

The entrepreneur as innovator

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Abstract:

Throughout intellectual history as we know it, the entrepreneur has worn many faces and played many roles. One of those roles is innovator. This essay establishes a chronological trace of the entrepreneur as innovator in an effort to place contemporary writings within a proper historical perspective.

Keywords: entrepreneur | innovator | schumpeter | economic thought

Article:

1. Introduction

Throughout intellectual history as we know it, the entrepreneur has worn many faces and played many roles. One of those roles is innovator—an association made popular by Joseph Schumpeter. As Schumpeter's view has come to dominate the field, the earlier history of the concept—particularly that part which linked entrepreneurship and innovation—has become increasingly obscured and forgotten.¹ This essay attempts to set forth a chronological trace of the entrepreneur as innovator in an effort to presage Schumpeter's contribution as well as to enrich the analytical nexus between entrepreneurship and innovation. Categorically, we group theories of entrepreneurship as supply-sided or demand-sided.

2. Supply-side theories of entrepreneurship

We call a theory of entrepreneurship supply-sided if it emphasizes the role of the entrepreneur in production and distribution of goods and services for which there is an independently determined demand. Such theories essentially address the question: Given the pattern of demand for existing goods and services, what role does the entrepreneur play in the market place? The earliest inquiries into the subject tended to focus on this question.

Richard Cantillon (1680–1734)

¹ Gallaher et al. (forthcoming) note that contemporary treatments of the subject tend to view the entrepreneur-as-innovator entirely as a Schumpeterian figure.

The term *entrepreneur* is a word of French origin that does not appear often in the pre-history of economics. Its common, though imprecise, use in the 18th century is corroborated by an entry in Savary's *Dictionnaire Universel de Commerce* (Paris, 1723) in which entrepreneur is defined as one who undertakes a project; a manufacturer; a master builder. An earlier form of the word, *entrepredeur*, appears as early as the fourteenth century (Hoselitz, 1960). Throughout the 16th and 17th centuries the most frequent usage of the term connoted a government contractor, usually of military fortifications or public works.

The first significant writer to make frequent and obtrusive use of the term in a semblance of its modern form was Richard Cantillon, an 18th-century businessman and financier. Cantillon's *Essai* is a watershed in the history of entrepreneurship because it establishes the entrepreneur as a central figure in the marketplace. Describing the nascent market economy of 18th-century Europe, Cantillon established the entrepreneur as the intermediary between landowners and hirelings. Landowners—the fashion leaders of society—establish patterns of consumption in conformance with their individual tastes and preferences. They, in turn, relegate production of goods and services to entrepreneurs, who bear the risks associated with market judgments about production and distribution. Although Cantillon's entrepreneurs do not engage in the “creative destruction” of demand that Schumpeter described (ultimately demand is set by the landowners), they nevertheless innovate in other ways befitting their intermediary status. For example, as they become aware that consumers are willing to pay a little extra in order to buy in small quantities rather than stockpile large quantities, they manage the circulation of goods accordingly. It is not much of a stretch to see the seeds of supply chain management in this insight, or the kind of innovative merchandising that Wal-Mart engages in today.

Another way that Cantillon's entrepreneur can innovate is by arbitrage. An arbitrageur can create time and place utility by moving goods from low-valued use to high-valued use. Noting the opportunities for profit that existed between the countryside and Paris, Cantillon (1931, pp. 150–152) maintained that as long as they can cover their transportation costs, entrepreneurs “will buy at a low price the products of the villages and will transport them to the Capital to be sold there at a higher price.” These two examples show that in contrast to Schumpeter, Cantillon's innovative entrepreneur works basically on the supply side of the market.

Nicholas Baudeau (1730–1792)

Another writer who developed a theory of entrepreneurship that anticipated future developments was the clergyman, Abbe Nicolas Baudeau. A member of the French school of economists that has come to be known as the Physiocrats,² Baudeau believed in the primacy of agriculture. In depicting the agricultural entrepreneur as a risk bearer, he echoed Cantillon. But Baudeau established even more overtly than Cantillon the concept of the entrepreneur as innovator, one who invents and applies new techniques or ideas in order to reduce his costs and thereby raise his profit.

² After Cantillon's death, economic analysis in France was dominated by a group of writers who called themselves *Les Economistes*. As the term economist became more general in use, however, historians began to refer to this particular group of French writers as “The Physiocrats” (the term physiocracy means role of nature). Its leader was François Quesnay.

Consider the nature of risk faced by the agricultural entrepreneur. The rent he pays to the landlord is the surplus of farm revenue over necessary costs of production, including some payment for his own services. For the tenant farmer, rent is a cost determined in advance of production. The Physiocrats favored stabilizing these costs as much as possible through long-term leases, while wage rates were usually fixed at or near subsistence levels. Thus, the farmer operating with a long-term lease faced certain fixed costs, but uncertain harvests and hence uncertain sales prices. Note the powerful suggestion that it is the role of the entrepreneur to devise legal/contractual/administrative arrangements that improve market efficiency or lower market risk.

In his analysis of entrepreneurship Baudeau emphasized and explored the significance of ability. He underscored the importance of intelligence, the entrepreneur's ability to collect and process knowledge and information. Intelligence—knowledge and the ability to act—also gives the entrepreneur a measure of control, so that he is not a mere pawn to the capitalist. Hence, Baudeau (1910, p. 46) described the entrepreneur as an active agent: “Such is the goal of the grand productive enterprises; first to increase the harvest by two, three, four, ten times if possible; secondly to reduce the amount of labor employed and so reduce costs by a half, a third, a fourth, or a tenth, whatever possible.”

Baudeau's theory of entrepreneurship presupposes that economic events fall into two categories, those that are subject to human control and those that are not. To the extent that the entrepreneur confronts events under his control, his success depends upon knowledge and ability, which he may use in all manner of “creative” ways to try to reduce risk. To the extent that he confronts events beyond his control, however, he places himself at risk that is not likely to yield to innovative measures.

Jeremy Bentham (1748–1832)

British classical economists paid little attention to the role of the entrepreneur in a market economy, choosing to elevate the capitalist to the top of the economic hierarchy. Jeremy Bentham, whose ties with France and its intellectual tradition were much stronger than those of his contemporaries, was an exception. The contrast between Bentham and Adam Smith on the subject of the entrepreneur is most evident in their debate over usury laws. Smith and Bentham agreed on the premise that the regime most favorable to the development of inventive faculties was that of economic liberalism. But, unlike Smith, Bentham (1952) defended usurers and projectors as useful agents. Both helped to advance the cause of inventive genius, each in his own way. It is something of a puzzle that Smith would, on the one hand, recognize innovation as a professional activity while, on the other hand, ignore its importance in a different context. In his denunciation of usury, Smith failed to acknowledge the importance of the innovator. Bentham aptly pointed this out in his *Defence of Usury* (1787), the first publication that brought him fame as an economist. There Bentham detailed how laws against usury limit the overall quantity of capital loaned and borrowed and how such laws keep away foreign money from domestic capital markets. Both these effects tend to throttle the activities of successful entrepreneurs. Although Bentham used the customary term projector, he was quite precise in his definition of this term as any person who, in the pursuit of wealth, strikes out into any new channel, especially into any channel of invention. He argued that interest rate ceilings tend to

discriminate against entrepreneurs of new projects, because, by their novelty, such projects are more risky than those already proven profitable by experience. Moreover, legal restrictions of this sort are powerless to distinguish bad projects from good ones.

In pleading the cause of the projectors, Bentham, the inventor of the Panopticon, was to some extent pleading his own case. Panopticon was the name Bentham gave to his idea of a model prison. The concept involved both an architectural and an institutional innovation. Bentham's ideal prison was circular. All the cells were arranged concentrically around a central pavillion, which contained an inspector, or at most a small number of inspectors. From his central position the inspector(s) could see at a glance everything that was going on, yet he was rendered invisible by a system of blinds. In this way, too, outside visitors could inspect the prisoners, as well as the prison's administration, without being seen. According to Bentham, this constant scrutiny of the prisoners would deprive them of the power, and even the will, to do evil. Bentham was never able to attract enough backers to make his model prison a reality (the site he proposed for his model prison is now occupied by the Tate Gallery in London), but his basic concept was tried in other countries. What is more pertinent to our story than Bentham's plan of prison reform is the administrative innovation that he attached to it: the principle of contract management. This principle relies on the proper structuring of economic incentives and the dynamic activities of the entrepreneur to achieve the desired result of economic efficiency.

To Bentham, true reform would obtain in prisons only if the administrative plan simultaneously protected convicts against the harshness of their warders and society against the wastefulness of administrators. The choice, as he saw it, was between contract management and trust management. The differences have been summarized by Halévy (1955, p. 84):

Contract-management is management by a man who treats with the government, and takes charge of the convicts at so much a head and applies their time and industry to his personal profit, as does a master with his apprentices. Trust management is management by a single individual or by a committee, who keep up the establishment at the public expense, and pay into the treasury the products of the convicts' work.

In Bentham's judgment, trust management did not provide the proper junction of interest and duty on the part of the entrepreneur. Its success therefore depends on public interest as a motivating factor. Bentham, like his proclaimed mentor, Smith, had much more confidence in individual self-interest as the spur to human action. The beauty of contract management was that it brought about an artificial identity of interests between the public on the one hand and the entrepreneur on the other. The entrepreneur in this case was an independent contractor who purchased, through competitive bid, the right to run the prison, thereby also acquiring title to whatever profits might be earned by the application of convict labor. Such an entrepreneur-manager could maximize his long-term gains by preserving the health and productivity of his worker-convicts. In this manner public interest became entwined with private interest.

In 1787, Bentham completed the idea of contract management by a new administrative arrangement: he thought that life insurance offered an excellent means of joining the interest of one man to the preservation of a number of men. He therefore proposed that after consulting the appropriate mortality tables, the entrepreneur (e.g., prison manager) should be given a fixed sum

of money for each convict due to die that year in prison, on condition that at the end of the year he must pay back the same sum for each convict who had actually died in prison. The difference would be profit for the entrepreneur, who would thereby have an economic incentive to lower the average mortality rate in his prison (Bentham, 1962, p. 53).

Aside from the fact that Bentham was virtually alone among British classical economists in his repeated emphasis on the entrepreneur as an agent of economic progress, it is noteworthy that his administrative arrangement of contract management recast the entrepreneur in the position of government contractor, that is, a franchisee who undertakes financial risk in order to obtain an uncertain profit. Bentham also explicitly tied his notion of entrepreneur-contractor to the act of innovation. He defended contract management as the proper form of prison administration on the ground that it is a progressive innovation and should therefore be rewarded accordingly, no less than an inventor is rewarded for his invention (Bentham, 1962, p. 47).

J.H. von Thünen (1785–1850)

J.H. von Thünen is best known in the history of economics for his contributions to location theory, but in the second volume of *The Isolated State* (1850) he set forth an explanation of profit that clearly distinguished the function and reward of the entrepreneur from that of the capitalist. Thünen identified entrepreneurial gain as profit minus (1) interest on invested capital, (2) insurance against business losses, and (3) the wages of management. For Thünen, this residual is a return to entrepreneurial risk. In the subsequent framework established by Frank Knight, entrepreneur risk is uninsurable, insofar as Thünen (1960, p. 246) declared: “there exists no insurance company that will cover all and every risk connected with a business. A part of the risk must always be accepted by the entrepreneur.”

Contemporary economics relies on the concept of opportunity costs to measure entrepreneurial risk (Kanbur 1980). Thünen (1960, p. 247) seems to have had the same argument in mind when he wrote:

He who has enough means to pay to get some knowledge and education for public service has a choice to become either a civil servant or, if equally suited for both kinds of jobs, to become an industrial entrepreneur. If he takes the first job, he is guaranteed subsistence for life; if he chooses the latter, an unfortunate economic situation may take all his property, and then his fate becomes that of a worker for daily wages. Under such unequal expectations for the future what could motivate him to become an entrepreneur if the probability of gain were not much greater than that of loss?

Thünen clearly appreciated the difference between management and entrepreneurship. He maintained that the effort of an entrepreneur working on his own account was different from that of a paid substitute (manager), even if each has the same knowledge and ability. The entrepreneur takes on the anxiety and agitation that accompanies his business gamble; he spends many sleepless nights preoccupied with the single thought of how to avoid catastrophe, whereas the paid substitute, if he has worked well during the day and finds himself tired in the evening, can sleep soundly, secure in the knowledge of having performed his duty. Anyone who has nursed along a new enterprise knows precisely of what Thünen speaks.

What is especially interesting about Thünen's treatment is how he turns the discussion from the trials of the entrepreneur into a kind of crucible theory of the development of entrepreneurial talent. The sleepless nights of the entrepreneur are not unproductive; it is then that the entrepreneur makes his plans and arrives at solutions for avoiding business failure. Adversity in the business world thereby becomes a training ground for the entrepreneur. As Thünen put it (1960, p. 248):

Necessity is the mother of invention; and so the entrepreneur through his troubles will become an inventor and explorer in his field. So, as the invention of a new and useful machine rightly gets the surplus which its application provides in comparison with an older machine, and this surplus is the compensation for his invention, in the same way what the entrepreneur brings about by greater mental effort in comparison with the paid manager is compensation for his industry, diligence, and ingenuity.

What makes this a significant step forward in the theory of entrepreneurship is the fact that Thünen successfully joined the separate strands of entrepreneurial theory that, on the one hand, characterized the entrepreneur as risk bearer (e.g., Cantillon), and, on the other hand, portrayed him as innovator (e.g., Baudeau, Bentham). Economic analysis having come this far by 1850, we may well question whether Schumpeter took a step backward in the next century by excluding risk bearing from the nature of entrepreneurship, confining its meaning instead solely to innovative activity.

Thünen was quite explicit about the fact that there are two elements in entrepreneurial income: a return to entrepreneurial risk and a return to ingenuity. Labeling the sum of these two as business profit, Thünen (1960, p. 249) established a cleavage between the respective roles of capitalist and entrepreneur:

Capital will give results, and is in the strict sense of the term capital, only if used productively; on the degree of this usefulness depends the rate of interest at which we lend capital. Productive use presupposes an industrial enterprise and an entrepreneur. The enterprise gives the entrepreneur a net yield after compensating for all expenses and costs. This net yield has two parts, business profits and capital use.

3. Demand-side theories of entrepreneurship

We call a theory of entrepreneurship demand-sided if it emphasizes the role of the entrepreneur in changing the nature of demand for existing goods and services by introducing new goods and services or new combinations of existing goods and services. Such theories essentially address the question: Given the pattern of supply for existing goods and services, what role does the entrepreneur play in the market place?

Gustav Schmoller (1838–1917)

Economic thought in the late 19th and early 20th centuries developed differently in Germany than it did in England, or throughout the rest of Europe. This was due in part to the influence on

economic method of the German Historical School. The historicists believed that in order to understand man's economic behavior and the institutions that constrain it, economics must describe human motives and behavioral tendencies in psychologically realistic terms. Gustave Schmoller represented the second generation of German historicists. He amassed mountains of historical data in order to analyze actual economic behavior. From his examination of these data he discovered a unique central factor in all economic activity—the enterprising spirit, the *Unternehmer*, or entrepreneur. Schmoller's entrepreneur was a creative organizer and manager whose role was innovation and the initiation of new projects (Zrinyi, 1962). He combined factors of production to yield either new products or new methods of production. Schmoller's entrepreneur possessed imagination and daring. More significantly, Schmoller began to direct attention to the role of the entrepreneur on the demand side of economic activity.

Werner Sombart (1863–1941) and Max Weber (1864–1920)

Schmoller's ideas were extended by third-generation German historicists, Werner Sombart and Max Weber. Sombart introduced a new leader who animates the entire economic system by creative innovations. This entrepreneur combined the powers of organization described by Schmoller with a personality and ability to elicit maximum productivity from individuals engaged in the productive process. Whether he is a financier, manufacturer, or trader, Sombart portrayed the entrepreneur as a profit maximizer.

The German historicists characterized the entrepreneurial process as a breaking away from the old methods of production and the creation of new ones. This disequilibrating process was particularly emphasized by Weber. He sought to explain how a social system, as compared to an individual enterprise, could evolve from one stable form (perhaps under an authoritarian structure) to another type of system. Historically, he identified such changes with a charismatic leader, or entrepreneur-like person (Carlin, 1956).

As if to heighten the dynamic nature of his entrepreneurial construct, Weber (1930, p. 67) began his analysis of change with a stationary state situation:

We may ... visualize an economic process which merely reproduces itself at constant rates; a given population, not changing in either numbers or age distribution. ... The tasks (wants) of households are given and do not change. The ways of production and usances of commerce are optimal from the standpoint of the firm's interest and with respect to existing horizons and possibilities, hence do not change either, unless some datum changes or some chance event intrudes upon this world.

In such a stationary society there is nothing that requires the activity traditionally associated with the entrepreneur. "No other than ordinary routine work has to be done in this stationary society," declared Weber (1930, p. 67), "either by workmen or managers." Yet, inevitably, change occurs. Weber (1930, p. 68) described a likely scenario:

Now at some time this leisureliness was suddenly destroyed, and often entirely without any essential change in form of organization. ... What happened was, on the contrary, often no more than this: Some young men from one of the putting-out families went out

into the country, carefully chose weavers from his employ, greatly increased the rigor of his supervision of their work, and thus turned them from peasants into laborers ... he would begin to change his marketing methods ... he began to introduce the principle of low prices and large turnover. There was repeated what everywhere and always is the result of such a process of rationalization: those who would not follow suit had to go out of business. The idyllic state collapsed under the pressure of a bitter competitive struggle.
...

Competition, in other words, is driven by an entrepreneur type. The critical characteristics of Weber's successful entrepreneur are his religious imperatives, which make up what is called the Protestant ethic. Consequently, in the final analysis Weber's theory of social and economic change is as much sociology as economics.

Joseph Schumpeter (1883–1950)

Joseph Schumpeter was schooled by the Austrian economists of the Vienna Circle but was heavily influenced by Max Weber. He set out to develop a theory of economic development in which the entrepreneur plays a central role. By applying new combinations of factors of production, Schumpeter's entrepreneur becomes the motive force of economic change. He is thereby responsible for the rise and decay of capitalism. The talented few who carry out innovations by devising new technologies, discovering new products and developing new markets account for the short and long cycles of economic life. Schumpeter saw economic development as a dynamic process, a disturbing of the *status quo*. He viewed economic development not as a mere adjunct to the central body of orthodox economic theory, but as the basis for reinterpreting a vital process that had been crowded out of mainstream economic analysis by the static, general equilibrium approach. The entrepreneur is a key figure for Schumpeter because, quite simply, he is the *persona causa* of economic development.

Schumpeter combined ideas from many earlier writers, but the demand-side emphasis that marked the Germanic tradition dominated his treatment of entrepreneurship. His entrepreneur is a disequilibrating force. For Schumpeter the concept of equilibrium that dominated 20th-century economics served as a mere point of departure. The phrase he coined to describe this equilibrium state was the circular flow of economic life. Its chief characteristic is that economic life proceeds routinely on the basis of past experience; there are no forces evident for any change of the *status quo*. Schumpeter (1934, pp. 42–43) described the nature of production and distribution in the circular flow in the following way:

[I]n every period only products which were produced in the previous period are consumed, and ... only products which will be consumed in the following period are produced. Therefore workers and landlords always exchange their productive services for present consumption goods only, whether the former are employed directly or only indirectly in the production of consumption goods. There is no necessity for them to exchange their services of labor and land for future goods or for promises of future consumption goods or to apply for any "advances" of present consumption goods. It is simply a matter of exchange, and not of credit transactions. The element of time plays no part. All products are only products and nothing more. For the individual firm it is a

matter of complete indifference whether it produces means of production or consumption goods. In both cases the product is paid for immediately and at its full value.

Within this system, the production function is invariant, although factor substitution is possible within the limits of known technological horizons. The only real function that must be performed in this state is "...that of combining the two original factors of production, and this function is performed in every period mechanically as it were, of its own accord, without requiring a personal element distinguishable from superintendence and similar things" (Schumpeter, 1934, p. 45). In this artificial situation, the entrepreneur is a nonentity. "If we choose to call the manager or owner of a business 'entrepreneur'," wrote Schumpeter (1934, pp. 45–46), then he would be an entrepreneur "without special function and without income of a special kind."

For Schumpeter, the circular flow is a mere foil. The relevant problem, he wrote in *Capitalism, Socialism and Democracy* (1950, p. 84), is not how capitalism administers existing structures, but how it creates and destroys them. This process—what Schumpeter called creative destruction—is the essence of economic development. In other words, development is a disturbance of the circular flow. It occurs in industrial and commercial life, not in consumption. It is a process defined by the carrying out of new combinations in production. It is accomplished by the entrepreneur.

Schumpeter reduced his theory to three elemental and corresponding pairs of opposites: (1) the circular flow (i.e., tendency toward equilibrium) on the one hand versus a change in economic routine or data on the other; (2) statics versus dynamics; (3) entrepreneurship versus management. The first pair consists of two real processes; the second, two theoretical apparatuses; the third, two distinct types of conduct. The theory maintained that the essential function of the entrepreneur is distinct from that of capitalist, land-owner, laborer, or inventor. According to Schumpeter, the entrepreneur may be any and all of these things, but if he is, it is by coincidence rather than by nature of function. Nor is the entrepreneurial function, in principle, connected with the possession of wealth, even though he held that "the accidental fact of the possession of wealth constitutes a practical advantage" (Schumpeter, 1934, p. 101). Moreover, entrepreneurs do not form a social class, in the technical sense, although in a capitalist society they come to be esteemed for their ability.

Schumpeter admitted that the essential function of the entrepreneur is almost always mingled with other functions, such as management. But management, he asserted, does not elicit the truly distinctive role of the entrepreneur. "The function of superintendence in itself, constitutes no essential economic distinction," he declared (1934, p. 20). The function of making decisions is another matter, however. In Schumpeter's theory, the dynamic entrepreneur is the person who innovates, who makes new combinations in production.

Schumpeter described innovation in several ways. Initially he spelled out the kinds of new combinations that underlie economic development. They encompass the following: (1) creation of a new good or new quality of good; (2) creation of a new method of production; (3) the opening of a new market; (4) the capture of a new source of supply; (5) a new organization of industry (e.g., creation or destruction of a monopoly). Over time, of course, the force of these new combinations dissipates, as the new becomes part of the old (circular flow). But this does

not change the essence of the entrepreneurial function. According to Schumpeter (1934, p. 78), “everyone is an entrepreneur only when he actually ‘carries out new combinations,’ and loses that character as soon as he has built up his business, when he settles down to running it as other people run their businesses.”

Alternatively, Schumpeter (1939, p. 62) defined innovation by means of the production function. The production function, he said, “describes the way in which quantity of product varies if quantities of factors vary. If, instead of quantities of factors, we vary the form of the function, we have an innovation.” Mere cost-reducing adaptations of knowledge lead only to new supply schedules of existing goods, however, so this kind of innovation must involve a new commodity, or one of higher quality. However, Schumpeter recognized that the knowledge supporting the innovation need not be new. On the contrary, it may be existing knowledge that has not been utilized before. According to Schumpeter (1928, p. 378):

[T]here never has been anytime when the store of scientific knowledge has yielded all it could in the way of industrial improvement, and, on the other hand, it is not the knowledge that matters, but the successful solution of the task *sui generis* of putting an untried method into practice—there may be, and often is, no scientific novelty involved at all, and even if it be involved, this does not make any difference to the nature of the process.

In Schumpeter’s theory, successful innovation requires an act of will, not of intellect. It depends, therefore, on leadership, not intelligence, and, as noted above, it should not be confused with invention. On this last point, Schumpeter (1934, pp. 88–89) was explicit:

To carry any improvement into effect is a task entirely different from the inventing of it, and a task, moreover, requiring entirely different kinds of aptitudes. Although entrepreneurs of course may be inventors just as they may be capitalists, they are inventors not by nature of their function but by coincidence and vice versa. Besides, the innovations which it is the function of entrepreneurs to carry out need not necessarily be any inventions at all.

The leadership that constitutes innovation in the Schumpeterian system is disparate, not homogeneous. An aptitude for leadership stems in part from the use of knowledge, and knowledge has aspects of a public good. People of action who perceive and react to knowledge do so in various ways; each internalizes the public good in potentially a different way. The leader distances himself from the manager by virtue of his aptitude. According to Schumpeter (1928, p. 380), different aptitudes for the routine work of “static” management results merely in differential success at what all managers do, whereas different leadership aptitudes mean that “some are able to undertake uncertainties incident to what has not been done before; [indeed] ... to overcome these difficulties incident to change of practice is the function of the entrepreneur.”

Schumpeter’s influence on the theory of economic development has been enormous, in part because of the simplicity and power of his theory, and in part because that theory extends rather than replaces many ideas from earlier writers. The simplicity and power of Schumpeter’s theory is summed up in his own words: “The carrying out of new combinations we call ‘enterprise’; the

individual whose function it is to carry them out we call ‘entrepreneurs’” (Schumpeter, 1934, p. 74).³

4. Conclusion

Schumpeter is generally credited with establishing the entrepreneur as innovator and disassociating the entrepreneur from the risk-taker. A brief survey of the historical roots of entrepreneurship, however, reveals that despite the early and persistent connection made between risk and entrepreneurship by writers of the 18th and 19th centuries, the implicit, if not explicit, link between innovation and the entrepreneur was never far from mind. Early treatments, however, tended to examine the entrepreneurial function from the supply side. Schumpeter switched emphasis to the demand side. Moreover, he made the entrepreneur the pivotal figure not only in the analysis of static market phenomena but in a sweeping theory of historical change.

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³ Paradoxically, the role of the entrepreneur in standard microeconomic theory remains virtually nonexistent. William Baumol (2006) offers some insights into why this omission persists.

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