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Short Title: Entrepreneurship and Economic Development;
A Critique

Abstract

Entrepreneurship and Economic Development: A Critique of the Theory

by Rhoda E. Howard, Department of Sociology

submitted in partial fulfilment of the requirements for the degree of Master of Arts

This thesis is a criticism of the "entrepreneurial school" of economic development, which contends that a major cause of underdevelopment in the Third World is the poor "entrepreneurial spirit" in these areas. The entrepreneurial spirit consists of certain values and behaviour which it is presumed existed in the West at the time of its development. To test the validity of this theory empirical evidence on entrepreneurs is examined; this evidence includes historical data on the West, especially the United States and France, and twenty-one area studies of entrepreneurs in the Third World. The evidence suggests that there is little difference between the values and behaviour of entrepreneurs in the two areas. It is concluded that what differences do exist in entrepreneurship in the two areas are not caused by differences in "spirit" but by structural economic factors and by differences in the stage of capitalist development reached in each area.

ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT:
A CRITIQUE OF THE THEORY

BY

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submitted in partial fulfilment of the requirements
for the degree of Master of Arts
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March 29, 1972

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Chapter I

The Roots of the Entrepreneurial School

During the last twenty-five years a considerable body of research has been conducted by American social scientists into the question of the connection between entrepreneurship and economic growth in underdeveloped countries. An attempt has been made to discern the typical values and behaviour patterns of indigenous entrepreneurs in such a way that, when they are compared to Western or American entrepreneurs, differences between their values and behaviour can be used to explain the differences in the levels of economic development of the two areas. The assumption is made that certain cultural conditions existed in the West at the time of its great expansion in the eighteenth and nineteenth centuries, and that similar conditions, were they to exist today in countries presently underdeveloped, would cause similar expansion. Max Weber is the inspiration of this academic persuasion. His rational, frugal, achievement-oriented Puritan businessman has become a model for what is expected of entrepreneurs in the Third World.¹ Weber's image of the ideal businessman has been more or less merged with that of the innovator and risk-taker of Joseph Schumpeter.²

This school of thought (which I shall henceforth refer to as the entrepreneurial school) is noted for its concentration

¹ Max Weber, The Protestant Ethic and the Spirit of Capitalism (New York: Charles Scribner's Sons, 1958)

² Joseph Schumpeter, The Theory of Economic Development, (New York: Oxford Univ. Press, 1969)

on cultural as opposed to structural theories of development. A major exponent of its position, Thomas Cochran, states that "growth or change is a cultural process in which it is difficult to segregate the economic factors"³ and ~~that~~ the difference between Latin American and United States "styles" of entrepreneurship is a result of "certain persistent basic cultural attitudes related to different economic behaviour"⁴. It is quite clear that lack of entrepreneurship is considered to be the cultural variable impeding growth.

Given the philosophical position of this school of thought, it is not surprising to learn that it is predominantly North American, nor that many of the non-North Americans who are members of the school are American trained. Indeed in general the United States leads the world in propounding cultural as opposed to economic or structural theories of industrial development, a leadership only to be expected considering that it is the leading post-war imperialist power. This situation is unfortunate inasmuch as it results in a discrediting of all cultural theories among some radical social scientists, even though some may contain more than a grain of truth.

There is always an interveing variable, a filter, one might say, between people and an "objective" situation, made up from all sorts of wants, expectations, and other ideas derived from the past. This intervening variable, which it is convenient to call culture, screens out certain parts of the objective situation and emphasizes other parts...the residue of truth in the cultural explanation is that what looks like an opportunity or a temptation to one group of people will not necessarily seem so to another group with a different historical experience and living in a different form of society.⁵

³Thomas C. Cochran, "Cultural Factors in Economic Growth," Journal of Economic History, XX, no.4, (1960), p.515

⁴ibid, p.517

⁵Barrington Moore, Jr., Social Origins of Democracy and Dictatorship, (Boston: Beacon Press, 1966) p.485

Nevertheless it is the position of this writer that, despite the grain of truth in some cultural analyses of development, it is generally the structural component of society which determines social change. Many of the area studies to be examined later in this thesis suggest that structural changes can induce rapid "cultural" change, at least in the select cultural attributes relevant to economic behaviour, and thus facilitate economic development.

Thus the debate between cultural and structural theories of social change is to some extent a spurious one. Analytical issues are obscured by social scientists of different political persuasions who use their arguments in order to attribute blame either to indigenous social groups or the external colonists in the never-ending discussions of what have been the causes of underdevelopment. While it is perhaps dangerous to jump into the fray and accuse an entire body of social scientists of extreme political bias, it seems quite clear that the entrepreneurial school's almost complete rejection of structural causes of underdevelopment (especially of such factors as colonialism and class relations) leaves little choice but to do so.

In this connection it is interesting to speculate on the political biases of Max Weber, the intellectual forefather (although perhaps he would have disavowed the progeny) of this school of thought. Robert Rhodes believes that Weber has been much maligned in the cultural theorists' misinterpretations of his work.

Much of the anti-Marxist work on development purports to be in the tradition of Max Weber. Social scientists who disliked Marx and didn't understand Weber embraced Weber's critique of Marx without noting the large areas of conscious and substantial agreement between their approaches to society....In their eagerness ...to relegate the role of economic conditions to a secondary place, scholars became vulgar Weberians. Weber's careful qualifications and warnings were ignored...

It is commonplace among the cultural theorists to insert disclaimers regarding the omission of structural factors in their analyses; however, this writer at least is more inclined than usual to take Weber's disclaimers seriously because of his acknowledged reputation as an economic historian and as a scholar in general. Nevertheless the history of his political career predicts clearly the political biases of his intellectual descendants. Weber was at best a bourgeois liberal: at worst a German nationalist and imperialist. He supported democracy insofar as it resulted in the emergence of strong, efficient national leaders, but he was hardly an admirer of government "by the people".

In a democracy the people choose a leader in whom they trust. Then the chosen leader says "Now shut up and obey me". People and party are then no longer free to interfere in his business.

In general Weber identified with the bourgeoisie and fought against the left.⁸ His political views, then, to a large extent coincide with those of his latter-day American followers in the entrepreneurial school.

⁶ Robert E. Rhodes, "The Disguised Conservatism in Evolutionary Development Theory", Science and Society, XXXII, no. 4, (fall 1968), pp. 386, 388

⁷ H.H. Gerth and C. Wright Mills, From Max Weber, (New York: Oxford Univ. Press, 1946) p. 42

⁸ Marcuse, Herbert, "Industrialization and Capitalism in the Work of Max Weber", in Marx, Negations, (Boston, Beacon Press, 1968) p. 208

The insistence on analysis of purely cultural reasons for underdevelopment can only be interpreted as a desire to construct a theory of underdevelopment which is purely internal to the countries concerned. Internal structural or economic causes of underdevelopment may also be considered, but the main thrust is to ignore external economic causes which are so widely acknowledged outside of the academic circles of the Western capitalist nations.

Emphasis on the traditional characteristics of backward societies shifts the responsibility for the continued backwardness of much of the world onto the peoples of the areas, and denies the historic responsibility of the Western world.⁹

Colonialism and its effects on the incipient bourgeoisie, or entrepreneurial class, of colonized countries is thus conveniently ignored.

The political conservatism of ignoring the effects of colonialism is obvious; not so obvious, perhaps, are the counter-revolutionary implications of the cultural theories which, in John Kunkel's words, "assume that values and personalities change only very slowly over the generations".¹⁰ It is useless to plan measures of social change since the ingrained values and traditions of the people will resist them. But experiments in planned social change such as that conducted by the Cornell University group in Vicos, Peru, should emphatically prove that this notion is false.¹² The Indians of Vicos were noted for

⁹Rhodes, p.385

¹⁰John Kunkel, "Values and Behaviour in Economic Development", Economic Development and Cultural Change, XIII, no.3, (April 1965) p.258

¹¹Allan R. Holmberg, "Changing Community Attitudes and Values in Peru: A Case Study in Guided Change", in Richard R. Adams et al, ed., Social Change in Latin America Today, (New York: Harper and Bros., 1960), p.

their apathetic, pessimistic acceptance of their lot. Yet when a concerted effort was made to change their situation, by reducing their obligations to the hacendado, by providing them with means of credit to buy necessary farm equipment, by encouraging them to take control of their own educational facilities, and by giving responsibility to their elected leaders, their behaviour (if not their nebulous "values") changed tremendously: for instance, they produced a marketable surplus on their land for the first time. Contrast this with Banfield's recommendation to send Protestant missionaries and upper class propogandists of democracy to combat the apathetic, peessimistic values of the people in the depressed southern Italian village which he studied.¹²

The success of the cultural theorists in obfuscating the effects of colonialism and providing a counter-revolutionary ideology, then, are clear. Yet despite the political relevance of the cultural theory very little seems to have been written in the way of criticism of it. The article by Rhodes quoted above and Andre Gunder Frank's "Sociology of Development and the Underdevelopment of Sociology"¹³ seem to be the only relevant general leftist critiques available, and neither of these deals specifically with the question of entrepreneurship. Rhodes' article deals with the cultural thesis of development, concentrating on the more well known works by Weber, Banfield, McClelland,¹⁴ and Hagen.¹⁵ Frank's article has a section on

¹²Edward C. Banfield, The Moral Basis of a Backward Society, (Chicago: The Free Press, 1958) p.170

¹³Catalyst, no.3, (summer 1967)

¹⁴David McClelland, The Achieving Society, (New York: The Free Press, 1961)

¹⁵Everett E. Hagen, How Economic Growth Begins, (Cambridge: M.I.T. Press, 1961)

McClelland's theory of entrepreneurship, but does not review the masses of other literature on the topic. As far as non-leftist critiques are concerned, the most important is John Kunkel's behaviouralist thesis.¹⁶ Kunkel's main concern is with those analysts who insist on looking for the values in which the behaviour of entrepreneurs originates. He argues that behaviour is a direct indicator of personality and values, and that there is no need to look beyond behaviour for the nebulous values which somehow determine it. Kunkel's thesis is radical insofar as it upholds the structural as opposed to the cultural view of social change.

...as long as man's activities are considered to be a function of values or personality little attention need be directed to the immediate surrounding social environment, since it is not so much the present social structure as that of the past which is most involved in the formation of values and personality....To change man's activities one need not concern oneself with altering values; one needs to change only certain elements of the operant conditioning context of which all men at all times are an integral part.¹⁷

However Kunkel's critique is only partial; it is chiefly concerned with criticising the psychological theories of social change. It considers methods of inducing changes in values and behaviour necessary for development, but it is not concerned with the main import of this thesis, which is to discuss whether the values and behaviour posited as necessary existed or exist in the West during its period of development or in the present-day Third World, and, whether their existence is established or not, to discuss how necessary these values and behaviour actually are to development.

¹⁶ see Kunkel, "Values...", op.cit. and also his Society and Economic Growth, (New York: Oxford Univ. Press; 1970)

¹⁷ Kunkel, "Values...", pp.276,261

This thesis is intended to at least partially fill the gap in criticism by making a broad overview of the literature, both of the "theoretical" works on entrepreneurship and of the empirical studies of entrepreneurs in various areas of the world. The overview will be by no means comprehensive, given the bulk of the literature, but will focus on the more widely read authors and studies. It will not, however, deal with strictly psychological accounts of the development of entrepreneurship such as are exemplified by McClelland and Hagen, nor will it comprehend that vast body of literature written by business historians and management experts. The former deals with the development of values and behaviour, not with the question of whether the values and behaviour are necessary for development; the latter is more concerned with technical aspects of business and management than with sociological analyses of these phenomena.

The entrepreneurial school can be criticized on various levels. The most abstract level of criticism, of course, is embodied in the ongoing debate between cultural and structural theories of social change. Frank makes three criticisms of the cultural school; that it is a-historical, that it is not holistic, and that it denies the relevance of structural change.¹⁸ To state that the entrepreneurial school is not interested in history would be unfair. Certainly much historical work has been done, for instance in the journal Explorations in Entrepreneurial History, on the development of entrepreneurship in the Western world, especially in the United States and France. Furthermore in studying underdeveloped countries writers of this persuasion generally investigate their histories.

18. Frank, op.cit., pp.32-34

To charge the entrepreneurial school with a lack of holism would be more a propos. For instance, its lack of holism is very clearly seen in its insistence on analysing the development of entrepreneurs in terms of individual characteristics and behaviour, instead of in terms of the development of a class, the bourgeoisie. Throughout the literature there is constant reference to the "family backgrounds" of entrepreneurs, and attempts to discover what their personal characteristics are by discussing whether they come from a landowning, a merchant, or a small handicraft type of family. In many cases information is given which is extremely pertinent to the discussion of whether the Western bourgeois classes arose from the merchant classes or from the small rural craftsmen.¹⁹ An obvious line of investigation of entrepreneurship, then, would seem to be what structural factors cause movement from one stratum of the elite to another in developing societies, and what factors cause a change in the characteristics of members of these groups such that, for instance, they decide to become industrial entrepreneurs instead of import-export merchants.

But to posit such a line of investigation is to ask for recognition of the priority of structural over cultural variables, and to do this would be to discredit a considerable amount of the work on entrepreneurship. Frank is correct in criticising the cultural theorists for denying the relevance of structural change. There is a confusion between correlation and causality in the literature, based upon the assumption that culture is a static, independent force in society. Since culture is static

¹⁹ see for instance Maurice Dobb, Studies in the Development of Capitalism, (New York: International Publishers, 1963) ch.3

and independent, it can always be found to precede, and therefore to cause, economic change (or lack of it). Barrington Moore points out that there is no consideration of the fact that culture and social continuity must be renewed in each generation, and that they will be renewed only if there are enough power groups and/or structural circumstances promoting that renewal.

The assumption of inertia, that cultural and social continuity do not require explanation, obliterates the fact that both have to be created anew in each generation, often with great pain and suffering. To maintain and transmit a value system, human beings are punched, bullied, sent to jail, thrown into concentration camps, cajoled, bribed, made into heroes, encouraged to read newspapers, stood up against a wall and shot, and sometimes even taught sociology.²⁰

It is interesting to note in this respect that, since the analysts of the entrepreneurial school attribute the lack of entrepreneurship to cultural flaws, they insist on making policy recommendations which often border on the absurd. They propose to somehow promote cultural change without disturbing the structure of society. It seems much more logical to make Gustav Papanek's sarcastic inference that radical structural change through direct government controls would be ideal in underdeveloped states, since "even without their inhibiting effects, few effective entrepreneurs will emerge".²¹ One does not have to worry, as one does in the United States, that government controls will stifle private initiative.

Leaving aside the broader debate, however, this thesis will concentrate on a more empirical critique of the work done on entrepreneurship. The theme of the literature is, basically, that there are certain entrepreneurial qualities necessary for development which are not available in underdeveloped countries.

²⁰Moore, op.cit., p.486

²¹"The Development of Entrepreneurship", American Economic Review papers and proceedings, 52, no.2 (May 1962), p.48

There are three ways of criticizing this notion. First, it may be that some of the characteristics which are not available in the area concerned are not necessary for development; for example, innovation (in the sense of invention, not adaptation) is not as necessary in the twentieth century, when technological change is to some extent routinized and easily transferrable, as it was in the eighteenth and nineteenth centuries. Secondly, in some instances it would seem that the characteristic is available but that, contrary to the opinion of the analysts, it is not necessary for development; for example, competitiveness and the willingness to take financial risks are not as necessary if an economy is planned as they were in the "laissez-faire" atmospheres of nineteenth-century Britain and the United States. And finally, some of the characteristics which do not seem to exist superficially can in fact be seen to exist if one analyses the situation closely enough. A major criticism of entrepreneurs in underdeveloped areas is that they do not behave in a rational fashion; for instance, they make quick-profit investment instead of investing in long-term profitable enterprises; but this may be rational in the context of highly inflationary economies. By analysing the components of entrepreneurship as defined by the entrepreneurial school, then, I hope to discover whether in fact the "necessary" values and behaviour do exist in the underdeveloped areas.

Briefly, then, the body of this thesis will consist of three chapters. The first will be a summary of the different meanings of entrepreneurship presented in the theoretical

writings of the entrepreneurial school. From this summary two models will be abstracted, one of entrepreneurship in the developed West and another of entrepreneurship in the underdeveloped countries. The next two chapters will be an attempt to determine whether in fact these two models correspond to reality. The entrepreneurial school's model of Western development is based largely on its interpretation of Weber's The Protestant Ethic and the Spirit of Capitalism; hence this work will be analysed. A minor excursus will be made into the literature on minority groups who are inordinately successful in business, especially the Jews, in order to criticize the cultural theorists' contention that their success is due to Protestant or Protestant-like cultural characteristics. Entrepreneurship in the United States will be examined in order to determine whether it actually coincides with the model posited for developed nations; similarly France will be examined to determine whether it conforms with the model for underdevelopment, since there is a considerable body of research in the entrepreneurial school which claims that France, as a Western nation, is relatively underdeveloped, for the same cultural reasons as Third World countries are underdeveloped. Finally, an analysis will be made of the empirical studies of entrepreneurship in underdeveloped countries, in order to determine whether the values and behaviour of the entrepreneurs do actually conform to the theoretical model.

It will in fact be found that neither of the two theoretical models postulated by the entrepreneurial school corresponds to reality. Rather, the two models can be collapsed into a single model of entrepreneurship, in both the West and the Third World, at similar stages of development.

Chapter II

The Theoretical Framework of the Entrepreneurial School

To entitle this chapter "the theoretical framework of the entrepreneurial school" is in actuality to imply far more coherence and lucidity to the school than it deserves. One of the most telling defects of this school of development is precisely that its definition of the word "entrepreneur" is exceedingly fuzzy. Its "theory" is nothing more than a melange of various definitions of the word used by various authors. At times, entrepreneurship seems to be used as a term enveloping every facet of economic life. At other times it is confined to more specific functions. The comparability of the different studies of entrepreneurs, both in the past and in the present, is greatly hindered by the lack of agreement of the various authors.

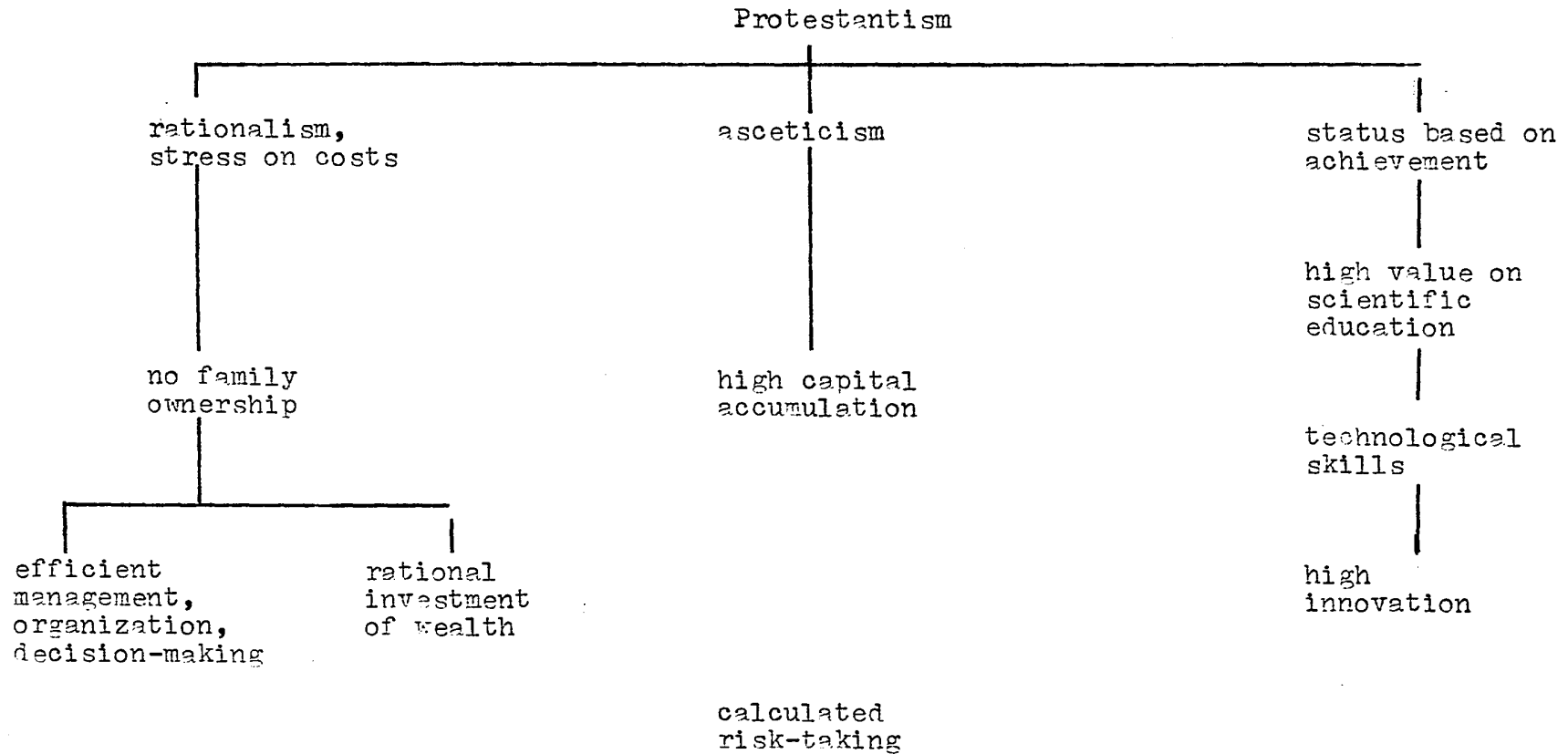
It is all the more telling a defect of the entrepreneurial school that so many journal articles have been devoted to the search for agreement on its terminology with such a paucity of results, especially considering that the social scientists engaged in this area of research have had a considerable amount of contact with one another, through the Harvard University Research Centre in Entrepreneurial History, established in 1948, and its organ, Explorations in Entrepreneurial History (as of 1970, newly entitled Explorations in Economic History).

While it is frequently acknowledged in the "theoretical" articles that their conceptual apparatus is unclear, little has been done to solve the problem.

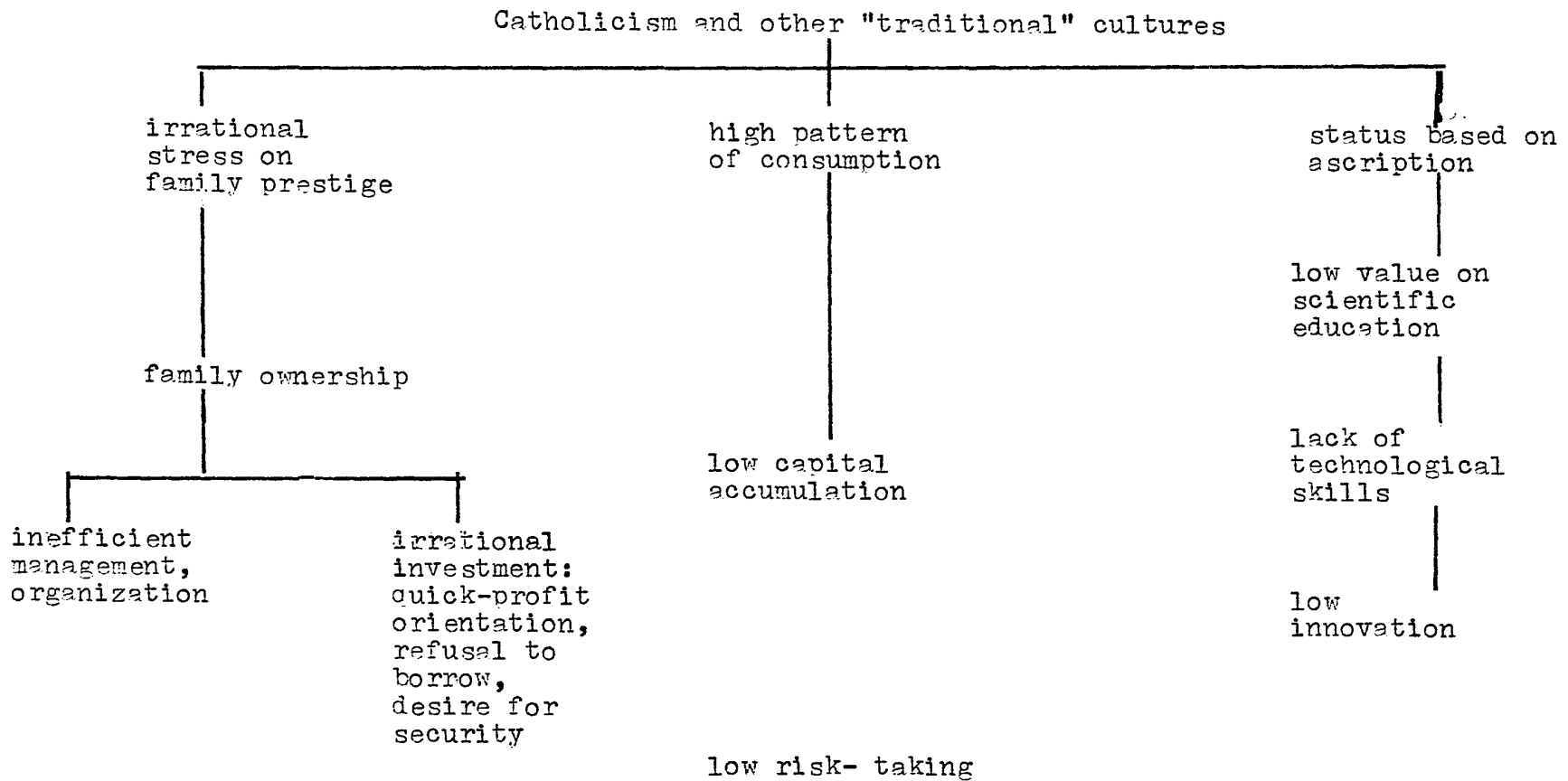
To be completely faithful to the essence of the school, then, would require my presenting an undifferentiated list of definitions of entrepreneurs taken from the various journal articles on the subject. This would be of little help, however, in trying to understand whether or not the entrepreneurs in underdeveloped areas conform to the picture presented of them. I shall therefore instead present two models which I have abstracted from the literature on the subject; one, Model A, describes the modern developed nation, the other, Model B, describes the backward underdeveloped nation. Chapter III will be concerned with analysing whether entrepreneurs in the developing West did indeed conform to Model A, and Chapter IV with whether entrepreneurs in the present-day Third World conform to Model B.

The major concern of these models is with the values and behaviour of the entrepreneurs described; the behaviour, of course, springs from the predominant values. Model A, that of entrepreneurs in developed nations, has been taken from the various definitions presented in the literature of the model entrepreneur; that is, the man who acts in a truly "entrepreneurial" fashion. This model, then, is an abstraction of the more frequently discussed characteristics of entrepreneurs, and it is with this model that this chapter will be concerned, since it is an attempt to show the theoretical framework of the school.

Model A: Entrepreneurship in Developed Economies



Model B: Entrepreneurship in Underdeveloped Countries



As noted in Chapter I, the major inspiration for the entrepreneurial school has been the work of Max Weber and Joseph Schumpeter. Weber's thesis on the relationship between Protestantism and the "spirit of capitalism" will not be examined here, as a critical examination of his work is made in Chapter III. Suffice it to say at this point that Weber has posited the three "values" which are most important to entrepreneurship as defined by the entrepreneurial school; i.e., rationalism, asceticism, and the achievement orientation. Schumpeter, on the other hand, has provided the roots of the ideas of the behaviour of entrepreneurs in his notion of the entrepreneur as innovator. The two models converge inasmuch as innovation can be seen as a function of the rational, education-oriented attitude to life. The two models are extended by the entrepreneurial school to include other aspects of the functions or behaviour of entrepreneurs, such as management, capital-accumulation, and risk-taking. In general, the behaviour of the entrepreneurs is described in terms of the functions which they are expected to fulfil.

The first of Weber's values, then, to be adopted by the entrepreneurial school is that of rationality. According to Weber

The term "formal rationality of economic action" will be used to designate the extent of quantitative calculation or accounting which is technically possible and which is actually adopted.¹

¹Max Weber, The Theory of Social and Economic Organization, (New York: The Free Press, 1947) p.184-5

It is this definition which has been adopted by the entrepreneurial school. There is a constant search in their different studies of Third World countries to determine how much cost-accounting, auditing, and double-entry bookkeeping is used, in order to determine how modern the Third World entrepreneurs are. The concept of rationality has been extended to cover general notions of efficiency in business, such as keeping appointments on time, making plans on the basis of adequate information and calculation of costs, and having universalistic criteria of hiring as opposed to the particularistic criteria claimed to be so prevalent in family-owned, nepotistic enterprises in the Third World. Cochran's model of the typical Latin American entrepreneur describes well the irrational type: the Latin American does not keep appointments because it is a sign of culture to be unhurried,² he prefers a feeling of being simpatico with his associates to choosing them on the basis of their merits,³ and he is a victim of proyectismo, a tendency to make plans without analysis and then to assume that the plans are fact, instead of carrying them through.⁴

Those who value rationality must conduct the management of their enterprises in a certain way. There is a problem, however, hotly debated in the entrepreneurial school, over whether or not rational management can in fact be considered a function of the entrepreneur, given that Schumpeter's definition of the entrepreneur focusses on his "innovative" function.

²Cochran, op.cit., p.524

³ibid, p.521

⁴ibid, p.518

Indeed Schumpeter himself seems to believe that rationality and innovation preclude each other.

The more accurately...we learn to know the natural and social world, the more perfect our control of facts becomes; and the greater the extent, with time and progressive rationalization, within which things can be simply calculated and indeed quickly and reliably calculated, the more the significance of this function innovation decreases.⁵

"Mere managers" and "entrepreneurs" are, for Schumpeter, two different types.⁶ The entrepreneur is characterized by his "creative response" to the economic environment; the changes he makes within it "cannot be predicted by applying the ordinary rules of inference from the pre-existing facts"? "Everyone is an entrepreneur only when he carries out new combinations".⁸

But it is in defining entrepreneurship as "new combinations" that Schumpeter provides room in his theory for the rising school of business theorists who wish to include rational management as a component of entrepreneurship. For he claims that development is also defined by the carrying out of new combinations. The entrepreneur, then, is an agent of development, if he carries out new combinations of the factors of production which result in the introduction of new goods, new methods of production, new markets, new sources of raw materials or semi-manufactured goods, or new forms of organization.⁹ This definition of new combinations is so broad as to include most of the functions of management. Evans, for instance, defines entrepreneurs as "those who organize, manage, and actively control the

⁵Schumpeter, op.cit., p.85

⁶ibid, p.83

⁷Joseph Schumpeter, "The Creative Response in Economic History", Journal of Economic History, VII, no.2 (Nov. 1947), p.150

⁸Schumpeter, The Theory..., op.cit., p.78

⁹ibid, p.66

affairs of units that combine the factors of production for the supply of goods and services"¹⁰

Different authors take different positions on the place of management in entrepreneurship, but for the purpose of this study management is included in the models for two reasons. First, it is included because the area studies of entrepreneurs in the Third World make frequent reference to managerial practices as important factors in the effect of entrepreneurship on development. Secondly, it is included because despite Schumpeter's contention that the significance of innovative enterprise decreases as rationality increases, some amount of his "creative response" will always be needed, if not in the innovation, then in the adaptation, of new goods to underdeveloped areas. Those who manage may often be those who make decisions to adapt technology from developed areas to make it suitable for underdeveloped areas. Indeed, several authors suggest that this very decision-making is a primary function of the entrepreneur. Collins defines entrepreneurship as "essentially a broad organizing and decision-making function"¹¹ and Meyer claims that entrepreneurship consists of the making of "intelligent investment decisions, public and private, and...reasonably sound choices"¹²

No matter how broad the definition gets, however, it is obvious that a key aspect of the concept of innovation is

¹⁰ George Herberton Evans, Jr. "The Entrepreneur and Economic Theory", American Economic Review, papers and proceedings, XXXIX, no.3, (May 1949), p.336

¹¹ Orvis F. Collins, David G. Moore and Durab B. Unwalla, The Enterprising Man (East Lansing, Mich.: Michigan State Univ. Business Studies, 1964), p.16

¹² A.J. Meyer, Middle Eastern Capitalism, (Cambridge: Harvard Univ. Press, 1959), p.34

technological innovation. It is assumed in the literature that there has been a connection between Protestantism, capitalism, and a high value set on scientific education, a value which induces technological innovation. According to Robert Merton, the connection is caused by the direct relationship between Protestant rationality and their tendency to assume that the universe is an ordered, understandable place; hence their desire to learn in order to understand the universe.¹³ Another likely explanation for the phenomenon is that because the Protestants stressed literacy (since it was a religious tenet that each man had to be able to understand the Bible himself, rather than depend on a priest to interpret it for him) they were more likely to go to school. The literacy which they acquired in school opened the door to their learning various new scientific and technical ideas.

Furthermore, the stress on scientific education stems directly from the high value placed on achievement in the Protestant ethic. Protestants were expected to fulfil their vocation, or calling, to the best of their ability. A man's worth was measured by how well he accomplished his chosen task, and status was conferred on the basis of accomplishments, not on the basis of "traditional" criteria such as birth. To achieve his goal; then, a Protestant businessman had to be able to innovate and to understand the growing technology of his time.

Those who study the Third World often stress that the entrepreneur in underdeveloped areas is not as technologically

¹³Robert K. Merton, "Puritanism, Pietism, and Science", in _____, Social Theory and Social Structure, (Glencoe: The Free Press, 1957)

mind, hence not as able to innovate, as the Western Protestant entrepreneur. Cochran, for example, contrasts Henry Ford's "single-minded obsession with technology" to the Latin American entrepreneur Torcuata di Tella, who he claims is more concerned with being an "all-round man"¹⁴ (This contrast is actually quite strange, considering that in a separate work Cochran points out the numerous technical innovations di Tella made in his business.¹⁵) This lack of a technical outlook combines with a lack of asceticism in the Third World to hinder development. Third World entrepreneurs are constantly criticized for their ascriptive status orientations, and their concern for family prestige, which leads them to engage in lavish, almost conspicuous spending instead of saving as, supposedly, did Weber's Protestants. It is difficult, for two reasons, to understand why this notion is included in analyses of entrepreneurs in underdeveloped areas. First, in actual case studies it is seldom found that entrepreneurs personally overspend; rather, their savings, or more likely their families' savings, often help to put them in business. Secondly, in most cases, at least in Western development, savings have not been central in starting enterprises.

...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... for distinguishing the entrepreneur...from the capitalist.¹⁶

¹⁴ Thomas C. Cochran, "The Entrepreneur in Economic Change", Explorations in Entrepreneurial History, 3, no.1 (fall 1965) p.34

¹⁵ Thomas C. Cochran and Ruben E. Reina, Entrepreneurship and Argentine Culture, (Philadelphia: Univ. of Pennsylvania Press, 1962)

¹⁶ Joseph Schumpeter, "Economic Theory and Entrepreneurial History" in Richard V. Clemence, ed Essays of J.A. Schumpeter, (Cambridge: Addison-Wesley Press, 1951) p.261

Probably the question of savings has become important in the minds of those analysing entrepreneurs in underdeveloped areas because of the necessity of finding some group in these societies which will fulfil the function of accumulating capital. In the more sophisticated literature on entrepreneurship, such as in the quote from Schumpeter above, the functions of the capitalist (or the financier) and the entrepreneur have been separated, as indeed these functions have long been separated in the West. In underdeveloped areas, however, separate groups of capitalists have not emerged, or if they have, they are often controlled by colonial powers, or the structure of the legal system is not such as to provide for the creation of credit. The area studies point out time and again the lack of adequate capital credit facilities. But it is not in accord with the cultural bias of the entrepreneurial school to attribute a lack of funds for development to structural causes, hence it falls back on the "values" interpretation of entrepreneurship, and blames the traditionalism of Third World entrepreneurs for an inability to accumulate capital.

Similarly the idea of risk-taking¹⁷ has long been separated from the concept of entrepreneurship in the minds of many writers, yet the connection lingers on in the writings on Third World entrepreneurs. Risk-taking is the only one of

¹⁷"Risk" is used here only to mean risk of capital goods, not risk of loss of one's job, of status, etc.. It is acknowledged that all entrepreneurs risk something in their activities, even if they do not supply their own capital. But then, so do all workers. The incidence of loss of life and limb is much higher among workers than among entrepreneurs. Everyone involved in the production process takes risks of one kind or another. To extend the concept of risk indefinitely is to render it meaningless. The distinction must be made between those who risk capital and those who take other kinds of risks.

the many entrepreneurial functions which can be derived from the writings neither of Weber nor of Schumpeter. Schumpeter explicitly denies that the entrepreneur is the risk-bearer.

Risk-taking is in no case an element of the entrepreneurial function. Even though he may risk his reputation, the direct economic responsibility of failure never falls on him.¹⁸

Similarly Weber's Protestant is if anything too prudent and cautious to take unnecessary risks, although he might engage in calculated risk-taking. It is this calculated risk-taking, perhaps, that the entrepreneurial school claims does not exist in underdeveloped areas. Entrepreneurs are often criticized for their desire for security, and their lack of adventuresomeness, often translated as a desire for security. Yet their behaviour may be highly rational, as Alexander points out.

After properly discounting for the uncertainty and risk, preference for the traditional activities over industry may represent fully rational maximizing behaviour.¹⁹

Like capital accumulation, it is assumed that risk-bearing was an important function of the entrepreneur in the developing Western society, and is still an important function of the entrepreneur in underdeveloped societies, inasmuch as the function cannot be passed over to any other group.

Such, then, is Model A, the model of the ideal entrepreneur's values and behaviour, and the functions he performs. There is no single article anywhere which would present a model of the modern entrepreneur in this form, but each of the

¹⁸Schumpeter, The Theory..., op.cit., p.137

¹⁹Alex P. Alexander, "The Supply of Industrial Entrepreneurship", Explorations in Entrepreneurial History, 4, no.2 (winter 1967) p.140

characteristics dwelt upon above has been mentioned by various authors on the subject. Weber's characteristic values of rationalism, asceticism, and the achievement orientation have combined with Schumpeter's notion of innovation to produce a composite picture of the ideal modern Western entrepreneur. The functions of risk-taking and capital accumulation have been added because although they are no longer considered to be necessary in the developed economies of the world, they were formerly necessary in the West, and they are still necessary in underdeveloped areas.

The model of Western entrepreneurship, then, is also a model of what the writers of the entrepreneurial school would like entrepreneurship in the Third World to be. But Model B is closer to what these writers feel is the actual state of entrepreneurship in the Third World. I have touched briefly on Model B in this chapter, pointing out some of the ways it differs from Model A. But Model B is not meant to be a summary of the theoretical framework of the entrepreneurial school. It is rather a short-hand way of looking at many of the common criticisms levelled against entrepreneurs in underdeveloped countries. Chapter IV will analyse the findings from the area studies to determine to what extent they conform to Model B.

Chapter III

Entrepreneurship in the West

1. The Weberian Thesis

As shown in the model of Western development presented in Chapter II, Max Weber's thesis is the basis for assumptions about the process of development made by the entrepreneurial school. The rationalism, frugality, and achievement orientation of his Protestant businessmen are the bases of all the characteristics of the modern Western entrepreneur. It is therefore necessary to investigate the connections which he makes between the Protestant ethic and the spirit of capitalism, in order to discover whether they are indeed legitimate. It would seem that the two phenomena, Protestantism and capitalism, are connected in some way, but the direction of causality is far from clear. In fact, it may well be that they are both offshoots of independent developments in early modern Europe.

Weber's thesis is suspect from the beginning because of the definitional fuzziness of his terms; in this he resembles the modern entrepreneurial school. He does not once define what he means by the term "Protestant". Samuelsson points out that he sometimes refers to Protestantism in general; sometimes only to Calvinism and the Free Church sects, leaving out Lutheranism; sometimes only to Calvinism; and finally simply to the "secularized Puritanism of Benjamin Franklin".¹ One cannot even

¹Kurt Samuelsson, Religion and Economic Action, (New York: Harper and Row, 1964) p.148

make the case that he is progressing from a higher to a lower level of abstraction as he switches back and forth in his book. He does, however, define capitalism, as "the pursuit of profit, and forever renewed profit, by means of continuous, rational, capitalistic enterprise"². But he does not seem to be conceptually clear even on this point as he later states that the "most important principle of the capitalist ethic...is generally formulated 'honesty is the best policy'"³. Honesty may be the best policy if one wishes to obtain a Christian salvation, but not necessarily if one wishes to be a successful capitalist. Weber has been most thoroughly criticised for ignoring precisely such Protestant doctrines as the stress on honesty, which might well be inimical to true profit maximization.

Weber's belief that Protestantism, and more especially Calvinism, has generated the capitalist ethic stems from a rather tortuous reasoning, inasmuch as, in trying to prove the connection, he seems to misinterpret the actual content of Protestant doctrine. Weber's reasoning is as follows. The Calvinists believed in predestination; certain people were elected to go to Heaven. It was impossible for one to learn if he were a member of the elect; however, he was expected to act as if he were one of the elect, as not to do so would be to exhibit a lack of grace. To act as if one were elect entailed adopting a calling, and fulfilling this calling in a methodical, "rational", self-disciplined way. The ordinary Calvinist

²Weber, Protestant..., op.cit., p.17, italics in the text
³ibid, p.151

believer, however, could not stand the uncertainty of not knowing whether he was one of the elect. Hence the religious precepts were corrupted into the notion that if one fulfilled one's calling, one might be one of the elect, whereas not to fulfil one's calling was to indicate that one was most certainly not one of the elect. The Calvinist leaders urged their flock to fulfil their callings by saving and investing. Weber quotes one of the Calvinist prophets thus.

If God show you a way in which you may lawfully get more than in another way (without wrong to your soul or to any other), if you refuse this, and choose the less gainful way, you cross one of the ends of your calling, and you refuse to be God's steward...⁴

The forgotten qualification in this statement is the injunction not to do harm to any other soul. More than a few writers have suggested that Weber has grossly misinterpreted the actually very anti-capitalist Calvinist doctrine. Samuelsson maintains that in reality the major concern of Protestant religious leaders was to make sure that the ethical constraints on the practice of business were adhered to, and that they most reluctantly gave their consent to capitalist practices because many of their converts were men who, already capitalist, had converted to Protestantism because both capitalists and Protestants were at that time in opposition to the state-church establishment. Sombart points out that Protestantism was an other-worldly religion which inhibited rational planning and calculation.

Protestantism has been all along the line a foe to capitalism and more especially to the capitalist economic

⁴Richard Baxter, quoted in *ibid*, p.162

outlook. How could it be otherwise? Capitalism is something worldly, something for this life on earth ...but for that very reason it will be hated and condemned of all who regard our life here as only a preparation for life hereafter.⁵

Tawney's view, in the other hand, is not that Protestantism was especially other-worldly but that its rules of conscience, especially as regards usury, profit-making, and their concomitant exploitation, were far stricter than the Catholic.

...as far as the first generation of reformers was concerned, there was no intention, among either the Lutherans, or Calvinists, or Anglicans, of relaxing the rules of good conscience...If anything, indeed, their tendency was to interpret them with a more rigorous severity, as a protest against the moral laxity of the Renaissance and, in particular, against the avarice which was thought to be peculiarly the sin of Rome...⁶

Tawney's view fits well with the general interpretation of the rise of Puritanism at a time of economic decline in Western Europe in which it was impossible to spend as lavishly as previously.

One could spend an indefinite amount of time debating the "true" nature of Protestantism. The reason, of course, is that, as Weber himself points out, the sects of Protestantism were many and varied, and some had the "capitalist spirit" while others did not. The Quakers, for instance, evidence all the signs of the classic Weberian pattern. They accept the idea of the calling, put much stress on industry and frugality, hold property rights as absolute, and regard success in business as a sign of the Lord's favour.⁷ Tolles presents much proof of the pre-eminent

⁵Werner Sombart, quoted by Philip Siegelman, introduction to Sombart, Luxury and Capitalism, (Ann Arbor: Univ. of Michigan, 1967) p.xi

⁶R.H. Tawney, Religion and the Rise of Capitalism, (Middlesex: Penguin Books, 1938) p.94

⁷Frederick B. Tolles, Meeting House and Counting House, (New York: W.W. Norton, 1963), p.55-57

position of Quakers in the economic life of Philadelphia; in 1769, for instance, they constituted only one seventh of the population but over half of those paying taxes over £100.⁸ On the other hand the Mennonites, also a devout Protestant sect, do not show any unusual signs of business acumen. The Mennonites emphasize work and regard prosperity as a sign of God's blessing, as do the Quakers. They are a frugal people as they regard wealth as a sacred charge, not to be prodigally spent on conspicuous consumption.⁹ However, because of their strong emphasis on brotherly love they have completely withdrawn from the outside world's economic activities; their ethic prevents them from entering occupations which might be chosen on the basis of economic calculations because of the moral ambiguities, such as the necessity to exploit labour, of many of these occupations.¹⁰

Thus one criticism which can be levelled against Weber, or perhaps more accurately against the entrepreneurial school which takes Weber overly seriously, is that the Protestant "culture" is so varied both as to content and as to practice that it should not be posited as a general theory which can be used to explain structural changes. A more mundane criticism is that Weber was simply wrong in correlating Protestantism and capitalism; that capitalism developed in many places where Protestantism did not exist. The mercantile capitalist Italian cities of the Renaissance, the Hanseatic League, the Dutch capitalist city of Antwerp; all are areas which were capitalist while remaining Catholic. In

⁸ *ibid*, pp. 48-49

⁹ Estel Wayne Nafziger, "The Mennonite Ethic in the Weberian Framework", Explorations in Entrepreneurial History, 2, no. 3, (spring-summer 1965), p. 191

¹⁰ *ibid*, pp. 193-95

fact the decline of the Netherlands and the Hanseatic League set in after they had been influenced by the Reformation.¹¹ There seems to be no evidence that the "spirit of capitalism" was not also prevalent in these Catholic cities at the time of their economic ascendancy. Sombart traces the evolution of the bourgeois type from fourteenth century Catholic Florence. The diaries of Florentine businessmen stress such virtues as diligence and application; "there is nothing so hurtful and noxious to public and private life as idle citizens".¹² St. Thomas Aquinas, Sombart contends, stressed the reason which regulates the world and controls passion¹³, while the medieval Catholic Schoolmen praised economy and condemned idleness and cheating: "...these later Schoolmen had more sympathy for and understanding of capitalism than the seventeenth century zealot preachers of Puritanism".¹⁴ Samuelsson points out that the French Catholic writer Jacques Savary wrote books in the late seventeenth century which contained exactly the same capitalist precepts as did those of Benjamin Franklin himself.¹⁵ A study of eighteenth century colonists in Catholic Quebec and Puritan New England shows that both groups were equally bourgeois or capitalist oriented.¹⁶

Nor is there any indication that the great American entrepreneurs were inordinately Protestant. It has been noted that Benjamin Franklin's parents were Puritans, and that his

¹¹ Samuelsson, op.cit., p.104

¹² Alberti, Del Governo della Famiglia, quoted in Werner Sombart, The Quintessence of Capitalism, (New York: Howard Fertig, 1967), p.108

¹³ *ibid*, p.238

¹⁴ *ibid*, p.240

¹⁵ Samuelsson, op.cit., p.61

¹⁶ Cameron Nish, Les Bourgeois Gentilshommes de la Nouvelle-France, (Montreal: Fides, 1968), .

first employers were Quakers, but, despite his writings, Franklin himself was no capitalist. Rather, he was far from frugal in his own life, "his wife's good management helped to balance his extravagance"¹⁷, he was generous to a fault, and he retired at the age of forty-two, as soon as he had the income to do so, so that he could be "uninterrupted by the little cares and fatigues of business".¹⁸

As for the Robber Barons, Josephson, a well-known historian of their era, states that

It would be false to deny or overlook the strong religious impulse shared by most of the great possessors of money, who were nearly all apparently true believers, Godly men, and generous champions of the Church.¹⁹

But almost immediately afterwards he contradicts himself by pointing out Veblen's contention that many of the wealthy gave money to the church for status reasons; by pointing out the ritualism enjoyed by Pierpont Morgan, who was thrilled by Rome; and by explaining that James Hill gave money to the Catholic church because he knew the church held moral sway over his immigrant workers and would help to keep down labour unrest.²⁰ Sombart summarizes well the "Puritan" morality of the Robber Barons.

Of the great victors on the racecourse of modern capitalism it may be asserted, what was recently said of Rockefeller, that they knew how to glide over every moral restraint with almost childlike disregard.²¹

Nevertheless, in disputing the above, it could be contended

¹⁷Larzar Ziff, Franklin, (New York: Holt, Rinehart, and Winston, 1964), p.vii

¹⁸ibid, p.ix

¹⁹Matthew Josephson, The Robber Barons, (New York: Harcourt and Brace and Co.,1934), p. 317, italics mine

²⁰ibid, p.319

²¹Sombart, The Quintessence..., op.cit., p.183

that it is irrelevant whether or not the great capitalists were themselves Protestants, as long as they had the Protestant ethic; i.e., that they were frugal, rational, and achievement-oriented. However there is some question as to the actual relevance of this ethic in capitalist development. Nef, for instance, points out that the "first industrial revolution" began in England between 1540 and 1560, before the moral precepts of savings and hard work had become very important.

The changes in religious teaching on behalf of savings and hard work, which Weber traces to the rise of Calvinistic Protestantism, could hardly have been responsible for the first remarkable speeding up in the rate of economic growth in England. That got under way between 1540 and 1560, before Calvin's English and Scottish disciples had made an important mark on individual conduct.²²

Moreover many of the great fortunes which enabled the merchant classes to invest in industrial production were based on war, on plunder, or on exploitation of unequal trade relations between different countries.²³ Their fortunes were certainly not made by meticulous savings of small gains. But there may be a point to the argument that an ethic of asceticism was necessary in order to promote the growth of small and medium-sized businesses during this period. The Reformation did promote such behaviour, although it did so more perhaps as a result of the generally contracting economy of the time than as a result of a moral desire for frugality. Most great fortunes, however, were not accumulated by the petty frugality which Sombart claims was more suited to shopkeeping than to adventurous enterprises.²⁴

²²Nef, op.cit., p.223

²³Dobb, op.cit., Chapter III

²⁴Siegelman, in Sombart, Luxury, op.cit., p.xii

Similarly the rational aspect of the Protestant ethic has been necessary for the development of modern capitalism, although the rationality of the Puritans as opposed to any other group of people has most certainly been overstressed. One cannot be rational in the abstract; one can only be rational in the pursuit of a goal. Birnbaum has summarized Weber's concept of the rational as "the continual weighing of preferences in terms of the relative costs of attaining each".²⁵ But this definition is almost tautological; clearly any people in any society, in pursuit of any goal, will measure the costs of their alternative actions. Hence Spiro can defend the Burmese on the charge that they spend "irrationally" on religious festivals and pagodas by pointing out the relative benefit to the Burmese of attaining their goal, that of a happy reincarnation.²⁶ Weber's capitalists can only be rational in pursuit of their own goal, which, according to him, is "the pursuit of...forever renewed profit". But the pursuit of profit was by no means unique to the Protestants.

Weber in fact defines rationality more elaborately than Birnbaum's summary indicates.

The term "formal rationality of economic action" will be used to designate the extent of quantitative calculation or accounting which is technically possible and which is actually applied. A system of economic activity will be called formally rational according to the degree in which the provision for needs, which is essential to every rational economy, is capable of being expressed in numerical, calculable terms, and is so expressed.²⁷

There is in this definition a hint of the notion that the

²⁵Norman Birnbaum, "Conflicting Interpretations of the Rise of Capitalism: Marx and Weber", British Journal of Sociology, 4, (1953), p.127

²⁶Melford E. Spiro, "Religion and Economic Action in Burma", American Anthropologist, 68, no.5, (Oct. 1966)

²⁷Weber, Theory..., op.cit., pp.184-85

Puritans were more scientifically or technologically oriented than other groups, hence more able to calculate and measure their costs and gains. Merton presents considerable evidence to show that the Protestants were indeed more scientifically oriented than Catholics. His major argument is that the Royal Society, a scientific organization founded in England in 1663, was predominantly Puritan.²⁸ But this is hardly a convincing argument.

To what extent should we expect there to be Catholic membership in this body the Royal Society when known Catholics were subject to fines, confiscations, and imprisonment; when they were banned from scholarship in the universities, teaching, and other academic pursuits; when professional and political occupations called for religious tests?²⁹

Merton also presents as evidence the fact that the only university to be founded in England between the middle ages and the nineteenth century was founded by Cromwell³⁰; furthermore that, on the Continent, the Protestant academies in France gave much more attention to scientific and utilitarian subjects than the Catholic; and that the Pietists founded the University of Halle, the first German university with thorough training in the sciences.³¹ But such correlative evidence remains correlative, and nothing more. Quite possibly what happened was that those people who became independently interested in education tended to leave the Catholic church.

In any case, the ability to calculate and measure, which was increased by the new interest in education, should not be confused with Weber's tendency to calculate and measure, a

²⁸Merton, op.cit., p.584

²⁹James W. Carroll, "Merton's Thesis on English Science", American Journal of Economics and Sociology, 13, (1954), p.431

³⁰Merton, op.cit., p.586

³¹ibid, pp.587, 589

tendency by no means confined to the Puritan ethic. Both Protestants and Catholics were interested in achieving status by increasing their wealth. As wealth became a goal in and of itself, and as in popular belief one's achievements, hence one's status, became automatically correlated with the amount of one's money, both groups became interested in any means of increasing that wealth. Insofar as a scientific education was a prerequisite for the successful running of a capitalist enterprise, there is no evidence that Protestants were any more likely to evince interest in education than Catholics. Indeed if, as Carroll maintains, Protestants were so eager to monopolize education in England, perhaps it was because they were afraid of Catholic competition.

Asceticism, rationality, and the achievement orientation, it has thus been established, cannot be specifically connected in any way with the Protestant ethic. Further evidence to support this point of view will be presented below in connection with an analysis of French and American entrepreneurs. In the meantime, before leaving the subject of the Weberian thesis, it is important to consider the other arguments as to the effects of the Protestant ethic on the development of capitalism. The most frequently mentioned of these is the contention that Calvinism promoted development by removing the ban on usury. This point would seem somewhat irrelevant in view of the fact that the economic expansion of Europe took place at a time of exceedingly low interest rates.³² Whatever the interest rates, moreover, there does not seem to be any indication that the

³²Samuelsson, op.cit., p.92

Protestant church was any more lenient in this regard than the Catholic. Luther denounced usurers, even to the point of denying them a Christian burial.³³ St. Thomas Aquinas, on the other hand, sanctioned usury in borrowing for productive purposes, and in general the Catholic church allowed usury as long as the financier shared some of the risk involved in the enterprise.³⁴ It could well be argued that some of the more Puritanical preachers were fighting a rearguard action against the Catholic church's leniency to businessmen.

Probably the most important effects of the Reformation were not in the area of moral precepts or of cultural values at all, but in the area of social and economic changes. The contribution of Protestantism to the development of literacy is well known. The confiscation of Church and monastery lands was done for political, not religious reasons:

At a time when princes everywhere in Europe sought increased power, princes in the north were exploiting the spirit of the Protestant reformation, with its opposition to the worship, the wealth, and the government of the Roman church.³⁵

but its effects were economic. It eliminated one of the greatest sources of thesaurization in Europe³⁶, and in England at least, liberated much iron and coal-rich land for sale and hence for more economic use.

Whether the land was retained by the Crown, (whose officials were disposed to lease it out on terms favourable for its economic development) or sold to subjects, the

³³Tawney, op.cit., p.164

³⁴Sombart, The Quintessence..., op.cit., p.240

³⁵Nef, op.cit., p.230

³⁶Stánislav Andreski, "Capitalism and Religion", in _____, The Uses of Comparative Sociology, (Berkeley, Univ. of California Press, 1969), p.194

change of ownership encouraged its exploitation for purposes such as coal mining, the conversion of iron and other ores to metals, the making of salt, etc.³⁷

The work force increased with the abolition of celibacy as an ideal, and the reduction in the number of Holy Days "rationalized" the organization of work.³⁸ There is no doubt that the Protestant reformation did have very important effects on the development of capitalism, but these were not in the realm of values.

To sum up, then, two important points about Weber's thesis must be kept in mind. First, it is not at all clear that the "Protestant ethic" per se ever existed; the behaviour patterns presented by Weber may have been true of some groups but were by no means universal among Protestant groups; furthermore, they were also true of some non-Protestant groups. This suggests therefore that it was certainly not the cultural configuration of Protestantism which was responsible for the alleged connections made by Weber between Protestantism and capitalism. Moreover, insofar as the alleged connections did actually exist, Weber has proved only their correlation, not the causality of one over the other. Insofar as Weber is the intellectual forefather of the cultural theorists, and especially of the entrepreneurial school, then a rigorous analysis of Weber's cause enough to suspect their analyses as well. A theoretical school based on unsound precepts may well be itself unsound.

³⁷ Nef, op.cit., p.232

³⁸ ibid, p.234, 35

2. Minority Groups and Entrepreneurship

An offshoot of the general cultural analysis of development is the school of thought which attributes the alleged business acumen of certain minority groups to their cultural characteristics. Jews, of course, have been the main focus of this sort of analysis. While Max Weber rejected the notion that Jews were prominent in the development of modern capitalism, Werner Sombart was its major spokesman in his book, The Jews and Modern Capitalism.³⁹ Sombart believed that it was the Jews who carried modern capitalism, in its ideological, technological, and financial aspects, from Portugal, Spain, and Italy to the Low Countries and to England.⁴⁰ He attributed their commercial genius to the fact that the Old Testament glorified riches, as opposed to the Christian ideal of poverty, and to the "rationalization" of Jewish life; that is, to its suppression of the sexual appetite and of artistic tastes.⁴¹ Furthermore, he believed that the Jews could be more self-seeking in business than other groups because of "...the Deuteronomic injunction which permitted different commercial dealings and a different moral code in relations between Jews and non-Jews!"⁴²

Several criticisms can be made of Sombart's position without going into the more structural explanations of the commercial success of the Jews. To begin with, Sombart accepts the myth that the Jews somehow treat their own people less

³⁹(New York: Collier Books, 1951)

⁴⁰Warren G. Scoville, "Minority Migration and the Diffusion of Technology", Journal of Economic History, 11, no.2, (Nov. 1947), p.359

⁴¹Sombart, The Quintessence..., op.cit., p.264

⁴²Siegelman, in Sombart, Luxury..., op.cit., p.viii

exploitatively than they treat other people; with the exception perhaps of ghettoized Jews, this belief is largely Christian mythology. More important, it is by no means evident that the Jews have been carriers of capitalism. Barbour, for instance, maintains that the Portuguese and Spanish Jews who immigrated there were not important in the building up of capitalism in Amsterdam.⁴³ Furthermore, although there may have been some coincidence between the arrival of the Jews and the flourishing of capitalism in Amsterdam, "in England the foundations of capitalism were laid during the period between the expulsion of the Jews and their return".⁴⁴ And while the Jews may have once been prominent in the commercial life of Eastern Europe, East European Jews made no special contribution to modern capitalism in North America upon their arrival here at the turn of this century.⁴⁵

Other examples of minority groups, not all of which will be analysed here, which are reputed to have unusual propensities towards trade and commerce are the Parsis in India, the Chinese in Southeast Asia, and the Arabs both in East Africa and in South America. The commercial genius of the Parsis in India has

⁴³Violet Barbour, Capitalism in Amsterdam in the Seventeenth Century, (Ann Arbor, Univ. of Michigan Press, 1963), p.25

⁴⁴Andreski, op.cit., p.196

⁴⁵In considering the validity of Sombart's thesis it should also be kept in mind that he was a racist (or a Social Darwinist to be polite) and a later supporter of the National Socialist party. He believed that the Jews had inherited propensities toward capitalism, whereas, no matter what the circumstances, blacks could never be capitalists.

Moreover, in the course of a long period of history the process of selection was at work among the Jews, eliminating the units too weak for capitalism and allowing the strong ones to survive.

Place a negro in a new environment; will he build railways and invent new machines? Hardly. There must be a certain fitness, it must be in the blood. see Sombart, The Quintessence..., op.cit., pp.265 and 307

been documented by Kennedy, who points out that they were one of the chief trading classes in India as early as the eleventh century A.D.⁴⁶ He attributes this to their Zoroastrian value system, which he claims is similar to the Protestant inasmuch as it emphasizes the scientific ethic, with a belief in an underlying order in nature and a sensible standard of verification, and the "capitalist ethic", with a belief that material work is intrinsically good, that it is a virtue to maximize one's material prosperity, and that one should accumulate, not consume, material goods.⁴⁷ It is perhaps true that the Zoroastrian beliefs did promote values conducive to capitalism in the Parsis. But to evaluate the independent effects of their religion on the Parsis one would have to also investigate the economic behaviour of Zoroastrians who did not live in India, for it is certain that the Parsis were at least aided in their commercial affairs by the fact that they had privileged positions, especially as tax collectors, under the Dutch, French, and Portuguese colonists, and under the native rulers, as well as under the British regime.⁴⁸ Similarly the Chinese were given privileged positions in the Philippines by the Spanish,⁴⁹ and in Java by the Dutch⁵⁰ and the Arabs had special privileges in East Africa under British rule. Otherwise it would be difficult to explain the commercial propensities of these latter groups since, in general, the cultural theorists tend to regard the Chinese religions (both Confucian and Buddhist), as well as Islam, as not conducive to capitalism

⁴⁶Robert E. Kennedy, Jr. "The Protestant Ethic and the Parsis", in Neil J. Smelser, ed., Readings in Economic Sociology, (Englewood Cliffs, N.J.:Prentice-Hall, 1965) p.22

⁴⁷ibid, pp.19-21

⁴⁸ibid,p.23

or commerce.

Before positing the several structural explanations of the commercial predominance of minority groups it is necessary to insert a caveat to the effect that their role in commerce may be vastly overrated. Andreski, for instance, maintains that "as an economic force Judaism was negligible during its formative period and long afterwards"; Jews could not take part in the development of capitalism because they were subject to residential restrictions and were forbidden to own land, without which they had no securities to back their investments.⁵¹ The petty trade and marginal commerce in which such groups engage are not the roots of capitalist production. Probably much more important to the development of modern capitalism is the fact that minority groups tend to disseminate technological change and new industries.⁵² There are many examples of such diffusion of knowledge in Western European history. The Dutch migrants to England in the late sixteenth century revitalized the textile industry, introduced new garden vegetables and flowers into agriculture, and also affected the glass, copper, and iron and steel industries.⁵³ Similarly the French Huguenot refugees introduced new skills and luxury industries from France to Switzerland and England.⁵⁴ But the frequency of such migrations in Europe was very large, and certainly there was no common culture

⁴⁹D. Stanley Eitzen, "Two Minorities, the Jews of Poland and the Chinese of the Philippines", Jewish Journal of Sociology, X, no.2, (Dec. 1968).

⁵⁰W.F. Wertheim, "The Trading Minorities in Southeast Asia", in _____, East-West Parallels, (The Hague: W.Van Hoeve, 1964)

⁵¹Andreski, op.cit., p.195-6

⁵²Scoville, op.cit., p.347

⁵³ibid, p.353

⁵⁴ibid, pp.354-357

or religion shared by all the migrating groups. Aside from the Dutch and the Huguenots, Sombart mentions the Lombards and other Italian merchants in England and France, and the Austrians, French, and Scots in Germany.⁵⁵ All that these groups had in common was simply that, having lived in one area of Europe, they had skills and knowledge which were not available in other areas, given that there existed an international division of labour. In other words, their "minority group" status was far less important than the historical accident that they were forced to leave one area and go to another. In some cases, of course, a persecuted minority would have a monopoly of a certain trade, since, as Wertheim points out, there was low occupational mobility in medieval (and in colonial) society.

Ethnic groups were, consequently, attached to a few traditional professions. Popular education did not yet provide a convenient avenue for moving from one occupation to another.⁵⁶

But again, this is a structural, not a cultural, condition.

There is a tendency in the literature to assume that minority groups will be more productive than others simply because only the more adventurous and capable in the group will migrate. (Most "minority" groups are majorities in their own homeland. They become minorities only when they migrate. The Wandering Jew, homeless, is the exception.)

...the hardships occasioned by breaking with one's social and cultural environment and of travelling to lands of indefinite prospects and unforeseen situations will usually discourage all but the most resourceful, energetic, and courageous...⁵⁷

⁵⁵Sombart, The Quintessence..., op.cit., pp.293, 296

⁵⁶Wertheim, op.cit., p.75

⁵⁷Scoville, op.cit., p.349

The problem with this notion is its implication that migration is a voluntary process. To the extent that it is voluntary, it is probably true that only certain character types will migrate on an individual basis. But most of the great migrations in Western European history were involuntary. In any case, whether voluntary or involuntary, the "character type" of the individual migrant must not be confused with his class origins. Often the most "enterprising" migrate simply because they are from the upper classes, and the same advantages which gave them the education and skills to be "enterprising" gave them the income to migrate. As a case in point, a study of Jewish refugees in Britain and the United States, as opposed to the Soviet Union, would probably reveal considerable class differences in the two groups. It was the internationally connected, middle class Jew who fled to Britain and the United States during the 30's; the poorer Jews were left behind either to be (sometimes forcibly) rescued by the Soviet Union or to be slaughtered. Selectivity is indeed a factor in migration, but more in terms of selecting migrants with different class backgrounds than of different innate character dispositions.

More to the point in analysing why migrants tend to be somewhat more entrepreneurial than other groups is Park's "marginal man" theory. Real migration, according to Park, involves the breaking off of all home ties, a change in customs, mores, and personality. "Energies that were formerly controlled by custom and tradition are released" and the migrant becomes more cosmopolitanized, secularized, and detached than other

groups in the society.⁵⁸ The migrant is marginal in the sense that he is a part of two cultures, and hence not really of either one of them; he has a sense of detachment which leaves him open to new ideas and change. Park's prototype is the Jew who has left the ghetto.

...a cultural hybrid, a man living and sharing intimately in the cultural life and traditions of two distinct peoples...the emancipated Jew was historically and typically the marginal man, the first cosmopolite and citizen of the world.⁵⁹

Yet attractive as the "marginal man" theory is, it provides no evidence that Jews or other minority groups will use their social distance to innovate and change. The psychological feeling of distance can be just as easily expressed in marginal trading or petty bourgeois roles which so many of these groups play. Rinder describes this role best in his idea of the "status gap"; in many countries in which there is no intermediate status between the upper and the lower classes, for instance between colonial administrators and their subject peoples, minority groups are called in to fill a mediating role.

...since trade relations require that buyers and sellers play complementary and interdependent roles, members of the upper strata must consider trade beneath their dignity. Thus the status gap produces an economic gap which persists until filled by a third party.⁶⁰

The man who is psychologically alienated will better fill this role because he does not identify with either party. The status gap would partially explain why, for instance, the Spanish and

⁵⁸Robert E. Park, "Human Migration and the Marginal Man", American Journal of Sociology, XXXIII, no.6, (May 1928), p.887-8

⁵⁹ibid, p.892

⁶⁰Irwin D. Rinder, "Strangers in the Land: Social Relations in the Status Gap", Social Problems, 6, no.2, (winter 1958-59) p.253

the Dutch welcomed the Chinese as traders in their colonies. But more important than the idea that the colonizers did not want to muddy their hands by contact with the "natives" is the knowledge that by introducing an alien group to handle direct exploitation of the natives they could divert hostility from themselves; an explanation which is extremely a propos to the role the Jews play in exploiting the blacks in the United States. Further, by introducing and favouring an alien trading class, the upper classes or colonialists could destroy or prevent the formation of an indigenous bourgeoisie which challenged, or could challenge, their power. Hence Polish nobles in early modern Europe brought Jewish agents into the country to defuse the native bourgeoisie; hence the British encouraged the Parsis in India and the Asians in East Africa, and the Dutch encouraged the Chinese over the native Indonesian population. It is doubtful that the "marginality" of these groups would have been channelled into any such trading or commercial role without the aid of deliberate government policies. And of course, once they were introduced to these occupations, the minority groups tended to stay in them.

The principle of cumulative directionality applies here: since the Jews and Chinese were allowed in these positions originally, they have tended to persist throughout the centuries in these occupations.⁶¹

The above excursus into the role of minority groups as "entrepreneurs" has been introduced, ^{first,} as additional evidence that the Weberian thesis is subject to a great deal of criticism, inasmuch as structural factors are at least as important as,

⁶¹Eitzen, op.cit., p.231

if not more important than, cultural factors in channelling minority groups into certain roles; secondly, it has been introduced because the entrepreneurial school often discusses the role of minority groups or at least makes passing references to it. Area studies, for instance, tend to consider how many of the entrepreneurs they are studying are from minority groups. Minority group "cultures" are consistently stressed at the expense of structural analyses of such economic prominence as they display.

3. Entrepreneurs in Nineteenth Century America

In Chapter II two models were presented of the assumptions which the entrepreneurial school makes. The first was of their assumptions about entrepreneurs in the West, the second of their assumptions about entrepreneurs in the underdeveloped Third World. The United States is the prototype of the former model, and France is the prototype of the latter inasmuch as it is considered to be the most underdeveloped of the Western European nations, although on what grounds this opinion is held is not clear. The United States, then, will be considered in this section in order to determine to what extent its entrepreneurial development did actually conform to Model A. The great American businessmen will be considered in order to determine whether they exhibited the ascetic, rational, achievement-oriented characteristics of the Weberian scheme. Most of the data will be confined to the age of the Robber Barons.

The very term "Robber Baron"⁶² of course belies any notion that the great American entrepreneurs conformed to the Weberian pattern, at least insofar as how they obtained their money was concerned. The class origins of the Robber Barons, their methods of capital accumulation, and the role played by the state in helping them to accumulate their fortunes all contradict the notion of the poor boy who made good by saving his money until he could start a business. Miller criticizes Matthew Josephson⁶³ for presenting an image of the Robber Barons as all having been poor immigrant or farm boys in their youths (except, of course, for J.P. Morgan, whose father was a banker).⁶⁴ In a study of 190 top American business leaders between 1900 and 1910, Miller reports, only three per cent were from immigrant or farm families, and the majority were recruited from high status families, with seventy-nine per cent being of British origin.⁶⁵ Eighty-six per cent of their fathers were business or professional men, and their educational level was much higher than that of the ordinary American male; forty-one per cent of them had been to college as compared with the 3.3 per cent of the college-age male population which was in college in 1970.⁶⁶ The "poor boy makes good" myth, then, does not hold true, at least for the later part of the Robber Baron age.

⁶²In 1952 Leo Huberman (op.cit., p.107) pointed out the then recent trend towards a reinterpretation of the Robber Barons' role in American history, away from the hitherto prevalent condemnation of them. He attributed their "canonization" to the super-patriotism and chauvinism of the United States in the McCarthy era. It is interesting that the entrepreneurial school of development rose at the same time.

⁶⁴William Miller, "Men at the Top - A 'WASP' Elite" in Peter d'A Jones, ed. The Robber Barons Revisited, (Lexington, Mass: D.C. Heath and Co., 1968)

⁶³op.cit.

One might reply to Miller's critique that Josephson's book is concerned not with the average business leader but with the few great entrepreneurs who helped to build America; nevertheless, Miller's critique is still valid. Josephson maintains that most of his Robber Barons were poor in childhood, but his standards of poverty must be those of the present day, not of the nineteenth century. How, for instance, if the family of Jay Gould was poor, could his father have given him a loan of \$2800, a very large sum for those days, to buy property at the tender age of sixteen?⁶⁵ Carnegie may describe his early days as poor, but the fact that he made a "killing" on the Stock Exchange at a very young age because of a tip to buy American Express shares suggests that his contacts were far from lower class.⁶⁶ Similarly Jay Cooke, supposedly poor, was the son of a lawyer and Congressman, with relatives in shipping and transportation to help him out.⁶⁷ The real poor of the United States, the southern and Eastern Europeans, the Asians, and the blacks, figure nowhere in the "poor boy makes good" stories of the Robber Barons.

As shown in a previous section, the Robber Barons were not devout Protestants, except in outward appearance. Nor were they the frugal, penny-pinching, shop-keeping type of businessman. Nor, finally, did they adhere to Weber's "most important principle of the capitalist ethic...honesty is the best policy".⁶⁸

⁶⁵ibid, p.19

⁶⁶ibid, p.25

⁶⁷Josephson, op.cit., p.38

⁶⁸ibid, p.43

⁶⁹ibid, p.33

⁷⁰Weber, The Protestant..., op.cit., p.151

Cornelius Vanderbilt's frank, contemptuous outbursts are much more indicative of the true spirit of the entrepreneur.

What do I care about the law? Hain't I got the power?⁷¹
You don't suppose you can run a railway according to the statutes, do you?⁷²

No admiring history of the Robber Barons can obscure the unscrupulous means which they used to obtain their fortunes, albeit these means may now be justified in the eyes of the entrepreneurial school because they coincidentally helped to develop the country as well as to make a fortune for their perpetrators. Huberman's list of the tactics used by Rockefeller to control the oil supply should make this clear. Rockefeller made it impossible for his competition to get oil, hire railroad cars or ship cars; he got secret rebates from railroads on his and others' oil shipments; he tried to destroy oil pipelines with thugs and when this failed bought controlling interest in the pipelines; he cut prices below costs in order to force out competition; and he bought up unfriendly newspapers or accused them of slander.⁷³ Other examples of similar behaviour are legion. Prominent among this behaviour, of course, was the use of the state for private purposes, including for example the government subsidy which Vanderbilt got for his shipping.⁷⁴ This, of course, should come as no surprise to Canadians who are familiar with the vast role the government played in building the Western railroads, which remained, nevertheless, in private hands.

⁷¹ Josephson, op.cit., p.15
⁷² Huberman, op.cit., p.112
⁷³ ibid, pp.115-116
⁷⁴ Josephson, op.cit., p.14

The "rationality" of these American entrepreneurs was another matter. As discussed above, rationality per se does not exist; one can only be rational, as one can only be efficient, in the pursuit of some goal. Given that the goal of the Robber Barons was profits, it would seem that their behaviour was eminently rational. Furgality and honesty were not the way to profits; cheating and stealing were. There is no doubt that they calculated carefully their costs and benefits, although the formal calculative procedures which Weber extolled were not much practiced, except by the later Robber Barons. Men such as Daniel Drew and Cornelius Vanderbilt kept all their accounts in their heads and considered bookkeeping worthless.⁷⁵

The Robber Barons were also eminently rational in pursuing their goal of profits inasmuch as their scientific and technological orientation never extended to taking uncalculated or unnecessary risks. Vanderbilt, for instance, never introduced any product until other had tested it out.

In waiting for the steamboat to be perfected, he showed the shrewd capacity of the great entrepreneur whose undertakings are always larger, but tardier, safer, and more profitable, than those of the earlier inventor or pioneer.⁷⁶

Similarly J.H. Bridges, Carnegie's former secretary, claimed that Carnegie was "lazy, overcautious, and hesitant" in innovating; his dictum was "pioneering don't pay".⁷⁷ Nevertheless Habbakuk maintains that during the Robber Baron period there was more

⁷⁵ibid, pp.17-18

⁷⁶ibid, p.14

⁷⁷J.H. Bridges, "Carnegie Hesitates", in Jones, op.cit., p.84

adaptive innovation, although not more fundamental invention, in the United States than in Europe.⁷⁸ However he attributes this fact to structural factors. The geography in the United States was dispersed, forcing entrepreneurs to rely more on their own ingenuity instead of copying their neighbours; labour costs were high, and with low unemployment the American entrepreneurs did not have to worry about the political effects of creating technological unemployment as did, for example, the British; finally, the Americans had a much more rapidly expanding market to absorb their technically produced goods.

...the abundance of entrepreneurial talent in the U.S.A. was the consequence rather than the cause of a high rate of growth...where market conditions were favourable to the expansion of capacity, British businessmen were just as venturesome and dynamic as the American.⁷⁹

The cause of what technological orientation as did exist was certainly not culturally inspired. It was simply a rational response to profit-making opportunities. The Robber Barons were definitely achievement-oriented insofar as making money was concerned; achievements in education or innovation were always secondary to the goal of increased wealth.

The way to wealth in the United States, then, did not lie in conformity to the Weberian pattern of entrepreneurship. Yet the entrepreneurial school insists on glorifying the myth of the American entrepreneur, and on searching for the mythological characteristics of frugality and rationality, and an achievement orientation which extends from money-making to other aspects of

⁷⁸H.J. Habbakuk, American and British Technology in the Nineteenth Century, (Cambridge: at the University Press, 1967) p.196

⁷⁹ibid, p.212

life, in underdeveloped countries, instead of realizing that to emulate the American model would require gross exploitation and waste with incidental benefits in the way of economic growth; a pattern which could only be tolerated if each developing nation were as rich in resources as the United States at the time of its development. The entrepreneurial school's literature on France, which began with American missions to France to help in its reconstruction after World War II, criticizes its entrepreneurial class in almost exactly the same terms as it criticizes the entrepreneurial class of the Third World, especially Latin America. The next section will assess how much France's "underdevelopment" is really due to its non-Weberian cultural pattern, in an attempt to predict the validity of the arguments as they are applied to truly underdeveloped countries.

4. Entrepreneurship in France

France is described by John E. Sawyer, one of the more important writers on France in the entrepreneurial school, as a stable society, with a "formally stratified hereditary class" which emphasizes traditional, communal, and personal relationships as against the impersonal, universal, individual, and unconscious rationality of the more developed nation such as the United States.⁸⁰ It is this "traditional" nature which obstructs its development, and makes it so similar in culture to the

⁸⁰ John E. Sawyer, "The Entrepreneur and the Social Order: France and the United States", in William Miller, ed., Men in Business (Cambridge: Harvard Univ. Press, 1952) p.10

present-day underdeveloped world. It is known that the French national income grew much more slowly than the American, British, or German during the late nineteenth century; this is presented as proof of its underdevelopment and is attributed to the fact that it has less entrepreneurial spirit.⁸¹ Random statistics as to France's backwardness are presented in the literature, with very little consideration of the structural reasons for the phenomenon. Hence Landes, who joins Sawyer as the second of the two most important entrepreneurial theorists on France, can state:

...the history of French business and businessmen is significant precisely because of France's relatively minor place in the economic world. If we are to weigh the validity of the recent emphasis of theorists on the role of the entrepreneur qua se in the overall process of economic change - on the contribution of the personal element to the impersonal operations of the system - we must consider not only the more "modern" nations but those less industrialized as well.⁸²

There is, of course, some question as to the actual amount of "underdevelopment" of France. This will be considered below.

Basically, the so-called "traditionalism" of the French is seen as irrational. The French are accused of being ascriptive-oriented, more concerned with status and family than with the rational, achieved goal of profit. The French, it is said, are culturally dominated by feudal survivals, especially the idea of derogance of nobles who indulge in industrial or commercial pursuits.⁸³ This interpretation coincides with the belief

⁸¹Shepard B. Clough, "French Social Structure, Social Values, and Economic Growth", in Evelyn M. Acomb and Marvin L. Brown, eds, French Society and Culture Since the Old Regime, (New York: Holt, Rinehart, and Winston, 1966) p.66

⁸²David S. Landes, "French Entrepreneurship and Industrial Growth in the Nineteenth Century", Journal of Economic History,

⁸³9, no.1, (May 1949), p.45
Sawyer, op.cit., p.12

current among some historians that while in England during the seventeenth century the aristocracy was "bourgeoisified", in France the reverse process occurred and the incipient bourgeoisie was "feudalized".⁸⁴ Hence in France status is ascribed, whereas in Britain or the United States it is achieved, and social mobility is discouraged. But there is much evidence to suggest that the aristocracy, despite the rules of derogance, was willing to invest in commercial enterprises. Landes, for instance, contends in one article that the revolutions of 1789 and 1830 consolidated the noble attitude, but then he contradicts himself to say

To be sure, many of the new generation, especially those whose titles were of recent vintage, were to lend their names and prestige to entrepreneurial efforts and place their capital in railroads, insurance, and other corporative enterprises.⁸⁵

Moore contends that while perhaps the noblesse d'epee opposed trade and commerce, the monarchy encouraged it, partly to win power from the nobility.⁸⁶ There was widespread evasion of the laws against derogance, and many of the aristocracy went to the West Indies where it was legal to make the fortunes they could not make in France.⁸⁷ To be sure, during the period directly prior to the Revolution there was a retrenchment of the privileges of the nobility and the rules against derogance, but this was during a period of economic downswing,⁸⁸ in which perhaps the privileges of the aristocracy were more profitable than engaging in trade.

The tendency of the French to buy land and to encourage

⁸⁴ see J.H.M. Salmon, "Venality of Office and Popular Sedition in Seventeenth Century France", Past and Present, 37, (July, 1967)

⁸⁵ Landes, op.cit., p.55

⁸⁶ Moore, op.cit., p.49

⁸⁷ ibid, p.50

⁸⁸ C.E. Labrousse, "The Crisis in the French Economy at the End of the Old Regime", in Ralph.W. Greenlaw, ed., Origins of the French Revolution, (Lexington, Mass.: D.C. Heath and Co., 1958)

their sons to enter the professions is also regarded as a sign of their traditionalist outlook. However, I have not seen any evidence that the French were any more likely to do this than the British, Americans, or Germans. Kindleberger contends that a few French bourgeois retired around the age of forty, buying chateaux and securities, but that the rest continued in business.⁸⁹ Landes contends that the French bought land because it was considered the safest of investments; somehow, this seems to conflict with his ideal of the speculative, risk-taking entrepreneur.⁹⁰ But most successful entrepreneurs take only calculated risks, and they must have some secure investments on which to base those risks. As Andreski points out, one of the reasons that the Jews never became successful capitalists on a large scale was precisely because they were never allowed the security of holding land.⁹¹ As for encouraging their sons to go into the professions, there is every indication from area studies of Third World countries that professional sons often re-enter the family business; for instance, as lawyers. Perhaps a similar pattern occurred in France.⁹²

In any case, it seems rather peculiar that the entrepreneurial theorists condemn French entrepreneurs for not keeping their sons in the family business when one of their chief complaints is

⁸⁹ Charles Kindleberger, Economic Growth in France and Britain, (Cambridge: Harvard Univ. Press, 1964) p.119

⁹⁰ Landes, op.cit., p.55

⁹¹ Andreski, op.cit., p.196

⁹² Analysts of the Quebec scene often point out the Quebecois' bias to professional, not technical or scientific, education. They attribute this to a cultural legacy from the French regime. But it is rarely mentioned in this connection that at least one Jesuit technical school existed prior to the conquest by the British in 1759, and that one of the first British acts in gaining control of the economy was to close the school down. see Michel Brunet, "La Conquete Anglaise et la Decheance de la Bourgeoisie Canadienne, 1760-1793", in _____, La Presence Anglaise et les Canadiens, (Montreal: Beauchemin, 1964), p.105

that the persistence of the family firm in that country has obstructed development. The problem, supposedly, is that business is not an end in itself, rather it is used to enhance the honour, reputation, and wealth of the family. How this attitude is any different from that of the great American capitalist families such as the Rockefellers and the Mellons is difficult to fathom. Nevertheless, it is contended that there are two adverse results of the tendency to use the business to promote the family; an aversion to taking risks which could result in bankruptcy and hence family dishonour, and a refusal to seek capital from or merge with elements outside the family unit. Loans are amortized quickly, reserves are hoarded, obsolete equipment is used, and a high rate of profit per unit of product is sought, all to lessen the chances of risk and expense for the family.⁹³ Landes believes that the fact that large corporations in France act in exactly the same manner as the small is proof that the culture of the nation has totally pervaded business, but there is evidence to suggest that foreign firms in France behave in exactly the same manner as indigenous firms.⁹⁴ It is rational, for instance, to remain liquid in a situation in which price changes are sudden and sharp, and bankruptcies frequent.⁹⁵ Kindleberger also points out that, despite the image of the small French family firm, there have been many mergers.⁹⁶ Gershenkron argues that it is unfair to compare France with the United States, as is usually done, since the geography and resources are not comparable. Rather when

⁹³David S. Landes, "French Business and the Businessman: A Social and Cultural Analysis" in Edward Meade Earle, ed. Modern France, (Princeton: Princeton Univ. Press, 1951) p.347

⁹⁴Kindleberger, op.cit., p.120

⁹⁵ibid, p.117

⁹⁶ibid, p.117

France is compared to the supposedly more rational Germany it is seen that their business sizes are similar. In the pre-World War I period, for instance, 94.59 per cent of German and 97.98 per cent of French businesses occupied no more than ten persons.⁹⁷

The French, then, are supposedly irrational capitalists inasmuch as they are too concerned with ascriptive status and family considerations. Their consumption habits, as well, do not conform to the Weberian ethic inasmuch as they spend lavishly and do not save enough. Clough states that the nineteenth century haute bourgeoisie

...spent much more than members of similar groups in other Western European countries on food and drink, and as a proportion of its expenditures made high outlays on recreation and reading.⁹⁸

But it seems that the real problem here is not that the French are prodigal, but that their taste for "personal services and recreation, leisure and cultivation"⁹⁹ as opposed to consumer durables inhibits the development of a mass market for manufactured goods. Landes attributes this tendency to an aristocratic stress on individualism,¹⁰⁰ but he also points out quite a few structural reasons for the lack of a consumer goods market. A high percentage of the population still farms and is relatively self-sufficient, and the workers in general do not have enough wages to buy heavy consumer durables. Furthermore Landes points out that, at least at the time his article was written, conspicuous

⁹⁷Alexander Gershenkron, "Social Attitudes, Entrepreneurship, and Economic Development", in _____, Economic Backwardness in Historical Perspective, (New York: Praeger, 1965) p.64

⁹⁸Clough, op.cit., p.70

⁹⁹Sawyer, op.cit., p.16

¹⁰⁰Landes, "French Business...", op.cit., p.345

consumption was discouraged as the people were taxed on their signes exterieures de richesse.¹⁰¹

The entrepreneurial theorists maintain that the stress on the family firm has precluded much innovation. Funds for investment are not sought outside the family in order not to give up control of the firm. There is little interest in mass production with its long-range economy of factor costs since the chief concern of the entrepreneur is to diversify his products in order to cut down on risks.¹⁰² Equipment is antiquated because of the low rate of investment; the average age of machines in the machine-tool industry, for example, is twice the age of American and German machines.¹⁰³

But the same authors who blame the underdevelopment of France on cultural biases against rational business present much evidence of structural causes of French business behaviour. Landes, for instance, reports that

It has long been a favorite sport of historians to whip the French banks for inadequacy and parsimony of medium and long-term credits to industry.¹⁰⁴

but he blames this on the industrialists who do not want credit. He does not, interestingly enough, consider Christopher's argument that at least in the pre-World War I era, French banks invested abroad and deprived their own enterprises of funds on the grounds that family firms were poor risks.¹⁰⁵ Hence a vicious

¹⁰¹ibid, p.340

¹⁰²ibid, pp.338, 346

¹⁰³Clough, op.cit., p.71

¹⁰⁴Landes, "French Business...", op.cit., p.338

¹⁰⁵John B. Christopher, "The Dessication of the Bourgeois Spirit" in Meade, ed., op.cit., p.52

circle emerged; family firms, unable to get credit, remained family firms. Similarly there is a feeling that a market for consumer goods could be created, if only industrialists were willing to go on advertising campaigns. It is recognized that one of the reasons the market is small is that the percentage of Frenchmen living on self-sufficient farms is very large, 27.5 per cent in 1954 as opposed to 6.2 per cent in England.¹⁰⁶ There are valid historical reasons for this phenomenon; the Revolutionary settlement which entrenched the rights of small property holders, and the trend to viniculture in France which did not promote the same kinds of massive changes among the peasantry, especially as regards enclosures, as did sheep-raising in England.¹⁰⁷ Yet Clough insists on contending that "...so many Frenchmen have remained in farming...largely because of their attitudes and values"¹⁰⁸ Many historical factors explaining France's lack of growth as compared to other Western countries are consistently disregarded; for instance its tendency to luxury trade in the early capitalist period when Britain was already developing on the basis of mass-produced textiles, its regional disparities and lack of a home market, its lack of natural harbours as compared to England's abundant coastal trade, its shortage of coal. The behaviour of French entrepreneurs, both in the past and in the present, is examined and values are deduced from it, but the reasons which caused the assumed value-behaviour complex are never sought.

In any case one must be careful not to draw too close

¹⁰⁶Clough, op.cit., p.68
¹⁰⁷Moore, op.cit., p.48
¹⁰⁸Clough, op.cit., p.68

analogies between France and the Third World countries, assuming that in both cases traditional value structures have caused underdevelopment, simply because it would seem that the degree of economic "backwardness" of France has been greatly exaggerated by the entrepreneurial school. One has the impression in reading some of its articles that anything which is not American is automatically backward. Gershenkron points out that when France is compared to Germany, a country much more similar to it in geography, position, and history, and hence a fairer point of reference than the United States, striking similarities between the two emerge. The strength of preindustrial ("traditional") values, he contends, was if anything greater in Germany than in France. The family firm was strong, and the lower entrepreneurial echelons behaved in ways very similar to those of their counterparts in France.¹⁰⁹

...when Landes is struck by the far-reaching degree of specialization in French food retailing, which rightly seems so un-American to him, he should also have expressed his astonishment about the presence of the same phenomenon in Germany.¹¹⁰

In some areas, French entrepreneurial vigour surpassed that of Germany in the nineteenth century. Why, then, did it fall behind economically? Gershenkron attributes its fall to the presence of the family firm, which he claims obstructed the flow of labour to industry, but also to the lack of a coal basin comparable to the Ruhr.¹¹¹ Despite its admitted inferiority vis-a-vis the United States and Britain, however, it is important to keep in mind

¹⁰⁹Gershenkron, op.cit., p.64

¹¹⁰ibid, p.65

¹¹¹ibid, pp.65-66

the West, can this situation be attributed to the "traditional" Catholic ethic of its entrepreneurs. The Jews are reputed to be a singularly entrepreneurial ethnic group, but there are sound structural reasons for their assumption of the petty bourgeois roles they have so often played.

Whether Weber actually intended his Protestant Ethic and the Spirit of Capitalism to be a purely cultural thesis, or whether indeed the thesis has been misinterpreted and overused by the entrepreneurial school, it is clear that his theory is empirically suspect. As such it is unfortunate that it has been used as the intellectual basis for a major cultural theory of development, for Weber's scholastic reputation, and the constant references to his work in the literature, have lent more credence to the entrepreneurial school than it deserves. It is clear from the evidence that in many cases the values and behaviour of Western entrepreneurs do not conform to Model A; and where they do conform, the causes of the conformity are structural, not cultural. Similarly the evidence on entrepreneurs in the Third World shows that they conform to Model A as much as, or more than, they conform to Model B; and in the cases in which they do conform to Model B, there are again structural reasons for the conformity.

that in very significant fields of endeavour, France was, and still is, economically progressive.

In order to maintain his thesis, Landes has to relegate vast and most significant fields of French entrepreneurial endeavour, such as railroads, mines, the iron and steel industry, automobile production, banks, and department stores, to qualifying footnotes and dependent clauses.¹¹²

It is useful, then, to use France as a prototype in criticising the entrepreneurial school, inasmuch as many of the arguments which the school makes about present day underdeveloped countries are similar to the arguments it makes about France. But one must not fall into the trap of assuming that France is also underdeveloped. It is not as wealthy as some of the other Western nations, but there are valid structural and historical reasons for this, just as there are for the underdevelopment of the Third World. As France does not conform to the entrepreneurial school's model of underdevelopment as presented in Chapter II, similarly an investigation of area studies in the Third World will show that the Third World also does not conform to the model.

To conclude this chapter, it is evident that the values and behaviour of entrepreneurs in the early capitalist stage of the now developed West did not conform to the entrepreneurial school's Model A. If the United States is now the most prosperous nation in the world, it is not because its doubtfully Protestant entrepreneurs conformed to their idealized role. Nor, even if it is true that France is one of the less prosperous nations of

¹¹²ibid, p.65

Chapter IV

Area Studies of Third World Entrepreneurs

This chapter will consist of an analysis of twenty-one studies of entrepreneurs in diverse areas of the Third World. In each of these studies the values and the behaviour of entrepreneurs have been described, albeit more carefully and thoroughly in some studies than in others. These studies are the empirical data on which the theories of entrepreneurship in underdeveloped countries, as described in Chapter II, have supposedly been built; yet, as will be shown, the values and behaviour of the entrepreneurs in the studies conform just as much to the model of cultural aspects of entrepreneurship in the developed world as they do to the model for the underdeveloped world.

The studies have been taken from all parts of the Third World; Asia, the Middle East, Africa, and Latin America. Although not all of the studies which have been conducted by the entrepreneurship school are used in the sample, most of the major ones have been included, and it is fair to say that the sample is representative of the kinds of studies which have been produced. Most of the articles and books included are frequently cited in the literature.

The major difference among the various studies is the method of research which has been used. The better studies include, or are based upon, surveys of and interviews with actual

Third World entrepreneurs. Others are based on secondary research; still others are based on personal knowledge of and experience in Third World countries. It is important to keep the differences in the methods of research in mind while evaluating the credibility of the data in each case; unfortunately, however, there are not enough studies presented to seriously evaluate whether there are major variations in the data stemming from such differences. In general, however, I have tended to accept the validity of evidence from studies based on primary research over evidence from studies based on secondary research.

Three studies included in the charts are slightly anomalous. The article by Ayal¹ is actually a comparison of Japan and Thailand; however, because there was more data on Japan than on Thailand, I have included only evidence on Japan in the charts. The study by Warren Dean perhaps should not have been included since it deals not with modern entrepreneurs but with planter entrepreneurs in Sao Paulo between 1875 and 1900; however, since it deals specifically with the question of the planter as entrepreneur, and since it speaks to many of the issues raised by the entrepreneurial school, it too has been included. Finally, the Cochran and Reina book on Argentina is unusual in that it is a study of only one entrepreneur, Torcuata di Tella, and his enterprise. However, it is a book which is often cited in the literature on entrepreneurship. As the authors themselves point out, "Di Tella and his family are studied as part of a Latin American complex that operates differently from

¹ for references to books and articles, see the Bibliography of the areas studies, pp. 68-69

family business in the United States".²

One should note that the studies suffer somewhat in comparability inasmuch as each author uses a different definition of the term entrepreneur. Usually, the criteria of entrepreneurship include one or more of the following: innovation, decision-making, and ownership and/or inception of an enterprise. However, sometimes the definitions are broader; for example, Petras' study is simply of managers, and Lauterbach's simply of industrialists, in Latin America. The fact that the studies are not completely comparable should not prevent study of them, however, otherwise no analysis will ever be attempted, given that, as previously noted, the entrepreneurial school has had considerable difficulty in reaching a common definition of the term entrepreneur.

The data is presented, then, in the following way. Six charts list the values and behaviour of the entrepreneurs as described in the area studies. The characteristics listed conform roughly to the characteristics of entrepreneurs included in Model B. That is, they include status orientation, family ownership, management and organization, investment patterns (a catchall phrase which in analysis will be seen to include the claimed quick-profit orientation, refusal to borrow, and desire for security of the entrepreneurs), frugality (patterns of consumption) capital accumulation, risk-taking, educational orientation, and innovation and technology. In addition, information on the definition of entrepreneurs and the methodology of each study has been included in order to enable the reader to better

² Cochran and Reina, op.cit., p.vii

evaluate the study. Finally, a section on the social origins of entrepreneurs has been included; partly in order to further debunk the "poor boy makes good" myth of entrepreneurs, partly also to reinforce my contention, stated briefly in Chapter I, that an ~~analysis~~ of the class origins of entrepreneurs would be more to the point than an analysis of their individual values and behaviour. The question of social origins will be further discussed in Chapter V.

Finally, a summary table of the charts has been included. The characteristics of the entrepreneurs are listed, and for each study, an X or an O is listed, X signifying that for the characteristic under study the entrepreneurs in the study conform to Model A, or the "developed nation" model, O that they conform to Model B. Naturally, in some cases, no data was available; in other cases there is data in the charts but I have not included it in the summary table because I felt that the data was inconclusive.

It must be remembered that the division into "developed" and "underdeveloped" characteristics, (as postulated by the entrepreneurial school) is in a sense arbitrary; characteristics such as risk-taking and innovation are better placed along a continuum. In ~~making~~ making decisions as regards each case I have tried to base my conclusions on the tendencies of the entrepreneurs towards one model or another.

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Chart A: Characteristics of Entrepreneurs: definitions of entrepreneurs, methodology of the studies (n.d.=no data)

Study	Definition of entrepreneurs	Methodology of the study
Alexander (Greece)	hold ultimate decision-making power in a firm by virtue of ownership	mailed questionnaires
Alexander (Turkey)	n.d.	survey research
Aubrey (El Salvador)	n.d.	n.d.
Ayal (Japan)	accumulates capital, innovates, hard work	identified value system from religious, ethnic teachings
Berna (Madras)	person(s) responsible for existence of a new industrial enterprise	investigated medium scale firms in light engineering, 50-250 employees
Brandenburg (Mexico)	innovates and takes risks to get higher return on specific objective	personal experience in Mexico
Carroll (Philippines)	perform leading function in bringing new industrial enterprise into existence	questionnaire and interviews
Cochran (Argentina)	n.d.	study of one entrepreneur and his business
Dean (Sao Paulo)	n.d.	study of planters 1875-1900
Fillol (Argentina)	n.d.	secondary research
Harris (Nigeria)	decision-maker	survey, 269 founders or principal owners of mfg. manufacturing firms, 10 or more employees
Hazlehurst (Punjab)	n.d.	study of small industry and commerce in one small town
Issawi (Middle East)	n.d.	secondary research and personal knowledge

Chart A: continued

Study	Definition of entrepreneurs	Methodology of the study
Lauterbach (Latin America)	profit-minded, competitive, risk-taking, innovative	324 interviews of managers, (industry, commerce, finance), medium and large companies
Lipset (Latin America)	n.d.	secondary research
Marris (Africa)	n.d.	n.d.
Meyer (Middle East)	decision-maker	secondary research and personal knowledge
Papanek (Pakistan)	innovate-new industry, factors of production, or markets	interviewed 250 entrepreneurs using power-20 or more workers
Petras (Chile)	managers	secondary analysis of survey interview data
Sayigh (Lebanon)	decision-maker re innovation (not confined to technological innovation)	sample of 207 in manufacture, finance, services, agriculture
Strassmann (Latin America)	industrialists	secondary research

Chart B: Characteristics of Entrepreneurs: status, family ownership (n.d.=no data)

Study	Status orientation	Family ownership
Alexander (Greece)	values favour business-feudal and aristocratic survivals weak	95.4% firms are individually owned or partnerships - intense personal nature of Greek firms
Alexander (Turkey)	n.d.	n.d.
Aubrey (El Salvador)	n.d.	n.d.
Ayal (Japan)	active fulfilment of status position, loyalty	n.d.
Berna (Madras)	do not stick to caste occupations, much social mobility	tendency to family control and "self-sufficiency" (unnecessary duplication)
Brandenburg (Mexico)	money-making as a sign of status	n.d.
Carroll (Philippines)	money-making as a sign of status	family ownership is the rule- chief executive is in family
Cochran (Argentina)	more acceptance to aristocratic circles as more wealthy	di Tella retains sole ownership to death- nepotism
Dean (Sao Paulo)	bourgeois-aristocrat contrast overdrawn-both active in business	spirit of combination exists - partnerships reinforced by marriage
Fillol (Argentina)	traditionalism- no status on economic grounds	large patrimonial organizations
Harris (Nigeria)	wealth and status synonymous- buy traditional positions (chieftaincies)	extended family- nepotism - expect profits to be shared by whole family
Hazlehurst (Punjab)	caste differences less precise in recent times	partnerships on kinship and caste lines
Issawi (Middle East)	purchase land for prestige - but commercial bias of Islam society	n.d.
Lauterbach (Latin America)	business as extension of family drive for status	family ownership as status- managers are owners or represent family interests

Chart B: continued

Study	Status Orientation	Family ownership
Lipset (Latin America)	status more important than money	retain ownership in family for prestige purposes
Marris (Africa)	n.d.	62% partnerships include family - but guided by interests of business, not family
Meyer (Middle East)	n.d.	family loyalty outstanding characteristic of firms- (except new industries, eg. finance - hire outside family)
Papanek (Pakistan)	n.d.	n.d.
Petras (Chile)	n.d.	70% large firms owned by family or small group
Sayigh (Lebanon)	traditional prestige to commerce - material success compensates for rigid soc/pol/cultural groups	business at large - 60% individual owners, 33% partners, 2.6% corporations entrepreneurs - 40% part- ners, 33% individual, 28.5% corporations
Strassmann (Latin America)	n.d.	retain control as part of family prestige - family control weakening because organized middle manage- ment pressure

Chart C: Characteristics of Entrepreneurs: management, investment patterns (n.d.=no data)

Study	Management and organization	Investment patterns
Alexander (Greece)	highly centralized, staff poorly trained, lack middle management, poor job definition	little investment, want high unit-profit
Alexander (Turkey)	n.d.	n.d.
Aubrey (El Salvador)	n.d.	diversified investment in trade (X-M), commercial agriculture, manufacturing
Ayal (Japan)	n.d.	n.d.
Berna (Madras)	no management training, skepticism, defeatism re modern methods, but interest growing	invest in new industries no interest in fly-by-night, quick-profit operations
Brandenburg (Mexico)	n.d.	mainly interested in long-term investment
Carroll (Philippines)	ascriptive-key managers are family members	n.d.
Cochran (Argentina)	personal loyalties, little delegation, paternalism to workers, recent change to U.S. management practices	much diversification, branch plants
Dean (Sao Paulo)	n.d.	diversified investment, railroads, brokerages, factories
Filloi (Argentina)	little delegation of authority, stress person, not office, some professional management on lower levels	n.d.
Harris (Nigeria)	low standards financial management, nepotism causes poor staffing, changes in larger firms and those trained abroad	widespread diversification in related fields, investment increases even when start conspicuous spending

Chart C: continued

Study	Management and organization	Investment patterns
Hazlehurst (Punjab)	n.d.	n.d.
Issawi (Middle East)	little delegation, short- age of managers, underpay technicians	much industrial investment, community of interests of landowners, industrialists
Lauterbach (Latin America)	ascriptive recruitment, little long-range plan- ning, cost-accounting rare, changes-more aware of need for training, specialization	invest in land (prestige) prefer quick profit to long-range cost reduction
Lipset (Latin America)	ascriptive recruitment, per- sonal decision-making, recent changes-hire more non-family members	invest in land (prestige) prefer quick profit to long-range cost reduction
Marris (Africa)	mistrust nepotism-17% prefer to hire family, 33% outsiders, 50% indifferent	n.d.
Meyer (Middle East)	do not keep records, lack trade associations, little concentration, much put- ting out	most investment in commerce, trade, finance - want high profits
Papanek (Pakistan)	ascriptive community recruiting - trend to more professionalism	trend to long-gestation capital intensive invest- ment, avoid land and real estate
Petras (Chile)	modern attitudes to employees, not stress loyalty	elite transfers funds to industry as agriculture stagnates
Sayigh (Lebanon)	as change from indiv. owner to corporation, as edu. increases, less centralization, more prof. management - 97% double- entry bookkeeping, 60% cost accounting, 54% audit services	prefer long-range planning long-term investment, low profit margins, willingness to shift to new products
Strassmann (Latin America)	little delegation- changes as more knowledge of modern business practice	n.d.

Chart D: Characteristics of Entrepreneurs: frugality, social origins (n.d.= no data)

Study	Frugality	Social Origins
Alexander (Greece)	divert profits to personal income, high pattern consumption	30% inherit from father, careers prior to entrepreneurship =5% prof., 8% exec., 19.2% craftsmen, 21% big merchants
Alexander (Turkey)	n.d.	occupations of fathers - traders, large farmers, craftsmen, skilled workers
Aubrey (El Salvador)	n.d.	most from mercantile group, several planters
Ayal (Japan)	asceticism, frugality	n.d.
Berna (Madras)	n.d.	varied origins, largest groups = domestic traders, graduate engineers
Brandenburg (Mexico)	n.d.	large firms predate Revolution, present owners inherited
Carroll (Philippines)	Catholics - low value on saving	pre-1949 - only 23% upper class origins, 1950-60, 79%, merchant-entres. replace craftsmen-entres.
Cochran (Argentina)	lived modestly	working-class Italian origins
Dean (Sao Paulo)	n.d.	nearly all entres. from plantation elite
Fillol (Argentina)	n.d.	n.d.
Harris (Nigeria)	take low salaries for selves but required to spend large amounts on extended families	high status entres. have high status fathers - but also some social mobility
Hazlehurst (Punjab)	refugees and Sikhs - high consumption, other castes save, hide wealth	n.d.

Chart D: continued

Study	Frugality	Social Origins
Issawi (Middle East)	reluctant to reinvest profits	bulk of manufacturers from merchant class, a few landlords, fewer craftsmen
Lauterbach (Latin America)	n.d.	n.d.
Lipset (Latin America)	n.d.	n.d.
Marris (Africa)	n.d.	n.d.
Meyer (Middle East)	remitted capital (from overseas) not invested	Turkey-most from trading families, Iran-landowners shift to industry to avoid taxes
Papanek (Pakistan)	little consumption-not enough luxury goods, traditionally limited wants, values against consumption	large % industrialists have father, grandfather in trade- recent interest of landowners in industry because land reform
Petras (Chile)	n.d.	usually upper class, upper middle class - links with landed elite
Sayigh (Lebanon)	tendency of businessmen to dislike ostentation	fathers' occupations- 31.3% trade, 26.4% industry, 8.7% prof., few from landlord class
Strassmann (Latin America)	n.d.	more industries started by wealthy merchants than migrant peddlars, artisans

Chart E: Characteristics of Entrepreneurs: capital accumulation, risk-taking (n.d.=no data)

Study	Capital accumulation	Risk-taking
Alexander (Greece)	50% self-made	conservative industrial policies
Alexander (Turkey)	n.d.	n.d.
Aubrey (El Salvador)	funds from trading and agricultural profits, contacts	n.d.
Ayal (Japan)	X markets abroad bring in foreign exchange	n.d.
Berna (Madras)	heavy dependance on personal, family funds, little borrowing, small profits and reserves	will take calculated risk, adopt new lines, change with circumstances
Brandenburg (Mexico)	n.d.	willing to take risks
Carroll (Philippines)	50% upper class use family capital to start, use of bank and gov't loans, 72% growth funds are reinvested profit	willing to take more calculated risks
Cochran (Argentina)	reinvestment of corporate earnings	response to 30's depression was more risks to search for new products
Dean (Sao Paulo)	profits from import trade or plantation	n.d.
Fillol (Argentina)	n.d.	n.d.
Harris (Nigeria)	47.5% start with own or family (15.4%) savings 76% some loans from gov't, bank, suppliers	calculated risk-respond to profits subject to discounting for risk
Hazlehurst (Punjab)	not borrow from banks but much gov't subsidy, prefer private capital	local merchants oversave-want security - refugees more risk
Issawi (Middle East)	reluctant to reinvest profits	n.d.

Chart E: continued

Study	Capital accumulation	Risk-taking
Lauterbach (Latin America)	high reliance on family funds, shortage of credit, high interest rates	will not risk family security or investments - excessive get-rich-quick risk, not calculated risk
Lipset (Latin America)	n.d.	avoid risk - bankruptcy is family disgrace
Marris (Africa)	n.d.	n.d.
Meyer (Middle East)	n.d.	n.d.
Papanek (Pakistan)	trade important for starting industry, reinvested funds for continuing	n.d.
Petras (Chile)	n.d.	preoccupied with stability, profits
Sayigh (Lebanon)	78% own resources, remainder is bank or non-family loans, where resources from private business 61% is trade, credit available only last few years	culture plays up love of adventure
Strassmann (Latin America)	n.d.	avoid risk - bankruptcy is family disgrace - caution because chances of loss high, uncertainty

Chart F: Characteristics of Entrepreneurs: education, innovation and technology (n.d.=no data)

Study	Educational orientation	Innovation and technology
Alexander (Greece)	35% entres. are university grads- 50% in eng. chem., tech.; remainder business, eco., law - some want sons to go into profs but these are small businessmen	imitative, little innovation
Alexander (Turkey)	trend to more education	n.d.
Aubrey (El Salvador)	n.d.	n.d.
Ayal (Japan)	stress on diligence, development of expertise	very high propensity to innovate - realize can't succeed without adopting Western techniques
Berna (Madras)	private study among entres., educate sons	entres. have technical training, take advantage of wide range of opportunities
Brandenburg (Mexico)	n.d.	highly receptive to technology, surplus of trained personnel
Carroll (Philippines)	78% entres. to college, 42% in bus.admin., eco., commerce, 29% law, 23% science and tech., sons must be educated	imitative, send Filipinos abroad to study; post-1950- high % engineers, more research and planning
Cochran (Argentina)	sons and nephews study law, accounting, engineering	started career by inventing new machine, much adaptation
Dean (Sao Paulo)	n.d.	imitative, introduce industry to support agriculture
Fillol (Argentina)	choose 'pure' over applied science, prefer professional training	contempt for manual work
Harris (Nigeria)	send sons overseas to learn eng., accounting, bus.management- highest consumption expense is education	only 52/269 have innovated mostly adapt- technical competence still low

Chart F: continued

Study	Educational orientation	Innovation and technology
Hazlehurst (Punjab)	n.d.	biased to new and novel, refugees innovate
Issawi (Middle East)	technological education almost nonexistent, except more advanced countries (Israel, Turkey, Egypt)	not enough technical competence
Lauterbach (Latin America)	increased emphasis on family members having exec. training, see education as important for development	n.d.
Lipset (Latin America)	reflects values of landed upper class, disdain manual work, lags behind rest of world re % students in eng., science	disinterest in science and technology
Marris (Africa)	61% prefer hiring educated stranger to non-educated friend	n.d.
Meyer (Middle East)	rationalization beginning, some tech. schools advanced bus. practice	no innovation, labour too cheap for technological change
Papanek (Pakistan)	train family members in bus.admin., eng.	trend to employment of technical staff
Petras (Chile)	large and medium firms- 66% college edu., of which 67% is eco., eng.	n.d.
Sayigh (Lebanon)	higher level edu. than ordinary businessmen- 57% high school, 72 to college, 34 graduate or professional studies	research facilities limited but readiness and ability to learn new methods
Strassmann (Latin America)	establish universities, want engineers, accountants	weak identification with progress, technology

Table I: Summary of Charts A to F

X= conforms to Model A
 O= conforms to Model B
 --- = no data

	status orientation	family ownership	management, organization	investment patterns	Frugality	social origins	capital accumulation	risk- taking	educational orientation	innovation, technology
Alexander (Greece)	X	O	O	O	O	O	---	O	X	O
Alexander (Turkey)	---	---	---	---	---	O	---	---	X	---
Aubrey (El Salvador)	---	---	---	X	---	O	X	---	---	---
Ayal (Japan)	X	---	---	---	X	---	X	---	X	X
Berna (Madras)	X	O	O	X	---	O	O	X	X	X
Brandenburg (Mexico)	X	---	---	X	---	O	---	X	---	X
Carroll (Philippines)	X	O	O	---	O	O	X	X	X	X
Cochran (Argentina)	X	O	O	X	---	X	X	X	X	X
Dean (Sao Paulo)	X	X	---	X	---	O	X	---	---	X
Fillol (Argentina)	O	O	O	---	---	---	---	---	O	---
Harris (Nigeria)	X	O	O	X	O	O	X	X	X	O
Hazlehurst (Punjab)	---	O	---	---	X	---	X	O	---	X
Issawi (Middle East)	---	---	O	X	O	O	---	---	---	O
Lauterbach (Latin America)	X	O	O	O	---	---	O	O	X	---
Lipset (Latin America)	O	O	O	O	---	---	---	O	O	O
Marris (Africa)	---	O	---	---	---	---	---	---	X	---
Meyer (Middle East)	---	O	O	O	O	O	---	---	X	O
Papanek (Pakistan)	---	O	---	X	X	O	---	---	X	X
Petras (Chile)	---	O	X	---	---	O	---	O	X	---
Sayigh (Lebanon)	X	X	X	X	X	O	X	X	X	X
Strassmann (Latin America)	---	O	O	---	---	O	---	O	X	O

In analysing the summary table, the following should be noted. The data from the charts on definition of entrepreneurs and methodology of the studies has been omitted, since this information was included solely for the aid of the reader in evaluating data, not as an aid to analysis of comparability with Models A and B. Of the 210 boxes left in the table (ten characteristics, twenty-one studies) seventy-nine are left blank. Of the remainder, sixty-five are marked X, and sixty-six are marked O. Leaving aside the category of social origins, which is not included in Models A and B, the lack of conformity to Model B is even more striking. Sixty-four of the remaining boxes are marked X, and only fifty-two are marked O. Immediately, then, it can be seen that the characteristics of entrepreneurs in the Third World conform even more closely to Model A than they do to Model B. One could object to this that the entrepreneurial school's thesis is nevertheless proved, insofar as a considerable proportion of the values and behaviour of Third World entrepreneurs does conform to Model B. The assumption behind such an argument is that none of the values and behaviour of Western entrepreneurs conform to Model B. But all of the evidence presented in Chapter III demonstrates that this is a false argument.

However it is not enough simply to state that the entrepreneurial school's model of entrepreneurship in underdeveloped countries is invalidated by this summary of the empirical research. The empirical data as a whole does not concord with Model B, but it will be noted that each individual characteristic in the

summary table varies: the X's and O's are not randomly distributed among the various characteristics. Therefore the next few pages will be devoted to analysing each individual characteristic, in an attempt to explain why each conforms to one Model or another and to explain the anomalous cases. A tedious task, perhaps, but one which is necessary in order to reach a fuller understanding of the behaviour of entrepreneurs in Third World countries and to determine the relevance of cultural attributes to this behaviour.

First, the question of status. For the purposes of this study, ascribed status is defined as status based on birth or position, achieved status as ~~status based~~ on wealth. Conceptually, it is probably incorrect to equate wealth with achievement; much wealth, especially inherited wealth, is not achieved; furthermore not all achievements are translated into monetary terms. But since in the popular mind achievements are measured by wealth, and since the popular useage is the one which the entrepreneurial school seems to adopted, the wealth-achievement equation will be used in this analysis. It will be remembered that it is a major contention of the entrepreneurial school that Third World entrepreneurs are "traditional", more interested in obtaining ascribed prestige than in achieving ~~ing~~ status by making money. Yet of the twelve cases for which there is data, ten are marked X, and only two O. The important argument to be made against the entrepreneurial school in this connection is that what should be studied is not whether the motive of the entrepreneur is to make money or to achieve traditional status or prestige, but rather whether, whatever his goal, making money is one way of

achieving that goal. Time and again in the studies it is found that business enterprise is a way of achieving prestige, even in so-called "traditional" societies. Lauterbach points out that in Latin America ownership of industry or banks is a sign of prestige. Sayigh points out that in the Middle East business enterprise compensates for an inability to obtain prestige in other areas. And of course, in many countries those who obtain financial success can buy traditional status. In France of the Ancien Regime, merchants could enter the noblesse de robe: in modern England, businessmen are granted peerages; in modern Nigeria, Harris informs us, businessmen can buy themselves chieftaincies if they can pay for the traditional ceremonies?³ Symbols of traditional status are ascribed to those who have achieved wealth.

It could, of course, be argued that money alone is not sufficient to obtain traditional status in these areas; hence that after a certain point businessmen will divert their energies to obtaining status by different means. However, such behaviour is no different from that of the modern Western "nouveau riche" who will attempt to consolidate his financial status by obtaining more education and "culture", dressing correctly, and in general behaving in ways acceptable to the established upper class. Such behaviour conceivably diverts some of his attention from the business of making money.

As far as status concerns are involved in the analysis, then, it would seem that Third World entrepreneurs are little

³Harris, Industrial..., op.cit., p.8-39

different from their Western counterparts. Not so, however, in the question of family ownership. Of the sixteen cases for which there is data here, fourteen are marked O, and only two X. According to the entrepreneurial school, this situation is a direct result of the status orientation of Third World entrepreneurs. When they do enter business, they regard it not as an impersonal activity of the "economic man", but as a personal activity designed to enhance the status of the family, and as such they will be reluctant to give up family control. But there are many reasons for family ownership aside from prestige, reasons which are frequently mentioned throughout the studies. An appropriate legal framework for combining into partnerships or corporations may be lacking. In such a case, one is safer trusting one's immediate family, as did di Tella, or one's extended family, as in Nigeria, or even one's own caste, as in the Punjab, rather than complete strangers.

In general, also, it is well known that family ownership was prevalent in all developed Western countries at the time of their industrialization; family ownership is indeed nothing less than a stage of capitalist development.

The story of the rise and fall of social classes in Western society...is that of the rise and fall of families ...Capitalism is...a social system wherein power has been transmitted through the family, and where the satisfaction of ownership lay, in part, in the family name, by which the enterprise was known.⁴

According to Bell, family ownership declined in the United

⁴Daniel Bell, "The Breakup of Family Capitalism", in _____, The End of Ideology, (New York: The Free Press, 1960) p.39

States partly as a result of the general decline of the family, (owing largely to the emancipation of women) and partly because "the increasing importance of professional techniques placed a high premium on skill rather than blood relationships"⁵ Yet family ownership is still fairly prevalent in the West, inasmuch as dynastic marriages, interlocking directorates, and so on (as so ably documented by Porter in the Canadian case)⁶ still exist. As for the Third World, Dean contends that family ownership did not exist in the Sao Paulo case, but he does speak of dynastic marriages, and it is probable that the same phenomenon occurs in Lebanon, the other anomalous case in the charts. It is probable, however, that as Third World countries develop, overt family ownership will be less prevalent, for the same reasons as it is now less prevalent in the United States. Indeed, Meyer and Strassmann have both noted tendencies in this direction.

If family ownership still exists in the Third World, so, according to the charts, does nepotistic, ascriptive management and organization. Thirteen of the fifteen cases for which data is given are marked O.

The general tendency to act in the interests of the individual or the family is also evident in the Latin American's inability to delegate authority or to co-operate with others in a team effort.⁷

The same faults are mentioned over and over again; over-centralization of authority, a poorly-trained staff with imprecise job definitions, a lack of middle management, a

⁵ibid, p.41

⁶John Porter, The Vertical Mosaic, (Toronto: Univ. of Toronto Press, 1965)

⁷Cochran, "The Entrepreneur...", op.cit., p.27

paternalistic, not impersonal, attitude to employees, and poor planning and financial management, including record-keeping. Again, however, the same arguments can be made as were made regarding family ownership; many of the same practices go on in the developed West, and for the same reasons. It is often considered wiser to trust one's family than to trust outsiders.

International banking characteristically has been a "family" affair because of the secret nature of much of the business, and the need for people one could trust to be placed in different parts of the world.⁸

In order to rid ourselves of the myth of ascriptive orientation in underdeveloped countries we must also rid ourselves of the myth of achievement orientation in developed countries (a task which should not be difficult for any social scientist who has ever been involved in the academic hiring process). As for the question of record-keeping, several authors have mentioned that under colonial rule records were often deliberately not kept because they would facilitate taxation. In any case, it is important to note that in nine of the thirteen cases which conform to Model B specific mention was made by the authors of changes in management and organization towards more "modern" methods, including more interest in American management practices, the hiring of more non-family members, and the training of family members in modern business practice. This evolution of more "modern" methods in the Third World is similar to the evolution which took place in American capitalism; for instance, it was pointed out in Chapter III that the later Robber Barons took more interest in "rational"

⁸Bell, op.cit., p.42

bookkeeping than the earlier. In both cases it is obvious that the patterns of management and organization changed as capitalism itself developed.

The investment patterns of entrepreneurs in the Third World are a major theme of discussion in the entrepreneurial school. Given that these entrepreneurs are more interested in traditional status than in profit, and given that they do not make long-range plans or keep accurate accounts, it is assumed that most of their investment will be in "inventory speculation, short-term commercial ventures, investment in agricultural land, urban real estate, or abroad",⁹ but certainly not in development-oriented industry. Yet nine cases conform to Model A, and only four to Model B, in the data on this question. Industrial investment, long-range investment, and diversification of interests seem to be the rule. Again, the reason for this is simple: entrepreneurs in the Third World, like entrepreneurs in the West, invest in those areas which are the most profitable. The two bugaboos of the entrepreneurial school are "irrational" investment in land and in real estate, but this type of investment behaviour is often highly rational. In situations of rapid inflation such as exist in Latin America, for example, it is sensible to buy land as a hedge against inflation or to invest in urban real estate which will yield very quick profits. On the other hand Pakistan's entrepreneurs do not invest in land because they fear land redistribution, and they do not invest in urban real estate because there is a shortage of building materials, and industrial

⁹Papanek, op.cit., p.47

profits are higher.¹⁰ In the Punjab, entrepreneurs find housing taxes too high for real estate development.¹¹ Landowning elites in Chile and the Middle East are transferring their funds to industry because industrial profits are higher than profits from the land. And in Turkey, the Philippines, and Pakistan government policies of favouring domestic businessmen and limiting the foreign exchange which can be used for imports have stimulated domestic industrial development. The empirical evidence, then, does not confirm the entrepreneurial school's notion of the irrational investment practices of Third World entrepreneurs. On the contrary, entrepreneurs in underdeveloped countries act according to the profit motive; whether they can make more profit in industry than in landowning or in real estate depends on the economic conditions and government policies of each country.

A question even more central to the analysis of entrepreneurship than that of investment patterns is that of capital accumulation. The entrepreneurial school contends that a direct result of the traditional outlook is the tendency of elites in the Third World to consume, not to invest, their income in order to keep up with the traditional upper class style of living, thus hindering capital accumulation. (This is an accusation which has also been made, incidentally, in Canada against the French-Canadian entrepreneur as compared with his English-Canadian colleague.) The desire for a large spending income, it is felt, contributes to the tendency to invest only in quick-profit

¹⁰ *ibid*, p.50

¹¹ Hazlehurst, *op.cit.*, p.91

outlets such as real estate, and to avoid any risk to the family income. But in the studies themselves the data on consumption habits, or frugality, of entrepreneurs is ambivalent. Only nine studies investigate the problem; of these five conform to the underdeveloped model and four to the developed. Even in the five underdeveloped cases, however, the evidence is ambivalent; there is no data on how much of the income is consumed. Whether the entrepreneurs spend too much or too little may often depend on the analyst's perceptions of what these terms mean. The only clear case of overconsumption seems to be the Nigerian entrepreneurs, who, Harris claims, are forced to divert large amounts of their incomes to support their extended families. In general, Weber's image of the frugal businessman does not apply in either developed or underdeveloped countries; there is no indication that any prosperous bourgeois group in either case has ever lived below its means.

Whatever their consumption habits, entrepreneurs in the Third World, as least as far as the area studies indicate, do not seem to be troubled by a lack of ability to accumulate what capital is available. Obviously, their access to capital is not as great as in developed countries; their banking and credit systems are not as well developed and are often constrained from fulfilling their proper functions by neo-colonial political or economic pressures. But within the confines of these institutions, Third World entrepreneurs seem as capable of taking advantage of whatever capital is available as "modern" entrepreneurs. Only two of the ten reported cases did not conform to the developed model in this respect, and even in these two cases it may be

unfair to assume that the problem is lack of incentive to take advantage of resources, rather than lack of availability of resources. The amount of dependence on family funds belies the myth that Third World entrepreneurs do not save; it also points out the need for other sources of capital. In Greece, according to Alexander, there is a poor capital market, and bank loan terms are unattractive; he recommends changing the cost, length of time, and collateral requirements of bank loans in order to facilitate capital accumulation.¹² Lauterbach's study is one which indicates poor capital accumulation techniques on the part of entrepreneurs; nevertheless he himself points out that a lack of credit, twenty to thirty per cent interest rates, and the omnipresent threat of inflation are at least partly responsible for the phenomenon.¹³ Marris similarly points out the problems of getting credit in Kenya, where the banks are either foreign-owned or owned by Kenyan Asians who will not give credit to Africans.¹⁴ Again, then, it would seem that a more worthwhile line of investigation would be to analyse the structural conditions impeding capital accumulation, not the "cultural biases" against borrowing. Or, if one must insist on investigating such "cultural biases", one should also investigate the "cultural biases" of foreigners against lending to indigenous businessmen.

Although, as was mentioned in Chapter II, risk is no longer considered to be a necessary function of the entrepreneur,

¹²Alexander, Greek..., op.cit., p.73

¹³Lauterbach, op.cit., p.73

¹⁴Marris, op.cit., p.5

in twelve of the studies the risk-taking attributes of the entrepreneur were considered. Presumably, risk-taking is still important among Third World entrepreneurs because separate financing institutions havenot yet developed to take over this function. Six of the studies were considered to conform to Model A, and six to Model B. The criterion here, of course, is calculated risk, not unwarranted risk; in fact, the "get-rich-quick" type of risk is considered a characteristic of inferior underdeveloped entrepreneurship. However, the idea of calculated risk renders it difficult to distinguish between Model A and Model B type countries. Entrepreneurs in Greece are considered to be conservative as regards risk, but then, they have reason to be conservative, according to Alexander, given the high cost of credit; similarly Strassmann points out that entrepreneurs in Latin America do not take risks because of their uncertainty and lack of information. On the continuum of risk-non-risk orientation, it would seem rational that calculations would indispose such entrepreneurs to risk. There is, still, the problem of those entrepreneurs such as Lipset and Lauterbach mention who avoid risk because they consider bankruptcy a family disgrace. However they too might be willing to take risks if the calculated risk of loss were not as great as it presently is.

The last characteristics of Third World entrepreneurs to be dealt with are their propensity to innovate and technological change, and concomitant with this, their orientation to education. The entrepreneurial school contends that, since they do not

believe in universalistic criteria of excellence, Third World entrepreneurs see no need for their sons to get the kind of education, in business administration, management, or technology, necessary for the running of a modern enterprise. Without the technical background, they cannot be innovative, and without a knowledge of accounting, administration, and so forth, they cannot act in a rational manner. However the data bely this perspective. Of the sixteen cases for which data exist, fourteen are marked X, and only two O. The entrepreneurs want more and more education for their sons, they engage in private study themselves, and they lay an ever-increasing stress on hiring educated employees. The two anomalous cases, Fillol and Lipset, are both based on secondary research only. And even Lipset belies the so-called orientation of the Latin Americans to professional and arts training in one example which he gives; enrollment in a Buenos Aires law school was halved in three years by the simple expedient of offering a programme of fellowships only in technology and science.¹⁵ A small structural change produced an immediate "cultural" change.

Inasmuch as educated entrepreneurs are still wanting in the Third World, there are sound reasons to account for the lack. For many years the elites of the formerly colonized countries were excluded by the European powers from the kind of education they are now described as not wanting. Furthermore the developed countries are still busy trying to draw off as much Third World talent for their own purposes as they can, as the following quote from Dean Rusk demonstrates.

¹⁵Lipset, op.cit., p.45

Our country the United States is lucky enough in having a strong power of attraction over foreign scientists. Well-administered migration is one of our main sources of national wealth.¹⁶

(Such a phenomenon, of course, is familiar to Canadians who until the recent recession experienced a large "brain drain".) There is absolutely no indication that entrepreneurs in the Third World are any less concerned with obtaining the skills and knowledge necessary for their business than entrepreneurs in the West.

Similarly, as regards the tendency to innovation and technological change, one is hard put to argue that the Third World entrepreneurs are more regressive than their Western counterparts. The tendency to innovate, like the tendency to take risks, must really be seen as a continuum. Alexander, for instance, contends that entrepreneurs in Greece are not innovative, simply imitative. But even imitation requires the initiative to find a new product or process and introduce it to a new environment. And most imitation requires a certain amount of innovation, inasmuch as most technology cannot be transferred from one area to another without some sort of adaptive change. Even if it can be proved that there are situations in which no innovation at all exists, there may be sound structural reasons for such situations. Meyer, for instance, mentions that it is not worth while making technological innovations in the Middle East given the abundance of cheap labour;¹⁷ a similar theory has often been postulated to explain why Britain ~~ma~~ made so few technological

¹⁶ quoted in Frank Marino Hernandez, "Migration of Talent from Latin America to the United States", in Samuel Shapiro, ed., Cultural Factors in Inter-American Relations, (Notre Dame, Indiana; Univ. of Notre Dame Press, 1968) p.143

¹⁷ Meyer, "Entrepreneurship...", op.cit., p.124

innovations at the end of last century as compared to the United States, which had a shortage of labour. Similarly Berna lists a whole series of structural problems which deter his Punjabi entrepreneurs from innovating; the latest scientific methods used in the West are too expensive, there are delays in delivery from abroad, there is a shortage of foreign exchange, import licences are difficult to obtain, and it is difficult to acquire spare parts.¹⁸ All of these factors suggest that, although six of the fifteen cases with data on innovation conform to Model B, structural reasons may be the cause of this conformity; in any case, the difference between an innovative and an adaptive or imitative orientation is slight.

The above paragraph completes the detailed analysis of the data on entrepreneurs in underdeveloped countries presented in the twenty-one area studies. The thrust of the argument has been to show, first, that with the exception of family ownership and managerial practices the differences between entrepreneurs in underdeveloped countries and their counterparts in the West are not very great, and secondly, that where these differences do exist, they can be explained either by structural factors or by the stage in the development in capitalism which the Third World has reached. The so-called "cultural" differences between the developed West and the underdeveloped Third World do not seem to exist, and to discuss these differences is simply to throw a red herring across the path of serious research into the causes of underdevelopment. Chapter V will present a Model of entrepreneurial behaviour which will subsume the values and behaviour of entrepreneurs in both the developed and underdeveloped worlds, at similar stages of capitalist growth.

¹⁸ Berna, op.cit., p.164

Chapter V

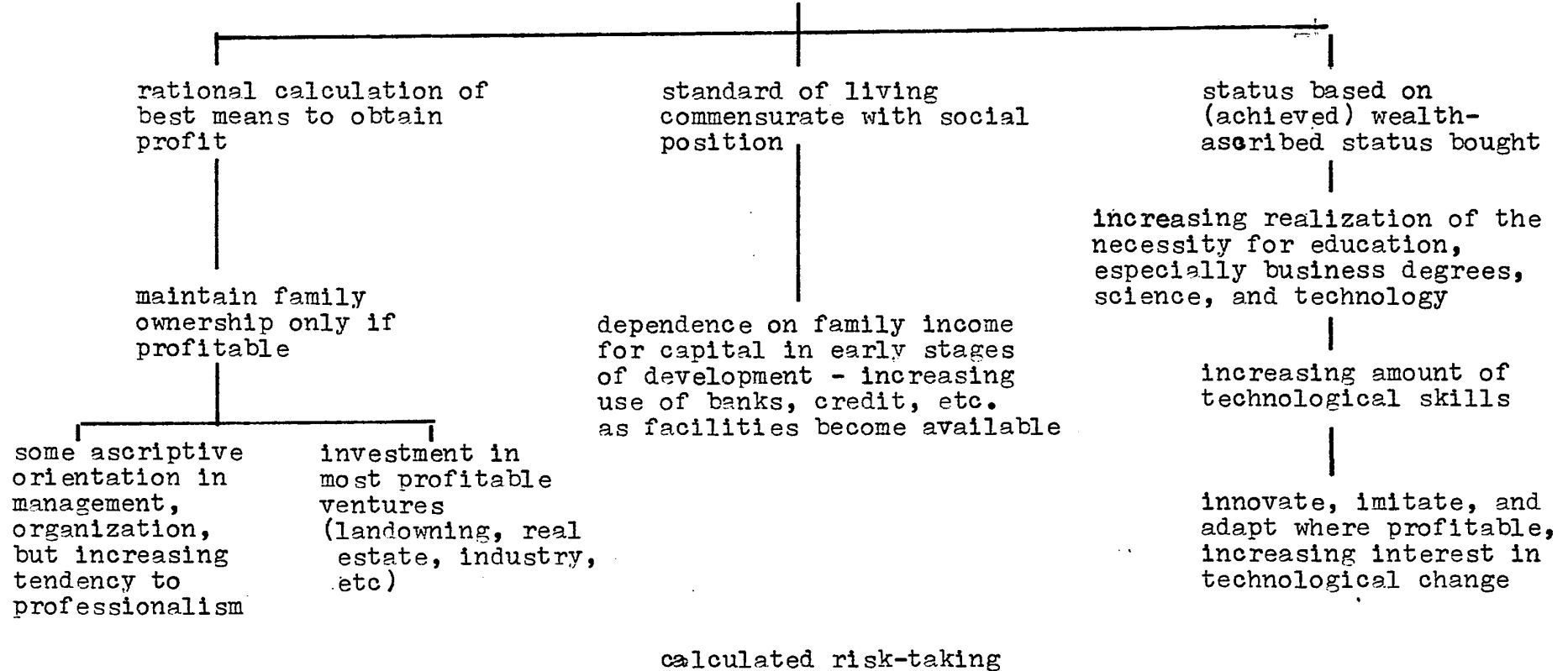
A New Model of Entrepreneurial Behaviour

It has been the major argument of this thesis that the theory of cultural differences between entrepreneurs in the developed and the underdeveloped worlds is incorrect, and that, in fact, the behaviour and values of entrepreneurs in the two areas vary very little. In order to prove this point, the entrepreneurial school's models of entrepreneurs in both areas have been examined. It has been found that the empirical evidence concerning the entrepreneurial "cultures" in the two areas did not coincide with the theoretical framework presented. Indeed, if the empirical evidence is examined, it is obvious that there is little difference between the behaviour of entrepreneurs in the two areas, at least if one compares them at the same stage of capitalist development. A comparison of the American Robber Barons with modern entrepreneurs in the Third World, for instance, will demonstrate the obvious similarities between the two groups, despite the fact that both groups behaved or behave differently from the modern Western entrepreneur!

Model C has been derived from the empirical data presented in this essay. It projects an image of entrepreneurial values and behaviour which can be seen to apply to both the West and the Third World at similar stages of development. In both cases the major motivating force of the entrepreneur is the desire for profit. Whether the profit is used as a stepping stone to traditional status or not is irrelevant; the point is that,

Model C: Entrepreneurship in Developed and Underdeveloped Economies at Similar Stages of Capitalist Growth

Profit Orientation
(Protestant, Catholic, and Other Cultures)



whatever his motive, the entrepreneur is out to make money. Similarly in both cases the entrepreneur acts in a manner rationally calculated to achieve his goal: his means may include lying, stealing, exploitation of government subsidies, or investment in land, in real estate, or in industrial development; but in all cases they lead to the same end, profit. As for frugality, rarely do any of the entrepreneurs live below their means; on the other hand, both in the Third World and in the nineteenth-century West much capital accumulation has been based on family resources, and rarely has conspicuous consumption taken precedence over entrepreneurial expansion. As for their scientific educational orientation, it would seem that at the beginning of capitalist expansion education and routinized technological innovation were unimportant; however, just as the Americans developed an interest in these two fields later in their development, so interest in these areas is increasing in the Third World. In both cases, also, the ability to take risks was and is important at a stage of capitalism in which there is no sophisticated banking and credit procedure. Entrepreneurs all over the world are willing to take shrewdly calculated risks. Finally, entrepreneurs in the Third World are showing a growing tendency to turn to sophisticated methods of management and organization, just as did their Western predecessors. There is, of course, an ascriptive, family-oriented attitude, (which the entrepreneurial school never fails to point out) among Third World entrepreneurs, but the many volumes which have been written about the upper classes in North America indicate exactly

the same tendency in the West. Indeed, unless one intends to pass on one's earnings to one's family, one has little incentive to defer gratification and invest rather than consume. Without a family orientation, there is little reason to create a long-term profit-making enterprise.

It is well at this point to make a brief excursus into the question of the social origins of entrepreneurs. The entrepreneurial school delights in exalting the "poor boy makes good" myth insofar as the American Robber Barons are concerned, yet in studying the Third World it examines the cultural attributes only of the upper, not the lower classes. The lower classes are not regarded as a base for potential entrepreneurial talent. The reason for this tendency is obvious. The data in Table I of Chapter IV, on the social origins of entrepreneurs, are all marked O, not X, because none of the entrepreneurs conformed to the image of the successful man rising from the ranks; rather, they were more likely to come from the old upper classes. The one exception is Torcuata di Tella, who supposedly was a working-class immigrant to Argentina. But while di Tella's family may have been working class in Argentina, it was not so in Italy. Rather, he came from an educated family which had emigrated when it lost the money it sank in a grain mill in Italy.¹ There are certainly few lower class entrepreneurs in the Third World, from peasant or urban proletarian backgrounds. Instead most entrepreneurs tend to be sons of landlords, merchants, or at worst craftsmen. They come from social groups which can afford to give

¹Cochran and Reina, Entrepreneurship..., op.cit., p.35

them the education and financial backing they need. Only in a drastically reorganized system could the real lower classes be regarded as a potential source of entrepreneurial talent, and by tacitly ignoring the possibilities of such reorganization the entrepreneurial school reveals its status quo orientation.

In every respect, then, including their social origins, the entrepreneurs of the modern Third World resemble those of the West, at least in the earlier stages of its development. It cannot be sufficiently reiterated that the so-called cultural differences between the two groups are an unreal construct, a red herring flung across the path of serious research into the causes of underdevelopment. Of course cultural differences exist, and always will exist, in different areas of the world, but their effect on the development of a bourgeois class is miniscule. They are a straw man, to be attacked in order to avoid the real issues. There seems no reason to assume that Third World entrepreneurs are any less motivated by profit than the entrepreneurs of developed areas.

In fact, in order to maintain the validity of their theory, it has been necessary for the entrepreneurial school to consistently disregard the results of their own empirical area studies. Virtually all the social scientists who have conducted the area studies used in this critique are members of the same school of thought as the entrepreneurial theorists. Yet they frequently conclude their essays with the same argument which has been made throughout this critique; that the causes of the differences in entrepreneurial behaviour are structural, not cultural. Carroll maintains that Filipino entrepreneurs are more

directly influenced by economic than by noneconomic factors; differing patterns of economic opportunity, he believes, will change the supply of entrepreneurs. Hazlehurst maintains that the changes necessary in the Punjab are structural, not cultural. Harris maintains that

...Nigerian entrepreneurs respond in an economically rational manner to profit opportunities² /and/ ...changes in economic environment can be sufficient to elicit² a substantial quantity of entrepreneurial services....

And more than one social scientist makes the point that entrepreneurship in the Third World resembles entrepreneurship in the West at a similar stage of development. Meyer contends that his observations on entrepreneurship in the Middle East could apply to any society in the commercial/agricultural stage of capitalism; for instance, he claims, Naples in 1450, London in 1650, and Boston in 1750.³ And even Strassmann, no admirer of Latin American entrepreneurship, writes

In conclusion one might recall that a few generations ago British, American, and Scandinavian industrialists behaved in about⁴ the same way as Latin American industrialists today.

Indeed, my rejection, in the introduction to this essay, of Frank's criticism that the entrepreneurial school of development is a-historical, may have been too hasty. It is true that the entrepreneurial school does use historical data. But it is doubtful that it has any theory of historical development. There is no consideration of the fact that there are different stages of capitalist development, even among the more sophisticated

²Harris, Industrial..., op.cit., pp.4-64 and 9-5

³Meyer, "Entrepreneurship...", op.cit., p.131

⁴Strassmann, op.cit., p.155

writers. Furtado's criticism of Schumpeter is apt.

One defect of Schumpeter's theory is its spurious universality. The spirit of enterprise is presented as an abstract category, independent of time and the entire institutional order.⁵

Without entering into an analysis of the development of capitalism, it can safely be stated that most of the differences which truly exist between entrepreneurs in underdeveloped and developed areas are the result of their differing levels of capitalist development. The potential of entrepreneurial talent is always there, but whether or not it is used, and how it is used, depends on structural factors.

For in all parts of the world and at all times in history there have been ambitious, ruthless, and enterprising men who had an opportunity and were willing to "innovate", to move to the fore, to seize power and to exercise authority ...It should be obvious that what the theorists of entrepreneurship has to explain is not the sudden appearance of men of genius...-but the fact that these men in a certain historical constellation have turned the "genius" to the accumulation of capital.⁶

Similarly, the development of new orientations among entrepreneurs in the Third World; for instance, their growing interest in education and professional management, has not been caused by the attempts of American social scientists to persuade them to change their cultural biases. Rather it has been the result of the structural evolution of capitalism in their society.

One major purpose of this thesis has been to demonstrate that there are no significant cultural differences between entrepreneurship in the developed and underdeveloped worlds. It is far from my intention, however, to suggest that the

⁵Celso Furtado, Development and Underdevelopment, (Berkeley: Univ. of California Press, 1964) p.47 Italics mine.

⁶Paul A. Baran, The Political Economy of Growth, (New York: Modern Reader Paperbacks, 1968) p.235

structural processes occurring in both areas are identical. My intention is quite the opposite, to show that a stress on spurious cultural differences has obscured the very real structural, especially economic, differences in the two areas. The most important factor inhibiting industrial development in the Third World is the effects of colonialism and neo-colonialism. Some of these effects have been mentioned in passing in this essay; the lack of credit and banking facilities, or their control by outside powers; the draining off of educated personnel to developed areas; the difficulties in adapting technological innovations and in obtaining spare parts.

It has been argued that to discuss whether or not an indigenous entrepreneurial class, or bourgeoisie, has been permitted to form in Third World countries is a useless exercise, inasmuch as the cultural theory of development is passé, and furthermore, the future path of development in these countries will probably be through socialism, not capitalism. But these are dangerous arguments to use. First, the cultural theories of development are not dead. They are still propagated, and they are propagated especially to the elites of Third World countries who come to North America to be educated. Moreover the cultural theory supports the notion current among some elements of the New Left of the relativity, separation, and equality of all cultures. Such leftists believe, for instance, that the Buddhist or Hindu cultures are not oriented to development, that the values of Eastern peoples do not include material prosperity; hence the countries of the West should not impose their imperialist notions of prosperity on these peoples. Even if it were true that these cultures are not oriented to development, where the religious

precepts of a nation are used as an "opiate of the people" to induce them to forget their material deprivations, such religions must be attacked.

Most importantly, one must realize that even if the future path to development of underdeveloped countries is through socialism, the fact that they have been prevented from passing through an advanced capitalist stage because of their colonized past will make the task of socialism all the more difficult. I am not, of course, suggesting the promotion of a capitalist bourgeoisie in the Third World as a necessary stage of development on the way to socialism. The time is past for such a class to be useful. Nevertheless, the lack of a capitalist stage will make the change to socialism harder. Capitalism provides a literate, skilled work force, a technological basis, the necessary infrastructure, and a centralized state and bureaucratic apparatus which can direct economic change. Without these prerequisites, Third World countries may be forced to pass through intensive periods of industrialization, with their concomitant abuses of the rural peasantry and to a lesser extent of the urban proletariat, such as occurred in the Soviet Union in the 1920's and 30's.

For it is certainly not my intention, in criticizing the entrepreneurial school's model of entrepreneurship, to deny the relevance of many of the values and behaviour patterns it postulates to economic development. Whether capitalist or socialist, rationalism, a stress on the calculation of costs, efficient management based on criteria of merit, the accumulation

of capital, a desire for education, and the capacity to innovate are all necessary preconditions for economic growth. Max Weber has without doubt made a valuable contribution to sociology in his discussion of the rational ethic which develops in a modern state. Certainly the Russians and Chinese have geared their educational systems towards creating a "rational" personality. The economic history of the Soviet Union provides a useful guide to the problems encountered by a socialist state in encouraging the development, not so much of a capitalist, but of a rational ethic. Technological innovation, for instance, was encouraged in the Soviet Union as early as the mid-30's with the Stakhanovite programme which encouraged workers to look for better ways of manufacturing their products.⁷ The Liberman reforms of 1965 have taken a further step in this direction by lifting the burden of monthly or quarterly production quotas from managers in order to encourage them to experiment more with different "combinations of resources".⁸

But it must also be remembered that under a socialist system those functions for which an entrepreneurial class is deemed so necessary by the entrepreneurial school can be fulfilled by the state. Technological innovation, and even more so imitation and adaptation, can be routinized to a certain extent in state-supported research and development centres. State control of industrial enterprises, and of credit and banking facilities, results in much larger and efficient accumulation

⁷Maurice Dobb, Soviet Economic Development since 1917, (New York: International Publishers, 1966) p.468 ff.

⁸"Statutes on the State Production Enterprise", Current Digest of the Soviet Press, 17, no.42, (Nov.10, 1965) p.5

of capital, especially considering the gains to be made when capital is no longer drained off into private profit or exported overseas. And of course, the chances of loss in financial risk-taking will be cut down tremendously under state control, first because its access to information, and therefore its security, will be much greater than that of the individual entrepreneur; secondly, because it will not be subject to the exploitation and vagaries of the capitalist system.

In conclusion, then, one must not throw out the baby with the bathwater. That grain of truth which exists in almost all theories also exists in the entrepreneurial school. But its truth lies not in its contention that an entrepreneurial class is needed for development; rather, it lies in its advocacy of a rational, efficient, cost-oriented way of conducting the business affairs of any nation. This grain of truth, however, is acknowledged in many theories besides that of the entrepreneurial school; in fact it is ubiquitous in writings on development. Hence the entrepreneurial school has nothing new of value to offer, but its potential for harm, as I have attempted to demonstrate time and again throughout this essay, is great. It is best done away with.

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