepreneurship: "Informal contacts, mainly business contacts, are seen overall to be the most helpful in assembling the elements of the business" (Birley 1991: 113; also see Young and Frances 1991). Like their private sector counterparts, public sector entrepreneurs also rely on networks, making repeated use of contacts they have established over the course of years of professional and political activities (King 1988: 78-79, 277; Kingdon 1984: 189-190; Heclo 1978; Smith 1991).

Studies demonstrating the importance of the geographical milieu and social networks to the nurturing of entrepreneurial behavior are complemented by studies that show the importance of organizational form and culture (e.g., Becker 1970; Mohr 1969; Walker 1981) and the climate of innovation within states (e.g., Walker 1969) for entrepreneurial action. The relationship between these conditions and entrepreneurship can be analyzed from a transaction costs perspective.

The importance of networks in reducing transaction costs

Networks matter because they create efficiencies in assembling the resources necessary in production processes. In networks, transactions occur neither through discrete exchanges nor by administrative fiat, rather they are built on the repeated interactions of actors engaged in reciprocal, preferential, and mutually supportive actions. The efficiency of contracting is increased by a shared orientation - knowledge that the parties assume each has about the other and that they use in communication and problem solving. Insights into the relationship between shared orientation and efficiency is built, directly or indirectly, on findings of ethnomethodologists (e.g., Garfinkel 1967), who argue that expressions and actions cannot be fully understood without an understanding of the background and "culture" of which the speaker is part. Repeated interactions, shared training, and socialization all increase the efficiency of communications by reducing cultural barriers to transactions.

While anthropologists were particularly quick to build on this insight and to emphasize the role of networks, the importance of shared orientation between individuals entering into agreements is clear to social scientists from a variety of disciplines who study contracts and other economic activities. Nelson and Winter (1982: 99-107) recognize the importance of shared orientation when they argue that repeated, complex interactions require a specialized language that transcends "plain English." They describe this specialized language as a local "dialect" filled with shared words,

concepts, and short-hand terms referring to particular processes, products, and concepts. The concept of corporate culture, which acts as a guide to what behavior is permissible, what norms are valued, and what meanings are assigned to terms used in organizations, places networks directly in the context of transaction cost economics (Kreps 1990; Miller 1992; Brehm and Gates 1993).

The importance of networks within organizations and across interdependent firms is the core of Granovetter's concept of structural embeddedness. The focus on networks of interrelationships has more recently been used in studies that show how local regional economies can create a culture of entrepreneurship and act as incubators of innovation. Echoing Granovetter, Maillat and Lecoq (1992: 2) argue that entrepreneurial enterprises are not "isolated innovative agents calculating where [they] can find the best location." Rather, these enterprises are generated in a supportive *regional milieu*, which is defined by geographical conditions favorable to the emergence of new production activities and capable of sustaining the development of firms in the early stages of growth. Thus, the regional milieu generates "specific skills and solidarity among local firms and socio-economic characteristics. Innovation capability depends on the specific nature and intensity of territorial relations in generating a localized dynamic process of collective learning through informal networks and mutual long-term relationships" (Maillat and Lecoq 1992: 14).

In a further extension of Granovetter's argument, Romo and Schwartz (n.d.: 9-10) argue that "regional economies are stable social structures comprised of an intricate web of routinized material and informational transactions, most of which *do not* operate through markets. These relationships ultimately congeal into long-term dependencies and they therefore act as relational 'glue...'" While many economists have sought to explain the agglomerations that are observed among interdependent sectors in the same region in terms of external economies of scale, Romo and Schwartz argue that the value of regional proximity can be better understood in terms of the broad set of relationships in which economic production is embedded. They argue that efficiencies are maximized by repeated face-to-face interactions—and that these efficiencies become part of a locality specific "production culture" that provide the rationale for locational proximity (also see Markusen 1987). Thus, the value of social interactions highlighted in these works parallels Williamson's perspective on repeated trades, i.e., long-term networks built on a shared language, trust, and reputation reduce transaction costs and increase efficiency.

Because networks embody greater flexibility and lower transaction costs, they may be "lighter on their feet" than hierarchies (Powell 1991: 271). But like any productive relationship, networks take considerable effort to establish and sustain. Networks are particularly appropriate in circumstances where there is a need for efficient, reliable information. This makes them particularly useful to

entrepreneurs, who must make rapid use of available information if they are to achieve high profits. But given the loose nature of the relationships established in networks, trust is vital.

For public entrepreneurs developing trust in relationships and in support networks is vital to the pursuit of their goals. For example, King (1988: 461) found that the ability of public entrepreneurs to develop a policy network "magnified the individual's influence, pooled resources, and created synergism." Similarly, Kingdon (1984: 189-190) found that successful policy entrepreneurs establish and maintain networks within their particular policy communities (also see Heclo 1978 and Smith 1991). While there are clear payoffs for these actions, they are not simply taken for purely instrumental reasons. Kingdon (1984: 130) suggests that much of the reward of public entrepreneurship comes from "solidary" incentives, and from simply playing the policy game: entrepreneurs "enjoy advocacy, they enjoy being at or near the set of power, they enjoy being part of the action. They make calls, they have lunch, write memos, and draft proposals, probably for the other [e.g., instrumental] reasons we have discussed ... but in combination with the simple pleasure they take in participating." Thus, there are many-rewards, both pecuniary and non-pecuniary, for entrepreneurs who are adept at assembling and coordinating teams, or who are skilled in constructing and manipulating networks, no matter what their locus of activities.

Networks and The Supply of Entrepreneurs

We expect that the supply of entrepreneurs conforms to regularities observed in any other labor market. But we also believe that the organization and institutional arrangements of the local milieu will influence the supply of entrepreneurs in any given sector of the economy (private or public). From a labor market perspective, entrepreneurs will appear in any sector of the economy to the extent that the estimated returns from entering that sector are at least as high as those of the best foregone opportunity available in other sectors. Following Casson (1982: 335-336), the supply of entrepreneurs can be thought of as infinitely elastic at "the prevailing real wage"- the opportunity cost of entrepreneurship. But once the expected returns from entrepreneurship rise above this level, the supply of entrepreneurs will be similar to the supply of any other factor of production. That is, entrepreneurship will positively increase with the expected rate of return.¹

However, we argue that this simple labor market model of the supply of entrepreneurs must be modified to account for the effects of networks on the behavior of entrepreneurs. And the model must also be modified to allow for the effects that developments in one sector of the economy (for instance high-technology manufacturing, finance, or government) have in reallocating entrepreneurial opportunities across sectors.

Networks can increase the supply of entrepreneurs by reducing the costs of entrepreneurship. For example, an established network of private sector entrepreneurs can provide the psychological and emotional support for further entrepreneurship in both the private *and* the public sector. Moreover, an established network reduces the organizational costs facing an entrepreneur. That is, an individual who is tied into a network of entrepreneurs has access to relevant experts that may ease the cost of assembling the necessary teams to pursue entrepreneurial activities. Networks also make available new models of programs, policies, and organizations. An individual exposed to an entrepreneurial private sector network could then engage in arbitrage by proposing the adaptation of private sector entrepreneurial ideas into the public sector. Being a member of a private-sector entrepreneurial network therefore reduces the costs of idea generation and reduces the costs of assembling a team to develop and implement those ideas.

Networks and The Demand for Entrepreneurs

We have rooted the demand for entrepreneurs in a function of two factors: (1) the rate of change in the technologies of production and (2) the rate of change in the preferences of consumers. More rapid change in either factor leads to a greater demand for entrepreneurs to present new alternatives in their pursuit of entrepreneurial profits. Entrepreneurs are able to correctly discover and/or diagnose the short-comings or gaps in the status quo and select an appropriate prescription for how those problems may be remedied. Furthermore, many entrepreneurs seek to generate demand by contributing to discussions or debates and "framing" problems in ways that make them amenable to solution using his or her chosen approach. Second, the uncertainty inherent in entrepreneurial changes makes them risky investments. What makes entrepreneurs a unique class of social actors is that they, unlike many others, are sufficiently willing to believe in their vision of change to take entrepreneurial risks.

Networks affect these demand-side conditions. An individual tied into an entrepreneurial private sector network is more likely to discover opportunities in the public sector, especially in times of discontent with public sector activities when business-like reforms are often presented as panaceas for the problems of government. Thus, in an environment where such reforms are supported, opportunities for arbitrage increase and individuals tied into a private sector entrepreneurial network can seize these opportunities. Moreover, being tied into such a network reduces the risks of advocating such reforms: that is, the network has "vetted" ideas and certified some set of them as worthwhile-some ideas are in "good currency" (Schon 1971: 123).

Local Business Conditions and the Emergence of Public Entrepreneurs

Our task in this chapter is to identify the effects of theoretically important aspects of the local business environment on the emergence of public entrepreneurs. Specifically, we argue that a higher density of private sector entrepreneurs increases both the supply and demand of public sector entrepreneurs. We use measures of the composition of the regional and the local economy as surrogate measures of the number of entrepreneurs in a local milieu and of the density of entrepreneurial networks.

Identifying the Density of Private Entrepreneurs. Many analysts argue that during the 1980s, the two most dynamically changing sectors of the economy were high-technology manufacturing (Markusen et al. 1986) and the FIRE (finance, insurance and real estate) sector of the service economy (Stanback 1991). Moreover, most analysts believe that entrepreneurial activity is more likely to be found in small firms than in large ones (e.g., Birch 1987). Therefore, we assume that *ceteris paribus* a greater number of workers or firms in high-tech manufacturing and in the FIRE sector at the community and regional level indicates a more intense entrepreneurial milieu. This is especially so when the firms in these sectors are small and therefore more likely to be start-up enterprises exploiting the vision of an emerging private sector entrepreneur.

The Effects of County Business Patterns. The communities for which we have data on public entrepreneurship are located in 184 counties located throughout the country. We used data from the Census report, *County Business Patterns*, to measure the concentration of high tech manufacturing and FIRE activities in each of these counties. We use the number of employees in each of these sectors in 1982 and 1987 to reflect the density of entrepreneurial activity, assuming that density increases with the size of the sector. Methodologically, we "attach" these contextual variables measured at the county level to each of the individual communities in the county.²

In Table 6.1, controlling for geographic location, we report the results of a cross-sectional probit analysis to measure the effect of the size of these two sectors on the likelihood of finding a public sector entrepreneur in 1982 and again in 1987. In Table 6.2, we show how *changes* in the size of each sector between 1982 and 1987 affected the probability of finding a public entrepreneur.

In each of our estimates, we include a measure of the ratio of the public sector wage in a community to the prevailing manufacturing wage in the region.³ We use this ratio to measure the alternative wage rate for public entrepreneurship: the higher the wage ratio, the lower the opportunity costs for operating in the public sector rather than the private one. This measure allows us to control for the individual monetary benefit/cost calculus of allocating entrepreneurial activity.

In the cross-sectional probit estimates reported in Table 6.1, we show that the probability of finding a public entrepreneur does increase as the number of county-level employees in the FIRE sector grows. As in previous chapters, we use sensitivity analysis to show how changes in environmental variables affect the probability of finding a public entrepreneur.

Among all our communities, the predicted mean probability of finding a public entrepreneur is 0.28, but this probability varies significantly with the size of the regional FIRE sector. With county-level employment set at 1 standard deviation above the mean, the probability of finding a public entrepreneur rises from .28 to 0.37 in 1982 and 0.35 in 1987. In contrast, if we set county-level employment in the FIRE sector to zero, the probability of finding a public entrepreneur drops to 0.21 in 1982 and 0.22 in 1987.⁴

Also consistent with our expectations, as the public/private wage ratio increases, the likelihood of finding a public sector entrepreneur also increases. Thus, when public sector wages approach or exceed the prevailing private sector wages, the opportunity costs for entrepreneurial activity in the public sector drop. However, the probability of finding a public entrepreneur actually decreases as county hi-tech employment increases--a point we return to below.

Table 6.1 Here

In Table 6.2 we present patterns over time. Longitudinally, growth in employment in the FIRE sector actually *reduces* the probability of finding a public sector entrepreneur. We believe the explanation for this negative relationship is straight-forward: when opportunities are rapidly increasing in the FIRE sector, the relatively fixed supply of entrepreneurs is diverted away from public sector entrepreneurship to pursue private opportunities. Repeating the results of the cross-sectional analysis, the probability of finding a public entrepreneur rises with a higher public/private wage ratio.

Table 6.2 Here

The Effects of Local Business Patterns. These county-level patterns confirm a link between entrepreneurial activity in the private sector and entrepreneurship in the public sector. Next, we test the link at the community-level, using a unique set of data prepared by the Missouri Data Center that merges ZIP codes with 3 and 4 digit Standard Industry Codes (SIC) based on 1990 data. For each combination of ZIP/SI Codes, the distribution of firms in each of 9 size categories were reported. We matched our communities with their ZIP codes and created a highly detailed description of the

composition of the local employment base. Specifically, we used the ZIP/SIC data to identify the number of small high-tech firms and the number of small FIRE firms in each community in our sample.⁵

We use the number of small firms in each of these two sectors as estimators for the likelihood of finding a public entrepreneur. We recognize that these data come from 1990, while our data track the emergence of public sector entrepreneurs during the 1980s. However, since the 1990 data set is unique and local economic conditions usually change slowly (see Schneider 1989; Schneider 1992), we believe the benefits of this analysis far exceed the costs imposed by measurement error. As in all our empirical work, we control for region.

Paralleling the county-level results, the effects of a concentration of FIRE firms on the emergence of public entrepreneurs are compelling. As evident in Table 6.3, the number of small FIRE firms directly increases the probability of finding a public entrepreneur. We use sensitivity analyses to show the range of effects.

For the entire set of communities for which we have complete data, the predicted mean probability of finding a public entrepreneur is 0.29. However, if we set local employment in the FIRE sector to zero, the probability of finding a public entrepreneur drops to 0.23.⁶ But setting local FIRE employment set at 1 standard deviation above the mean level, the probability of finding a public entrepreneur rises 5 percent—to 0.34. In contrast, the number of small high-tech firms in a community does not affect the probability of finding a public entrepreneur.

Insert Table 6.3 Here

Re-thinking the Business-Government Nexus

We believe that public entrepreneurs are "embedded" social actors and that local institutional and organizational arrangements alter the likelihood of finding public entrepreneurs. By widening our focus to consider the economic and social milieux in which public entrepreneurs operate, and thereby recognizing the importance of social networks for supporting entrepreneurship, it is possible to significantly improve our ability to predict their emergence under given conditions.

Our data show that a concentration of activity in the local and regional finance, insurance, and real estate sector supports the emergence of local public entrepreneurs. In contrast, the number of high-technology manufacturing firms either has no effect or a negative effect on the likelihood of finding public entrepreneurs. As is evident in our data and in the sidebar on the "embedded

entrepreneur," the link between the FIRE sector and public entrepreneurship is particularly important.

Sidebar: The Embedded Entrepreneur

- Robert Reich (1991) describes an emerging class of "symbolic analysts." These workers are the new elite in the nation's workforce, poised to capture the greatest profits from the emerging information-based economy: "Symbolic analysts solve, identify and broker problems by manipulating symbols. They simplify reality into abstract images that can be rearranged, juggled, experimented with, communicated to other specialists and then, eventually, transformed back into reality. The manipulations are done with analytic tools, sharpened by experience." Actors in the FIRE sector typically make their living from interacting closely with others, often forming transitory relationships for business expediency.

The FIRE sector provides a training ground for deal-makers. But these creative and innovative thinkers can also use their skills in the political realm. That is, their human capital is a valuable commodity in the public sector. Furthermore, for "symbolic analysts," a tour of duty as an elected official is likely to add to their stock of human capital -- a stock that is directly built on such skills as team-building, networking, and influencing the conceptual thinking of others (King 1988). Thus, the transition from the private FIRE sector to the public domain is relatively easy and in fact can be profitable in the long run.

The high technology sector is identified as the sector most likely to provide the engine for America's reemergence as a leader in the global economy (Birch and MacCracken 1984; Feller 1992). We believe that entrepreneurs in communities or regions with a greater number of high technology firms are more likely to enter those firms than to become public entrepreneurs. In part, the reservation price in such a milieu is likely to be higher.

In addition, the skills useful in high tech manufacturing do not fit as tightly with the skills useful in public entrepreneurship. For professionals in the high-tech sector, a tour of duty in government could have significant opportunity costs and hi-tech entrepreneurs may not be able to capitalize on public sector experience to the same degree as can professionals in the FIRE sector. For a professional in the high-tech sector, a stint in government may, in fact, reduce human capital. Given rapid technological changes, someone returning to the high tech sector may find that their previous

manufacturing related skills have been overtaken by new developments and that the skills picked up in government are of little use.

What do these findings tell us about the organizational and institutional arrangements supportive of entrepreneurship? Our findings indicate that the FIRE sector can be a fountainhead of entrepreneurship in the local market for public goods. Further, entrepreneurs who move from the FIRE sector into positions in the public sector may be able to use their office in local government as a position from which to act as "brokers," using networks and their ties to other entrepreneurs to bring energy and innovation to places in which entrepreneurial skills and reforms are badly needed.

Our data suggest that the regions most likely to gain from Eisingerian demand-side entrepreneurial policies and other innovative actions to stimulate the local economy through incubators, high-tech parks, and university-industry relationships will be those that already have a well-developed FIRE sector talent pool and networks from which to draw the requisite entrepreneurial actors. There is an irony here in that the actions of "the entrepreneurial state," by assisting in the development of high-technology industries, may ultimately bid up the reservation wage for entrepreneurship or lead to rapid growth in FIRE activities. This growth may inadvertently reduce the potential for government to tap the pool of entrepreneurial talent to fill key positions in its own elected, managerial, and high-level advisory ranks. Ironically, then, success in fostering private sector growth may ultimately lead to stagnation in the public sector.

1. Fiorina (1993) uses this approach in a study of relative wages, professionalism, and the supply of state legislators.
2. Unfortunately, the County Business Pattern data do not indicate size of firms. However, in the next stage of analysis conducted at the community level, we do examine the effects of the number of small firms on the emergence of public entrepreneurs.
3. This is defined by the ratio of the average monthly wage of a full-time equivalent local government employee to the average monthly wage of a full-time manufacturing worker in the region. We use this ratio as a proxy for the "reservation wage." See chapter 5, where we link this ratio to the emergence of entrepreneurial managers.
4. We set this to zero for the sensitivity analysis, since a one standard deviation move to below the mean level of FIRE employment results in a negative figure.
5. We define "small" as firms having fewer than 20 employees.
6. We set this to zero for the sensitivity analysis, see Footnote 4.

Table 6.1: The Effects of County Employment in FIRE and High Tech on the Likelihood of Finding a Public Entrepreneur, 1982 and 1987

	1982		1987	
Explanatory Variables:	Coefficient (Std. Error)	p > t	Coefficient (Std. Error)	p > t
County FIRE Employment (in 000s)	.045 (.019)	.01	.033 (.012)	.02
County High Tech Employment (in 000s)	-.053 (.023)	.01	-.048 (.021)	.02
Pay Ratio	.004 (.002)	.08	.004 (.002)	.13
North Central	.232 (.121)	.05	.231 (.122)	.05
West	.333 (.184)	.07	.366 (.174)	.03
South	.187 (.164)	.25	.133 (.159)	.40
Constant	-1.268 (.269)	.00	-1.195 (.265)	.00
Summary Statistics:				
Chi2(6)	17.89		15.08	
Prob > chi2	0.007		0.020	
Observations	762		782	

Note: Parameters estimated using Probit Analysis. Numbers in () are standard errors. The Northeast is the excluded region.

**Table 6.2: The Effects of Change in County Employment
in FIRE and High Tech on the Likelihood of
Finding a Public Entrepreneur, 1982-1987**

	Coefficient	Std. Error	p > t
County FIRE Employment	-.494	.249	.04
County High Tech Employment	-.001	.004	.71
Pay Ratio	.004	.002	.09
North Central	.274	.112	.01
West	.187	.162	.23
South	.238	.163	.14
Constant	-.540	.419	.19

Notes: Parameters estimated using Probit Analysis
 Number of observations = 751
 $\chi^2(6) = 16.21$
 Prob > $\chi^2 = 0.0123$

Table 6.3: The Effects of Local Small FIRE and High Tech Firms on the Likelihood of Finding a Public Entrepreneur, 1982-1987

	Coefficient	Std. Error	p > t
Local Small FIRE Establishments	.003	.001	.01
Local Small High Tech Establishments	-.022	.022	.31
Pay Ratio	.003	.003	.34
North Central	.367	.145	.01
West	.069	.206	.73
South	.061	.202	.76
Constant	-1.129	.329	.00

Notes: Parameters estimated using Probit Analysis
 Number of observations = 468
 $\chi^2(6) = 15.75$
 Prob > $\chi^2 = 0.0152$

*Sidebar: Alan Gussack:
An Embedded Entrepreneur*

Alan Gussack was a dynamic 5 term mayor of the affluent, close-in New York City suburb of Great Neck Plaza. Until his untimely death in office at age 49 in 1992, he typified an entrepreneur embedded in the service sector of his community.

Gussack was an active businessman and he used his career and his contacts to help define his political career. He spent most of his life in Great Neck Plaza, in New York, and worked as a consultant for Volkswagen and other major corporations helping them identify sites for business expansion. His first political office was as deputy mayor at age 29. When he became mayor, he sought to make Great Neck Plaza attractive to desirable white collar service employers. He pioneered the idea of local business improvement districts and he had a state-wide impact by spearheading a movement to amend New York State's General Business Law in 1989 to allow local jurisdictions to establish such districts. His activities linking government to the business environment also included a downtown improvement program and other tools to recruit new businesses. In a classic example of networking, Gussack also served on the board of the Nassau County Community Economic Corporation. Thus, as with many other entrepreneurs we studied, Gussack's impact went beyond his own city. State Assemblyman Thomas DiNapoli noted that Gussack: "established a statewide reputation as a leading voice for strengthening and improving the role of local municipalities in the betterment of our communities."

Chapter Seven:

Entry, Voice, and Support for Entrepreneurs¹

In the local market for public goods, entrepreneurs perceive a demand for political change and act upon their discovery of the opportunities rooted in that demand. To capitalize these opportunities, entrepreneurs seek elected or appointed office, and then use the powers of their office to try to redirect local politics and policies. But, as we have argued, to be successful, entrepreneurs need to solve difficult collective action problems--a task that can be eased by building coalitions for change built on a set of informed and active citizens who favor new policy directions. In this chapter, we identify those citizens that have the greatest incentives to become informed and active in local politics and how they can form a core of support for political entrepreneurs. In addition, we show how some citizens can inject change into local politics by their mobility choices.

For nearly four decades, many social scientists studying urban politics have relied on Tiebout's (1956) concepts of exit and "voting with one's feet" to explain how the local market for public goods operate (also see Ostrom et al. 1961). Extending Tiebout's focus, Hirschman (1970) identified exit as only one option consumers have in dealing with suppliers. Developing a broader range of strategic options available to consumers, Hirschman argued that organizations and institutions are driven by the "exit, voice, and loyalty" of their customers. Sharp (1984), Lowery and Lyons (1989), and others used Hirschman's extended set of options to study citizen/consumer choices in local government. In this chapter, we extend even further the options. Here, we develop a focus on the *entry* decisions of a subset of ordinary citizen/consumers—movers—and show how their entry decisions help drive the local market for public goods.

Movers make self-interested choices about where to live. This is most evident as they shop around to choose a house that fits their personal needs within their budget constraints. However, we will show that, at the margin, many locational choices are affected by the information movers gather about local public services and taxes. As they gather this information and as they compare the bundles of goods and services made available by different communities in the local market for public goods, movers play a critical role supporting entrepreneurship in the local public marketplace.²

This supporting role comes from several sources. First, informed movers affect the goods and services offered to other citizen/consumers who have fewer incentives to gather information about local public goods and services. Second, by not entering communities that they do not see as competitive, informed movers provide a different kind of demand for policy change than is provided by direct political voice.

Informed movers can also provide a basis for political challenges mounted by entrepreneurs in communities whose policies are not competitive with neighboring communities or whose policies are not responsive to changing tastes. For example, since even well-informed movers are constrained in their choices of homes and communities, they may be forced to live in a community that is not

efficient. These well-informed in-movers may then join with established residents to support a public entrepreneur who promises dynamic improvements in the service/tax realm. Alternatively, if well-informed movers locate in a community that is already relatively efficient in providing local public services, they may have little interest in supporting an entrepreneur who advocates a major change in the way in which local public goods are produced. But these movers may support an antigrowth entrepreneur, who promises to maintain the quality of life in the community that attracted the movers in the first place.

In short, there are links between the processes identified in the Tiebout model and the processes producing entrepreneurial politics. To examine these links, we first address a current theoretically critical debate on the role of information in making a Tiebout-like market actually work. Then we come back to the impact that informed entry decisions can have on local politics and on political entrepreneurs.

Adding Complexity to the Tiebout Model

As is well-known, Tiebout argued that by shopping around across communities, mobile citizen/consumers increase the efficiency and the responsiveness of local governments. In this market-like approach to local public goods, citizens choose to locate in a community whose taxes and services most closely match their own individual tastes and "mobility provides the local public goods counterpart to the private market's shopping trip" (Tiebout 1956: 422). Although there are many differences between a pure market for private goods and a local market for public goods that limit the effects of competition,³ a substantial body of research based on the Tiebout model has shown that allocative efficiency is increased through the spatial sorting process and that local governments in polycentric regions deliver services more efficiently and responsively than do monocentric local governments (Ostrom et al. 1961; Parks and Ostrom 1981; Sjoquist 1982; DiLorenzo 1983; Schneider 1986, 1989; Zax 1989).

While these aggregate level findings are compelling, scholars have attacked the Tiebout model from a variety of perspectives. At its very core, like many models in neoclassical economics, the Tiebout model is a model of "pure" competition based on a set of highly abstract principles (perfect mobility, an urban area built on a featureless plane, perfect information, etc.). In the almost four decades since its publication, researchers have attacked the extreme conditions detailed in these principles. However, one very common approach to testing the robustness of abstract models (and the approach used in section 1 of this book) is through the progressive relaxation of the highly restrictive assumptions built into the original model. In this manner, models are made more complex, more nuanced, and more congruent with empirical realities.

Oakerson and Parks (1988), for example, questioned the exclusive reliance on mobility underlying the Tiebout model. They argue that political activity, or "voice," is at least as important as mobility (exit) in determining local government service/tax decisions. Others argue that the role of local governments in the Tiebout model is too passive. In the Tiebout model, government policies are "more or less set," but governments actually engage in strategic behavior in determining their services and taxes. In addition to our work here on political entrepreneurs, Peterson (1981), Schneider (1989), and Stein (1990) among others, all introduce a more active government dimension to the Tiebout model.⁴

While these debates continue, it is Tiebout's notion that citizen/consumers "vote with their feet," the central theoretical construct in the model, that has recently attracted the most attention. Critics have raised questions about several aspects of this individual-level aspect of the model. First, the Tiebout model assumes that citizens are perfectly mobile—that they can easily exit a community that does not satisfy their preferences and that they can enter a new community that offers a service/tax package they prefer. Rather than the frictionless plane of the Tiebout model, as Orbell and Uno (1972) argued long ago, numerous real world constraints on the mobility of individuals limit exit. But it is what Lowery and Lyons (1989) call the "information assumption" of the model that has attracted the most recent attention (also see Sharp 1984; Lyons and Lowery 1989; Lowery, Lyons and DeHoog 1990). Lowery and Lyons argue that the Tiebout exit/entry process requires high levels of information on the part of individual citizen/consumers—that for the Tiebout model to work citizen/consumers must have accurate knowledge of the alternative local public service/tax packages being offered elsewhere in their region.

Using a carefully matched sample of residents in a polycentric and a monocentric metropolitan region, Lowery and Lyons investigated several of the individual-level information assumptions they believe underlie the Tiebout model. Specifically, they question whether individuals are aware of alternative service/tax packages in other local governments; whether they are motivated to exit a jurisdiction if its service/tax package does not align with their preferences; and whether they make their relocation decisions based on the alternative service/tax packages offered by municipalities.

Lowery and Lyons find little empirical evidence that any of these assumptions hold.⁵ They conclude (1989: 94-5) that the organization of local government and the range of services offered in a metropolitan region "just do not seem to influence attitudes and behaviors in the gross manner suggested by the Tiebout model...[and] many of the aggregate-level findings on service delivery may have to be rethought."

The Macro-Micro Disparity

Lowery and Lyons pose a fundamental theoretical question: Is it possible to reconcile macro-level evidence that illustrates the effects of Tiebout-mechanisms on local government efficiency with evidence that at the micro-level key assumptions are violated? Although macro-micro level disparities are not uncommon in social science, this matter is probably most familiar to those who have followed recent debates in macroeconomics between Keynesians and the micro-level advocates of rational expectations models. On one hand, we could argue that as long as macro-level models predict well, then nothing is to be gained by comparing their underlying assumptions to micro-level evidence. This position is illustrated in the famous "as if" dictum credited to Milton Friedman (1953). On the other hand, others argue that since science is concerned with accurate explanation, the "as if" dictum is simply not acceptable.

In reviewing the conflict in economics, Blinder (1989: 123-124) notes that: "neither side is hostile either to first principles or to factual accuracy! We all agree that the ideal macro theory would be built up logically from first principles and would explain the data well. But we also agree that such a theory is a long way off..." Blinder goes on to note that good science is not always built on solid micro foundations. For example, scientific breakthroughs in thermodynamics, chemistry, and medicine have all been accomplished without strong micro-level theory. On the strength of this conclusion, Blinder argues that empirical regularities formulated and tested directly at only the macro-level clearly have a place in science.

Despite Blinder's argument, social scientists interested in the underlying social and political processes that give rise to observed data no doubt feel frustrated with theory that cannot reconcile macro- and micro-level evidence. In the research reported here, we place the aggregate-level data that supports the Tiebout model on a micro-level foundation that is built on a better understanding of markets and the role of consumers than evident in most political science. We believe that the current debate over the micro-level assumptions of the Tiebout model is built on a faulty understanding of how markets work. In particular, research on the "information assumption" has not focused on how markets can be driven by a subset of actors and by the information search processes in which they engage.

We believe that a fundamental source of problems in correctly specifying the Tiebout model is the belief that *all* movers must hold information about comparative service/tax packages. Indeed, Lowery and Lyons go even further and imply that all citizens must have accurate information about local goods and services. In fact, studies of private sector markets show that only a subset of consumers, especially those with high-incomes, are likely to gather information about their purchases

(Katona and Miller 1955; Newman and Staelin 1972; Claxton et al. 1974; Thorelli and Engledow 1980). More importantly, these studies show that even a small percentage of buyers can effectively drive a market towards a competitive outcome.⁶ That a local market for public goods can be driven towards a competitive outcome by a subset of informed citizen/consumers thus parallels empirical findings for competitive private sector markets. In other words, for the local market for public goods to be competitive, only a small proportion of movers need to have information on the various packages of goods and services local governments offer. This is particularly true if these knowledgeable movers are high-income. In the next sections, we refine the Tiebout model by relaxing the implicit assumption that competition is driven by the actions of all movers and concentrate on the effects that can be produced by a small number of more highly informed actors.

The Role of Consumers. There is a critical difference between the role of the average consumer (whose level of information may be low) and the informed (or "marginal") consumer. The failure to understand the importance of marginal consumers and the costs that different classes of citizen/consumers face has fundamentally flawed research into the information individuals need to drive a Tiebout-like market. Much of the recent research on movers and the Tiebout model is overly focused on the threat of *exit*.⁷ We believe that it is the *entry* decisions of movers, not their exit decisions, that are more theoretically attuned to Tiebout's description of mobile citizen/consumers. Most residential moves are motivated by factors that have nothing to do with public services; rather, they are motivated by changes in employment, or changes in life circumstances. But once forced to shop around for a new house, a new community, and an attendant new local government, the *marginal* costs of gathering information about local public services are low. Thus, actual movers, as they choose among their entry options, may be as close to Tiebout's "frictionless mover" as we will find in the real world. But no search process can reveal all aspects of the package of taxes and services municipalities offer in the local market for public goods. In turn, we discuss the "search" and "experience" aspects of local public goods, and these characteristics affect the micro- and macro-level outcomes in the local market.

Pressure Toward Competitive Equilibria. Our empirical focus is at the individual micro-level, establishing the comparative levels of knowledge recent movers and more established residents actually have about local government service/tax packages. But our theoretical focus is on the link between these results and other market processes. We seek to identify why municipalities respond to consumer search and how the behavior of citizen/consumers can produce macro-level forces that push the local market for public goods toward competitive outcomes.

We discuss these issues in detail below, concentrating on the difference between marginal and

average consumers. We then develop the outlines of a more rigorous theoretical approach to the study of the individual-level assumptions underlying the Tiebout model of the local market for public goods and discuss how the particular nature of this market affects competitive outcomes. In the development of our argument, we update the Tiebout model to respond to many of the criticisms that have subsequently been leveled at it, incorporating the costs of information gathering, the costs of mobility, and the strategic interests of municipal governments. With this theoretical structure in place, we use data from a survey of over 500 recent movers and established residents in Suffolk County, New York, to present evidence on how a class of informed citizen/consumers may satisfy some of the individual-level assumptions that *actually* underlie the role of citizen/consumers in the local market for public goods.

The Role of the Marginal Consumer

By analyzing the responses of a sample of *all* individuals in two metropolitan areas, Lowery and Lyons have de facto based their criticism of the Tiebout model on the behavior of the "average consumer." Since the average citizen does not know much about local services and taxes, Lowery and Lyons conclude that the Tiebout model of the local market for public goods cannot be operative. But the focus on the average consumer as the driving force in markets is misplaced: Economists recognize that both theory and empirical research should focus on the marginal consumer.

Rhoads (1985: 144) argues that in many markets the marginal consumers are the most careful and well-informed shoppers, whose actions generate: "competitive pressures that help keep prices reasonable for less-informed, non-searching consumers as well" (also see Thorelli and Engledow (1980) on "information seekers" and Feick and Price (1987) on "market mavens"). This set of informed consumers acting in their own self-interest help create an efficient market. Schwartz and Wilde (1979: 638) specify the argument further. For them, "the presence of at least some consumer search in a market creates the possibility of a 'pecuniary externality': persons who search sometimes protect nonsearchers from overreaching firms." More to the point, they argue that *"the conventional analysis asks the wrong question. Rather than asking whether an idealized individual is sufficiently informed to maximize his own utility, the appropriate normative inquiry is whether competition among firms for particular groups of searchers is, in any given market, sufficient to generate optimal prices and terms for all consumers"* [1979: 638. Emphasis added]. In applying this argument to the Tiebout market, replace the term "firms" with "municipalities".⁸

To illustrate this point in the context of a private good, consider the decision to buy a car. Most cars last several years. For much of the time between car purchases, a consumer need not know anything about the costs or benefits of different models of new cars - the consumer is not

looking to buy a car and there would be no benefit in expending resources to gather information. However, when consumers enter the car market, they engage in extensive search about the cost and quality of various car models. A survey of *all* consumers would show that despite the millions of dollars spent by car companies advertising their products, the *average* consumer has little accurate information about different car models. Yet, the car market is highly competitive, because it is driven by the marginal consumer—the relatively small proportion of the population that is "in the market" at any given time and for whom the benefits of search outweigh the costs of gathering information.

This argument can be made graphically. Figure 7.1 shows a typical supply and demand curve. We assume that price discrimination is not feasible in the depicted market, as is usually the case by law for the service/tax packages cities offer to their residents. The market clearing tax price for the package of public goods is \$.05 per \$1000 of home value and 100 units will be purchased. But the average consumer in this market is actually willing to pay a tax rate of \$.075 for the public goods.⁹ In contrast, the marginal consumer will not purchase the good at this higher tax price (perhaps because this consumer is better informed about the real worth of public goods).

Figure 7.1 Here

In a fully competitive market, the marginal consumer will drive the tax price down to \$.05 per unit, which is what *every* consumer, including the average consumer, will pay. This is the source of the pecuniary externality that the marginal consumer generates but accrues to all citizen/consumers. We recognize that the local market for public goods is not fully competitive, so that there is variation in the tax prices local governments charge and the services they provide. But in either the public or the private market, the pressure toward competitive pricing is driven by the same mechanism: By having more accurate information about prices, the marginal consumer drives the market towards a competitive level.

The Search for Information

As economists have recognized that few markets fulfill assumptions of complete information and perfect competition, they have studied the role of information in markets and patterns of consumer search. Complete information is too costly to generate in most transactions and no party ever has fully complete information about a product or service (Stigler 1961, Nelson 1970, and Akerlof 1970 are the seminal works in the area of information economics). Subsequent to these explorations, economists have done theoretical work on price-quality relationships, on the elements of

search and experience that allow consumers to learn about purchases, and on how competitive markets can act in the absence of full information by all consumers. They have identified two basic types of search: sequential and fixed sample (Cave 1985). While there are important differences in the equilibria expected from either of these broad search processes, under either approach, more extensive search and greater numbers of informed consumers in any market produce stronger pressure toward competitive outcomes.

Bucklin (1969: 416) summarizes the critical processes: "Fundamental to the efficient operation of a competitively organized market economy is the function of consumer search. If buyers fail to seek out alternative prices and qualities and thereby become ill informed, markets become segmented, prices rise, and consumer surpluses are transferred to the entrepreneurial sector."

Unfortunately, economists have done little empirical work on these questions. However, their colleagues in the more applied fields of business, marketing, and consumer research have provided some evidence in real private sector markets, which we summarize here.

In the American economy, where many markets are competitive, much of the research into private goods markets shows that many or most consumers do not comparison shop very much. For example, Claxton et al. (1974) found only 5 percent of furniture buyers and 8 percent of appliance buyers to be store-intensive, thorough shoppers, with an average of 20 store visits for furniture shoppers, compared to 8 or less for other shoppers. They found that these informed subsets of shoppers utilized more sources of information and had higher incomes. For the other buyers, Claxton et al. (1974: 35) conclude: "A basic conclusion from available studies is that pre-purchase search is a relatively limited activity, even in the case of major durables." Earlier, Katona and Mueller (1955) found that 47 percent of those purchasing durables bought at the only store they visited, a percentage that jumps to 70 percent for non-durables. Thus, most consumers do not do a lot of comparative shopping for these products that are sold in what we would consider to be competitive markets.

Other studies also find a group of consumers that search more than others. These consumers are more interested in and "involved with" the product and also usually have higher incomes (Katona and Mueller 1955; Newman and Staelin 1972; Claxton et al. 1974).

Two sets of studies in particular have focused on the critical importance of consumers who search more (and presumably are therefore better informed about comparative price and quality information). Feick and Price (1987) labelled the upper third of information seekers "market mavens," who are likely to be opinion leaders and to share comparative information with other, less informed consumers. Slama and Williams (1990) generalize Feick and Price's findings to more markets and confirm that market mavens provide comparative product information to others for many

products and services, including real estate.

In a second line of research, based on a major cross-national study over many years and focusing on users of consumer information (such as Consumer Reports subscribers in the U.S.), Thorelli and Engledow (1980) identify a category of "Information Seekers" (IS) who are significantly more interested and more knowledgeable than the average consumer (AC in their parlance). They argue that these "ISs," who make up 10-20 percent of the population and are higher income than AC, help to police the market by comparative shopping and by complaining more (e.g., voice in our parlance) if products and services are not adequate: "the test report magazine subscribers represent a fairly homogeneous and cosmopolitan group of information-sensitive consumers, which may be found in all industrially advanced countries, and which is significantly different from the average consumer group. We ... estimate that from 10 percent to 20 percent of the consumers in a high consumption economy may be [Information Seekers]... They are both affluent and consumption-oriented, so that they account for a large number of total purchases and a large dollar volume ... in their role of opinion-leaders and vigilantes of the marketplace, the IS constitute a public good" (Thorelli and Engledow 1980: 12-14).

Thus, economic and consumer evidence supports the notion of a cadre of high income consumers helping to make markets more efficient, even in the face of large numbers of non-searching consumers.

Movers as Marginal Consumers. The low level of information held by the "average consumer" is the strongest criticism leveled against the Tiebout model. How, critics ask, can a Tiebout market work when the vast majority of citizens do not possess information about the services and taxes that local governments offer? As with other kinds of political activity, many citizens may be "rationally ignorant" (Downs 1957). But given the role of marginal consumers highlighted in our theory and in these studies of private markets, we do not need to demonstrate that large numbers of people have high levels of information, we need only identify specific classes of individuals who know more about services and taxes.

One class of individuals who may help drive the Tiebout market are actual movers. Most citizens do not exit their community because of dissatisfaction with the quality of the local service/tax package. Rather, moves are overwhelmingly driven by employment considerations or changes in family status—in short, the decision to move is largely exogenous to the local market for public goods (Long 1974; Fields 1979; but see Blank 1985; Gramlich and Laren 1984; Peterson and Rom 1989; and Percy 1993). However, once an individual, driven by personal or employment reasons, is facing the high transaction costs of moving the incremental costs of gathering information on local services

and taxes are low.

The marginal cost of gathering information is reduced by the role of intermediaries who provide information to consumers at a low cost (Rhoads 1985; Friedman 1962). For example, the costs movers face for gathering information about alternative communities may be reduced by real estate agents, who provide information about schools, local services, and taxes in addition to information about specific houses. Citizens also utilize information gathered by others. According to Kozol (1991:120) the New York State publication *Statistical Profiles of Public School Districts* became "a small best-seller."

Moreover, at the time of major real estate transactions, movers are also most sensitive to the future capitalization of housing value and will resist purchasing housing in a community that does not offer a competitive stream of capitalization because of poor services and high taxes. Thus, entry decisions are more likely to be driven by local services and taxes, and, in turn, it is at the point of *entry* not of *exit* that the Tiebout mechanisms are most likely to come into play.

Search and Experience. But even if movers have incentives to search, they face limits in their ability to gather accurate information. Economists distinguish between search goods, the quality of which can largely be determined prior to purchase, and experience goods, which must be consumed in order to learn their quality (Nelson 1970; Weimer and Vining 1992). Markets for experience goods can be inefficient, as consumers either cannot verify product quality at the time of purchase or they must expend relatively large resources (compared to the price of the good) to do so.

Wilde (1981: 1123) shows that even relatively simple private goods possess some "search characteristics" and some "experience characteristics". For the complicated package of local public goods that Tiebout's shoppers purchase along with their residential location, we expect to find some characteristics best ascertained through search and others that require experience. For example, the local tax rate, the student/faculty ratio in local schools, and the number of parks in a community may be easily assessed at low search costs. Far greater search costs are required to determine the stability of the local budget and the likelihood of future tax increases, the ability of local schools to place students in quality colleges, and the safety of the parks at night. These aspects of local public goods may be best learned through experience. Given relatively lower search costs for movers, we expect movers to gather much of their information about public services and taxes through search. Given the role of experience in assessing elements of the local service/tax package, we expect that established residents will increase their accurate knowledge of local public goods over time.

Search Processes and Market Equilibria. What type of search processes are mobile entrants likely to pursue and how will that affect the relationship between communities? The two types of search that

citizens can utilize, sequential and fixed sample, will affect intermunicipal equilibria differently. Using sequential search, a citizen acquires information on each community's service/tax package in sequence until the marginal costs of additional search exceed the marginal benefits of finding the most preferred service/tax package. This strategy assumes that the citizen has some prior notion of the distribution of service/tax packages available, even though they may not know the particulars of any given package. Without this prior information, the mover would be unable to recognize the potential benefits of additional search.

If citizens engage in sequential search, economists identify two possible equilibria (Cave 1985; Schwartz and Wilde 1979; Rothschild 1973). First, if the search costs for citizens are significantly high, then the public goods market equilibria would settle at the monopoly price. In contrast, if a significant number of citizens can search for service/tax packages at low cost, then municipalities may be forced to compete to increase their tax base by producing public services more efficiently. Hence, the public goods market would approach the competitive price. While Schwartz and Wilde (1979), Gastwirth (1976), and others note significant problems with assuming this search pattern, the importance of the marginal consumer for whom search costs are lower is obvious.

It is more likely that many citizen/consumers will utilize fixed sample searches, in which they decide how many service/tax packages to learn about before making a decision. A fixed sample search also makes more sense when the greatest portion of the search cost is in locating a source where information on a number of jurisdictions is available (see Stigler 1961 for the seminal discussion of fixed search strategies). This is clearly the case when a mobile resident contacts a realtor before making the locational decision.

If most individuals use a fixed sample search strategy where some limit their sample to only one community and others compare more than one, economists have identified three possible market equilibria (Cave 1985; Schwartz and Wilde 1979; and Rothschild 1973). First, when a significant number of citizens compare more than one service/tax package, market equilibrium will be closer to the competitive price. Second, at the other extreme, if there are no consumers searching more than one community service/tax package, the market equilibrium will be near the monopoly price (as it would also be in the case of a consolidated metropolitan government with no competitive alternatives).¹⁰ In between these two alternatives, if the number of citizens who conduct searches is too small to support a competitive price, but it is still a significant number, then a mass of prices will occur at the competitive price with the rest dispersed up to the monopoly price. This occurs because a large portion of individuals are not shopping, making it profitable for some communities to provide public services at supracompetitive prices. However, there are still enough searchers to prevent too

many communities from engaging in this practice, thus resulting in a "mass point" near the competitive price.

The Nature of Search in the Market for Local Public Goods. How likely is it that movers will engage in search for public service/tax packages that they prefer? As noted above, consumers utilize cost-benefit calculations in their search processes (e.g., Lanzetta and Kanareff 1962; Stigler 1961) and as the value of a good increases so does the number of individuals who engage in comparative shopping (Bucklin 1966; Udell 1966; Bucklin 1969; Newman and Staelin 1972; Punj and Staelin 1983; Beatty and Smith 1987). Houses are the most expensive purchases most individuals ever make, and they have correspondingly strong incentives to gather information. And as we will see, more expensive house prices seem to be associated with movers gathering more accurate information. -

Second, search costs can be reduced by factors including positive and negative advertising, and supplier reputation. Advertising reduces search costs by making information on service/tax packages more accessible to more people at a lower cost. Advertising is not as prevalent in the market for public goods as it is in the market for private goods, but it is not unknown (e.g., advertisements for attractive places to retire to) and information does circulate through newspapers and local television newscasts reporting on service/tax packages. Communities often advertise to attract businesses, and in that process often highlight their community as a desirable place to live for employees of those businesses. Reputation can also provide information to consumers, especially for public goods. Consider the region-wide reputation some municipalities acquire for their schools, taxes, roads, parks or libraries. A poor reputation is difficult to shed.

Finally, the fact that citizen relocation choices are more "mass" than "individual" means that communities can not easily discriminate between consumers on relevant criteria. In an individual transaction, for example, used car sellers can usually distinguish between sophisticated and unsophisticated purchasers and can offer alternative prices to each. On the other hand, mass transactions make price discrimination impossible because of the cost of obtaining information that differentiates consumers. While they often can do so for large and unique businesses, municipalities are unable (often by law) to offer different service/tax packages to different citizens. Therefore, if communities want to attract mobile residents with a competitive package, they must offer the same package to permanent residents. Thus, consumers face different configurations of producers in private markets and in the local market for public goods. These configurations affect the incentives individuals have to engage in search and the effects search will have on the competitiveness and responsiveness of producers.

In a market characterized by a single provider, consumers have no incentives to engage in

search because there are no choices among goods. And the provider has little or no incentive to be efficient or responsive in its behavior. As is well-known, the outcome is a monopoly price higher than the competitive equilibrium. Consider next a market that is characterized by multiple producers but one in which consumers are all ignorant of the quality of goods or the prices that alternate producers charge: that is, consumers are engaging in either no search or low quality search. As in the monopoly market, producers have few incentives to charge anything less than the monopoly price: the presence of multiple producers *alone* does not produce efficiency gains over the monopoly market. However, more efficient outcomes begin to emerge as soon as some consumers engage in search and gather information about the quality and prices of goods provided by alternate producers. Wilde and Schwartz (1979: 551) note: "the likelihood of competitive equilibria obtaining varies directly with the number of consumers who visit more than one firm [local governments] and with the number of firms such 'comparison shoppers' visit." And even a little comparative information can go a long way. As Bucklin (1969: 416) notes: "The value to the buyer of even a little information is striking."

The Incentives of Municipal Governments in the Local Market for Public Goods

To earn profits, business firms respond to informed consumers of private goods. We argue that there is similar pressure for local governments to respond to informed consumers of local public goods. But there are distinctive characteristics of the local market for public goods that affect how these market mechanisms come into play. While models of markets for private goods alert us to important underlying mechanisms of competition and efficiency, they must be modified in order to help us understand processes in the provision of public goods, especially local public goods.

Tiebout's original formulation relegated municipal governments to a secondary role, portraying them as inactive agents. This simplifying assumption may have resulted because of Tiebout's concern for a "pure" theory of competition in metropolitan regions. In the case of pure competition for private goods, the strategies and actions of suppliers are irrelevant to understanding market outcomes. By analogy, in a purely competitive public market, the actions of government need not be modeled. But for many reasons, especially since the local market for public goods is not purely competitive, municipal governments are not passive actors in the local market for public goods. In fact, many local governments are led by political entrepreneurs who act strategically to advance their own community's interests in the context of multiple competitive municipalities.

From the perspective of local public finance, not all citizen/consumers are equally valuable to communities and municipalities have incentives to fashion service/tax packages to appeal to certain individuals, and not others. In fact, the "average consumer" may be of no particular interest to competitive cities. Rather, current community residents have incentives to use the tools of their local

government to maximize the level of local wealth in their community. Present members of a community are interested in making their community more attractive to an individual with above-average wealth. Given a fixed tax rate and legal constraints on limiting access to local public services, individuals buying above-average cost housing in a community pay what Buchanan has called a "net fiscal dividend" to present residents (Buchanan 1981). According to Peterson (1981) and Schneider (1989) one of the most effective ways to attract such residents is by offering an efficient mix of services (and related taxes) important to above-average income individuals.

In turn, even if only these above-average income individuals make their entry decisions based on service/tax packages, the Tiebout model could still operate as predicted. That is, given the structure of the local market for public goods, if only relatively wealthy individuals shop around, their actions may be sufficient to drive the services and tax decisions of local government and the process illustrated in Figure 7.1 can be extended to the local market for public goods.

Obviously, we cannot gather all the information to fully analyze equilibria in different metropolitan market settings. However, we take an important first step by focusing on the search processes of the citizen/consumer in the local market for public goods. Specifically, we use empirical survey data to understand how movers and non-movers gather comparative information about local government services in a polycentric market setting.

Movers, Search, and Efficiency in the Local Market for Public Goods

To address some of the issues raised by our theoretical perspective, we conducted two telephone surveys of households in Suffolk County, New York. This county, with a population of approximately 1.3 million, has a polycentric structure of government, consisting of 10 towns, 24 incorporated villages, 71 school districts, and innumerable special districts.

The first survey was designed to test the knowledge established (non-moving) householders had of local government services. The second survey tested the knowledge of householders who had recently brought houses in Suffolk County. Appendix 7.1 describes in detail the methods used and the demographic profile of these surveys.

In this chapter, we focus on the results for school district expenditures and taxes." We consider respondents to be "informed" if they accurately ranked their own district on both expenditures and tax rates relative to other school districts in Suffolk County.¹² We first compare the accuracy of the information held by movers categorized by their level of wealth and interest in local schools. We then present a multivariate probit analysis of the influence of these characteristics of movers on their accuracy. In a second probit analysis, we pool recent movers and established residents to examine the search and experience aspects of accurate information about local services.

Then, we present data on the quality and sources of information search used by movers. Finally, we relate accurate knowledge to the use of political voice within a community.

Not surprisingly, our data show that the level of accurate information held by all citizens is low. Overall, 21 percent of our respondents accurately evaluated the ranking of their schools-about 50 percent higher than what would be expected by chance. Recent movers taken as a whole actually had less accurate information about their schools than did nonmovers: 19 percent of movers accurately judged the expenditures and taxes of their school district, compared to 24 percent of established residents. But the accuracy of information increases with theoretically important characteristics of movers.

Local governments have strategic interests in attending to the interests of high wealth individuals. Thus if these individuals seek out and hold more accurate information about services and taxes then pressure for efficiency may result, regardless of the "average" level of information held by all citizen/consumers. To examine differences in information, we divided our sample of movers and nonmovers into two categories: those with household incomes above the average for the sample (\$50,000) and those with incomes below the average.¹³ Compared to low wealth respondents, high income respondents were significantly more likely to have accurate information about their school districts: While low income movers proved accurate only 12 percent of the time, high income movers were accurate 28 percent of the time.¹⁴

As we noted above, marketing studies shows that certain consumers are more "involved" with some purchases and that it is these individuals who make markets. We assess the relative importance of local government services to the location decisions of movers using two questions. We asked movers to name the factors that were important to them in choosing the community in which they chose to buy their house. Forty percent of movers volunteered that the quality of schools, parks, and other local services affected their choice of community. We then asked movers directly whether or not the quality of local schools was important to their choice of community. The percentage of respondents who said yes is high: 68 percent of movers said that schools were very important. Movers do attend to information about local services, especially schools, when making their entry decisions.

In Table 7.1, we present a probit analysis, testing the influence of attentiveness to schools, the presence of school age children, and income level on the accuracy of information held by movers. The results confirm that even with other factors included, higher income movers are much more likely to hold accurate information about their local school district. Movers also are more accurate when they report caring about local schools (at $p < .08$) and when they have children in the schools (at

$p < .07$).

Table 7.1 Here

Probit allows for a sensitivity analysis to determine how changing the values of independent variables affects the probability that an individual held accurate information. For all movers in Table 7.1, the probability of having accurate information among all movers is 19 percent. But if all movers had high income, the accuracy would increase to 26 percent. If all movers cared very much about local schools, accuracy would increase to 22 percent, and if all movers had school age children, accuracy would increase to 27 percent. But if all movers had high income, cared about schools, *and* had school children, the accuracy rate would jump to 41 percent - triple the chance accuracy rate. We take this as evidence of a class of mobile and valuable residents who know about the relative performance of their schools.

We present a second probit analysis in Table 7.2 to compare the effects of income and school age children on accuracy for the entire sample of Long Island residents, including non-movers. Because local public goods may have a significant experience dimension, we test the effects of length of residence in a community on the probability a respondent has accurate information. As Table 7.2 reports, accuracy does increase with time in a community, reflecting an experience good aspects of local public goods (Bledsoe and Stoker 1992 find a similar result for other kinds of information about local politics). For the entire sample, replicating the results for movers alone, respondents are also more accurate when they have children in school and when they have higher incomes.

Table 7.2 Here

Repeating the sensitivity analysis, across the entire sample, the probability of having accurate information is 24 percent. But if all respondents had children in schools, accuracy would increase to 30 percent. And if all respondents had high income, accuracy would increase to 29 percent. If respondents had no experience living in the community, accuracy would fall to 19 percent. Combining these two conditions for all respondents increases the accuracy rate to 37 percent—165 percent higher than chance.

To illustrate the search and experience dimensions of local public goods in visual form for both recent movers and established residents, Figure 7.2 compares the increasing effect of length of residence on the accuracy of information (the experience dimension) with the accuracy of recent

movers divided into those with low income and high incomes. The graph illustrates that high income movers treat local public goods as a search good by gathering accurate comparative information while they are considering a housing purchase. For non-movers there is a clear linear trend relating time in a community to accuracy about schools.¹⁵

Figure 7.2 Here

Our survey evidence also illuminates the type of search process of movers. Compared to low income movers, movers with higher resources are significantly more likely to use "institutional sources", such as schools and governments, to provide them with information. People with lower incomes are more likely (at $p < .07$) to rely more on "personal sources", especially friends and family for information about local services (see Slama and Tashchian 1985: 72 for parallel evidence from private markets). More importantly, movers who report caring more about local government services are more likely to use both kinds of sources to gather information than are other respondents (significant at $p < .06$).

Incorporating The Role of Voice. One important criticism of the Tiebout model is its failure to identify the importance of voice as a driving force in the local market for public goods. We believe that voice reinforces the pivotal role of the high income marginal consumer. Inman (1978) found that a group virtually identical to our informed consumers — young, high-income households with children — even though making up a small percentage of the population were likely to have their preferences for school budgets met. They achieved their success through active participation in the local political process—that is, through voice.

The knowledgeable mover will be more able to make comparisons between services and taxes in competing jurisdictions and will have solid evidence upon which to base complaints about the services currently provided. Paralleling Inman, we find that better informed movers are also significantly more likely to have engaged in higher levels of political activity.¹⁶ These individuals combine entry and voice to increase their power as consumers over the behavior of municipal agencies. We also find that non-movers are more likely to use voice by being politically active when they have higher incomes and have been in that community longer. This matches other results related to political participation increasing with length of residence (for example, Alford and Lee 1968; Bollens and Schmandt 1970) and to increasing dissatisfaction with local services like street maintenance and parks with longer residency (Miller and Miller 1991). Thus, high income movers and non-movers form a class of citizens who utilize entry and voice as effective mechanisms to

motivate policy changes that can benefit all citizens. Their informed political activity can help provide a group of supporters for political entrepreneurs. By utilizing voice within their community and exit/entry in the intercommunity context, these mobile citizens provide the pressure for change and link the political choices and policies generated in the intra- and inter-community spheres.

Movers, Information, and Entrepreneurs

Citizens act in their own self-interest when choosing a community in which to live, but in doing so they generate pressure for policy changes that benefit others. In this way, they create the same kinds of positive externalities that any entrepreneur does. The number of "citizen entrepreneurs" is much greater than the number of political or managerial entrepreneurs we discussed earlier. However, these citizen entrepreneurs are still a small subset of all of the actors in comparable situations who could potentially collect information about local public goods and taxes.

Higher-income movers are more likely to gather comparative information through search while non-movers are more likely to rely on experience. Together, using entry and political voice, these citizens can provide support for political and bureaucratic entrepreneurs who wish to change the politics and policies of their community. In part, these groups help provide a demand for change that political entrepreneurs can emerge to fulfill. Given intercommunity competition, the exit and entry decisions of high income movers provide economic and fiscal pressure to change policies. Within communities, the use of voice by high-income movers and by established residents can provide a core of support upon which an entrepreneur can build a foundation of votes for change. Thus, in local government the "many" citizen entrepreneurs can create a demand-side milieu supportive of policy change led by the "few" political and managerial entrepreneurs.

Endnotes:

1. This chapter is written with Sam Best.
2. The popular perspective on entrepreneurship and the dominant case study approach to entrepreneurs emphasize the importance of the individual entrepreneur. Many scholars, especially those associated with the Austrian school, argue that this approach errs by defining entrepreneurship too narrowly. In the Austrian approach, entrepreneurship is the product of the action of *all* rational individuals. In turn, in Austrian economics, entrepreneurship is a *Junction*, not an individual *person* and the popular concept of entrepreneurs as a "dynamic few" is rejected. This position is rooted in the work of the most prominent Austrian economists, including Ludwig von Mises and Frederic von Hayek.

Mises emphasized a very broad notion of purposeful human action which is rooted in individual's efforts to improve their position. For Mises, anyone can be an entrepreneur—any owner, producer, or consumer who acts in response to change to improve their condition is to some degree an entrepreneur. As in Kirzner's definition, the singularly most important characteristic of Mises' entrepreneur is alertness to opportunities. And any individual alert to opportunities that may be "just around the corner" is defined as an entrepreneur. But merely the possession of information is not enough to define entrepreneurship—it is the knowledge of how to obtain information and how to use it to improve one's future situation that defines the entrepreneur. Thus, this approach to studying the entrepreneur suggests that we can consider all of our knowledgeable movers to be acting in an entrepreneurial fashion.
3. Schneider (1989) explores other problems with applying a model of the private market to the local market for public goods.
4. The Tiebout model and its extensions have also been criticized on equity grounds. Hill (1974) described the polycentric system of metropolitan government as "separate and unequal." In this chapter, we are concerned only with the efficiency aspect of the model.
5. In addition to our central concern in this paper, the Lowery and Lyons approach can be criticized on several other grounds. For example, Percy and Hawkins (1992) note that counties, not local government, are often perceived as the most important services deliverers in the south, where Lowery and Lyons did their analysis, but not in the rest the nation. Percy and Hawkins (1992) and Sharp (1986) find that citizens in the Milwaukee and Kansas City metropolitan areas, respectively, are affected by service/tax packages and both argue that they find evidence of Tiebout market mechanisms. Furthermore, users of economic models prefer to focus on revealed preferences as demonstrated by actual individual choices, not on survey responses that have no action component. For example, while surveys of New York City residents routinely find that more than half of them say they are planning to move from the city soon, half the population does not leave. Thus, it is actual, not potential movement that seems more relevant, and Lowery and Lyons do not measure actual exit. Finally, schools are the most important and expensive local public good provided in most jurisdictions and Lowery and Lyons' analysis excluded schools because both of their metropolitan areas have consolidated school districts.

6. For example only 30% of buyers of non-durable products shop at more than one store before making their purchases (Katona and Miller 1955); for larger items, Claxton et al. (1974) found that only 5% of furniture buyers and 8% of appliance buyers gathered extensive information.

7. This may reflect the influence on political science of Hirschman's (1970) seminal work *Exit, Voice and Loyalty*. The course of the debate might have been different, if Hirschman had included "Entry" in his title.

8. In this paper, we use the term "municipalities" broadly. The delivery of local services is accomplished by a variety of government agencies. However, we believe that in the Tiebout model, any agency that delivers services and levels taxes to pay for those services will be subject to Tiebout-like pressure. This includes general purpose municipalities, but it also includes special districts, including the "municipal" agency (school districts) that is in charge of the most costly local service delivered-public education.

9. While economists do not usually try to isolate particular individuals at a precise point on a market demand curve, following Hirschman (1970), we do this to highlight the difference between the average and the marginal consumer. We also recognize that for private goods, market demand is a horizontal summation of individual demands, while for pure public goods it is a vertical summation. This distinction does, not affect the overall thrust of our illustration.

10. Note that this analysis unrealistically assumes that exit and entry behavior are the only factors that shape the service/tax packages of communities. Political voice, as exercised through elections and other activity, will obviously also affect the service/tax prices and may force even monopolistic systems to provide services below the monopoly price.

11. We focus on schools because almost 2/3 of local property taxes in Suffolk County are collected by school districts. Moreover there is substantial variation in the taxes and expenditures across the 71 school districts that make up the market for education. This variation is much greater than the variance across the 10 towns that provide parks and roads, services that we also studied but which we do not combine with schools because of the extreme differences in variances across the services. The results for parks and roads are similar to the general pattern reported for schools. See Appendix 7.1 for information about Long Island.

12. To test the accuracy of information, we asked our respondents a series of questions about the taxes and expenditures of their local school district—the most important and most expensive local service. Respondents were asked the following question: "Compared to all school districts in Suffolk County, would you say that the amount spent on each student in your school district is: above average, below average, or about average." Respondents could also offer "Don't know" as a response. A similar question was asked for taxes. Respondents who said they didn't know their expenditures or taxes were automatically classified as holding wrong information. To be judged as having correct information, a respondent had to choose the branch that correctly characterized their school district. Thus a respondent who said local school expenditures (taxes) were above (below) average had to live in a school district whose expenditures were actually above (below) average. Those who responded "average" were considered accurate if they were in one of the 50% of districts surrounding the mean. Thus by chance a respondent had a 25 percent chance of taking any of the four

paths and a 50 percent chance of being correct, if they gave any response other than "don't know." By chance we therefore expect a respondent to get the expenditure or tax question correct 37.5 percent of the time and to get both right $.375 \times .375 = .14$ by chance.

13. Respondents were read a series of categories of increasing income levels and asked to stop the interviewer when the category was reached that encompassed the respondent's household income. The "average" category for respondents was \$40,000-\$50,000. We therefore define upper income individuals as those respondents with incomes above \$50,000. For movers, we duplicated every analysis presented using house price. Given that local taxes are overwhelmingly based on property values, house values may be a more accurate reflection of the resources municipalities really care about. We report the results for income rather than house price, because accurate house price information was not available for non-movers. Moreover, there is a high correlation between income and house price and the results reported based on house price are virtually identical to the results reported.

14. This difference between income groups is significant at $p < .0001$. Furthermore, 28 percent is significantly better than the 14 percent accuracy expected by chance, while 12 percent is not significantly different than chance. For comparative purpose note that among established residents, income has a similar effect increasing the accuracy rate from 22 percent for low income residents to 28 percent for high income residents.

15. The trend line in Figure 7.2 is the regression line plotting accuracy against the square root of the length of time a respondent has lived in a community. We used the square root because the distribution of the variable is highly skewed, with a handful of respondents having lived in the same community for over 50 years.

16. In a series of questions, respondents were asked if they had ever attended a meeting called to discuss problems in your neighborhood or local community? Joined an organization attempting to solve these problems? Signed a petition regarding any particular local problem? Telephoned or written to an elected official regarding local problems? Joined a group for parents of school students like the PTA [Parent-Teacher Organization]? Voted on a school budget? We summed responses to create a political activity scale running from 0-6. High income mover reported a mean of 1.7 political activities, significantly higher than the 1.2 average for low income movers ($p = .04$). Movers who volunteered that local services were important in their choice of community engaged in an average of 1.8 activities, significantly higher than the 1.28 activities engaged in by movers who did not say that local services affected their choice of community ($p = .02$).

Appendix 7.1

For the survey of non-moving householders, we generated a telephone number sampling pool using listed telephone numbers and the "add-a-digit" approach (Lavrakas 1987: 39-41). This survey was conducted in October and November of 1991 and the interviewers were undergraduate students participating for class credit. The overall response rate was 49 percent. To obtain this response rate, up to a total of nine call-backs were made to every selected telephone number. All selected individuals who refused on the first call were recontacted by an experienced interviewer, and households with listed telephone numbers received an advanced letter informing them of their selection in the study. The response rate was calculated as the ratio of completions to the sum of completions, refusals, and numbers at which there was no answer. Of the 310 completed interviews, only the 239 cases in which the residents owned and had been living in the present residence for at least a year were included in the subsequent analysis.

For Suffolk residents who had recently brought houses, a more complicated procedure was used to generate the telephone number sampling pool. Lists containing all the names and addresses of recent purchasers (plus the price of the house) as recorded at the Suffolk County Clerk's Office during October 1991 were obtained from a local company, Long Island Profiles. Telephone numbers were then matched with the listed names and addresses. The questionnaire contained items with wording identical to that used in the survey of established residents. These questions were augmented with others having to do with matters such as reasons for moving and the nature of the search undertaken. This survey was conducted in January 1992 using the best interviewers from the previous survey. The overall response rate was 54 percent; resulting in 259 completed interviews.

Both samples achieved a fairly even mix of the sexes (the sample of established residents had 44 percent male and 56 percent female respondents, while the sample of recent movers had 53 percent male and 47 percent female). Our sample of established residents had lived in their current homes for an average of eighteen years. Aside from this difference in length of residency, the demographics of the established residents and recent movers were quite similar. The majority of respondents were white (93 percent) and well educated (37 percent had completed some college and 39 percent had completed a college degree). The average household income of established residence was between \$35,000 and \$40,000; slightly lower than the average for recent movers of between \$40,000 and \$50,000.

The average age of the established residents was 46 years; the average for recent movers was 35 years. Reflecting this difference, established residents were more likely to have children, and 33 percent of them had children in school, compared with 24 percent for recent movers. However,

recent movers were more likely to expect children in future (88 percent compared with 62 percent).

Going by national figures, the respondents in both samples were better educated and had slightly higher income than the general population. According to the 1991 *Statistical Abstract of the United States*, in 1989, 17 percent of the population had some college and 21 percent had completed a college degree. In the same year, the median household income was \$34,000. At \$157,000, the average price of the houses purchased by the recent movers was also somewhat higher than the comparable national figure. According to the *Family Economics Review* (Vol. 4, No. 1, March 1991), the median sale price in 1989 of a single-family home in the United States was \$120,000.

Per-student expenditures in Suffolk County range from \$7,107 for the 9,225 students in William Floyd district to \$43,048 for the 43 students in Fire Island district. The highest per-student expenditure for districts with over 100 pupils is \$16,051 for the 1,940 students in Shoreham-Wading River district.

Average school expenditure per student in Suffolk County were \$9,664 in 1990 (the most recently available figures at the time of the survey). These figures are high even for the Northeastern states, and is almost twice the average school expenditure per student for the nation as a whole. The 1992 *Almanac of the 50 States* puts the average per pupil expenditure in the United States in 1990 at \$4,890.

Appendix 7.2

The survey instrument in Appendix 7.2 here.

Appendix 7.3:
Movers, Search, and Information:
Are There Enough Movers to Make a Market?

Our results show that many established residents are ignorant of local services and taxes. For most of these residents, ignorance is "rational" since they are not making any relevant decisions based upon these issues. Does this mean that there are no competitive forces in the local market for public goods?

Economic theory suggests that it is not necessary for all consumers to be informed about choices in order for a market to move towards a competitive equilibrium. If some subset of consumers make accurate comparisons and act on that knowledge that may be sufficient to make a market behave competitively. And if these consumers are the most desirable segment of the market, the pressure for competition may be even greater.

High-income movers have more accurate information about local public services and taxes. These important households gather comparative information and they act upon this information when making their entry choice. But even more important for understanding the local market for public goods, these citizens are the very people that communities have the strongest incentives to attract.

Are there enough of these people to make a market? Or in more general terms: How many consumers must have accurate information for a market, particularly a market for local public goods, to be pushed towards a competitive outcome such as Tiebout described? While surprisingly little systematic attention has been devoted to the issue in the economics literature, some observers have offered the view that very few informed consumers can make a market. In a hearing on the Truth-in-Lending Law, Senator Paul Douglas once remarked that a competitive market would exist if "only" 10 percent of the consumers were "cost conscious" (Wilde and Schwartz 1979: 543). Surprisingly, empirical studies have shown that Douglas' impression were really not that far off the mark. Thorelli and Engledow (1980: 14) argue that "information seekers" make up only 10-20 percent of the population. Claxton et al. (1974) showed that only 5-8 percent of furniture and appliance shoppers had extensive information about their purchases. And Inman (1979) showed that a highly informed set of voters, making up about 13 percent of the population, was able to make local school budgets respond to their preferences.

The precise percentage of informed consumers needed is likely to vary according to the price of the good, the ability of suppliers to price discriminate among consumers, the number of alternative suppliers in the market, and the strategic actions available to suppliers. But the purchase of a house and the local public goods that are bundled with that house favor the ability of a subset of consumers to drive a competitive market.

Dagger (1981) estimates conservatively that 20 percent of Americans change their local jurisdictions over a 5 year period. Since the upper income half of our mover sample hold much more accurate comparative information, over a five year period, perhaps 10 percent of the population in an average community will have recently entered the community and have high levels of comparative knowledge of local public goods. We believe that this is enough to put pressure on communities to be competitive in their services, especially since these are the residents most strategically important for the continued fiscal viability of communities.

Clearly, while informed entry helps drive a local market for public goods in something approximating Tiebout's "pure theory", other actions also stimulate competition that forces governments to provide services efficiently. For example, governments try to attract desirable businesses by keeping their taxes low in relation to the services they deliver. Businesses have strong incentives to make well-informed entry choices, reinforcing the concerns of high income movers.

Largely ignored in the economic literature on Tiebout models is that nonmovers can also use local politics to change service delivery patterns, and, as noted above, they often act as a basis of

support for public entrepreneurs who aggregate their collective "voice". As Thorelli and Engledow (1980) noted for information-seeking consumers in the private market, as Sharp (1984; 1986) argued for local public goods, and as Hirschman (1970) noted most generally, mobility and voice are related. Citizens with the most accurate knowledge of local public goods are also more likely to be politically active. This is clearly true for high income movers. But it is also true for non-movers: based on the comparative knowledge they acquire over time, they use voice to improve the service/tax package in their community.

While entry pressures communities to be competitive, the combination of entry and voice is likely to provide even more effective pressure on local governments. But it is only by understanding how these micro-level political behaviors interact with macro-level market mechanisms that we can more accurately specify and examine the macro-level Tiebout market.

Table 7.1

Factors Influencing the Accuracy of Recent Movers
Concerning Local School Expenditures and Tax Rates.
Probit Analysis of 224 Recent Homebuyers

	Coeff.	Std. Error	t	P > t
School important	.426	.244	1.75	.08
Kids in School	.408	.222	1.84	.07
Income	.763	.225	3.40	.00
Constant	-1.818	.270	-6.74	.00

N = 224; chi-square = 20.4, $p < .001$

NOTES: The dependent variable = 1 when respondents correctly identified both their school tax rate and expenditures as average, above average, or below average, 0 otherwise. The dependent variable = 1 for 42 of the cases. The School important variable = 1 if respondents said that local schools were very important to them. The Kids in school variable = 1 if respondents have children of school age, and 0 otherwise. The Income variable = 1 if the household income exceeds the sample median, and 0 otherwise.

Table 7.2

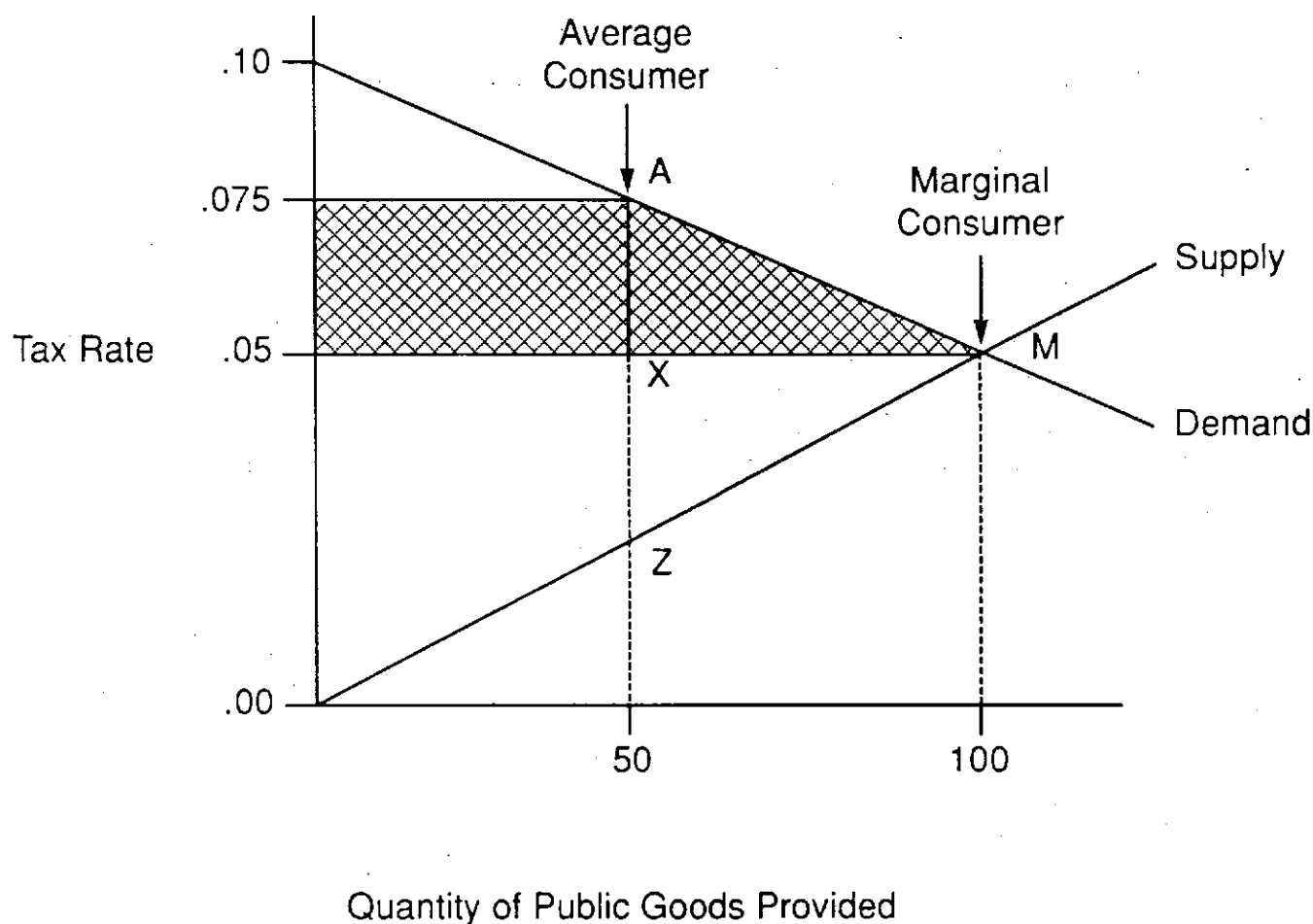
Factors Influencing the Accuracy of Respondents
Concerning Local School Expenditures and Tax Rates.
Probit Analysis of 422 Long Island Homeowners

	Coeff.	Std. Error	t	P > t
Time in Community	.078	.031	2.55	.01
Kids in school	.295	.144	2.05	.04
Income	.370	.140	2.64	.01
Constant	-1.162	.135	-8.63	.00

N = 422; chi-square = 16.6, $p < .001$

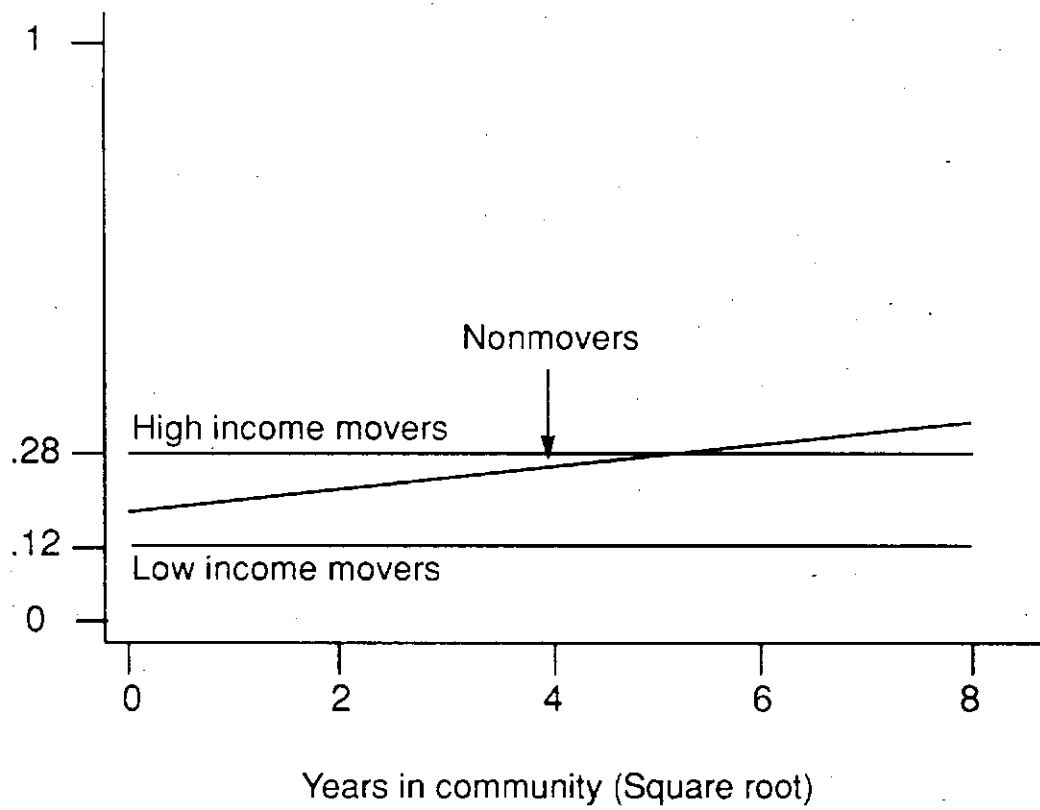
NOTES: The dependent variable = 1 when respondents correctly identified both their school tax rate and expenditures as average, above average, or below average, 0 otherwise. The dependent variable = 1 in 89 of the cases. The Time in Community variable is the square root of the number of years of residence in the present community (= 0 for recent movers). The Kids in school variable = 1 if the family has children of school age. The Income variable = 1 if the family income exceeds the sample median, 0 otherwise.

Figure 7.1 The Effects of the Marginal Consumer on Efficiency
In the Local Market for Public Goods



Notes: While the “average consumer” is willing to pay a tax rate of \$.075, the well-informed “marginal consumer” drives the market tax price to \$.05. The triangle, MAX, represents the surplus citizen/consumers gain from the pressure toward a competitive (efficient) equilibrium. The triangle MZX also represents an efficiency gain, but one that accrues more directly to producers. The degree to which this producer surplus is transferred back to citizen/consumer is a function of the exact capacities of local bureaucrats (see Niskanen 1971; Schneider 1989). The rectangle A-X-.05-.075 represents an additional transfer from municipalities to citizen/consumers. The pecuniary advantage generated by the marginal citizen/consumer is the sum of MAX plus this rectangle plus whatever proportion of the triangle MXZ that is returned to consumers. If there is no price discrimination the gain is divided among all citizen/consumers.

Figure 7.2 Search, Experience and Accuracy



Chapter 8:

Entrepreneurs and Change in the Local Market for Public Goods

Entrepreneurs are important actors in economic and political markets. In this book, we have examined a large but fragmented literature on entrepreneurship; we have developed a political-economic theory of public entrepreneurs; and we have tested elements of this theory using data from a sample of suburban municipal governments.

Clearly, there are a variety of perspectives that scholars can take to explain public entrepreneurship. We have followed most closely an economics-based paradigm. While this approach inevitably led us to consider the supply and demand functions for entrepreneurship in a market-based model, our work diverges significantly from traditional neoclassical models. The desire of neoclassical economists for an elegant, tractable, and generalizable theory squeezed the entrepreneur out of their work. But once we added institutions, transaction costs, and dynamic (often endogenous) changes in preferences and technologies back into the neoclassical model, entrepreneurship emerges as a central mechanism driving markets. Compared to a traditional economics approach to modeling supply and demand, in our work we are much more attuned to how institutional constraints, the role of government, and political strategies affect entrepreneurship. This is not surprising since our concern is for *public* entrepreneurship; but our reading of the literature leads us to believe that *all* models of entrepreneurial behavior, regardless of sector, need to be informed by such considerations. Thus, components of our model of entrepreneurship transcend the often overdrawn demarcation between public and private markets.

Our investigation has produced important theoretical insights into market behavior; however, we have argued repeatedly that the main task of social science is to engage in a dialogue between theory and data. We passionately believe that theoretical advances must be rooted in empirical tests of the propositions embodied in that theory. We recognize that this dialogue may be less than totally satisfactory because abstract theory can be more elegant and more rigorous than our ability to gather empirical data suitable for testing the propositions of our theories. We know that our empirical work is neither a perfect nor a complete test of the role of entrepreneurs in the local market for public goods. Despite these shortcomings, we have been able to test many elements of our theory with a broad base of empirical data from municipalities located throughout the United States.

While we do not intend to repeat all our findings and their implications, at this point we highlight how our analysis bears on important elements of the supply and demand sides of public entrepreneurship and how these factors affect the local market for public goods.

Supply Side Factors

Public entrepreneurs who advocate and propel dynamic changes in policy or politics are not uncommon in the local market for public goods. The image of entrepreneurs as the "dynamic few" is not supported in our research. Clearly, not everyone who influences local policy can be considered a

public entrepreneur. But, like the work presented by Osborne and Gaebler, we have documented a relatively open field for actors pushing political, administrative, and policy change in their communities. Empirically, in our sample of 1,000 communities around the country, we have discovered hundreds of entrepreneurial actors. Given that there are nearly 100,000 governments or "quasi-governments" in the United States, there may be literally thousands of public entrepreneurs operating in local governments, advocating and propelling policy change. The decentralized structure of local government in the United States creates a range of opportunities for dynamic innovation that are often—but not always—seized by entrepreneurs. Our work has identified important aspects of the conversion process that turns potential entrepreneurs into actual ones—that is, we have identified many factors that affect the likelihood that an entrepreneur will emerge.

At the bottom line, we argue that entrepreneurs are rational actors who, explicitly or implicitly, weigh the costs and benefits of entrepreneurial action and pursue innovation when they perceive the ratio of benefits to costs as favorable. Entrepreneurs have talents and energy they can devote to a variety of endeavors. In the private sector, entrepreneurs are usually modeled as pursuing monetary profits. In these models, entrepreneurs are motivated to pursue change in order to earn high rates of return ("entrepreneurial profits"), by seizing or creating opportunities others ignore or don't even see. While this is clearly a simplification of the goals and motivations of private entrepreneurs (see for example the psychological literature discussed in Chapter 6), the pursuit of monetary profits is a convenient mechanism for reducing the theoretical "clutter" surrounding the motivation of entrepreneurs. However, even simplifying the concept of public entrepreneurial profits as much as possible still yields a complicated objective function.

Public entrepreneurs are motivated by a host of political rewards - power, the ability to influence policy, prestige, and community service. They may also be motivated by the pursuit of private income. Where potential rewards for entrepreneurial efforts in the public sector are high, entrepreneurship is more likely to be found. But if potential entrepreneurs can earn these or other rewards in another sphere of action, particularly in the private sector, then they are less likely to enter the public sphere. Similarly, when entry barriers or other institutional constraints raise the costs of public entrepreneurship, the supply of entrepreneurs in the public sector will decline.

Public entrepreneurs, then, are not some "supernatural" or extraordinary beings driven by some inner need to create private kingdoms. Rather they are individuals with particular skills at perceiving opportunities, pursuing risky action, and mobilizing organizations and allies to achieve their goals. This last skill is critically important in the public sector. Public entrepreneurs seek support from groups that are most likely to favor their policies and they address the concerns of local

voters that might be ignored by the "establishment." The strategies entrepreneurs employ are consistent with many of the theoretical concepts that political scientists have identified in the last decade as important to innovative politicians. These include rhetoric, heresthetics, arbitrage, and inspired leadership in creating and mobilizing constituents and workers. Like Moliere's famous M. Jourdain who discovered that he was speaking prose his whole life, our entrepreneurs have been "speaking" political theory without knowing it.

While the porous nature of local government present opportunities for entrepreneurs, there is considerable variation in the specific institutional structure of local government across the United States. We have shown systematic relationships between the institutional arrangements of local government and the costs and benefits that entrepreneurs face. More specifically, we demonstrated that the intensity of collective action problems, the group structure of local communities, the electoral costs of challenging the status quo, and the opportunities for managerial entrepreneurship all affect the emergence of public entrepreneurship.

Specific (and measurable) features of local governments influence not only the emergence of public entrepreneurs in a manner consistent with our theory. These factors also influence the specific types of entrepreneurs that emerge. We have related local conditions to the emergence of traditional progrowth entrepreneurs, of demand-side entrepreneurs, and of antigrowth entrepreneurs. We have also demonstrated how these structural conditions affect the emergence of city managers, rather than elected officials, as entrepreneurs. We have considerable empirical evidence of these effects based on sophisticated statistical methods, and we have supported these analyses with individual case studies.

Although public entrepreneurs act as rational individuals as they make their calculations and allocate their resources across sectors, they are not isolated "atomistic" actors. Entrepreneurs are embedded in social networks that help them discover opportunities and help them develop and implement strategies to achieve their goals. These networks affect the benefits and costs that entrepreneurs face. For example, entrepreneurs embedded in local and regional networks of finance, insurance and real estate firms face lower costs for public entrepreneurship. These networks produce information and models of innovation that often closely parallel changes in the public sector. Thus entrepreneurs embedded in these types of networks can more easily spot opportunities for arbitrage between the private and the public sector. Moreover, such embedded entrepreneurs are also more likely to view a sojourn in the public sector as enhancing their human capital (thus increasing the long run rewards for public entrepreneurship). In contrast, being part of a network of high-tech manufacturing firms can impose significant opportunity costs on entrepreneurs considering allocating resources to the public sector.

In short, our supply-side analysis shows that the emergence of public entrepreneurship is not a random occurrence that is immune from statistical modeling. To be sure, the development and emergence of public entrepreneurs is a complicated process. But it is not a process beyond the methods and tools of social science.

Demand Side Factors

We believe that the demand for change underlies the demand for entrepreneurial policies. Despite the importance of change to economic and political institutions, social scientists do not yet understand the processes that motivate and propel it. Economists approach the demand for change as a function of technological changes or changes in consumer preferences. That is, change is largely exogenous to their models. We believe that in complex social and political systems, change is also endogenous.

Change is usually disruptive and can cause discomfort for many people. Psychologists and other social scientists have often observed that people resist change, even when the status quo is not particularly rewarding. Although change may necessitate giving up a more certain present situation for a less certain one, such a risk is often justified by the promise of a better future. To economists, change of this nature should be viewed as an investment in the future. We have shown that public entrepreneurs often package their proposals for change in local government as an investment in the future of their community and in the public goods that the local government delivers.

While change is often exogenous to a system, actors within the system can also motivate change to their own advantage. Entrepreneurs are one critical agent of change in adaptive economic and political systems. Change in the local market for public goods may be even more amenable to manipulation by entrepreneurs because public policies are complex and citizens are rationally ignorant of local policies most of the time.

Following Stimson, we believe that there is a zone of acquiescence that places limits on politicians, (see Stimson 1991; Simon 1958). As long as politicians undertake or propose action within this zone, most citizens will not become mobilized in support or in opposition to policy changes. However, citizens will not tolerate policies or politicians who move outside the zone. For us, it is important to remember that the size and shape of the zone of acquiescence can shift over time.

This zone of acquiescence has important implications for entrepreneurial behavior. Representative democracy puts leaders into a position in which they make policy choices subject to periodic election and other constraints from their constituents (including entry, exit, and voice). Thus, public entrepreneurs must stay in close touch with changes in the location of the zone and they

must adopt new policies to meet changing preferences. Some less venturesome entrepreneurs operate within the zone, "probing" and "experimenting" at the margins. For example, some entrepreneurs advocate new demand-side progrowth policies to supplement existing supply-side policies.

Shifts in the zone may be pushed by exogenous factors, such as the changing composition of the public or changing technologies. In local communities, changing local demographic characteristics may be particularly important and can be driven by the ever-changing patterns of community development, population change, and economic restructuring that sweep across the United States. In the suburban communities we studied, the changing racial composition of communities is a demographic factor that will create many opportunities for entrepreneurs in the near future. Similarly, the continuing evolution of the service sector in suburbia may create new networks that can act as springboards for public entrepreneurship.

But, more theoretically and practically interesting, entrepreneurs can themselves shift the zone of acquiescence. Skillful entrepreneurs can use the complexity of issues, the vagaries of political decision-making processes (including their own skills at strategic behavior, such as agenda setting), and the considerable uncertainty about the relationship between government actions and societal outcomes to shift the zone to their own advantage. Entrepreneurs can use rhetoric to change public opinion preferences within existing policy space. Or they can use heresthetics to redefine policy dimensions and thereby radically shift the zone of acquiescence.

Thus, the relationship of the demand for change and the emergence of public entrepreneurs is more complex than is found in most models of entrepreneurship. Entrepreneurs clearly respond to the demand for change, but they also stimulate it. Determining which way the winds of political change are blowing and then leading that shift requires considerable skill; but changing the zone of acquiescence requires even greater entrepreneurial skills.

Citizen Information and Public Entrepreneurship

Public entrepreneurs are not isolated individuals. They are rooted in networks; they operate in contexts defined by institutional rules and procedures; and they must periodic review by citizen/consumers. Ultimately, the level of information that citizens have about public policies and the distribution of the demand for change in policies are among the most important elements that define the context in which public entrepreneurs operate.

Citizen support of entrepreneurship is a form of investment in the future. There are risks associated with support of entrepreneurial change. Some of these risks are borne by the individual entrepreneur, but other risks are borne by the citizenry. For example, a demand-side progrowth entrepreneur is asking the community to divert limited resources and attention to potentially risky

growth strategies. These policies may cost the community tax dollars and lost opportunities to lure firms using traditional growth tools such as tax abatements.

When citizens accept changes in policy, they are assuming that the future flow of benefits will exceed the benefits of pursuing present policies. Indeed, our evidence shows that the rhetoric employed by political entrepreneurs is future-oriented, promising better services and a better quality of life in the local community once the entrepreneur's vision of the future is achieved.

Entrepreneurs face citizens with different levels of information and different mechanisms for expressing their support or opposition to public policies. Informed citizens, and particularly movers, affect the entrepreneur's calculations of benefits and costs. Movers are a theoretically central set of actors in understanding the pressure for change. In our work, we looked at the role of movers by presenting a model of the market for local public goods that significantly altered the Tiebout model by incorporating new insights about the number of informed citizens that are necessary to make a market. The processes outlined in Chapter 7 show a dynamic relationship between individual public entrepreneurs and groups of citizens with different levels of concern and information about public services. These processes also led us to discuss the issue of the number of entrepreneurs found in the local market for public goods.

Entrepreneurs: The Few and the Many

In Section 1 of this book, we noted that the popular perspective on entrepreneurship and the dominant case study approach to entrepreneurs emphasize the importance of the individual entrepreneur. But many scholars, especially those associated with the Austrian school, argue that this approach defines entrepreneurship much too narrowly. In the Austrian approach, entrepreneurship is the product of the action of *all* rational individuals: Austrians view entrepreneurship as *a function*, not *a person*, and they reject the popular concept of entrepreneurs as the "dynamic few." For Mises, in particular, any owner, producer, or consumer who acts in response to change to improve their condition and gain profits is to some degree an entrepreneur. Rather than viewing these as opposing arguments, we believe that by combining the *many* informed movers with the public entrepreneurs who help aggregate collective voice, a more satisfactory and richer model of the local market for public goods emerges.

In this book we have shown that there are more public entrepreneurs in local government than one might expect. But in the last decade not every community supported an entrepreneur. Empirically, respondents in only about one in four communities named an entrepreneur. These entrepreneurs are "the few," but they are not so rare as case studies would lead us to believe.

In our analysis of mobile citizens, the population of individuals acting in the entrepreneurial function is much larger, approaching the broader Austrian conception. These individuals are not self-consciously acting as entrepreneurial leaders; instead they are making individual market choices that happen to benefit others in the market. In terms of numbers, they are "the many". While the ability of each individual member of the "many" to propel policy change is more limited than that of the public entrepreneurs, the "many" use political voice to support public entrepreneurs and they manipulate their entry decisions to provide support for entrepreneurial policies.

Thus, we believe that the relevant issue for the study of entrepreneurial actors in local politics is not "the few *or* the many" but the relationship between "the few *and* the many." These two sets of actors combine to propel and achieve policy change in local governments: In the democratic and competitive local market for public goods, the few individual political and managerial entrepreneurs must ultimately mobilize the many informed citizens looking to increase their payoffs from the public sector.

Intercommunity Equilibria

While we have focused largely on entrepreneurs within individual communities, our discussion of mobility illustrates another critical element of public entrepreneurship in the local market for public goods. Entrepreneurs not only affect internal local political equilibria, they also affect inter-community equilibria.

Local communities are in competition with one another to attract resources. As in any competitive markets, responsiveness to changing circumstances is critical. We believe that public entrepreneurs drive responsiveness. In private markets there is intense, continual pressure to innovate and to introduce new products. Falling behind competitors can be disastrous, if not fatal. In the competitive local market for public goods, communities falling behind their competitors will lose desirable citizens and firms, with negative consequences for taxes and the quality of service levels (Schneider 1989).

The way that institutions and organizations respond to change affects how successful they are likely to be over time. When the pace of change is rapid, flexible systems allow innovations to develop and be tested, thereby increasing the likelihood of successful adaptation to changing circumstances. Less flexible systems, whether they are economic systems, individual business firms, or governments, may be rendered ineffective or even obsolete in a rapidly changing environment. The American system of multiple local governments is often criticized as fragmented, but this very system creates multiple opportunities for entrepreneurs who then help local governments develop flexible and innovative responses to the ever-changing environment.

Directions for Future Research on Public Entrepreneurship

We have developed and tested a theory of the public entrepreneur. But our work does not end the need for research into public entrepreneurship. We believe that future research on public entrepreneurs must be conducted with an appropriate theoretical lens. While entrepreneurial individuals no doubt have high achievement needs and high personal motivation, the supply and demand factors, broadly construed, that shape their emergence and choices, cannot be ignored. Entrepreneurship is embedded in institutional, organization, and social milieux and can only be understood in terms of the benefits and costs that these milieux present to individuals.

Public entrepreneurs in the local market for public goods occupy a complex position. Opportunities are created by changing conditions, changing policy ideas, changing consumer preferences, changing technology, and the never-ending changing demography of American cities and suburbs. Entrepreneurs seize the opportunities that emerge when citizen demand for change increases, but entrepreneurs also create *new* opportunities and mobilize citizen demand to support a fresh vision of the future.

Thus, public entrepreneurs are not merely the passive tools of "society"--rather they are active members of the "state" with their own interests and goals. Entrepreneurs can thus provide a "bridging function" between the theoretical disputes that explore the links between state and society (see, e.g., Almond 1988; Nordlinger 1988). Despite their passionate attachment to their own goals and to their vision of the future, competition between local governments, periodic elections, and the critical role of informed consumers, place limits on the degree to which entrepreneurs can diverge from the underlying preferences and tastes of citizen/consumers. While some entrepreneurs can redefine the zone of acquiescence and create a new set of preferences, consumer sovereignty ultimately reigns. Given the risks that entrepreneurs must take, given the difficult tasks they face in organizing to seize the opportunities they see, and given the power of consumer sovereignty, we suspect that, as in the private market, the rate of entrepreneurial failure in the local market for public goods is high. As Pasour (1989) noted: "entrepreneurship may be a game worth winning but it is not always a game worth playing."