Public- and Private-Sector Entrepreneurship: Similarities and Differences

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The concepts of public and political entrepreneurship were introduced in relation to public administration in the 1960s. Early examples were constructed in relation to institutional change (Eisenstadt, 1964; 1980), the bridging role of the entrepreneur between different spheres in local communities (Barth, 1972), and the carrying out of urban redevelopment and social programs in local government (Dahl, 1961; Murphy, 1971). Although the concepts of entrepreneurship were used later to describe a variety of phenomena (Sheingate, 2003), there are few comparisons of the differences and similarities between early contributions to understand public- and private-sector entrepreneurship. The objective of this paper is to contribute to this discourse by comparing the early contributions of Joseph A. Schumpeter and Robert A. Dahl.

Keywords: public entrepreneurship, private entrepreneurship, J.A Schumpeter, R.A. Dahl, theoretical comparison

INTRODUCTION

Over the last 50 years, the concept of entrepreneurship has been used in different ways and in different contexts. Schumpeter and Dahl both represent early contributions and conceptions of entrepreneurship, although Schumpeter is more known in the literature on entrepreneurship. Between 1908 and 1949, Schumpeter mentioned or discussed the term in at least 15 publications. Within the public-sector context and public administration, Dahl (1961) was early to introduce and use the term “political entrepreneur” in a study of local power, stating, “Although a gifted political entrepreneur might not exist in every political system, whenever he appeared, he would make himself felt” (p. 6). Dahl uses the first part (1950s) of the Mayor Lee era in New Haven (1954–1970) as an example of the rise of an entrepreneur who managed to establish a coalition of different community forces, carry out an urban development program, and increase his power through reorganizing and the creation of a new organization. Since Dahl’s introduction of the term “political entrepreneur,” several have followed his example and used it in their work (Sheingate, 2003). Motivated by few comparisons of the differences and similarities between early contributions on public and private-sector entrepreneurship, this paper compares the ideas of Joseph A. Schumpeter and Robert A. Dahl by asking the following guiding question: What are the important similarities and differences in their ideas – and what is the relevance of their work today?

The comparison highlights how entrepreneurship was understood, including conceptions of entrepreneurship, context of entrepreneurship and entrepreneurial activities, resources of the entrepreneur, drivers of entrepreneurial activities, and the nature of leadership.

Instead of discussing the variety of contributions being published today, this paper limits its attention to two classics within the field of entrepreneurship. Methodologically, this theoretical discussion is based
on a selection of key publications of Schumpeter and Dahl on entrepreneurship. Between 1908 and 1949, Schumpeter had at least 15 publications discussing innovation (e.g., 1927; 1935) and/or entrepreneurship (e.g., 1908, p. 351; 1912, pp. 158–9; 1918 [1991], pp. 113, 116, 128; 1919 [1951], 1928b [2011], 1928c [2011]). However, some of Schumpeter’s publications are more centrally related to the term and theory of entrepreneurship (1912, 1928b [2011], 1928c [2011], 1934 [1983], 1939, 1947, 1949 [1967]), whereas Schumpeter’s work (1934 [1983]) is often referred to as the most central. This discussion concentrates on these publications.

As mentioned, there are other early contributions to the field of public entrepreneurship (Eisenstadt, 1964, 1980; Ostrom, 1985; Barth, 1972). Although connected to a community power discourse, Dahl’s study came first and goes deeper into the entrepreneurial activities of a political entrepreneur in local government. The redevelopment program and the organizational innovations this political entrepreneur sets up are innovations (Polsby, 1963; Murphy, 1971) in terms of novelty, radical change, and economic and social impact—for example, many new local jobs close to low-income citizens and strengthened tax bases due to finance municipal programs (Wolfinger, 1974, p. 195). In addition to Dahl’s study, the present discussion is also based on four publications on Mayor Lee–era New Haven (Dahl, 1961; Polsby, 1963; Murphy, 1971; Wolfinger, 1974). These studies, from the same Yale milieu, have been useful in providing additional information. The remainder of the paper is organized as follows: first, Schumpeter’s and Dahl’s contributions are presented. Then, these contributions are discussed in relation to different dimensions referred to above.

JOSEPH A. SCHUMPETER

Schumpeter’s idea of entrepreneurship as a crucial factor in economic development started in his early German writings in 1908 and 1912. Schumpeter’s approach to entrepreneurship has been understood in several ways. On the one hand, it is understood as a macro-economic concept or macro-level approach to innovation and entrepreneurship (Ruttan, 1959), seeing entrepreneurship and innovation from the perspective of the economy (Penrose, 1959). The approach can further be understood in the direction of a system perspective. Schumpeter uses the term “economic system” when discussing “new combinations” (Schumpeter, 1934 [1983], p. 68). For example, Fagerberg (2003) argues that the notion of “entrepreneurial function” points to a system perspective where capitalist society might be seen as a system in which the introduction of new combinations is one among several important functions (p. 131). Through this, he is talking about internal factors of change. Those who perform the entrepreneurial function—that is, carry out innovations—set in motion activities such as introducing new combinations (novelties), which other entrepreneurs follow, thus upsetting the economic system’s equilibrium. For example, “depression is nothing more than the economic system’s reaction to the boom” (1934 [1983], p. 224).

Moreover, Schumpeter’s framework operates on different levels (Dopfer, 2012). The micro level is the entrepreneur who carries out innovations (entrepreneurial activities) and thus removes obstacles for the others (1934 [1983], p. 229; 1935, p. 6). The meso level refers to the swarming of entrepreneurs and followers imitating the original innovation: “the appearance of one or few entrepreneurs facilitates the appearance of others” (1934 [1983], p. 228). Finally, this leads to changes, or more specifically, economic impacts on certain industries or the economy from within (macro level). While the meso level can be studied as the spread of innovations and the swarming of entrepreneurs, the micro level can be studied as the initial entrepreneurial activities.

Conception of Entrepreneurship

Schumpeter treated entrepreneurship primarily as an economic phenomenon. Three features characterize this entrepreneur and his motivations (Schumpeter, 1934 [1983], p. 93): he dreamed about building something up, he was competitive, and he had “the will to conquer” (p. 93). Finally, Schumpeter mentions “the joy of creating, of getting things done” (p. 93). Schumpeter did not see the desire to make money as a driving force for the entrepreneur (Swedberg, 2021).
Schumpeter emphasized the term entrepreneurial function. It entails making a new combination or to carry out innovations (1939, p. 102). The defining characteristic of the entrepreneur and their function “is simply the doing of new things or the doing of things that are already being done in a new way” (Schumpeter, 1947, p. 151). The basic idea of Schumpeter’s (1934 [1983]) theory is that entrepreneurship consists of putting together a new combination (one of the five types of innovation) of already existing elements in the economy: “the new combinations must draw the necessary means of production from some old combinations” (1934 [1983], p. 68). He stressed that innovation should be separated from invention, which he saw as economically irrelevant (1934 [1983], p. 81). Schumpeter (1942 [1947]) also says that “the function of entrepreneurs is to reform or revolutionize the pattern of production” (1942 [1947], p. 132). Thus, the entrepreneur innovates in five ways (new combinations):

[…] by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry and so on. (p. 132)

He mentions examples such as railroad construction, electric-power production, steam and steel, the motorcar but also colonial ventures and successful products (p. 132).

Schumpeter saw setting up new firms as a central part of entrepreneurship: “new combinations are, as a rule, embodied, as it were, in new firms which generally do not arise out of the old ones but start producing beside them” (1934 [1983], p. 66). He said that the “typical industrial entrepreneur of the nineteenth century was perhaps the man who put into practice a novel method of production by embodying it in a new firm” (1947, p. 154), but also noted there had been changes over the years (1928a, 1939, 1942 [1947]).

Schumpeter came to conclude that every “social environment has its own ways of filling the entrepreneurial function” (1949 [1967], p. 52) and that it also “may be and often is filled co-operatively” (1949 [1967], p. 53). He described entrepreneurs, such as John Law and the Pereire brothers who added the function of the banker to the entrepreneurial function, carrying out their different ventures (1939). He said that in times of great concerns, the entrepreneur may be a salaried employee, a manager, the owner of controlling parcels of shares (1939, p. 103), and sometimes a company promoter (1939, p. 103; 1947, p. 154). Schumpeter remarks that in many cases “it is difficult or even impossible to name an individual that acts as ‘the entrepreneur’ in a concern” (1949 [1967], p. 53). Schumpeter had a broad conception of entrepreneurship. He said, “The entrepreneurial function itself is not confined to capitalist society” (1939, p. 223). He also mentioned examples from socialist society (1939, pp. 111, 118). Schumpeter identified historical examples of public entrepreneurship (e.g., 1939, pp. 118, 301, 346), such as the public servants in the German states after the Thirty Years’ War (1939, p. 235; 1947, p. 153) who “directly filled the entrepreneurial function, particularly in mining” (1939, p. 235). A later example is a state department:

[T]he practice of farmers in this country has been revolutionized again and again by the introduction of methods worked out in the Department of Agriculture and by the Department of Agriculture’s success in teaching these methods. In this case then it was the Department of Agriculture that acted as an entrepreneur. (Schumpeter, 1949 [1967], pp. 52–3)

Over time, Schumpeter changed his ideas regarding how entrepreneurship should be studied. For example, he proposed a historical investigation into entrepreneurship in his later publications (1946 [1991], 1947, 1949 [1967]). Schumpeter also concluded that the entrepreneurial function could be performed in several ways. Finally, Schumpeter (1942 [1947], p. 132) observed and predicted that the social function of entrepreneurship was losing importance: “innovation itself is being reduced to routine” (1942 [1947], p. 132).
ROBERT A. DAHL

Robert A. Dahl was a political scientist especially connected to topics such as democratic theory and community power. In the New Haven study, Dahl (1961) attempted to identify those who governed in New Haven by seeking answers to various formulated questions; he used three broad research strategies. First, he carried out a historical analysis of the transformations of New Haven’s ruling groups. Second, he conducted case analyses of three arenas of policy making—party nominations to public office, urban redevelopment, and public education—based on detailed interviews and participant observations of actual decisions. These cases provide information about the distribution and use of influence. Third, he carried out a cross-sectional analysis of the distribution of resources among New Haven’s citizenry. As Dahl was conducting his field research about the city, Democrat Richard C. Lee had recently defeated New Haven’s last Republican mayor in the election of 1953. Before Lee took office in 1953, he had lost two races for mayor in 1949 and 1951, but during the latter campaign, the need for urban redevelopment came to his attention. He was aware of federal aid in the Housing Act of 1949 that was part of Truman’s Fair Deal and established the federal urban renewal program (Polsby, 1963; Wolfinger, 1974). Redevelopment became his positive issue in the 1953 campaign; he emphasized the importance of doing something about the condition of New Haven and proposed new institutions. The redevelopment program is especially relevant as an example here.

The Conception of Entrepreneurship

When Dahl (1961) introduced the term “political entrepreneur,” he was referring to Machiavelli and The Prince rather than Schumpeter. He wrote the following in his introduction, commenting on earlier studies on the topic of community power: “One difficulty with all these explanations was that they left very little room for the politician. He was usually regarded merely as an agent—of majority will, the political parties, interest groups or the elite. He had no independent influence” (Dahl, 1961, p. 6). He argued that Machiavelli “stressed the enormous political potential of the cunning, resourceful, masterful leader” (p. 6). He explained: “In this view, majorities, parties, interest groups, elites, even political systems are all to some extent pliable; a leader who knows how to use his resources to the maximum is not so much the agent of others as others are his agents” (p. 6).

Dahl’s (1961) political entrepreneur reorganizes, sets up programs and organizations. The first organization or governance organ Lee set up after much effort was a representative non-partisan commission, the Citizen Action Commission (CAC) in 1954, to identify solutions to the city’s decline. It had twenty-four members (in total more than four hundred with its subcommittees), including leading business and civic personalities among others (Dahl, 1961). “The importance of the CAC in assuring acceptability for the redevelopment program can hardly be overestimated” (p. 133). It “endorsed the proposals of the city administration made the program appear nonpartisan, virtually nullified the effectiveness of partisan attacks” (p. 133). The CAC helped to sell (or speak up on behalf of) the urban redevelopment program and gave the program an aura of having been endorsed by the people (Polsby, 1963). Not only did Lee co-opt business leaders in this fashion, but he informally attached the new organization to his command post. The Commission also attracted much positive attention, as well as many visitors and followers from other cities, which increased the legitimacy of the program.

In Mayor Lee’s first two years in power, he also reorganized the existing fragmented agencies, departments, and units under a new office—the office of Development Administrator. The creation of this office represented the centralization of redevelopment “in the hands of the mayor and his redevelopment team” (Dahl, 1961, p. 200). Lee had deep knowledge of the city government and was sensitive to potential obstacles. He established his authority over the organizations that could be obstacles to his purposes. He recruited dedicated people from outside (e.g., Edward Logue) who coordinated the work of all the units and agencies that were involved in redevelopment (p. 121). The development administrator was powerful because of Lee’s commitment to the issue (Polsby, 1963). The office and four agencies became a bureaucracy operating independently of the city’s traditional agencies (Murphy, 1971). The Citizen Action Commission and the new redevelopment apparatus were important in carrying out the redevelopment...
program. Mayor Lee later oversaw the creation of a public antipoverty organization in 1962 to coordinate and deliver a wide range of new services, many of them delivered in a new way, to the poor. This attracted Ford Foundation and federal funding and became a prototype for the federal Community Action Program (Wolfinger, 1974; Murphy, 1971). Both the redevelopment program and the later antipoverty program involved the creation of new or better services, and both programs were carried out by coalitions of public, private, and voluntary local and federal actors.

Mayor Lee managed to convert a formally weak mayor’s position into one of strength (Dahl, 1961). However, like those who attempted to do so before him, Mayor Lee did not manage to change or revise the form of government in New Haven. He tried in 1954 and 1958 but was defeated by a “tacit coalition” of Democrats and Republicans (Wolfinger, 1974). However, his informal methods were more successful, for during his period the office of the mayor became increasingly central to the city’s political and governmental life (Murphy, 1971). Therefore, Dahl concludes that this mayor changed the local political order. A political order is about “pattern of influence” (p. 102) and the overall arrangement rather than individual institutions. It refers to an institutionalized and relatively stable distribution of tasks, way of operation, authority, power and responsibility between institutions and actors. Dahl (1961) focused on how the political entrepreneur Mayor Lee changes the political order two times, first into “a coalition of chieftains” and thereafter an “executive-centered coalition” (p. 200). Urban development provided the key to more centralized control. “In effect, then, Lee converted support for redevelopment into acquiescence in a new pattern of influence, the executive-centered order” (p. 202). The executive-centered order was legitimized by the need for coordinating decisions on redevelopment.

SIMILARITIES AND DIFFERENCES

Conception of Entrepreneurship

Schumpeter contrasted the entrepreneur from the manager; he distinguished between “the entrepreneurial and managerial function” (1939, p. 102). Later, he also distinguished between adaptive and creative responses (1947), connecting entrepreneurship to the latter. Schumpeter said that, whatever the type, one is an entrepreneur only when one actually “carries out new combinations” (1934 [1983], p. 78; 1939, p. 103). Schumpeter discussed different types of modern entrepreneurship (1928b [2011]) in different economic contexts, such as competitive and trustified economies (1928c [2011]), as well as cases of the state serving the entrepreneurial function (e.g., 1939, 1949 [1967]). The entrepreneurial activities and function may be individual, collective, and even split between several individuals, as he observed of the railroad industry: “this entrepreneurship was split between several individuals and not always easy to attribute to any single one” (1939, p. 327). Entrepreneurship is dependent on context (1949 [1967], p. 52). Therefore, Schumpeter saw entrepreneurship as context dependent, for example that in trustified capitalism it became “increasingly impersonal and increasingly [a] matter of leadership and individual initiative” (1928a, p. 385). Dahl (1961) built his conception on Machiavelli rather than Schumpeter. In contrast to Schumpeter, who treated the entrepreneur as an economic phenomenon, Dahl’s political entrepreneur is a mixed political and social phenomenon. Schumpeter emphasized the term entrepreneurial function, while Dahl (1961) focused on the idea of one entrepreneur knowing how to utilize their resources to the maximum and function as an independent leader. As mentioned, the new redevelopment administration became independent of city politics. As also noted, this was the case with other new organizations, such as the Citizen Action Commission and the antipoverty organization from 1962 (Community Progress Inc.).

Contexts of Entrepreneurship and Entrepreneurial Activities

Despite several Schumpeter examples from the public sector, a main difference with Dahl is that Schumpeter’s entrepreneur is largely related to the economic sphere (economic system). His entrepreneur disrupts this economic system. Schumpeter’s point of departure is the static economy, where production and consumption are both organized in specific combinations that work relatively well and according to well-known methods (Swedberg, 2021). The entrepreneur is the one who breaks up one of the existing combinations and recombines its parts in a new profitable manner (p. xii).
Dahl’s (1961) entrepreneur is also “a disrupter” but is clearly related to the public sector. He also sees in the entrepreneur “an investment banker’s willingness to take risks that held the promise of large-run payoffs” (p. 119). The New Haven case is about an entrepreneurial mayor who carried out changes, as well as set up organs and organizations to carry out new programs that have social and economic impact. Lee created a unified and centralized redevelopment administration, carried out programs, set up novel organizations, and changed the political order. When Dahl encountered changes in the political order, he adopted a pluralist and dynamic view of city politics, assuming that “the political system itself” is not an immutable product “of democratic ideas, belief, and institutions inherited from the past” (p. 325). It can be changed (p. 325). In pluralist conceptions of democracies, resource is a key term (p. 305), which brings us to the next point.

**Resources of the Entrepreneur**

While Schumpeter discussed combining existing resources in a new way (1934 [1983], p. 68), Dahl portrayed a leader who knows how to use their resources (slack and political) to the maximum. He drew on the unused resources of his office to create new institutions and involve new groups in his administration (Wolfinger, 1974). He managed to convert latent agreement into active support (Dahl, 1961, p. 202). He had detailed knowledge of the city and its people, gathered local support, and mobilized latent support. Political slack is a condition that the political entrepreneur can exploit. Dahl probably knew that there was a gap between actual and potential citizen influence and that citizens’ “political resources are, so to speak, slack in the system” (p. 305), since “In liberal societies, politics is a sideshow in the great circus of life” (p. 305). In addition to this, he exploited other resources from outside. He attracted funding from outside (Ford Foundation, federal government), and he recruited talented managers (often from outside, who were not bound by local traditions). While Schumpeter’s entrepreneur excels at thinking up new combinations and carrying them out, Dahl’s entrepreneur identifies a positive issue (political opportunity) and seeks to carry it out.

**Drivers of Entrepreneurial Activities**

Schumpeter argued that it is usually the producer (entrepreneur) who initiates economic change (1934 [1983], p. 65; 1939, p. 73). Some entrepreneurs are more pioneers than others, and “those who follow the pioneers are still entrepreneurs, though to a degree that continuously decreases to zero” (1939, p. 414). Redevelopment in New Haven did not come from citizen demand. It was an entrepreneurial push (Dahl, 1961, p. 115). It was the entrepreneurial mayor who put it on the agenda and understood that political and administrative support had to be organized, structured, and given specific purpose and direction. Mayor Lee created an executive-centered coalition of three political forces—partisan politicians, the business community (the CAC), and bureaucratic departments and agencies. Dahl (1961) says, “it was the need for redevelopment that created the need for an executive-centered order” (p. 200). Mayor Lee came to power in addressing the issue of urban renewal: “the evident need for a high degree of coordination among city agencies if re-development were to be carried out” (p. 310). This increased the Development Administrator’s power over redevelopment.

**Nature of Leadership**

Schumpeter saw entrepreneurial leadership as a special case of leadership—entrepreneurial (Schumpeter, 1928a, p. 379; 1934 [1983], p. 89; 1949 [1967], pp. 51–2). In addition, in New Haven, entrepreneurial leadership was an instrument of organizational and political change (Dahl, 1961). Dahl perceived Lee as a “gifted political entrepreneur” (p. 6) and as a mayor with a large repertoire of political skills and an unusual ability to perform a variety of different roles. The redevelopment issue depended upon broadly based community consensus that was systematically built and nurtured by the mayor (Polsby, 1963). When there was uncertainty the first two years, he managed with great effort to gather local support for the plans and new organizations/organ. Dahl (1961) therefore describes the entrepreneur as a change leader and coalition-builder. Dahl (1961) saw Mayor Lee as standing in “the center of intersecting circles” and noted that he “could not command, he had to bargain” (p. 204). He was able to find areas of agreement.
and managed to “dampen down potential disagreements” (p. 310). Dahl also discusses the necessary conditions for the transformation into an executive-centered political order, such as slack resources, avoiding counter-mobilization (p. 309), and the need for coordination “among city agencies if redevelopment were to be carried out” (p. 310). Dahl (1961) focused most on the political entrepreneur. Mayor Lee carried out organizational changes (within redevelopment), carried out social programs, set up new governance organs, set up new organizations, recruited key personnel, and attracted funding from outside. Both Schumpeter and Dahl saw entrepreneurship as a type of change management, but the type of change with economic or social impact that is initiated by the entrepreneur rather than result of demand.

CONCLUSION

This paper has compared two conceptions of entrepreneurship to explore similarities and differences between public and private entrepreneurship. Unlike several other studies, this discussion has compared two very early contributors on the topic of entrepreneurship. While Schumpeter is seen as a main figure in the literature on entrepreneurship, including Dahl in the comparison represents something novel. The overall conclusion was that there are some differences (e.g. context, type of resources, theoretical inspiration), but not as significant as expected.

The Schumpeter example, though mostly connected to the economic sphere, opens up entrepreneurship for study in the public-sector context. Schumpeter even briefly mentions that his theory of innovation could be applicable within other areas of society (1939, p. 97n). One recommendation for further research is to explore some of Schumpeter’s ideas in other contexts. This theoretical discussion has given exact references to Schumpeter’s own examples and ideas. Future research should also be precise in ideas and references in justifying such studies.

Dahl’s Mayor Lee is an example of carrying out new programs with economic, social, and political impact. Dahl’s political entrepreneur is not significantly different from Schumpeter’s entrepreneur; the political entrepreneur only carries out changes in a political or more complex public-sector context. Dahl set a “high list” for his entrepreneur, and his case is relatively unique—looking at what political entrepreneurship might be and how it may not be found in every political context (p. 6). This knowledge is useful for policy makers and politicians at different levels. Future studies and future practical effort should therefore consider that many contemporary entrepreneurs may only partly be political entrepreneurs in comparison to Dahl’s conception of the entrepreneur.

REFERENCES


