
Historical Perspectives on the Entrepreneur

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Abstract

This survey establishes a chronological trace of the entrepreneur as treated in economic literature in order to give a more wholesome perspective to contemporary writings and teachings on entrepreneurship. The authors review the historical nature and role of the entrepreneur as revealed in economic literature from the 18th century to the present. This survey shows the ambiguous nature of a concept that, due to Schumpeter's dominant influence, has come to occupy a primary role in the theory of economic development. In addition, there are other conceptions of entrepreneurship presented besides Schumpeter's. This historical survey also illustrates the tension that often exists between "theory" and "practice." We shall learn that it has been difficult for economic theory to assimilate a core concept that plays a vital role in social and economic change. Finally, the authors expose the many different facets of entrepreneurship as they have been perceived by some of the great economists throughout the ages.

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1

Introduction

Throughout intellectual history the prominence of the entrepreneur and his/her role in economic theory has been intertwined with dynamic versus static representations of economic activity. The science of economics – which began as “political economy” in the 18th century – was initially concerned with a dynamic problem, namely the explanation of how economic progress occurs. Hence, we have Adam Smith’s telling title of his masterwork, *An Inquiry into the Nature and Causes of the Wealth of Nations*, written in 1776. During the infancy of economic science the entrepreneur emerged as an economic agent central to the operation of product and resource markets. Progress in defining and explaining the entrepreneur and his/her role was halting at first; indeed the best work in this regard was done before Smith, who obscured the issue somewhat by confounding the roles of entrepreneur and capitalist. Karl Marx continued the classical tradition of inquiry into the dynamics of capitalism, but because he treated capitalist and entrepreneur alike with disdain, the concept of entrepreneurship languished thereafter.

After roughly a century of development, conventional economics rejected Marx’s radicalism and re-invented itself as the science of how

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scarce resources are allocated in an efficient manner, a problem largely static in nature. For several succeeding generations the role of the entrepreneur was neglected, as economists labored to refine and extend economic theory within an equilibrium framework. During this time, entrepreneurship became the province of sociology, which, among other things, concerned itself with the nature and character of leadership. The entrepreneur remained prominent in economics but only to the extent that the area of investigation was economic development. In the 20th century, the name more closely associated with entrepreneurship above all others was Joseph Schumpeter (1912), who constructed *The Theory of Economic Development* around the dynamic, innovative actions of the equilibrium-disturbing entrepreneur. This gave rise to the phrase, “Schumpeterian entrepreneur,” which tacitly suggests that there are other kinds of entrepreneurs, who conceivably do different things. Yet there have been few inquiries to determine what those other things are and which economic agent is responsible for them. Eventually the entrepreneur attracted the attention of management science, which was forced to ferret out the distinctions between entrepreneurs and managers. As a result, entrepreneurship is a focal point today for at least three disciplines, economics, sociology, and management, and it could become prominent in even more (e.g., psychology). It might be expected that this multi-pronged approach to the study of entrepreneurship would resolve key issues, such as “Who is the entrepreneur?” and “What is the key function of the entrepreneur in a market economy?” No such consensus has emerged, however.

The fractured nature of entrepreneurship is a striking anomaly that accompanies dramatic growth of interest in the subject, both academic and practical. Joseph Schumpeter began teaching at Harvard University in 1932. In conjunction with Arthur Cole, he started the Research Center for Entrepreneurial History in 1946. The following year Myles Mace offered what may be the first U.S. course on entrepreneurship to 188 students at the Harvard Business School (Katz, 2003). Since then, the growth of entrepreneurship in higher education has been remarkable. By the dawn of the 21st century, nearly 200,000 American students had been enrolled in entrepreneurship or small business courses. Currently, there are more than 2200 courses on the subject at more than

1600 colleges and universities (Katz, 2003). In addition, there are more than 150 university research centers on entrepreneurship, according to the National Consortium of Entrepreneurship Centers.¹

Informed speculation says that the demand for entrepreneurship education will outpace the supply of well-trained university faculty. Enrollments in entrepreneurship courses are increasing not only from traditional business and economics students, but also from students in the fields of science and engineering.² In addition, the breadth of subject matter that now falls under the rubric of entrepreneurship is expanding.³ It is not uncommon for courses on business entrepreneurship to include discussions of social entrepreneurship, political entrepreneurship, and academic entrepreneurship.

On the supply side, a shortage of qualified faculty is exacerbated by a dearth of doctoral programs in entrepreneurship (Katz, 2003). In order to meet the excess demand for entrepreneurship education many institutions are recruiting new business and management faculty and/or adjunct professors to teach the subject, usually with a specialized small-business focus. The instructors who fill the ranks often come from business rather than academe. The ensuing instruction tends to emphasize “hands-on” business practices and concrete problems, not conceptual issues or historical precedents. As a consequence, intellectual history is sacrificed to the pressing demands of the here and now; or it becomes merely one more victim of a pervasive anti-historical bias. If this trend continues, it is likely that all historical perspective on the subject of the entrepreneur will be lost.⁴

We have written this essay in hopes of preserving a vital historical perspective. Our exposition derives from an economic point of view

¹ See <http://www.nationalconsortium.org/>. Of course, the topic of entrepreneurship has diffused through a number of disciplines besides business and economics.

² Part of the increase in demand from students in the sciences and engineering fields is coming from the growth of students in professional science master’s degree programs. See <http://www.sciencemasters.com/>.

³ Course topics range from history of economic thought to fostering an inventive business culture, and from buy-sell strategies to the functioning of venture capital markets.

⁴ Of the many essays and books about entrepreneurship that are now used as course material, the historical origin of the entrepreneur is generally noted to be Cantillon, but then the authors jump to Schumpeter, forgetting those scholars in between and forgetting that Schumpeter did not advance the notion of entrepreneurship as much as others had done.

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(not from sociology or management), and therefore makes no claims to being holistic in its approach. This essay establishes a chronological trace of the entrepreneur as treated in economic literature in order to give a more wholesome perspective to contemporary writings and teachings on entrepreneurship. In the following sections we review the historical nature and role of the entrepreneur as revealed in economic literature from the 18th century to the present.⁵ This kind of survey is instructive in several ways. It shows, for example, the ambiguous nature of a concept that, due to Schumpeter's dominant influence, has come to occupy a primary role in the theory of economic development. We shall learn that there are other conceptions of entrepreneurship besides Schumpeter's. Indeed, throughout history the entrepreneur has worn many faces and played many roles. Our historical survey also illustrates the tension that often exists between "theory" and "practice." We shall learn that it has been difficult for economic theory to assimilate a core concept that plays a vital role in social and economic change. Finally, our historical survey will expose the many different facets of entrepreneurship as they have been perceived by some of the great economists throughout the ages.

The historical economics literature gives no fewer than 12 identities to the entrepreneur. We shall explore at length each of these identities in the remainder of this essay. But first let us expose the various themes we shall encounter.

1. The entrepreneur is the person who assumes the risk associated with uncertainty.
2. The entrepreneur is the person who supplies financial capital.
3. The entrepreneur is an innovator.
4. The entrepreneur is a decision maker.
5. The entrepreneur is an industrial leader.
6. The entrepreneur is a manager or superintendent.

⁵The remainder of this essay is structured around our earlier survey (Hébert and Link, 1988); however, over these past two decades our interpretation of many of the early writings has evolved, and we present that herein.

7. The entrepreneur is an organizer and coordinator of economic resources.
8. The entrepreneur is the owner of an enterprise.
9. The entrepreneur is an employer of factors of production.
10. The entrepreneur is a contractor.
11. The entrepreneur is an arbitrageur.
12. The entrepreneur is an allocator of resources among alternative uses.

Already it will be obvious that considerable overlap exists. Some writers stressed more than one characteristic. Some views are competing; some are complementary. The entrepreneur, in sum, is a difficult person to pin down. Nevertheless, when we contemplate this list we are struck by the preponderance of emphasis on the entrepreneur as a dynamic, not a passive, economic agent. The dynamism of economic agents is not a trivial matter. In a *Wall Street Journal* article entitled *Dynamic Capitalism* (October 10, 2006), Edmund S. Phelps, winner of the 2006 Nobel Prize in Economic Science, compared the two prevailing economic systems of the West, free enterprise versus corporatism, concluding that only the former provides the openness, encouragement, and flexibility that permit greatest implementation of new commercial ideas coming from entrepreneurs. Phelps defines “dynamism” to mean the fertility of the economy in coming up with innovative ideas believed to be technologically feasible and profitable – in short, the economy’s talent at commercially successful innovating. Because competition is so closely linked to entrepreneurship, he might as easily have drawn the contrast between the “entrepreneurial economy” and the “corporate economy.”

In looking outside the United States today (and even to some quarters within the United States), one encounters mostly hostility directed toward the kind of dynamic capitalism that Phelps extols. Why is capitalism so reviled in Western Europe, for example? The reasons are undoubtedly as convoluted as they are complicated, but one reason seems to be the inability of many intellectuals to escape Marxist patterns of thought. As Phelps points out, today’s street protestors appear to equate business with *established* wealth, so that they regard giving

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latitude to business as tantamount to increasing the privileges of old wealth and exacerbating disparity of incomes. By an “entrepreneur” such critics mean a rich owner of a bank or a factory; whereas for Schumpeter it meant a newcomer swimming against the tide of established wealth, seeking to carve out new profits from opportunities that did not exist before, and in the process, making consumers better off. Clearly, in the battle of ideas taking place on the geopolitical stage, intellectual constructs matter. Is this not sufficient justification for investigation into the nature and role of the entrepreneur, as revealed in the historical record?

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