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Seldom has been so much knowledge compressed between two hard covers and that too on a subject of vast significance.

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In Part I of Volume II, Magnus Henrekson and Robin Douhan continue to expand the understanding of how various politically determined institutions affect entrepreneurship. In this volume, they focus on policy measures that are designed and specifically directed towards small firms, namely, financial support schemes, tax breaks and subsidies, advisory services and science parks. Five contributions have been listed to build a perspective. The one by Gilbert, Audretsch and McDougall captures the dramatic increase in government programmes aimed at small businesses despite the waves of privatisation beginning in the 1980s across the world. The authors of this contribution demonstrate that rather than re-treating, public policy towards business has been undergoing a profound shift. New policies focusing on enabling the start-up and viability of entrepreneurial firms rather than constraining existing enterprises have come to the forefront across the world and across all government levels. Entrepreneurship development is being viewed by the policy makers as a strategic option to offset the loss of employment and stagnation at local and regional economies. As monetary and fiscal policies were employed to create employment and growth during most part of twentieth century, entrepreneurship policies are likely to emerge as important instruments to achieve the same targets in global and knowledge-based economies.

In an empirical study appended here, Lerner examines a major US public venture capital initiative and finds that the awardees of the benefit enjoyed substantially greater employment and growth. Through another

The Journal of Entrepreneurship, 20, 1 (2011): 143–158

inclusion (Wren and Storey), the book shows the positive effect of a UK Enterprise Initiative. Wren and Storey apply robust econometric techniques to assess the impact of publicly provided subsidised 'soft' business support on the performance of small and medium sized enterprises. By focusing on the marketing advice provided by private consultants under this government initiative, they find no impact on smaller firms but significant growth in the survival and growth rates of mid-range SMEs. Holtz-Eakin's work on public policy towards entrepreneurship has however shown little support to the standard efficiency and equity criteria for tax subsidies to small businesses. Cumming and MacIntosh generate further disturbing empirical evidence in their contribution. They find that tax advantages conferred through a venture capital vehicle caused an intense crowding out, leading to a reduction in the aggregate pool of venture capital in Canada. In putting together these contributions in Part I, the purpose of the volume seems to depict positive as well as negative influences of policy regimes on the entry, survival and sustenance of small businesses.

In the remaining six parts of the volume, the editors compile researches that have studied the reverse causation, that is the ways in which entrepreneurship contributes to and transforms the institutional framework. That government schemes and programmes promote enterprises offers an imperative that entrepreneurs see incentives in attempting to influence the policy and tailor the criteria for eligibility to their own profile. Holcombe's work describes acting on a political profit opportunity as political entrepreneurship and distinguishes between its productive and predatory categories. The work views profit generation through enhancing the efficiency of government as productive, whereas forceful transfer of resources from some to others as predatory. The analysis demonstrates that political institutions tend to favour predatory over productive political entrepreneurship and that (what is sometimes referred to as) political exchange does not have the same efficiency characters as voluntary exchange in private markets. Two differences are cited in the resource allocation patterns of the democratic governments and markets. One crucial difference is that the governments use coercion to obtain resources, whereas the markets obtain these through voluntary participation. The other crucial difference is that those with political power have the potential to exploit those without. In a typical Hayekian tradition, the author

argues that unlike that in private markets, government action forces people to participate in activities they are uninformed about and are unequipped to make cost–benefit calculations; therefore, those who are informed can use the political process to prey on those who are not, leading to an inefficient exchange.

Holcombe argues that the incentive structure in markets encourages opportunity seeking for efficient resource allocation, whereas in democratic politics, institutions give political entrepreneurs the incentive to seek out opportunities for predatory and inefficient policies. In seventeenth century, Thomas Hobbes described anarchy as a war of all against all, where life would be nasty, brutish, short, solitary and poor and as characterised by lack of clearly defined and enforced property rights resulting in people engaging in predation rather than production to the detriment of everyone. Holcombe sees the same reasons as responsible for the inefficient outcomes that result from political coercion-induced predatory profit making. Considering taxation and regulation are coercive institutions for most people in current democratic societies, Holcombe's study throws open very interesting dimensions in understanding the political economy of entrepreneurship.

Drawing from the contributions of Schumpeter, Tullocks, Demsetz and others, Wohlgemuth's work offers conditions for political entrepreneurship as an aid for its analysis, creation and change. He shows how understanding barriers to entry into the representative domestic politics is important for the purpose and describes how the political entrepreneurs and reformers enjoy incumbency protection in enhancing their capability to act with a long-term perspective. However, he insists on studying additional institutional arrangements that could create incentives for behaving entrepreneurially. Two such arrangements are suggested: institutional competition and referenda. Both are likely to encourage piecemeal reforms and at the same time allow the utilisation of revealed preferences and skills focused on a particular policy. Referenda may even help lower entry barriers of new ideas and new groups to the field of political action.

Across eight research expositions, the editors of the volume attempt to argue for the role of vested interests in influencing political institutions. Understandably, though these contributions are not strictly in the domain of entrepreneurship, the editors have included them to show the influence

of powerful 'interest groups' on government policies as a form of political entrepreneurship. Acemoglu and Verdier, with the help of a general equilibrium model argue for an intermediate level of property right enforcement as prevention of all corruption could be too costly. Sonin identifies the influences favouring weak protection of property rights and the political obstacles to the full enforcement of property rights. His model has shown how the ability to maintain private protection systems makes the rich natural opponents of public property rights and precludes grassroots demand to drive the development of a market-friendly institution. The economies thus become stuck in a bad equilibrium with low growth rates, high inequality of income and widespread rent-seeking. Contributions by Mokyr, Krusell and Rios-Rull, Belletini and Ottaviano, and Acemoglu and Robinson capture this situation via resistance and opposition to technological change.

The volume includes three contributions to address how personal wealth may be used to wield political power. Studying the role of entrepreneurship in quantifying the aggregate and distributional effects of reducing the degree of progressivity in the income tax system, Meh finds that entrepreneurial activities have a moderating effect on the changes in the wealth distribution arising from the policy switch. The effect has been perceived through the route of policy switch, resulting in greater entrepreneurial investments, higher demand for labour, raises in the wage rate of workers, reduction in the average return to business ownership, reduction in income and wealth inequality between workers and entrepreneurs. By modelling the different accumulation patterns of entrepreneurs and workers, Quadrini shows that because of higher saving behaviour of entrepreneurs, relative to workers upward wealth mobility is experienced by the former and downward wealth mobility by the latter. Holtz-Eakin, Rosen and Weathers' findings corroborate with these trends for individuals who started at the low end of the earnings distribution. As for those at the upper end of the earnings distribution, those who became self-employed often advanced less in the earnings distribution than their salaried counterparts.

Over three contributions, the book has also attempted to capture the dynamics of entrepreneurship development in transition economies. McMillan and Woodruff express concern about the corrupt bureaucrats and politicians in these economies who by extorting bribes discourage entrepreneurs from investing, while Chilosì looks at the criticality of

private entrepreneurship in the success of transition. Chilosi also predicts that under conditions of insufficient construction of institutional framework of the market and lack of prevention and punishment of fraudulent behaviour and self-dealing, the development of entrepreneurship can be derailed to assume unproductive and destructive forms with dire economic and social consequences. Smallbone and Welter demonstrate that as in mature market economies, the state is a major factor influencing the nature and pace of SME development, although more through its influence on the external environment than through direct support measures or interventions.

Welfare state as an institution despite being critically acclaimed for its distributive justice has been blamed for reducing international competitiveness, for lowering work incentives and for reducing the economy's growth rate. Citing social insurance through redistributive taxation, Sinn sheds some light on how the aforementioned view is not compatible with the risk-taking stimulant of welfare state. The empirical study by Ilmakunnas and Kannianen focuses on the interaction between private enterprise formation, entrepreneurship and the public sector. They find that the rate of entrepreneurship is positively related to the degree of income inequality and negatively to the union density in the economy. Their study also indicates that higher living standards may have a detrimental effect on entrepreneurship. Finally, a contribution of Henrekson has been included to look at how a wide array of typical welfare state arrangements may influence the incentives for individuals to supply entrepreneurial effort and distribute the same across productive and unproductive activities. His in-depth examination of the key welfare state arrangements in Sweden, a mature welfare state, suggests that the structure of pay-offs via taxation, savings incentives, schemes for redistribution, labour security legislation, and such, have a negative effect on the return to entrepreneurial behaviour.

In all, the two-volume edition on the political economy of entrepreneurship by Henrekson and Douhan forms an impressive handbook in the field.

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The Journal of Entrepreneurship, 20, 1 (2011): 143–158