A History of Entrepreneurship

By

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Reviewed By

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Entrepreneurship is a popular subject among students of business as well as among management scholars and researchers. University courses, books and academic journals on entrepreneurship abound. Many governments around the world, believing that entrepreneurship is the key to economic development, offer Entrepreneurship Development Programs (EDPs). Amidst all this frenzy of activity stands a fundamental question: who is an entrepreneur? The answer to this question is more elusive than one might suspect. This book treats this question from a history of economic thought perspective. Although sociologists, psychologists and management scholars have an interest in entrepreneurship, this book takes a strictly economic approach. By so choosing, this book goes to the heart of theorizing about entrepreneurship. The authors are well-established scholars of the economics of entrepreneurship and have written a comprehensive treatise covering all the available works in English, French and German going back a couple of centuries. The book starts with a list of twelve identities of the entrepreneur gleaned from the economic literature and after surveying the received knowledge on entrepreneurship, ends with the list of authors associated with promoting these identities.

This way of framing the literature makes it east to digest the historical material. The word 'entrepreneur' is a French coinage. So, it is appropriate that the story starts with contributions from early French writers on entrepreneurship. The earliest writer to recognize the role of entrepreneurship is Richard Cantillion. The authors provide a deft summary of his view of the entrepreneur. They write: Cantillion's entrepreneur is someone who engages in exchanges for profit; specifically, he is someone who exercises business judgment in the face of uncertainty. This uncertainty (of future sales prices for goods on their way to final consumption) is rather carefully circumscribed, as Cantillion describes it, entrepreneurs buy at a certain price to sell again at an uncertain price, with the difference being their profit or loss. (p. 8) This idea of entrepreneur facing uncertainty casts a long shadow over the literature. As the authors show, its influence can be felt all the way to Frank Knight who wrote about profit in the 1920s. Following Cantillion, Francois Quesnay, the founder of the Physiocratic School formulated large-scale farmers as entrepreneurs. Jean-Baptiste Say broadened the concept by putting "the entrepreneur at the core of the entire process of production and distribution" (p. 17). However, as they note, Say's entrepreneur ends up as "a superintendent and an administrator" (p. 19).

In contrast to the French writers, the English classical economists saw entrepreneurs as suppliers of financial capital. Adam Smith himself seemed to have identified the entrepreneur as a prudent man who "is frugal (i.e. he accumulates capital) and is an agent of slow but steady progress" (p. 26). Jeremy Bentham, on the other hand, saw the entrepreneur as an agent of economic progress. In the authors' estimation, English classical thought "preserved a somewhat sterile notion of entrepreneurship" (p. 35). The German writings are represented by J.H. von Thunen and H.K. von Mangoldt. Thunen made the important distinction between the provider of capital and the entrepreneur. Mangoldt brought in the notion of risk-taking as essential for entrepreneurship. In the late nineteenth century, classical economics evolved into neoclassical economics with its emphasis on mathematical and scientific precision and its preoccupation with resource allocation and pricing decisions. Neoclassical economics had three versions: the Austrian School, led by Carl Menger, the Lausanne School led by Leon Walras and the English school led by Alfred Marshall. In this fascinating chapter, the authors dissect the logic of the neoclassical school which, except for the Austrian School, downplayed, even eliminated the role of the entrepreneur in the market economy. In the world of mathematical general equilibrium models, there was no place for the entrepreneur.

The Austrian School legacy, however, culminated in the work of Joseph Schumpeter, the superstar proponent of the role of the entrepreneur. Before embarking on an examination of the views of Schumpeter, the authors examine American writers, starting with Amasa Walker and his son Francis A, Walker and ending with Frank Knight. While Americans abandoned the classical English idea of entrepreneur as capitalist, many early writers did not associate risk with entrepreneurship, the old idea of Cantillion. It was Frank Knight who brought risk back into the picture, added uncertainty to it and produced the classic theory of profit. Given his stature in the field, Schumpeter deserves a chapter of his own and he gets it. The authors set the background with a short summary of the German Historical School from which Schumpeter drew some inspiration. He was also influenced by many other current of economic thought. They write:

Schumpeter combined ideas from Marx, Weber, and Walras, along with insights from his Austrian forebrears, Menger, von Weiser, and his teacher von Bohm-bawerk. Rather than slavishly imitate the work of others he melded these elements into something uniquely his own. (p. 70). The authors go on to explain the well-known Schumpeterian entrepreneurial dynamics. In Schumpeter's vision, the entrepreneur is the consummate innovator and earns his profits, however temporary, from successful innovations. In this, according to the authors, Schumpeter rejected the risk-taking attribute as inherent to entrepreneurs, assigning it to capitalists. In taking this view, Schumpeter has come under critical review. The authors present the criticisms directed against Schumpeter's views in a fair fashion without much comment of their own. Instead of stopping research on its track, the dazzling work of Schumpeter stimulated more work. Arthur H. Cole established the Research Center in Entrepreneurial History in Harvard University. The authors survey the work done under Cole's leadership and many other studies. In their judgment, however, consensus about the role of the entrepreneur is yet to emerge. They write:

[T]hroughout most of the twentieth century, theories about the nature and role of entrepreneurship have focused on one issue or the other: either the cleavage between risk and uncertainty or the issue of equilibrium versus disequilibrium. These issues remain mostly unresolved as we enter the twenty-first century.
(p. 91)Along the same vein, the book ends with an insightful, but gloomy assessment. The authors argue that ultimately the role of the entrepreneur in economic theory is a matter of methodology, not theory. The question of methodology, according to the authors have not been resolved and, perhaps, not even discussed. This is a startling conclusion to draw from this exhaustive survey. Nevertheless, it is a conclusion that must be taken seriously by economists.