



The political economy of entrepreneurship

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Abstract The renewed importance of political economy is reflected in the economics profession's highest accolade, with recent Nobel Prizes recognizing scholars whose work has been quintessential in the development of this field. This article serves as an introduction to the special issue on *The political economy of entrepreneurship*. As a preface to the contributions of the special issue, we provide a short primer on classical liberal political economy to acquaint unfamiliar readers with this tradition. We then describe four interrelated themes of the political economy of entrepreneurship that build on and extend the classical political economy to the domain of entrepreneurship. The nine articles in this special issue contribute to the themes: rent-seeking entrepreneurship, the political economy of entrepreneurship policy, institutional entrepreneurship, and political ideology. We also introduce a research agenda to advance the political economy of entrepreneurship as a robust, policy-relevant field of inquiry.

Plain English Summary This special issue article introduces the political economy of entrepreneurship, which examines how political institutions, government policies, and economic systems influence entrepreneurial activity. We begin by providing an overview of classical liberal political economy and then discussing key topics in the field, including entrepreneurs' efforts to gain political advantages, the effects of entrepreneurship policy, entrepreneurs' role in shaping institutions, and political ideology's influence on entrepreneurial outcomes. The nine articles in the special issue contribute to these themes and enhance our understanding of the political economy of entrepreneurship. We conclude by outlining directions for future research and highlighting the importance of developing the political economy of entrepreneurship as a policy-relevant area of study.

Keywords Entrepreneurship · Institutional economics · Political economy · Polycentricity · Public choice · Public policy · Rent-seeking · Political ideology

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1 Introduction

Scholars and policymakers around the world recognize the critical role of entrepreneurs for innovation, knowledge diffusion, job creation, and economic

and social advancement. This recognition has led to a growing number of calls for governments worldwide to develop policies to foster the emergence and growth of new ventures and innovation. Policymakers have responded with an expanding array of policy interventions intended to stimulate entrepreneurial activity (Block et al., 2018; Mason & Brown, 2013). Scholars often justify such interventions using a market failure logic, especially the claim that innovators do not fully appropriate the social value of new knowledge and that access to early-stage financing is constrained by limited observability and uncertainty (Mazzucato, 2013). While there exists empirical evidence suggesting that certain entrepreneurship and innovation policies have been successful, depending crucially on policy design (Becker, 2015; Lerner, 2010), much of the evidence only considers short-term, visible effects (Dvouletý et al., 2021) and fails to consider secondary effects or political economy considerations (Kärnä et al., 2022). Because entrepreneurship scholars are increasingly called upon to consider societal impact (Aguinis et al., 2025; Waldron et al., 2025), a political economy perspective that avoids embracing a romantic view of political decision-making is needed to make entrepreneurship research policy-relevant, in part by rejecting the assumption that policy decisions are made by an omniscient and benevolent dictator (Buchanan, 2003; Holcombe, 2012).

Political economy is the study of decision-making processes that examine how individuals and organizations influence, enforce, and change the institutions that govern economic behavior. It also examines how these institutions structure incentives, information, and exchange, thereby shaping individual and organizational decisions and broader socioeconomic outcomes. Political economy emphasizes two related questions: (1) how do institutions and policies emerge and persist? and (2) how do they shape the behavior and outcomes of economic actors and societies more broadly? The field of economics originated as the study of political economy, with seminal contributions from writers such as Smith (1776), Ricardo (1817), Mill (1848), Say (1803), and Bastiat (1850, 2007). A central insight of classical political economy is that economic decisions and exchange occur within a political and institutional context. Political processes make and enforce rules that shape

incentives and the distribution of gains and losses, often in ways that are not immediately visible.

As the field of economics became increasingly focused on rigorous conceptual formalization throughout the twentieth century, considerations of the political processes and institutional context shaping exchange often receded into the background, as the welfare and equilibrium frameworks treated institutions as given and policy as a lever that could be adjusted to achieve specific objectives (Arrow, 1974; Samuelson, 1972). Political economy, however, has experienced a renaissance within the field of economics, as economists have returned to questions of how institutions and policies emerge and how they influence economic outcomes. The emergence and maturation of fields such as new institutional economics and public choice reflect this resurgence and, in many respects, reconnect mainstream economics to its earlier political economy roots. The renewed importance of political economy is also reflected in the profession's highest accolade, with numerous Nobel Prizes recognizing scholars whose work has been quintessential in the development of these fields (Acemoglu, 2025; Buchanan, 1987; Coase, 1992; Mokyr, 2026; North, 1994; Ostrom, 2010; Smith, 2003; Stigler, 1983; Von Hayek, 1989; Williamson, 2010).

Like economics, the scholarly field of entrepreneurship has political economy foundations, with contributions embedding entrepreneurial action in a market and institutional context (Cantillon, 1755/2010). For example, Schumpeter's (1942, p. 83) creative destruction, which he describes as "the essential fact of capitalism," is framed as a process that not only drives innovation but may also lead to institutional change. Kirzner's (1973) theory of entrepreneurial alertness is positioned as a competitive market discovery process perspective within an institutional framework characterized by private property and the rule of law. Meanwhile, Baumol's (1990) productive, unproductive, and destructive entrepreneurship framework is grounded explicitly in political economy, arguing that a society's institutions channel entrepreneurial effort toward qualitatively different activities with different welfare implications. Over time, much of entrepreneurship research has shifted toward explanations centered on individual traits, cognition, and behavior, alongside organizational and strategic determinants of venture outcomes. While there remains considerable consensus among

contemporary entrepreneurship scholars that institutions matter, much of this work treats institutions and policy as relatively fixed features of the environment and focuses primarily on cross-country or subnational institutional heterogeneity as an antecedent to measures of entrepreneurial activity such as new venture creation, firm entry rates, or self-employment (Bennett, 2021; Bjørnskov & Foss, 2016; Boudreaux et al., 2019; Gohmann, 2012). A broader political economy perspective pushes further by treating institutions and policy as endogenous objects of explanation and by asking how political incentives and constraints shape the rules that entrepreneurs face and the consequences that follow.

This special issue is a call for entrepreneurship scholars to better understand and re-embrace our field's political economy origins, and to advance the conversation about how actors form rules and policies, how they evolve, and how they shape entrepreneurial behavior and outcomes. Our motivation is due to two related observations. First, the field increasingly expects entrepreneurship scholars to demonstrate societal impact and to offer policy advice. Second, much policy-relevant work remains anchored in market failure logic and short-horizon evaluation, while giving less attention to political decision-making, implementation constraints, and unintended consequences that unfold once policies interact with incentives and strategic behavior. To satisfy these objectives and make entrepreneurship research policy-relevant, this special issue encourages entrepreneurship scholars to heed the advice shared by Bastiat (1850) in his famous essay, *That Which is Seen and that Which is Not Seen*, “to be ignorant of political economy is to allow ourselves to be dazzled by the immediate effect of a phenomenon, to be acquainted with it is to embrace in thought and forethought the whole compass of effect.”

The special issue assembles nine original articles that develop political economy reasoning across four interrelated themes. The first theme, *rent-seeking entrepreneurship*, examines how public policy can unintentionally redirect activity toward unproductive or even destructive forms of entrepreneurship. The second theme, *political economy of entrepreneurship policy*, examines how well-intentioned government policies intended to enable entrepreneurship can fail to meet their objectives due to political failure and knowledge problems. The third theme,

institutional entrepreneurship, examines how entrepreneurial actors can develop private governance solutions, including self-enforcing arrangements and exchange platforms, which solve coordination problems and enable exchange independent of the state. The fourth theme, *political ideology and entrepreneurial response*, examines how the political ideology of places relates to startup entry and composition, and how entrepreneurs adjust strategy when their own ideology diverges from that of the governing coalition. We describe these contributions further in Section 3, but we first offer in Section 2 a short primer on classical liberal political economy for readers unfamiliar with this rich intellectual tradition. We conclude by laying out a political economy of entrepreneurship research agenda in Section 4.

2 A short primer on political economy

2.1 Classical foundations

Political economy, as a field of inquiry, predates the modern discipline of economics. Classical economists understood economic analysis as inseparable from its institutional and political context.

The classical liberal tradition of political economy emerged from the seventeenth-century critique of mercantilism—the prevailing doctrine that treated international trade as a zero-sum contest and advocated for state management of prices, monopolies, and trade flows (Heckscher, 1935). Alternatively, Locke's (1689) theory of natural rights to life, liberty, and property provided the philosophical foundation for an economic order centered on individual initiative and voluntary exchange rather than royal prerogative. Smith's (1776) *Wealth of Nations* synthesized these insights into what Robbins (1952, p. 4) described as “above all a treatise on economic policy.” Smith argued that competition, unencumbered by the mercantilist apparatus of tariffs, monopolies, and royal charters, would best promote national economic growth. His analysis of the division of labor, capital accumulation, and the price mechanism laid the groundwork for classical economics as a discipline. Critically, Smith did not advocate the absence of government; he endorsed state provision of public goods, education, and the administration of justice,

and recognized the necessity of regulation in certain domains.

In *On the Principles of Political Economy and Taxation*, Ricardo (1817) further developed the case for free trade by clarifying the logic of comparative advantage, emphasizing that countries can gain from trade when specialization reflects relative opportunity costs rather than absolute cost advantages. Mill (1848) extended the political economy framing by distinguishing production from distribution, arguing that while production is constrained by technology and scarcity, distribution depends on the laws and customs of society. Together, these contributions underscore why protectionist and privilege-conferring policies can distort specialization and competition and reduce overall welfare, and they foreshadow later political economy arguments about why such policies can persist when benefits are narrowly concentrated and costs are widely dispersed.

Cantillon (1755, 2010) assigns the entrepreneur a distinct role within a competitive market order. Cantillon described the entrepreneur as an agent who commits resources under uncertainty and coordinates production and exchange through the price system, positioning entrepreneurship as a mechanism of market adjustment. Say (1803) similarly assigns the entrepreneur a distinct and central role in the economic process, separate from both the capitalist and the laborer, emphasizing the entrepreneur's coordinating function in combining factors of production to meet market demand and, in doing so, reallocate resources to higher-valued uses (Hébert & Link, 1988; Schumpeter, 1954). Although neither Cantillon nor Say was primarily concerned with public policy, both presuppose the institutional conditions of a functioning market order, a feature embedded in later foundational entrepreneurship theories (e.g., Kirzner, 1973; Schumpeter, 1942).

Frederic Bastiat contributed to classical liberal political economy in two complementary ways. In *The Law*, Bastiat (1850, 2007) emphasized that law is properly oriented toward protecting life, liberty, and property rather than granting privileges and redistributing resources through the political process. In *That Which Is Seen, and That Which Is Not Seen*, Bastiat (1850) emphasized that policy evaluation must account for indirect and less visible effects rather than only immediate and politically salient consequences. He also highlighted how privileges and protections

can invite efforts to secure gains through politics rather than through production and exchange, an idea later developed by the public choice theory of rent-seeking (Krueger, 1974; Tullock, 1967).

Following the destabilization caused by the Great Depression and the devastating consequences of two world wars, classical liberal political economy became less central in mainstream economic thought and policy as Keynesian macroeconomics rose to prominence after John Maynard Keynes' *General Theory of Employment, Interest, and Money* (1936). Keynes' general theory provided the intellectual justification for government intervention to stabilize the economy during downturns, but it also served as an impetus for an expanded role of the state in directing the economy during normal times (Hall, 1986). Yet the classical liberal tradition of political economy persisted, particularly through the Austrian and Chicago schools that reasserted an institutional and political economy approach to policymaking, emphasizing how knowledge constraints, incentive problems, and unintended consequences undermine the design and efficacy of government intervention.

2.2 The twentieth-century revival: Austrian economics and the Chicago school

The revival of classical liberal political economy occurred along two principal intellectual axes: the Austrian school and the Chicago school. Mises's demonstration of the impossibility of rational economic calculation under socialist central planning became one of the tradition's most celebrated contributions (Mises, 1949). Hayek extended this into an epistemological critique in "The Use of Knowledge in Society" (Hayek, 1945), arguing that the knowledge necessary for efficient economic coordination is dispersed, tacit, and local, and that only the price system of a market economy can effectively aggregate and transmit it. No matter how computationally powerful, central planners cannot access the kind of information that emerges only through decentralized decision-making (Caldwell, 2004; Hayek, 1945).

Importantly, Hayek's emphasis on dispersed knowledge, the role of prices as signals, and the importance of institutional frameworks that enable discovery and experimentation provided the intellectual context for Kirzner's (1973) theory of entrepreneurial alertness. Kirzner argued that the essential

function of the entrepreneur is to perceive and exploit previously unnoticed profit opportunities. This Hayekian–Kirznerian framework treats entrepreneurship as fundamentally an information problem: entrepreneurs succeed by acting on knowledge that others have not yet perceived, within institutional environments that determine whether such action is possible, rewarded, or suppressed. A theme that would be later developed by Baumol (1990) in his classic work on productive, unproductive, and destructive entrepreneurship.

At the same time, the Chicago school pursued a complementary but methodologically distinct program. Knight's *Risk, Uncertainty, and Profit* (1921) offered one of the most rigorous treatments of the entrepreneur in economic theory, distinguishing between calculable risk and genuine uncertainty and identifying the entrepreneur as the agent who bears the latter. Friedman's *Capitalism and Freedom* (1962) popularized classical liberal economic arguments for a broad audience, while Stigler's (Stigler, 1961, 1971) analysis of regulation and information provided analytical tools that would later prove central to the study of how regulatory environments shape entrepreneurial activity. Together, the Austrian (Hayek, 1944; Mises, 1949) and Chicago (Friedman, 1962; Stigler, 1946) traditions re-established the classical political economy perspective that foregrounds the institutional preconditions for entrepreneurial discovery and productive economic activity. In turn, the revitalized political economy perspective was the genesis of three interconnected research streams that provide valuable insights for entrepreneurship research: public choice theory, new institutional economics, and the Bloomington school of political economy. In the subsections that follow, we provide a brief overview of these traditions.

2.3 Public choice theory

Public choice theory, founded by James Buchanan and Gordon Tullock, emerged in the middle of the twentieth century as a response to the predominant welfare economics paradigm, which often calls for government interventions to solve market failures identified using idealized perfectly competitive market conditions. Yet, the traditional welfare economics approach relies on a romantic view of government in which real-world market failures are to be

solved by omniscient, benevolent social planners acting in the public's best interest (Buchanan, 2003; Holcombe, 2012). In contrast, public choice theory applies rational choice economic reasoning to political decision-making, treating politicians, bureaucrats, and interest groups as self-interested agents operating under institutional constraints (Holcombe, 2016). Rather than applying asymmetric theoretical assumptions concerning market and political actors, as is the case with welfare economics, public choice theory begins from a politics without romance premise that is grounded in methodological individualism and assumption symmetry, treating actors in both domains as boundedly rational decision makers who respond to incentives subject to institutional constraints (Buchanan, 2003). In this way, public choice theory provides a framework suited for a more realistic analysis of public policy, its origins, and consequences. A key insight from public choice theory is that government failure is no less real than market failure and that the relevant policy question is often comparative, namely which set of imperfect institutions performs better in a given domain (Buchanan, 1987).

Beyond this, public choice theory has spawned many individual research programs (Jong-A-Pin & Bjørnskov, 2025), including constitutional economics (Buchanan & Tullock, 1962), the median voter theorem (Black, 1948; Downs, 1957), collective action (Olson, 1965, 1982), and rent-seeking (Krueger, 1974; Tullock, 1967). Rent-seeking, which refers to efforts by individuals or organizations to obtain government-granted privileges or transfers through the political process (e.g., tariffs, subsidies, monopoly licenses, regulatory barriers) rather than competing in markets, is particularly relevant for entrepreneurship research because the availability of such politically created rents can change the composition of entrepreneurial activity and its value for society (Baumol, 1990). As Baumol's (1990) influential framework suggests, a society's institutional and policy environment shapes the relative rewards to different entrepreneurial activities, influencing the allocation of entrepreneurial effort and resources between productive activities such as innovation, unproductive activities such as rent-seeking, and destructive activities such as predatory or criminal behavior. Institutional and policy environments that reward productive entrepreneurship tend to encourage value creation that enhances social welfare, while environments that

reward unproductive or destructive entrepreneurship tend to divert entrepreneurial talent toward capturing politically created rents, creating deadweight social costs and hindering socioeconomic development (Bennett, 2025; Minniti, 2008). Baumol's (1990) framework thus offers a key insight that connects entrepreneurship research to both public choice theory and new institutional economics, which we discuss next.

2.4 New institutional economics

New institutional economics (NIE), associated most closely with the work of Ronald Coase, Oliver Williamson, and Douglass North, emerged in response to neoclassical equilibrium analysis, which implicitly ignores institutions by treating exchange as largely frictionless (North, 1994). NIE instead begins from the premises that transaction costs are positive, enforcement is imperfect, and actors operate under bounded rationality. As a consequence, institutions and governance arrangements arise to mitigate uncertainty, making them central to economic behavior, organization, and performance (Williamson, 1979).

Institutions, defined as the “humanly devised constraints that structure political, economic, and social interactions,” include both formal and informal rules (North, 1991, p. 97). Formal institutions are the codified rules of society, including constitutions, laws, regulations, and policies. Meanwhile, informal institutions are the unwritten rules of society such as norms, values, and customs. These institutions shape incentives, the credibility of commitments, and the transaction costs facing economic actors, thereby acting to either enable or constrain economic activity. Informal institutions can substitute for formal institutions in some contexts, while in others they complement the formal rules by reinforcing compliance and enforcement (Bennett & Nikolaev, 2021; Hudik & Dvouletý, 2025). Importantly, institutions are not necessarily created to be socially efficient, and institutional change is often shaped by bargaining power and political contestation, implying that institutional environments are themselves malleable rather than stable background conditions (Bylund & McCaffrey, 2017; North, 1994).

Transaction costs refer to the resources required to discover information, negotiate terms, measure and monitor performance, and enforce agreements. Together with transformation costs, the costs of

physically converting inputs into outputs, transaction costs shape whether economic activity is feasible and profitable (Coase, 1937; North, 1994). This key insight is central to Coase's (1937) explanation of why firms exist and why their boundaries vary. When the transaction costs associated with contracting through markets are high, internal organizations can economize on these costs, making organizational hierarchy a viable alternative to market exchange. Williamson (1979, 2010) extended this insight by developing transaction cost economics (TCE) as an economics of governance. TCE treats the transaction as the unit of analysis and compares markets, hierarchies, and hybrid arrangements as alternative responses to contracting hazards. In this framework, bounded rationality implies that long-term contracts are inevitably incomplete, and opportunism implies that enforcement and adaptation problems are nontrivial (Hart & Moore, 1990; Williamson, 1975). Governance choices therefore depend on transaction attributes, especially asset specificity but also uncertainty and frequency, because these attributes shape the need for safeguards and the costs of maladaptation (Williamson, 1979).

Property rights matter for a related but distinct reason. They specify a bundle of socially recognized rights of action, including rights to use, exclusion, and transfer property. The economic significance of institutions depends on how clearly they define rights and how credibly they enforce them, whether through formal legal channels or through informal enforcement mechanisms such as reputation and community sanctions. When economic actors can confidently identify rights and the terms of exchange, they face less uncertainty and lower transaction costs. When rights are poorly defined or weakly enforced, actors must devote more resources to safeguarding assets, verifying claims, monitoring agreements, and avoiding disputes, raising transaction costs and weakening investment incentives, conditions that inhibit entrepreneurial investment under conditions of market uncertainty (Alchian & Demsetz, 1973; Coase, 1960).

For entrepreneurship research, NIE is particularly useful for three reasons. First, NIE's property rights perspective clarifies why rights matter for entrepreneurial action. Defining, enforcing, and transferring rights is costly, and those costs are part of the transaction costs of doing business. When rights are poorly defined or weakly enforced, entrepreneurs face higher costs of safeguarding assets and greater uncertainty in

appropriating returns, which can shape entry, investment, and exchange decisions (Foss et al., 2019). Second, North's (1990) emphasis on the political determinants of institutional change implies that the institutional environment facing entrepreneurs is not necessarily exogenous, but rather reflects bargaining power and political contestation. This connects NIE to public choice rent-seeking because contestable rules and discretionary privileges create incentives for entrepreneurial actors to pursue advantage through the political process, which can shift the composition of entrepreneurial effort in society (Boudreaux et al., 2018; Sobel, 2008). At the same time, entrepreneurs may also engage in institutional entrepreneurship that seeks to change rules in ways that support exchange and productive activity, and this can occur through political channels or through private, nonstate rule-making and governance (Bylund & McCaffrey, 2017; Bylund & Packard, 2026; Henrekson & Sanandaji, 2011; Lin et al., 2026). Third, NIE emphasizes that informal institutions condition how formal rules operate in practice (Williamson, 2000). They shape compliance, enforcement, and the credibility of commitments, with direct implications for transaction costs (North, 1991). This helps explain why similar formal rules can be associated with different entrepreneurial outcomes across contexts (Bennett & Nikolaev, 2021; Bennett et al., 2025; Hudik & Dvouletý, 2025).

2.5 The Bloomington school

The *Bloomington school of political economy* (BSPE), associated with Elinor and Vincent Ostrom, extends the institutional analysis of NIE by showing that effective governance can emerge through decentralized rule-making even when formal contracting and centralized enforcement are limited (Ostrom, 1990; Ostrom et al., 1961). A core concept within the BSPE is polycentricity, meaning systems with multiple, overlapping centers of decision-making that operate at different scales and interact through cooperation, competition, and dispute resolution rather than through a single hierarchical authority. This perspective emphasizes that polycentric systems can be better suited to diversity, uncertainty, and scale than centralized alternatives, because they allow experimentation and adaptation across multiple decision centers (Ostrom, 2005, 2010). It also provides a framework for analyzing how rules operating at different levels

interact, which is important for understanding institutional complexity in practice (Ostrom, 2005).

A central contribution of the BSPE is demonstrating that communities can avoid tragedy of the commons-type problems by developing local institutions that define boundaries, create collective choice arrangements, and support monitoring, graduated sanctions, and low-cost conflict resolution (Ostrom, 1990). These arrangements can be interpreted as property rights solutions in a broad sense, in that they specify who has legitimate claims to resources and under what conditions, and they provide enforcement mechanisms that make those claims credible even when reliance on centralized authority is limited (Ostrom, 1990). The BSPE also emphasizes that governance depends on rules in use and the evolution of social norms that sustain cooperation over time, including how externally imposed rules can interact with, and sometimes undermine, endogenous rule systems (Ostrom, 2000), a point that underscores the importance of *de facto* rules. For entrepreneurship research, the BSPE is useful because it clarifies how community actors can co-produce shared resources and market-supporting arrangements through collective action, particularly in contexts where decentralized problem-solving can mobilize local knowledge and sustain cooperation over time (Meyer, 2020; Stein & Minniti, 2025). It also provides a foundation for work on entrepreneurial ecosystems, community entrepreneurship, and institutional entrepreneurship in which entrepreneurial actors help create, modify, and sustain governance arrangements rather than simply respond to them (Lucas et al., 2022; Ostrom, 2010).

3 The political economy of entrepreneurship and contributions to the special issue

Having provided a short primer on the broader political economy landscape, we now briefly review literature that connects these traditions directly to the study of entrepreneurship. As noted in the introduction, the scholarly field of entrepreneurship has political economy foundations. Much contemporary entrepreneurship research, however, treats the institutional environment as exogenous rather than as something itself shaped by political processes and entrepreneurial action. Research that instead treats institutions and policies as endogenous objects of explanation, and

asks how the constraints they impose shape the rules entrepreneurs face, comprises the political economy of entrepreneurship. In the subsections below, we provide a brief overview of four interrelated themes within the broader political economy of entrepreneurship literature that are represented within the contributions of this special issue, including: (1) rent-seeking entrepreneurship; (2) the political economy of entrepreneurship policy; (3) institutional entrepreneurship; and (4) political ideology and entrepreneurial responses.

3.1 Rent-seeking entrepreneurship

As noted in Section 2.3, the concept of rent-seeking is public choice theory's most consequential contribution to entrepreneurship research. Rent-seeking occurs when individuals or organizations devote resources to obtaining government-granted privileges—tariffs, subsidies, monopoly licenses, regulatory barriers—rather than to creating value through productive activities. When rent-seeking activities succeed, they typically prompt policymakers to establish government restrictions that constrain market competition, create narrowly concentrated economic benefits, and impose widely dispersed costs on society, thereby generating deadweight loss. The resources consumed in the rent-seeking process represent a further loss due to their opportunity cost, as such resources could have been employed to pursue other more productive activities such as research, innovation, or market expansion (Aligica & Tarko, 2014; Tullock, 1967). This process reflects the economic theory underlying Baumol's (1990) influential insight that the allocation of entrepreneurial talent between productive, unproductive, and destructive activities depends not on the inherent qualities of entrepreneurs but on the structure of rewards that political institutions create (Bennett, 2025; Minniti, 2008).

Several empirical studies provide support for Baumol's theory. Among the first is Sobel (2008), who develops a US state-level entrepreneurial productivity index and finds that, consistent with Baumol's theory, states with higher (lower) levels of economic freedom—a proxy for institutional quality that captures the classical liberal notion of negative rights and reflects the degree to which personal choice in markets rather than politics guide economic activity (Bennett, 2021; Boudreaux et al., 2019)—exhibit higher

(lower) levels of productive and lower (higher) levels of unproductive entrepreneurship. Soleimanof et al. (2025) extend Sobel's framework to analyze how cronyism, an informal institution that legitimizes favoritism and connections over merit in the allocation of economic resources and opportunities (Aligica & Tarko, 2014), influences entrepreneurial productivity, finding that countries with higher levels of cronyism exhibit lower levels of entrepreneurial productivity.

In a study employing multi-level longitudinal data, Boudreaux et al. (2018) find that U.S. counties located in districts with higher levels of experienced corruption tend to exhibit higher levels of firm concentration in politically dependent sectors such as construction and lower levels of firm concentration in more human and knowledge-intensive sectors. Their findings also suggest that closer proximity to state capitals and lower voter turnout enhance these reallocation effects. Exploring the micro-foundations of Baumol's theory in the context of German reunification following the collapse of the Soviet Union, Sorgner and Wyrwich (2022) use individual-level data on East Germans to demonstrate that those who held a scarce pre-reunification privilege, proxied by telephone ownership, were more likely to become venture founders after reunification, consistent with entrepreneurial effort being redirected from rent-seeking under communism toward venture creation under market capitalism.

In another study, Gustafsson et al. (2020) find that high productivity firms and low productivity firms focus their efforts on different activities. Although high productivity firms tend to focus on effort that leads toward innovation and growth, low productivity firms focus their efforts on grant-seeking. Using comprehensive data from the three largest grant-distributing agencies in Sweden, they find a negative relationship between the probability of receiving a grant and firm productivity, and this becomes more pronounced with multiple grant-supported firms.

Other studies also provide novel explorations of rent-seeking and entrepreneurship. Gohmann (2016) demonstrates how a political coalition of "bootleggers and Baptists" in southern US states limited competition in the brewery industry. His analysis illustrates how regulatory barriers can reflect the strategic interests of incumbents rather than genuine public welfare concerns. Deerfield and Elert (2023) find that U.S. states with more regulatory freedom, which reduces the ability of incumbent firms to capture regulators,

are more likely to pass legislation enabling new forms of productive entrepreneurship. Smith and Brownlow (2023) document how changes in judicial thinking, influenced by shifting societal norms and beliefs, have altered the incentives for rent-seeking entrepreneurship in the USA over time.

Two studies included in this special issue contribute to the rent-seeking entrepreneurship theme. The study by Sobel and Wagner (2026), “The Political Economy of State Economic Development: A Path to Unproductive Entrepreneurship” investigates how ‘extraordinarily large’ business incentives intended to attract incumbent firms to a state have the unintended consequence of increasing lobbying, a measure of unproductive entrepreneurship. Using longitudinal data on more than 40,000 lobbying establishments across the 50 US states over the 1997–2019 period, they find that lobbying employment rises by 3.6 percentage points after a state awards its first such incentive, with the increase concentrated in capital counties and driven by expansion within existing lobbying firms rather than new entry. Their evidence suggests that government economic development initiatives can inadvertently lead to secondary effects that undermine program objectives by encouraging rent-seeking entrepreneurship.

In their study, “Does Rent-Seeking Entrepreneurship Hurt the Environment? Historical Insights from the U.S. Meatpacking Industry,” Desrochers and Smith (2026) draw on the free-market environmentalism perspective to demonstrate how profit-seeking entrepreneurship in competitive markets can generate environmental improvements, and how rent-seeking can undermine those gains. Utilizing a historical case study of the American meatpacking industry during the nineteenth century, they show that Chicago’s largest meatpackers reduced pollution while lowering production costs by profitably converting waste into valuable by-products, which allowed them to outperform rivals in national markets. However, these market-driven sustainability gains triggered political backlash from less efficient competitors who sought to weaken the Chicago system through lobbying and legal intervention, leading policymakers to dismantle the organizational arrangements that facilitated innovation and waste reduction in the first place. Their study yields the important insight that competitive, lightly regulated markets can induce private solutions to environmental problems but rent-seeking can redirect rivalry

into the political arena and disrupt those solutions, sometimes leaving environmental outcomes worse off.

3.2 Political economy of entrepreneurship policy

Entrepreneurship policy has become increasingly salient as policymakers have come to view entrepreneurship as an instrument for economic development and job creation, and more broadly as a mechanism for innovation and problem-solving that can advance social welfare. In many countries, this has produced a substantial expansion in targeted programs and policy reforms intended to stimulate entrepreneurial entry, scale promising ventures, and accelerate innovation. This policy turn has also increased the practical relevance of entrepreneurship scholarship, since empirical findings are increasingly used to justify program design and to evaluate whether interventions deliver measurable social returns (Aguinis et al., 2025).

Within the domain of entrepreneurship policy, there are two broad approaches. The first is the *laissez faire* approach. This approach, which is consistent with the classical liberal perspective of negative rights institutions and the concept of economic freedom, prescribes a minimalist role for government in directing entrepreneurial activity and instead prioritizes market-supporting institutions (Bennett, 2025; Minniti, 2008). There is considerable empirical evidence that finds a positive relationship between economic freedom and entrepreneurial outcomes such as higher rates of self-employment, new venture creation, innovation, and more productive forms of entrepreneurship (Bennett, 2025; Nikolaev et al., 2018).

The second approach is interventionist. It begins from the premise that entrepreneurship and innovation are systematically undersupplied because the private returns to innovation may diverge from social returns and because uncertainty and information frictions hinder early-stage financing and commercialization. The policy implication is that the state should play a more active role through targeted programs and coordinated strategies intended to correct these frictions and shape the direction of innovation (Bennett, 2025). The interventionist approach is closely tied to the entrepreneurial state movement, which has gained traction among scholars and policymakers who see mission-oriented investment and industrial policy as necessary to mobilize resources around grand challenges and to accelerate technological change (e.g., Mazzucato, 2013).

A political economy perspective raises concerns about the interventionist approach to entrepreneurship policy because targeted programs and mission-oriented strategies confront two interrelated issues (Boudreaux, 2026)—incentive problems and knowledge problems—that, in tandem, raise the risk of government failure that undermines the efficacy of entrepreneurship policies in achieving their stated goals (Kärnä et al., 2022). Regarding incentives, entrepreneurship policy is implemented through political and administrative institutions in which discretion, concentrated benefits, and organized interests can shape both program design and resource allocation, increasing the likelihood that support is steered toward politically connected recipients rather than toward the most promising entrepreneurial uses (Lerner, 2010; Wennberg et al., 2019). Contemporary entrepreneurship research has begun to document patterns consistent with these concerns, including subsidy entrepreneurship that sustains less productive ventures in contexts with generous innovation grant support such as Sweden (Gustafsson et al., 2020) and China (Branstetter et al., 2023), and weaker efficiency among ventures backed by government venture capital (VC) relative to private VC and even non-VC-backed ventures in the context of Belgium (Alperovych et al., 2015). Concerning the knowledge problem, interventionist approaches implicitly assume that policymakers can identify and scale the most promising ventures and technologies, despite the fact that entrepreneurial discovery relies on dispersed information that is revealed through experimentation and the competitive market selection process (Bennett, 2021, 2025). These mutually reinforcing concerns have featured prominently in recent pushback against the entrepreneurial state movement (Henrekson et al., 2024; Wennberg & Sandström, 2022).

Two articles featured in this special issue contribute to the political economy of entrepreneurship policy. First, in his article “The Threat of the Entrepreneurial State” Holcombe (2026) evaluates the entrepreneurial state by considering its implications within real government institutions. He argues that public agencies lack the profit and loss feedback that disciplines entrepreneurial experimentation in markets, which creates a knowledge and error-correction problem for mission-oriented allocation. He also argues that political and bureaucratic incentives shape the expansion and administration of discretionary programs, and that contestable benefits invite

organized efforts to influence program design and access. When policy creates rents, entrepreneurs and other actors have incentives to reallocate effort toward influence activity rather than value creation, shifting the composition of entrepreneurship toward unproductive activity. In Holcombe’s account, this is not an incidental side effect but a structural consequence of relocating entrepreneurial judgment inside the state, which connects directly to the rent-seeking entrepreneurship theme described above.

Nikolaev et al. (2026) contribute to the political economy of entrepreneurship policy by revisiting an ongoing debate in the literature about whether welfare entitlement programs promote or suppress innovation. On one hand, more generous entitlements reduce downside risk and relax constraints that deter experimentation, which encourages the pursuit of innovative activity. On the other hand, generous entitlements weaken incentives, increase fiscal burdens, and distort resource allocation, which inhibits innovation. They attempt to resolve this theoretical paradox by arguing that welfare generosity exhibits an inverted U-shaped relationship with innovation, such that returns diminish and eventually turn negative. Employing panel data for 22 countries over the period 2013–2020, they find evidence of innovation increasing at low to moderate levels of generosity and declining once generosity becomes sufficiently high. Their disaggregated results show that pension generosity drives their result, while unemployment benefits exhibit a different non-linear relationship. Sickness benefits show no systematic association. They further find that the positive effects of welfare policy are more pronounced for creative outputs than for knowledge-based outputs.

3.3 Institutional entrepreneurship

As noted in Sections 2.4 and 2.5, the NIE and BSPE traditions treat the relationship between entrepreneurship and institutions as bidirectional. While institutions create rules that shape entrepreneurial behavior, entrepreneurs can also play a role in shaping the institutional environment, both through formal political channels and through private ordering that affects how market exchange works in practice. Entrepreneurs may respond to institutional constraints by abiding by prevailing rules, by evading rules in ways that change how they operate in practice, or by attempting to alter rules through institutional entrepreneurship, with each

pathway carrying different implications for institutional evolution over time (Frølund, 2021; Henrekson & Sanandaji, 2011). This perspective also helps avoid categorizing all institutional engagement as unproductive rent-seeking entrepreneurship. Under second best conditions, institutional entrepreneurship can take the form of efforts to relax constraints on exchange and reduce transaction costs, including the creation of governance substitutes that support exchange when formal rules are weak or poorly aligned (Douhan & Henrekson, 2010; Lucas & Fuller, 2017). This perspective also aligns with research on institutional uncertainty and rule breaking, which shows that actors do not always apply rules mechanically and that regulatory processes often govern how authorities enforce and interpret those rules. In this view, entrepreneurial responses can include navigating and contesting rules in practice rather than simply complying or exiting (Bylund & McCaffrey, 2017; Lucas et al., 2022).

The BSPE adds a complementary mechanism by emphasizing decentralized collective action and polycentric governance. Ostrom's central contribution was to show that communities frequently develop durable self-governing institutions for managing shared resources, challenging the presumption that collective action problems necessarily require either privatization or centralized state control (Ostrom, 2000). She also identified recurring institutional features associated with effective self-governance, including clear boundaries and collective choice arrangements supported by monitoring and graduated sanctions, which provide a concrete vocabulary for analyzing how rules in use sustain cooperation over time (Ostrom, 1990). Entrepreneurship research has used this lens to explain how community actors can co-produce market-supporting arrangements and how cross-level collaboration can mobilize otherwise idle local knowledge. For example, Stein and Minniti (2025) show that self-organizing communities that coordinate local action with higher-level public organizations experience fewer property losses in the context of wildfire prevention, and they argue that such collaboration reduces market frictions partly by enabling contextualized solutions rather than uniform practices applied to heterogeneous problems. Together, these ideas motivate an institutional entrepreneurship view in which entrepreneurial actors and community participants can function as rule-makers as well as rule-takers, shaping the institutional conditions that structure exchange.

This special issue contains three articles that contribute to the institutional entrepreneurship theme in complementary ways. In their article, "Incentivizing Innovative Entrepreneurship in Quasi-Markets: Theory and Evidence from Sweden's Schools and Nursing Homes," Elert and Henrekson (2026) examine quasi-markets in Swedish schooling and eldercare as an institutional setting intended to combine public financing with entrepreneurial provision. Their core claim is that competition and profit incentives are necessary but insufficient for innovation in tax-financed services. Innovation depends on supporting institutions of an epistemic nature that make user choice meaningful and that motivate providers to compete and innovate in ways aligned with user preferences. The contribution is that it shifts attention from whether quasi-markets exist to how they operate, and it clarifies why market-like reforms can yield limited innovation when information and selection conditions do not support entrepreneurial discovery.

In their article, "Innovation, Institutional Entrepreneurship, and Social Cooperation," Lin et al. (2026) develop a micro-level account of institutional entrepreneurship that treats innovation as a cooperation problem. Drawing on game-theoretic reasoning, they distinguish coordination dilemmas from opportunism dilemmas and then specify institutional entrepreneur strategies that address each. They emphasize infrastructure creation, resource mobilization, and expectation shaping as mechanisms for reducing coordination failures, and they emphasize ethical norms, enforcement mechanisms, and changes in the structure of interaction as mechanisms for mitigating opportunism. Their broader implication is that institutional entrepreneurship often operates through the construction of governance arrangements that make cooperative innovation feasible, including through institutional diversity in intellectual property and decentralized forms of knowledge governance.

Additionally, in their article, "The Entrepreneurial Creation of Private Institutions: Exchange Platform Innovations and Economic Development," Bylund and Packard (2026) theorize institutional entrepreneurship as private institutional creation through exchange platform innovation. Their central move is to challenge the common assumption that entrepreneurship occurs within institutions but does not generate them. They argue that entrepreneurs can supply private institutional infrastructure that facilitates exchange by lowering transaction

costs and enabling two-sided markets for other entrepreneurs. This mechanism is especially salient under institutional voids and institutional uncertainty, where actors cannot rely heavily on public institutions and where private ordering expands the feasibility of exchange and, in turn, supports economic development.

3.4 Political ideology and entrepreneurial responses

Political ideology has become increasingly relevant for entrepreneurship research as political polarization and populist movements reshape the coalitions, narratives, and policy agendas that structure market exchange. From a political economy perspective, ideology matters because it can influence the stability and credibility of market-supporting institutions, the content of economic policy, and the discretion with which rules are interpreted and enforced, which in turn affects entrepreneurial incentives and perceived uncertainty (Bennett, 2026; Bennett et al., 2023). Recent entrepreneurship research has begun to connect these macro political dynamics to entrepreneurial outcomes, including how shifts in political discourse and ideology relate to innovation and entry decisions, and how these effects can vary across social groups and cultural contexts (Bennett et al., 2023; Sanchez-Ruiz et al., 2026; Tang et al., 2024).

This emerging literature also makes clear that ideology operates at multiple levels and through multiple mechanisms. At the place level, ideology is reflected in voting behavior, the priorities of governing coalitions, and the policy orientation of local and national governments, all of which shape the institutional environment in which entrepreneurs operate (Lam  ris & Jong-A-Pin, 2025). At the actor level, entrepreneurs' and stakeholders' ideologies influence the venture's access to resources and legitimacy. Entrepreneurship studies have linked ideological values to strategic positioning and organizational action, including how leaders' political ideologies relate to social and economic choices and how entrepreneurial political values can shape venture-level strategy (Chin et al., 2021; Maldonado-Bautista et al., 2023).

Two articles in this special issue contribute to this theme by focusing explicitly on ideological context and entrepreneurial response. In "Navigating the Political Climate: The Impact of Political Ideology Divergence on ESG," Maldonado-Bautista et al. (2026) introduce the concept of entrepreneur political ideology

divergence, defined as the ideological distance between an entrepreneur and the governing coalition in the state where the venture operates. They argue that divergence heightens perceived regime uncertainty and legitimacy threats, and they test this argument using longitudinal data on 605 entrepreneur-led firms in the USA over the period 2010–2020. Their results show that greater ideological divergence is associated with greater engagement in ESG, which they interpret as a strategic response that can function as a form of insurance against scrutiny, reputational harm, and selective targeting. They further show that entrepreneurs partially substitute away from ESG when they deploy other political risk management strategies, including lobbying and R&D investment, which clarifies how entrepreneurs adjust their strategic mix when navigating ideological divergence.

In "Institutions, Political Voting Behaviour and Start-ups: Evidence from 651 Electoral Constituencies," Cowling and Brown (2026) examine ideology as a place-level attribute and test the common presumption that right-of-center constituencies are uniformly more conducive to entrepreneurship than left-of-center constituencies. Using constituency-level evidence from the UK and startup activity supported through the Start Up Loan scheme over the period 2012–2023, they find that left-of-center constituencies exhibit higher startup rates on average, whereas right-of-center constituencies exhibit lower entry but a different entrepreneurial profile. Startups in right-of-center constituencies are more concentrated in knowledge-intensive business services and appear better resourced, while startups in left-of-center constituencies more often reflect transitions from unemployment. Their results highlight a quantity vs. quality distinction in how ideology relates to entrepreneurship across places, and they underscore the value of political economy approaches that treat ideology as shaping both the level and the composition of entrepreneurial activity rather than assuming a uniform directional effect.

4 Crafting a political economy of entrepreneurship research agenda

The contributions to this special issue represent important advances in our understanding of the political economy of entrepreneurship. Together, they show that we cannot understand, explain, or promote entrepreneurship without attending to the institutional processes that shape the rules under

which entrepreneurs operate. In this concluding section, we identify several research avenues that, in our view, are particularly promising for future research.

First, the classical perspective treats entrepreneurship policy as the product of political processes populated by self-interested actors with limited knowledge and planning capacity, yet much of the literature still treats the policy process as homogeneous. Future research should unpack how different political systems and institutional arrangements generate different policy regimes for entrepreneurship, and how the design of specific instruments, including welfare and benefit programs, reshapes the incentives that govern the supply and direction of entrepreneurial activity (Baumol, 1990). Building on Holcombe (2026) and Sobel and Wagner (2026), comparative and configurational analyses across regimes would be especially valuable.

Second, the public choice tradition reminds us that governance beyond the state is pervasive and that entrepreneurs are not merely subject to institutions but actively help design the ones that facilitate exchange. A central question for future research is therefore the conditions under which entrepreneurs supply private governance solutions, such as exchange platforms, self-enforcing contracts, reputation systems, and community-based monitoring, that substitute for or complement formal institutions. Building on Lin et al. (2026) and Bylund and Packard (2026), such work would clarify when private ordering emerges in response to weak, costly, or absent public institutions, and when it is more productive than the political channels through which entrepreneurs might otherwise pursue rule change. Distinguishing these private, productive forms of institutional entrepreneurship from rent-seeking directed at the state is an especially promising line of inquiry, since the two can look similar at the level of observed behavior yet carry very different implications.

Third, the Bloomington tradition offers a complementary and largely untapped lens through its concept of polycentricity. If effective governance can emerge from multiple, overlapping centers of decision-making rather than a single hierarchy, then the popular notion of the entrepreneurial ecosystem might be productively reinterpreted as a polycentric order rather than a flat collection of actors and resources (Stein & Minniti, 2025). Future research could examine how rules operating at different levels—municipal, regional, national, and private—interact to shape the conditions

for entrepreneurial entry and growth, and how entrepreneurs perceive, navigate, and sometimes reshape these competing rule systems (Bennett et al., 2024; Lucas & Boudreaux, 2020; Minniti et al., 2025). Such an approach would also help connect ecosystem-level outcomes to the micro-level choices of participants, addressing a persistent gap between how ecosystems are described and how they actually function.

Fourth, as polarization intensifies in many democracies, entrepreneurs must navigate increasingly uncertain and ideologically charged environments. Building on Maldonado-Bautista et al. (2026) and Cowling and Brown (2026), future research should investigate how polarization affects entrepreneurial entry, investment, and strategic behavior, and how political ideology relates to the composition of ventures that emerge—for example, knowledge-intensive versus necessity-driven, or productive versus rent-seeking activity.

Fifth, the political economy of entrepreneurship poses distinctive methodological challenges. Because institutions are endogenous, credible identification is difficult, and most evaluations privilege immediate, visible effects over the opportunity costs and unintended consequences that unfold over time. Progress will require both state-of-the-art causal designs built around natural experiments and the carefully constructed analytical narratives illustrated by Desrochers and Smith (2026), in this issue, in the tradition of North's institutional analysis and Ostrom's fieldwork. It will also require explicitly multi-level designs that connect institutional and policy shifts to individual- and venture-level beliefs and choices (Boudreaux et al., 2023), trace how those micro-level responses aggregate into entry, investment, and innovation (Cowen et al., 2022), and attend to measurement, since these mechanisms often operate through perceived credibility and uncertainty rather than formal rules. Experiments may help test such mechanisms (Wood et al., 2016).

5 Concluding remarks

The political economy of entrepreneurship is not a new field. In many respects, it is the origin of the field. The classical political economists who founded the economics discipline understood that entrepreneurship occurs within a political and institutional context that determines whether entrepreneurial energy is channeled toward innovation and wealth

creation or toward rent-seeking and redistribution. The contributions to this special issue demonstrate both the importance and promise of this research tradition. We hope that the papers assembled here, along with the research agenda outlined above, will encourage entrepreneurship scholars to engage with the political economy foundations of our field and to produce research that is not only rigorous and theoretically grounded but also genuinely relevant to the policy challenges that entrepreneurs and societies face.

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