

Apresentação

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Quem fala de inovação geralmente pensa em Schumpeter, e às vezes chega a referir-se a suas idéias. Uma pergunta que cabe fazer nestes casos é a de qual delas, já que o pensamento de Schumpeter a respeito do tema foi se modificando ao longo de sua carreira, não sendo exatamente igual no início e no final da mesma. Inclusive entre os que se autodenominam schumpeterianos ou neoschumpeterianos, são raros os que conhecem todos os trabalhos do autor e as diferenças que existem entre eles, tendendo por causa disso a difundir uma visão parcial, quando não distorcida, do conjunto de suas teorias.

Dentro desse conjunto, cumpre distinguir as posições da juventude de Schumpeter, refletidas nos livros que publicou em alemão antes da Primeira Guerra Mundial, das suas obras de maturidade, escritas em inglês e posteriores à sua mudança para os Estados Unidos no início da década de 1930. O trabalho mais conhecido (e mais citado) da primeira fase é indubitavelmente a sua *Têoria do Desenvolvimento Econômico*, livro originalmente publicado em 1912 e só traduzido para outras línguas desde os anos 1930, a partir da segunda edição alemã de 1926. Já na segunda fase, a obra mais importante sobre a mesma temática é o volumoso *Business Cycles*, de 1939, que existe apenas em inglês e no qual Schumpeter retomou e aprofundou suas idéias anteriores, mudando seu enfoque do empresário inovador para o processo de inovação propriamente dito. Esta segunda obra, no entanto, só raramente chega a ser levada em conta, devido à preferência dos analistas e comentaristas por um livro menos técnico e dirigido ao grande público, o famoso *Capitalismo, Socialismo e Democracia*, editado pela primeira vez em 1942 e também

traduzido para numerosos idiomas. Trata-se de uma obra que o próprio Schumpeter classificava como menor,¹ e a qual apenas em poucas páginas chega a referir-se ao problema da inovação.

Além dos três livros que acabam de ser mencionados, Schumpeter publicou vários ensaios e artigos sobre esse tema, todos muito importantes para o acompanhamento da evolução de suas idéias a respeito.² O trabalho que aqui está sendo reproduzido é o último deles, elaborado por Schumpeter para uma coletânea organizada pelo Research Center in Entrepreneurial History, da Universidade Harvard, publicada um ano antes da morte do autor.³ Esse texto, situado às p. 63-84 do livro citado, além de resumir e sistematizar suas contribuições anteriores sobre a função empresarial e o processo inovativo, e de prenciar a erudição encontrável em sua póstuma e também volumosa *História da Análise Econômica* (publicada em 1954), abre-se para algumas novas perspectivas, raramente levadas em conta pelos divulgadores e seguidores de seu pensamento. Uma das mais interessantes é, sem dúvida, a inclusão do Estado no rol dos agentes da inovação tecnológica.

Essa idéia, aparentemente "fora do lugar" nos tempos neoliberais em que vivemos, é apresentada na p. 71 do ensaio e não se vincula ao desenvolvimento de algum país periférico ou atrasado. Antes, pelo contrário, refere-se especificamente aos Estados Unidos, cuja economia agrária foi repetidamente revolucionada pelos novos métodos desenvolvidos e difundidos por órgãos governamentais do seu Departamento de Agricultura. Para Schumpeter, esse fenômeno constituía um exemplo cabal do caráter institucional e não-personalizado tanto da função empresarial como dos processos de inovação. Caráter esse que também aparece, uma página adiante, no nível das próprias empresas, cujo foco inovador muito freqüentemente não se situa em seus órgãos diretivos. Na verdade, a capacidade de inovar não é privilégio de alguns iluminados, podendo manifestar-se de várias maneiras e nos mais diversos contextos.

¹ Ver a respeito destas questões a excelente biografia intelectual da autoria de Swedberg, Richard, *Joseph A. Schumpeter: his life and work*, Cambridge: Polity Press, 1991.

² Reunidos e reproduzidos na coletânea organizada por Clemence, Richard V., *Essays on Entrepreneur: Postulates and Patterns of Entrepreneurial History*, Cambridge-Mass.: Harvard University Press, 1949.

³ *Change and the Entrepreneur: Postulates and Patterns of Entrepreneurial History*, Cambridge-Mass: Harvard University Press, 1949.

ECONOMIC THEORY AND ENTREPRENEURIAL HISTORY

JOSEPH A. SCHUMPETER

In the areas of economic theory and entrepreneurial history, I propose to deal with three topics. First, I shall present a brief survey of the history, within economic literature, of the notions that economists have formed at various times on the subject of entrepreneurship and economic progress (I). Secondly, I shall deal with some aspects of enterprise as it actually evolved through the ages (II). And, thirdly, I shall briefly comment on the possibilities of what might be termed "general economic history" as viewed from the standpoint of the phenomenon of economic enterprise (III). The first topic will also provide the conceptual apparatus to be used in the treatment of the other two.

I

In the field to be discussed, as in others, early economic analysis started from the notions evolved by common experience of everyday life, proceeding to greater precision and refinement of these notions as time went on. From the first, the businessman was a familiar figure that did not seem to call for elaborate explanation at all. The particular forms of business enterprise that every particular environment produced -- the artisan, the trader, the money-lender, and so on -- took a long time in merging into the general concept of businessman. But by the end of the 17th century this modest generalization was pretty much accomplished. It is, however, worth noting that at least from the beginning of the 15th century on, the scholastic doctors in their economics had a very definite idea of the businessman and his functions, and that in particular they distinguished clearly

between the specific industria of the merchant and the labor of the workman. The same applies to the laic successors of the scholastic doctors, "the philosophers of natural law," and still more to all those pamphleteers of the "mercantilist" age that laid the foundations of classic economics. Cantillon's work, which is usually, though not quite correctly, described as the first systematic treatise on economics, then introduced the term "entrepreneur." It is worth our while to note that Cantillon defined this entrepreneur as the agent who buys means of production at certain prices in order to combine them into a product that he is going to sell at prices that are uncertain at the moment at which he commits himself to his costs. I think that this embryonic analysis was not infelicitous. Besides recognizing business activity as a function sui generis, it emphasizes the elements of direction and speculation that certainly do enter somehow into entrepreneurial activity. Like most of Cantillon's ideas, including the idea of the tableau économique, this one was accepted by the physiocrats as a matter of course. Since directly and through the physiocrats Cantillon's teaching continued to be known in France, it seems fair to say that J. B. Say only continued the French tradition by developing this analysis further. In this he was greatly helped by the fact that, knowing from experience what business practice really is, he had a lively vision of the phenomenon which most of the other classic economists lacked. With him, then, the entrepreneur is the agent that combines the others into a productive organism. It could be shown both that this definition might be expanded into a satisfactory theory of entrepreneurship by analyzing what this combining of factors really consists in, and that Say himself did not do much with it beyond stressing its importance. Let us note in passing, however, that he put the entrepreneur into the center of both the productive and the distributive theory which, though it is disfigured by many slips, first adumbrated the analytic structure that became fully articulate in the hands of Walras, Marshall, Wicksell, Clark, and the Austrians. Still more clearly the nature and importance of entrepreneurship were perceived by Jeremy Bentham. It is a curious fact (curious, that is, considering the tremendous influence that Bentham exerted in other respects) that his views on this subject -- which were not fully given to the public until the posthumous

publication of his collected works --- remained almost unnoticed by professional economists.

In spite of the great influence of the physiocrats and of Cantillon upon Adam Smith, English thought took a quite different line. To be sure, Adam Smith repeatedly talked about the employer -- the master, the merchant, and the undertaker -- but the leading or directing activity as a distinctive function played a surprisingly small role in his analytic scheme of the economic process. His reader is bound to get an impression to the effect that this process runs on by itself. Natural law preconceptions led Adam Smith to emphasize the role of labor to the exclusion of the productive function of designing the plan according to which this labor is being applied. This shows characteristically in his turn of phrase that asserts that "capitalists" hire "industrious people," advancing them means of subsistence, raw materials, and tools, and letting them do the rest. What the businessman does in the system of Adam Smith is, therefore, to provide real capital and nothing else; the identification of the capitalist's and the entrepreneur's function was thus accomplished. Let us note: first, that this picture of the industrial process is entirely unrealistic; but that, considering the prevalence at Adam Smith's time of the putting-out system, and also for other historical reasons, this identification was then less absurd than it became fifty years later; and that Smith's authority explains why it survived so well into times that presented different patterns. Since capital, according to Adam Smith, is the result of saving, and since providing capital is the only essential function of the businessman, the latter's profits was essentially interest to be explained on the lines of either an exploitation or an abstinence theory. Adam Smith elaborated neither, but no doubt suggested both.

With Ricardo and Marx the processes of production and commerce are still more automatic. The designing, directing, leading, co-ordinating function has practically no place at all in their analytic schemata. To avoid misunderstandings, let me emphasize that there is no doubt but that, if pressed, both Ricardo and Marx (and this goes for a majority of the writers of the classic period) would certainly have recognized the importance of entrepreneurship or business management or however they would have called it, for the

success or failure of the individual concern. But it is possible to recognize this and to hold, nevertheless, that for the social process as a whole individual differences in this respect are of no great moment. John Stuart Mill who, at an early age, had experienced the influence of Say, abandoned Ricardianism in this as he did in other points. He emphasized the function of direction in the productive process and went out of his way to say that very often it required "no ordinary skill." His perception of the importance of entrepreneurial activity shows among other things in the fact that he regretted that there is no good English word for the French "entrepreneur." But this was all. When we observe that he analyzed the entrepreneur's profits into wages of management, interest on owned capital, and premium of risk, we wonder why he should not have been content with the perfectly good English term "business management," which was in fact to satisfy Marshall. For, after all, his entrepreneur does a type of non-manual work that does not essentially differ from other types, and therefore reaps a return that is analogous to wages. There should be no need for a distinctive term.

Just as the understanding of the phenomenon of rent of land was facilitated by the English land system that showed up the distinction between the owner of land and the agricultural producer with unmistakable clearness, so the distinction between the entrepreneur and the capitalist was facilitated in the second half of the 19th century by the fact that changing methods of business finance produced a rapidly increasing number of instances in which capitalists were no entrepreneurs and entrepreneurs were no capitalists. Though the owner-manager remained for a time still the ruling type, it became increasingly clear that a link between owning and operating the physical shell of industry is not a necessary one. Economists accordingly began to emphasize distinctions between the two functions and to devote more attention to the specifically entrepreneurial one. Fundamental change in the analytic set-up was very slow, however. Among other things, this shows in the survival of the risk theory of entrepreneurial profit. If providing the capital is not the essential or defining function of the entrepreneur, then risk bearing should not be described as an essential or defining function either, for

it is obviously the capitalist who bears the risk and who loses his money in case of failure. If the entrepreneur borrows at a fixed rate of interest and undertakes to guarantee the capitalist against loss whatever the results of the enterprise, he can do so only if he owns other assets with which to satisfy the creditor capitalist when things go wrong. But, in this case, he is able to satisfy his creditor because he is a capitalist himself and the risk he bears he bears in this capacity and not in his capacity of entrepreneur. To this point I shall return below. The economists, therefore, who went on to emphasize the entrepreneurial function more and more, such as Francis A. Walker in the U. S., Marshall in England, Mangoldt and others in Germany, added very little to its analysis.

Two lines of thought that issued in distinctive theories of entrepreneurial profits as distinguished from interest should not go unmentioned. Mangoldt, following up a generalization of the rent concept that may be traced to Samuel Bailey, defined the particular element of total receipts that goes to the entrepreneur as a rent of ability. The underlying idea is very plausible. All current disturbances of the economic process, the whole task of adaptation to ever changing situations, impinges primarily upon the heads of business concerns. Obviously this is a very personal task of which some people acquit themselves very much better than others. There is a common-sense impression to the effect that there is such a thing as a distinct business ability, which includes aptitude for efficient administration, for prompt decision, and all that sort of thing; and it is very generally recognized in spite of some votes to the contrary (in this country, mainly from economists of Veblenite persuasion) that successful survival of difficult situations and success in taking advantage of favorable situations is not merely a matter of luck. The concept of a rent of ability expresses the element involved quite well. Again the cognate idea that business decisions in a world that is full of uninsurable risks ("uncertainty") will in general produce results that diverge more or less widely from the expected ones and thus lead sometimes to surplus gains and sometimes to losses, is one that common experience presses upon us very strongly. This idea may be but need not be added to the element of business ability and is of course, still more obviously,

not quite the same as the element of risk: but we need not stress these relations. So far as I know, Böhm-Bawerk was the first to make use of this notion for the purpose of explaining entrepreneurial profits as distinct from interest. But this line of thought culminates in the work of Professor Knight.

It does not seem far-fetched, however, to analyze the entrepreneurial function in a different direction which moreover leads to a result that comprises also some of the elements of other theories. I shall try to convey this analysis by starting from two different standpoints. The first standpoint to start from is given by Say's definition of the entrepreneurial function. If production in the economic, as distinguished from the technological, sense consists essentially in transforming or combining factors into products, or as I have put it above, in providing the design of production, then we certainly have in this combining or planning or directing activity a distinct function before us. But this function would be an exceedingly simple matter and essentially a matter of administration if the combinations that have been carried into effect in the past had to be simply repeated or even if they had to be repeated subject to those adaptations which common business experience suggests in the face of conditions that change under the influence of external factors. Administrative or managerial activity of this kind, however necessary, need not be distinguished from other kinds of non-manual labor; but if we confine Say's definition to cases in which combinations that are not inherited from the past have to be set up anew, then the situation is obviously different and we do have a distinctive function before us. Naturally, to some extent, even current decisions contain elements that have not been contained in inherited routine. There is, therefore, no sharp dividing line between entrepreneurial activity in this restricted sense and ordinary administration or management, any more than there is a sharp dividing line between the homo neanderthalis and the types which we recognize as full-fledged human beings. This does not, however, prevent the distinction from being possible and useful. And the distinctive element is readily recognized so soon as we make clear to ourselves what it means to act outside of the pale of routine. The distinction between adaptive and creative response to given conditions may or may not be

felicitous, but it conveys an essential point; it conveys an essential difference.

The other standpoint from which to get a realistic understanding of the entrepreneurial function comes into view when we try to analyze the nature and sources of the gains that attend successful entrepreneurship. This can be done in many ways, for instance, by analyzing the sources of a sufficient number of industrial fortunes. We find immediately that industrial activity in established lines and by established methods hardly ever yields returns that are much greater than is necessary to secure the supply of the factors required. Furthermore, we find that the earning capacity of almost any industrial concern peters out after a time that varies from a few months to a few decades. And, finally, we find that the great surplus gains are in general made in new industries or in industries that adopt a new method, and especially by the firms who are the first in the field. These propositions await scientific investigations in order to be fully established, but are strongly suggested by universally known facts.

If then we have, on the one hand, a distinctive function and, on the other hand, a distinct return on the exercise of this function, we can start with the task of conceptualization. First, we need a word. I have myself suggested that the word "entrepreneur" be harnessed into service, but it is quite clear, of course, that since this "entrepreneurial function" is not a neologism other meanings are bound to creep in. I should, therefore, have no objection to some such expression as "business leader" or simply "innovator" or the like. The essential thing is the recognition of the distinct agent we envisage and not the word. (1) Secondly, in applying our conception to reality we find, as we do in other such cases, that real life never presents the function in and by itself. Even the English

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- (1) The difficulty of naming our function is of course greatly increased by the fact that such words as "management" or "administration" from which we are trying to distinguish our function have with many authors also caught some of the meanings that we wish to reserve for the term "entrepreneur."

landlord is not merely the owner of a natural agent but does various other things besides. In the case of the entrepreneur it is even difficult to imagine a case where a man does nothing but set up new combinations and where he does this all his life. In particular an industrialist who creates an entirely new set-up will, in a typical case, then settle down to a merely administrative activity to which he confines himself more and more as he gets older. On the other hand, the entrepreneurial element may be present to a very small extent even in very humble cases and in these the entrepreneurial function may be all but drowned in other activities. It will be seen, however, that while this makes it difficult to deal with entrepreneurship irrespective of the other types of activity of the same individual and while Professor Cole is therefore quite right in emphasizing the necessity of considering business activity as a whole, the distinctive element and its modus operandi should not and need not be lost from sight.

Thirdly, since entrepreneurship, as defined, essentially consists in doing things that are not generally done in the ordinary course of business routine, it is essentially a phenomenon that comes under the wider aspect of leadership. But this relation between entrepreneurship and general leadership is a very complex one and lends itself to a number of misunderstandings. This is due to the fact that the concept of leadership itself is complex. Leadership may consist, as it does in the arts, merely in doing a new thing, for instance, in creating a new form of pictorial self-expression, but in other cases it is the influencing of people by methods other than example that is more important. Take, for instance, the phenomenon that we call the ability of being obeyed. Here it is not so much example as a direct action upon other people that matters. The nature and function of entrepreneurial leadership, its causes and effects, therefore constitute a very important subject of investigation for our group.

Fourthly, the distinctive return to entrepreneurship presents difficulties of its own. It is certainly a return to a personal activity. In this sense we might be tempted to call it a form of wages as has in fact been done in the past by many economists. Furthermore, it is clear that if all people reacted in the same way and at the same time to the presence of new possibilities no entrepreneurial gain would ensue: if everybody had been

in a position to develop the Watt condenser, prices of products to be produced with the new steam engine would have adjusted themselves instantaneously and no surplus over costs would have arisen for the firm of Boulton and Watt. Therefore, entrepreneurial gain may also be called a monopoly gain, since it is due to the fact that competitors only follow at a distance. (2) But if we called it either wages or monopoly gains we should be obscuring very important characteristics that do not apply to other wages or to other monopoly gains. Moreover, the entrepreneurial gain does not typically consist, and in any case does not necessarily consist, in a current surplus per se. If a man, for instance, sets up a new industrial organization such as United States Steel, the value of the assets that enter into this organization increases. This increase no doubt embodies, at least ideally, a discounted value of the expected surplus returns. But it is this increase in asset return itself rather than the returns that constitute the entrepreneurial gain, and it is in this way that industrial fortunes are typically created -- another subject to be investigated.

Finally, as has been often pointed out, the entrepreneurial function need not be embodied in a physical person and in particular in a single physical person. Every social environment has its own ways of filling the entrepreneurial function. For instance, the 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. It is another most important point in our research program to find out how important this kind of activity has been in the past or is in the present. Again the entrepreneurial function may be and often is filled co-operatively. With the development of the largest-scale corporations this has evidently become of major importance: aptitudes that no single individual combines can thus be

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- (2) The rate of speed at which competitors follow is another very important point for our research program, as are the means at the disposal of the successful entrepreneur for holding his own against would-be competitors (patents and other practices).

built into a corporate personality; on the other hand, the constituent physical personalities must inevitably to some extent, and very often to a serious extent, interfere with each other. In many cases, therefore, it is difficult or even impossible to name an individual that acts as "the entrepreneur" in a concern. The leading people in particular, those who carry the titles of president or chairman of the board, may be mere co-ordinators or even figure-heads; and again a very interesting field of research opens up into which I do not wish to go, however, since this problem is in no danger of being forgotten. (3)

We have now briefly to advert to the relation that exists between economic change (usually called economic progress if we approve of it) and the entrepreneurial activity. At present there is, as has been stated above, a whole range of differences of opinion on this subject that extends from a complete or almost complete denial of any importance to be attached to the quality of leading personnel to the equally reckless assertion that the creative individual is nothing less than everything. It need hardly be pointed out that most of these opinions carry the stamp of ideological preconception. It is no doubt part of our work to put provable results into the place of such ideologies. The fundamental question is one of fact, but the necessity of a theoretical schema to start with is nevertheless obvious. I submit that the material under observation may be classed into two masses: on the one hand, there are the given data of the physical and social

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- (3) It is extremely interesting to observe that for a long time and occasionally even now economic theorists have been and are inclined to locate the entrepreneurial function in a corporation with the shareholders. However little the individual small shareholder may have to do with the actual management or else with the entrepreneurial function in the corporation, they hold that ultimate decision still lies with them to be exerted in the shareholders' meeting. All I wish to say about this is first, that the whole idea of risk-taking in this way takes on a further lease of life and, second, that such a theory is about as true as is the political theory that in a democracy the electorate ultimately decides what is to be done.

(including political) environment and, on the other hand, there are the observable reactions to these environmental conditions. But it is better perhaps to include those facts that may be independently observed concerning the quality of leading personnel among the conditions in order to display the interrelation between this and the other factors and to emphasize from the first that on principle there are never any causal chains in the historical process but only mutual interaction of distinguishable factors.

We can then attempt to construct an analytic model of the mechanism of economic change or else, for different countries and periods, different such schemata or models. Let us, in order to visualize this method, consider for a moment the situation that existed in England around 1850. A unique set of historical conditions had produced a uniquely able political sector, the bulk of the members of which hailed from a distinct social class. This sector, while very efficient in certain respects, was entirely unfit and unwilling to undertake anything that we now call economic public management or economic planning. Neglecting for the rest the agrarian sector, we find industry, trade, and finance substantially left to themselves; and if we add a number of other unique historical circumstances we are pretty much able to draw the picture of economic change that is in fact drawn in the ordinary text-book of economic history. In this process of change it is possible to identify a number of factors and events that are entirely impersonal and in some cases random. But looking more closely we see not only that these factors do not determine outcomes uniquely but also that they do not tell us how the actual changes such as the tremendous increase in exports actually came about. In order to make headway with this problem we must investigate how the thousands of individuals actually worked whose combined action produced these results. And for this purpose it is useful as a first step to assume all the environmental factors to be constant and to ask the question what changes we might expect under this assumption. We immediately see that simple increase of population and of physical capital does not constitute the answer. It is not simply the increase of the existing factors of production but the incessantly different use made of these factors that matters. In fact much of the increase in factors and particularly of physical capital was the result rather

than the cause of what we may now identify as entrepreneurial activity. What we observe is rather a behavior pattern, possibly supplemented by a schema of motivation; a typical way of giving effect to the possibilities inherent in a given legal and social system both of which change in the process; the effects of entrepreneurial activity upon the industrial structure that exists at any moment; the consequent process of destruction and reconstruction that went on all the time. All these things may be conceptualized in a more or less complicated schema, every item of which has to be nourished with facts and corrected and amplified under their influence. And this is all.

I shall add, however, that in investigations of this kind the notion of an economic process that merely reproduces itself and shows neither decay nor progress has been found to be of considerable use. It is called the stationary state, and plays two distinct roles in economic theory. On the one hand, economists, ever since Adam Smith and perhaps earlier times, have envisaged the possibility that the energetic advance they were witnessing would some day subside into what we now call a stagnating or mature economy. John Stuart Mill differed from Ricardo not in his expectation that a stationary state would one day emerge but in the optimistic view he took of its features -- a world without what he considered an unpleasant bustle, a world much more cultured and at ease than the one he observed. Now, as everybody knows, this "stagnationist thesis" has emerged once more, but it has emerged with two differences. First, the stationary state is by some authors not looked upon as something that looms in the far future but as something on which we are actually about to enter. Let us note in passing that the experiences of the crises 1929-1932 may have a lot to do with the emergence of this frame of mind. Secondly, a problem has arisen which did not worry the classics at all. Smith or Ricardo did not anticipate any particular difficulties that would arise from the very process of settling down into stationality: rates of change would converge towards zero in a slow and orderly way. But our modern stagnationists anticipate difficulties in this process of settling down. Keynes in particular anticipated that habits of saving to which equally strong or still stronger propensities to invest corresponded would run on in spite of the fact that there would be no longer any investment opportunities

left. With everything indicating now that a new period of unheard-of "progress" is at hand it might be thought that we need not greatly worry about this. But I do not think that we can entirely overlook the problem and history's contribution to it.

II

Whether we define the entrepreneur as an "innovator" or in any other way, there remains the task to see how the chosen definition works out in practice as applied to historical materials. In fact it might be argued that the historical investigation holds logical priority and that our definitions of entrepreneur, entrepreneurial function, enterprise, and so on can only grow out of it a posteriori. Personally, I believe that there is an incessant give and take between historical and theoretical analysis and that, though for the investigation of individual questions it may be necessary to sail for a time on one tack only, yet on principle the two should never lose sight of each other. In consequence we might formulate our task as an attempt to write a comprehensive history of entrepreneurship.

So far as the institutional framework is concerned we are, comparatively speaking, well off. The social, legal, technological, and other conditions in which entrepreneurship has run its historical course, from the primitive tribe to the modern large-scale corporation, have been on the whole satisfactorily worked out already. But until relatively recent times it is this framework only that is really known: the actual activity of the entrepreneur, what he really was and did at various stages of historical development, is largely construction. It is true that this construction is in many cases quite safe. For instance, when we know the trade routes in the Near East during the first ten centuries A.D., the commodities that were transported, the political history of the territories through which they were transported, it is not very difficult to imagine the kind of tasks and difficulties that the trader met on these routes and the kind of chap he must have been in order to overcome them. When we know the history of the later trading companies such as the Trading Company of Ravensburg, we again have little difficulty in complementing this by a picture of the kind of man that a member of this company must have been. And to a certain extent we might hope to answer the question

directly how environment, public authority, corporate action, and individual initiative must have co-operated and what relative weight we are to attach to each. However, these are favorable cases. In others, much digging may have to be done before we arrive at reliable results. Let us then note that the forms of organization of trade and later on of manufacturing are an acquired asset all along. The same applies largely to the fields and methods of what provisionally we should call entrepreneurial activity. That is to say we know or readily understand that at some times under certain conditions entrepreneurial activity must have consisted largely in trading and transporting, in manufacturing and organizing and financing at others. Finally, the history of entrepreneurial types and of the nature of entrepreneurial performance, the action of these types on the social organization and the reaction of the social bodies on the entrepreneurial impulse should not be too difficult to analyze. Having thus adumbrated my ideas about what that history of entrepreneurship should do, I want now briefly to touch upon a number of problems and stumbling blocks that will inevitably be met with on this road.

The first of all these stumbling blocks is that most of us do not approach the material with a perfectly unbiased mind. In other words, every age and every social organization approaches these problems from an apriori of its own, that is to say, from a conviction (all the more dangerous if subconscious) that individual initiative in the matter of economic development counts for almost everything or else for almost nothing, and it is easy to see how such a conviction supplies the basic colors of the picture. For some of us the problem of economic development is all but solved so soon as natural and social conditions and political measures are stated -- the rest follows automatically, and if entrepreneurs have anything to do with what actually happens they are a sort of beast of prey who withhold the fruits of technological advance from the community and sabotage progress in their own interest. It is needless to point out that this attitude is very prevalent in this country and that any attempt to take another view is for many a modern economist stigmatized as apologetics. Nevertheless, it should be clear from even a superficial survey of facts that this view is as wrong as is the exactly opposite one and that careful discussion of ever more numerous situations is the only

method of arriving at a more tenable one.

Secondly, in connection with this we frequently meet with an attitude that is indeed a necessary prerequisite for the "theory" just alluded to. This attitude may be expressed by saying that the entrepreneur or money-maker simply does nothing but take advantage of technological progress, which therefore appears, implicitly or explicitly, as something that goes along entirely independently of entrepreneurial activity. Now how far is this true? It is perhaps not difficult to understand that technological progress, so obvious in some societies and so nearly absent in others, is a phenomenon that needs to be explained. For instance, it is necessary to find out whether the rational or rationalist attitude to life has or has not been formed by the type of mind that pervades bourgeois society. In this case technological progress would be related to entrepreneurial action in a way that may not always be obvious but would be very important all the same. I have always emphasized that the entrepreneur is the man who gets new things done and not necessarily the man who invents. As a matter of history, the entrepreneur is almost as often an inventor as he is a capitalist but it seems to me that analysis shows that neither of these capacities are essential to him. I can adduce plenty of examples by which to illustrate what seems to me to be the true relation, but only extensive research can present really reliable results.

Thirdly, let us consider a very old problem that has played more of a role in economic literature than it does now under the title of "original accumulation." Some command over physical and personal factors is no doubt necessary in order to start any enterprise: but how is such command acquired in the first place? The old classical answer, that resources came from savings, was understandably unpopular with socialists and is equally unpopular with modern radicals. And it is quite true that, however great the role of self-financing may be in the course of the development of an enterprise, the original nucleus of means has been but rarely acquired by the entrepreneur's own saving activity -- which in fact is one of the reasons, and a significant one, for distinguishing the entrepreneur as sharply as I think he should be distinguished from the capitalist. One important source of the means for early enterprise

is no doubt to be found in the fact that such means were available in the hands of extra-bourgeois strata and in particular in the hands of temporal and spiritual lords. As everybody knows, this source has been particularly stressed by Sombart and drew so much critical fire that Sombart himself practically surrendered it. But the last word has certainly not been spoken on this affair and if we command co-operation from medieval historians we might well ask them to go into the matter. Another explanation is in the fact that for many types of enterprise the minimum of means to start with was very small: a shack which a man could put up with his own hands, very simple tools, and very few assistants were sometimes all that was required. Means of that order of magnitude many people would possess for a variety of reasons. A third source was tapping the savings of other people and "created credit." The roles of these two last-mentioned sources, though in a general way obvious, also deserve further research. "Credit creation" introduces banks and quasi-banking activities. Here we meet with the difficulty that orthodox banking theory, emphasizing as it does current financing of current trade transactions as the main function of banks, did its best to obliterate all that banks had to do with bringing into existence new industries. French and German experience offers a rich field for the study of this phenomenon, and the common saying that in the United States enterprise developed so well because its banking system was so bad also indicates an important truth: after all, we should not simply shut our eyes or sanctimoniously disapprove when we find that in certain cases even railroad building was financed by the issue of bank notes. Fourthly, it stands to reason that a bank which finances the overhead of a new enterprise must at the very least supervise very closely the behavior of the enterprise founded. That is to say, the necessity of supervising customers which exists to some extent even for the most ordinary routine business acquired in the case envisaged a novel importance. In consequence, two phenomena are observable which are so essential for capitalist life that they are well worth our attention. On the one hand, banks have, though to a very different extent in different countries, established themselves as a social organ of entrepreneurial activity. What this supervision actually

consisted in, what the means were by which it was actually carried out, and the success with which it was exerted, has been frequently discussed but quite inadequately, even if we neglect the fact that many social critics have seen nothing in this institution (and it is an institution of later capitalism) but abuse. On the other hand, entrepreneurs and industrialists generally have fought against the restrictions imposed upon their freedom of action by bankers' interference, and important features of modern industrial policy are precisely explainable by the wish of industrialists to free themselves from it. For instance, this has been an important feature of industrial policy in this country during the first World War and in the 1920's. But an entrepreneur can also gain freedom from interference by bankers by turning into a banker himself. John Law and the brothers Pereire are outstanding examples. They illustrate also something else, namely, the fact that the economic and social meaning of this kind of activity has been almost invariably misunderstood.

However, if we could poll business leaders, we should, I am convinced, establish that according to their opinion it is self-financing from earnings which constitutes the soundest method of providing the means for raising an enterprise to its full size. This method, too, is highly unpopular with modern economists and its investigation is a matter of urgent necessity -- as is, by the way, the opposite phenomenon, namely, the phenomenon that expenditure on current replacement of equipment is very often financed on credit. The actual results of the method of self-financing, for instance, the question whether or not it involves mal-allocation of resources, are so much blurred by pre-conceptions that a reopening of the case promises to add considerably to our knowledge of how modern business works.

III

In the enterprise economy the entrepreneur will inevitably exert some influence on things in general; hence the study of his interests, positions, and so on necessarily constitutes one of the possible approaches to an understanding of economic history or even of history in general. A recent paper by Professor

Cochran may be referred to for the general philosophy of this approach as against the approach embodied in what he calls the "presidential synthesis." (4)

It has been emphasized above that when we speak of the entrepreneur we do not mean so much a physical person as we do a function, but even if we look at individuals who at least at some juncture in their lives fill the entrepreneurial function it should be added that these individuals do not form a social class. They hail from all the corners of the social universe. For instance, if we list all the entrepreneurs mentioned in Mantoux's work on the Industrial Revolution we find among them the Duke of Bridgewater and we may, starting from him, go through practically the whole extent of the social ladder until we reach men who rose to entrepreneurship from the ranks of manual labor. This seems to me a very important fact. How important precisely it is can again be only said after extensive research. However, all the men who actually do fulfill entrepreneurial functions have certain interests in common and, very much more important than this, they acquire capitalist positions in case of success. The modern corporation has not entirely done away with inheritance of this capitalist position and so we may say that entrepreneurs do in the end land in the capitalist class, at first as a rule in its most active sector until they wind up in its less active and finally in its decaying sector. I believe that this statement can be supported successfully but I do confess to a wish to see it established.

Now the man whose mind is entirely absorbed by a struggle for entrepreneurial success has as a rule very little energy left for serious activity in any other direction -- some philanthropy and some more or less well-advised collector's interests usually fill the bill. What then does the influence or the power consist in which most economists and historians attribute to him? I shall state frankly that I consider power to be one of the most misused words in the social sciences, though the competition is indeed great. So firmly entrenched in our popular psychology is the idea that entrepreneurs

(4) Cochran, Thomas C., "The presidential synthesis in American history," *American Historical Review*, vol. 53 (1948), pp. 748-59.

or else the capitalist class into which they merge are the prime movers of modern politics that it is very difficult to make headway against it and to point out how very little foundation there is to this opinion. Let me take an example that is far enough removed from us to be looked at with something like detachment: Ehrenberg's book on the Fuggers. (5) There, the rise and decline of that industrial, commercial, and financial family is in my opinion described in a perfectly responsible way. Among other things, the report itself clearly shows that in the time of Charles V the two Fuggers who came into contact with the imperial policy and especially its financial needs exerted no influence on this imperial policy other than is implied in their getting various concessions, especially mining concessions, in the Emperor's Latin territories. For the rest, however, they were ruthlessly exploited, so much so in fact that their wealth declined in consequence, and there is no sign whatever that they influenced the Emperor's policy in such matters as his attitude toward the Protestants, toward France, toward the Turks, and so on. Although all this is quite clear from Ehrenberg's own report, he is, nevertheless, so imbued with the idea that in a capitalist age the capitalists rule as to emphasize repeatedly what he considers to be the proud position of power of that family. Now this instance could be multiplied as everyone knows and at the end of a long list of instances, if I could present it, I should mention a conversation I had with an otherwise quite intelligent lawyer who defended the legislation that was to subject the insurance companies to federal control on the ground that "we cannot allow the insurance companies to run the country."

It seems to me that at the outset it is necessary to distinguish two entirely different things. Naturally, as has been pointed out above, the mere emergence of a quantitatively significant number of entrepreneurs presupposes, and its existence contributes to, a certain type of civilization and a certain state of the public mind. Entrepreneurs will be few and without great importance in situations where this activity is despised and frowned upon, and entrepreneurial success in turn

(5) Ehrenberg, Richard, "Das Zeitalter der Fugger" (Jena, 1896). 2 v.

will tend to change such a situation. If I had space to develop this point, I should end up by saying that to some extent entrepreneurial activity impresses the stamp of its mentality upon the social organism. In any cultural history, therefore, the entrepreneurial factor will have to come in as one of the explaining elements, but this is not the same as saying that the wishes and interests of entrepreneurs or even of the capitalist class into which they merge is a political factor that counts by direct influence or else at the polls. It is quite true that in individual cases, for reasons of self-defense primarily, individual entrepreneurs need to acquire and do acquire political positions of their own. But the importance of these positions seems to be limited, and the way to show this is to analyze the means at their disposal in order to exert influence, such as contributions to politicians' war chests, or ownership of newspapers, and so on. I think it can be shown that the influence that can be acquired in these and other ways is much smaller than it is usually supposed to be. In fact, little more is necessary in order to convince one's self of this than to look at the modern situation in practically all countries. Methodological questions of great interest arise in the course of an attempt to investigate these matters. To begin with, we should have to have a much more realistic theory of politics than any that has been developed so far, but this is not enough. In order to see what entrepreneurs or the capitalist class as a whole can and cannot do, it is necessary to establish facts which are extremely difficult to get at and the appraisal of which requires a kind of experience of life which, even in those cases in which it is present in a research worker, is confined to individual environments, inferences from which may easily mislead.

The attitude of the state to entrepreneurial activity is a most fascinating study and raises questions of interpretation such as these: what was the nature of that amphibial condition of society that culminated in the state of Louis XIV? The court and the bureaucracy which ruled that state were no doubt alive to the fact that in order to spend as they did they needed adequate objects of taxation and that the most promising of these objects was a powerful community of traders and manufacturers. Thus a large group of measures find a ready explanation in the wishes to further the wealth

and taxable capacity of the bourgeoisie. But what precisely does this mean and how would all parties concerned fare as a result? Colbert has had among historians his fervent admirers. To my immense amusement, I have also found that Sir John Clapham described him as a big, stupid, brutal fellow, who never had an idea in his life. Whatever else such judgments prove or do not prove they certainly establish one thing: that the nature and amount of influence exerted by public administration in the period in question really is no more than a big question mark; and if we leave the time of Louis XIV and transfer ourselves into our own I feel that the question mark is still bigger.

IV

Students interested in the history of economic thought and in the writings upon economic development will draw two important, though variant conclusions from their inquiries as far as entrepreneurship and entrepreneurial history are concerned. First, I believe that they would be justified in the view that theories of past economists relative specifically to entrepreneurship will not form a very firm support for future investigations of facts. New hypotheses and the marshalling of factual data, old and new, must proceed together.

Secondly, I would commend to economic historians -- and, for that matter, to economic theorists, if they will interest themselves in the problem -- that they examine the already available secondary literature for data upon entrepreneurial characteristics and phenomena. A miscellany of such writings -- from general economic histories to biographies of businessmen, and from local histories to studies of technological change -- all hold information, which sifted and arranged with definite hypotheses in mind will carry us a goodly distance toward our goal. New facts will doubtless be needed in the end, but already we have a multitude that have as yet not been digested.

In the handling of old and new facts, the historian will gain from keeping touch with theorists. Neither group should ever be distant from one another -- but here the promise from collaboration is particularly great for both parties. As I have said before, the

study of economic change is an area of research where "economic historians and economic theorists can make an interesting and socially valuable journey together, if they will." (6)

(6) Cf. my "Creative Response in Economic History", *Journal of Economic History*, vol. 7 (1947), p. 149.