

The Business Leader in Theory and Reality

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THE QUESTION of economic and business leadership was not among the problems that worried the founders of classical economics, and for their followers it was only of very minor importance. The early classical economists, in line with the advanced thinking of *their* time, but with disastrous results for the advancement of economics, transplanted Newtonian conceptions into a social science that blinded them to the rôle of economic and business leadership. Only in recent decades has attention been focused on this problem. The reason classical thinking in this respect is on the point of being abandoned is two-fold. Static theory has been supplemented by a theory of economic development, which latter theory cannot overlook the rôle of the innovator; on the other hand, intensive research in the field of business administration has shown that leadership plays a part in the large corporation just as well as in the small and medium-sized enterprise. In this essay a special sector from the broad field of economic and business leadership will be investigated. The author will try to reconcile discrepancies between economic theory and such facts as have been brought to light by research on business administration. In addition, he wishes to show a certain aspect of the problem in its historical setting.¹

I

A STUDY OF BUSINESS ENTERPRISES reveals that three functions have to be performed in every concern in addition to those of white collar and other workers. First, permanent and responsible capital (venture capital) must be provided which bears the brunt in case of loss so that the enterprise becomes credit-worthy²; secondly, the purpose of the enterprise must

¹The theory of the entrepreneur and its history have been treated by this author in Chapter I of his "History of American Business Leaders," Vol. I (Ann Arbor, 1940).

In recent years the problem of entrepreneurship has been much discussed by economic historians. See especially Arthur H. Cole's presidential address "An approach to the Study of Entrepreneurship" in *The Tasks of Economic History* (Supplement to the *Jour. Econ. Hist.* VI [1946]); this collection of papers contains two further articles on the subject. Joseph A. Schumpeter took up Prof. Cole's suggestions in "Comments on a Plan for the Study of Entrepreneurship," mimeographed copy, 1947, and again discussed the subject in "The Creative Response in Economic History" in *Jour. Econ. Hist.* VII (1947), p. 149 ff. There exists since the fall of 1948 a "Research Center in Entrepreneurial History" at Harvard University.

²Down to the middle of the nineteenth century, before the corporation rose to dominance in the industrial field, there could be no doubt that the provision of permanent and responsible capital for an enterprise was a function fulfilled within that enterprise by its owners, be they sole owners, partners, or "proprietors" (stockholders) of a corpora-

currently be determined and the enterprise itself fitted into the market and the national economy; and thirdly, its inner organization must be kept running. In the theoretical analysis one can assign to each function a function bearer or representative. Those who provide the capital can be called "capitalists," those who determine the purpose, the spirit, and the place of the enterprise in the market and the national economy can be called entrepreneurs, and those who keep the organization functioning can be styled managers. Theoretical analysis does not demand that one assigns to each function a single individual as function bearer: one man or several men in common can act as such. But for the purpose of theoretical clarity it is desirable that each function be considered as being fulfilled by a separate man or group of men.

In so doing the theorist makes out of "capitalist," entrepreneur, and manager what Max Weber has called an "*Idealtypus*." The word *Idealtypus* was coined to cover, in an epistemological context, certain generic terms used in the social sciences. Such generic terms, as for instance: economic man or capitalism, originate in a logical process by which the student consolidates in his mind institutions, events, and relationships so as to form a consistent system of thought. Elements existing in social reality are by that logical process purified and freed from all those contradictions and ambiguities which are typical of that reality. The *Idealtypus* itself, this consistent, logical, purified image of a social reality is some sort of Utopia. It does not accurately portray reality; it represents a one hundred per cent purified picture of reality in which all disturbing factors are eliminated so that it is possible to understand and delineate social phenomena by comparing them with the *Idealtypus* thereof.

There is, however, still another group of generic terms used in the social sciences, as, for instance, businessman or worker or factory, and the like. These generic terms are different from those previously described in that they are meant to represent reality itself with all its contradictions and

tion. In the *modern* corporation, on the other hand, the stockholder is so loosely connected with his concern that some economists are inclined to consider the provision of even permanent and responsible capital as the function of the investor whom they consider as standing outside the enterprise. The contribution of capital, in the eyes of these economists, stands on the same level as the furnishing of labor or the selling of material by purveyors. This author recognizes that the change in economic reality alluded to above is bound to be reflected in a change of theory devised to elucidate that reality. But he cannot adopt that point of view for himself because it implies that the legal owners of a certain type of enterprise are considered outsiders, the men who have to bear the brunt of every loss, who at the same time are the profit recipients, and, under certain circumstances, if organized, can change the administration. All those who provide permanent or temporary capital in the capacity of creditors of the enterprise concerned are definitely outsiders, of course.

ambiguities. A generic term of this type may be called *Realtytypus*, a word not used heretofore in the American literature.³ While it is an essential characteristic of the *Idealtytypus* not to be found in reality exactly as defined in theory, representatives of any *Realtytypus* are to be met at every turn and perhaps one does not go too far in claiming that very often the *Idealtytypus* has its counterpart in a *Realtytypus*. This line of thought will be taken up again later.

Since "capitalist," entrepreneur, and manager fulfill certain functions within the enterprise, they have by necessity the power of decision in their particular fields. It is not correct to define the entrepreneur, as has been done, as the man who makes the decisions within the enterprise. In fact, all three make decisions. The moneyed man decides which enterprise he wishes to back as one of its "capitalists" and which to abandon, thereby possibly determining its fate. Dividend and investment policies reflect his attitude whether it is articulate or imputed. Executives determining the investment of corporate funds in other enterprises appear as "quasi-capitalists" acting for their constituents. The entrepreneur, on the other hand determines the objectives of the enterprise, its structure, and its place in the market and the national economy. The manager, finally, makes those decisions which have to do with the working (running) of the enterprise or plant. In the hands of the entrepreneur, the enterprise resembles an organism, kept alive by his decisions; in those of the manager it resembles a mechanism kept in good working order. Disregarding those of the "capitalist," it is important to draw the line between entrepreneurial and managerial decisions. By way of comparison one can call the former strategical and the latter tactical; in most cases the former will be major, the latter minor; the former will be broader and general, the latter narrower and specific; the former will refer to what to do, the latter to how to do it. Essentially, the field in which the decision takes place determines its character as entrepreneurial or managerial.

From these statements it should be clear that the definition of the entrepreneur as the policy-making agent within the enterprise is as mistaken as that criticized above: there is entrepreneurial as well as managerial policy, in that it can refer to one of the two broad fields characterized previously. Since both manager and entrepreneur make decisions and since the former may determine policy in his respective field, the economist cannot withhold the recognition as business leader from the manager to the extent that he actually determines policy.

³ The concepts *Idealtytypus* and *Realtytypus* are criticized by Hans Ritschl, "Wandlungen in Object und in den Methoden der Volkswirtschaftslehre" in *Schmollers Jahrbuch* LXVII (1943), pp. 12, 13.

II

TURNING FROM STATIC to dynamic theory^{3a} the subject of interest shifts. The problem under investigation is no longer leadership in business, but economic leadership, not leadership within the enterprise, but leadership within the national economy, leadership on new ways, in consequence of which the course of economic history is changed. This dynamic leadership can be exerted either in the field of capital investment or with regard to the purpose of an enterprise and its place in the market or national economy, or, finally, with regard to its organization. *Per definitionem* such leadership will be exerted by "capitalists," entrepreneurs, and managers, respectively. These men, if taking action which influences economic development and which thus elevates them to subjects of dynamic theory, should be distinguished from their brethren who do not. It is suggested that they be called creative "capitalists," creative entrepreneurs, and creative managers, respectively.

The creative "capitalist" is a man who invests funds in a new and untried type of venture and, in so doing, makes economic progress possible in a particular field. The importance of his function in economic development should not be underestimated. He incurs heavy risks and must possess more than usual courage and vision. The men who invested considerable sums in the first commercial bank of this country, the Bank of North America, thereby bringing it into existence, such as Robert Morris, Jeremiah Wadsworth, John Barker Church, and others, are prototypes of creative "capitalists".⁴ What this author calls "creative entrepreneur" is identical with Professor Schumpeter's term "entrepreneur," the man who effects new combinations of the factors of production.⁵ But it is

^{3a} The phrase "dynamic theory" is used in this paper to connote the theory of economic development.

⁴ The author has given another example of a creative capitalist in his "History of American Business Leaders," p. 16.

⁵ The author has recently found to his great surprise that this concept is contained *in nuce* in Jeremy Bentham's "Defence of Usury," (Philadelphia edition of 1796), pp. 134 ff., 143, 144, 146. Schumpeter's "entrepreneur," designated "creative entrepreneur" in this paper, appears as "projector" in Bentham's book: "But the stepping aside from any of the beaten paths of traffic is regarded as a singularity, as serving to distinguish a man from other men. Even where it requires no genius, no peculiarity of talent, as where it consists of nothing more than the finding out a new market to buy or sell in, it requires, however, at least a degree of courage which is not to be found in the common herd of men. What shall we say of it where in addition to the vulgar quality of courage it requires the rare endowment of genius, as in the instance of all those successive enterprises by which arts and manufacturers have been brought from their original nothing to their present splendor." ". . . for the fabric of national opulence . . . required the . . . hand of a projector to lay the first stone." "Let Titius have found out a new dye, more brilliant or more durable than those in use, let him have invented a new and more convenient machine or a new and more profitable mode of husbandry, a thousand dyers, ten thousand mechanics, a hundred thousand husbandmen may repeat and multiply his

not identical with the term innovator, which has recently been proposed, since the latter concept can include also the creative manager whom the theorist should keep separate from the creative entrepreneur.

What then is the creative manager? He is the man who in the field of internal organization leads in new ways. James G. Cannon, vice-president of the Fourth National Bank of New York, exponent of what was then called the "scientific credit movement," who created the first credit department of any metropolitan bank, or Charles R. McKay, are examples of creative managers. The latter, Deputy-Governor of the Federal Reserve Bank of Chicago, had been transit manager of the First National Bank of Chicago and was considered an authority in his field. At the latter bank he developed the numerical classification of financial institutions for clearing purposes, a method which had far-reaching consequences for bank management and labor force alike. Without this innovation it would have been almost impossible to introduce accounting and calculating machines into the banking practice, which, in turn, facilitated the invasion of banking by the cheaper female labor. When the Federal Reserve System was created, McKay contributed a second time to economic development, becoming creative once more in his capacity as manager. He wrote the preliminary memorandum on clearings and collections that formed the basis of those recommendations which were embodied in the final report (also shaped by McKay) of the committee appointed to work out the details of the nation-wide check clearing system of the Federal Reserve Banks.⁶

success." Bentham arrives at the conclusion that the usury laws should be dispensed with in favor of "projectors." It is especially interesting that this material is to be found in a polemic letter to Adam Smith who is rightly accused therein of not having seen the importance of the projector, that is, of the creative entrepreneur.

Bentham himself developed his concept from an older one embodied in Daniel Defoe's "An Essay upon Projects," published in 1697; see the second chapter, entitled "Of Projectors." "Masters of more cunning than their neighbors turn their thoughts to private methods of trick and cheat . . . Others . . . turn their thoughts to honest invention, founded upon the platform of ingenuity and integrity. These two last sorts are those we call projectors . . . the number of the latter are very inconsiderable in comparison of the former . . . A mere projector then is a contemptible thing . . . But the honest projector is he who having by fair and plain principles of sense, honesty, and ingenuity brought any contrivance to a suitable perfection . . . puts his project in execution and contents himself with the real produce of his invention."

⁶ F. Cyril James, "The Growth of Chicago Banks" (New York and London, 1938), pp. 906-7.

The introduction of female labor into banking which became possible through McKay's managerial achievement must be seen on the following background: "When through the instrumentality of [U. S.] Treasurer [Francis Elias] Spinner [1802-1890, U. S. Treasurer 1861-1875] the doors of the Departments of Government were opened to the employment of women, other doors were soon opened. It was discovered that if their services were of use to the Government, they might be made available in other offices and business houses." Quoted from a leaflet of the General Spinner Memorial Association. *George S. Coe Papers*, Baker Library, Harvard University.

Men like Cannon and McKay did not fit an enterprise into the market and the national economy and thus in the sense of static theory they did not become entrepreneurs. They did not effect new combinations of the factors of production (they did not embark in the production of a new product, did not develop a new market, did not open new sources of raw materials, did not find new locations, did not develop new sales methods or the like). Therefore they were not creative entrepreneurs in the sense of dynamic theory. But nevertheless they made history and determined the whole development of our economy by radically changing the internal organization of business in their line through the adoption of new methods. Nobody will deny the great economic importance of the introduction of nation-wide check clearing into America.

III

AT THIS POINT shifting the lights from theory to life, and disregarding the carriers of economic development as described above, one realizes that the manager of theory exists in reality. There are foremen, store managers, plant managers, and the like who never in their lives and during their careers make anything except *managerial* decisions. The *Realtypus* manager corresponds in life to the *Idealtypus* manager of theory. With regard to the "capitalist" of theory as circumscribed above, one may doubt whether its counterpart in life can be called capitalist. As a matter of fact there are many people who, whatever their occupations, invest funds in enterprises in the form of permanent and responsible capital. They make decisions in so doing or in withdrawing invested capital; in upholding or abandoning a tottering enterprise; in accepting or rejecting proposals in case of reorganization or consolidation, thereby determining the fate of the enterprise as whose "capitalists" they function. Thus the *Realtypuses*: investor, owner, partner, stockholder, and even to a certain extent, chief financial officer of a corporation correspond in life to the *Idealtypus* "capitalist" as presented here. (Of course the author is well aware of the fact that the term capitalist offers itself also as an adequate name for other economic and social phenomena.)

The situation regarding the entrepreneur is clear. To the *Idealtypus* entrepreneur there is no corresponding *Realtypus* entrepreneur. The corresponding *Realtypus* is the business administrator. What distinguishes the entrepreneur of theory from the business administrator of practice are two facts. First, the latter is, as a rule, both entrepreneur and manager. The entrepreneur pure and simple is very rare in economic life. That

is to say, there is on the whole nobody in the administration of an enterprise who in the course of his administrative dealings does nothing except to fulfill entrepreneurial functions. But, secondly, even if we should discover, as we will, a business administrator whose time is one hundred per cent so spent, in a large scale enterprise he alone would not be the entrepreneur of theory. Only in conjunction with other business administrators, most of whom would be both entrepreneurs and managers at the same time, does he represent the entrepreneur of theory.

For the understanding of this statement the places within the enterprise where entrepreneurial functions are performed may be recapitulated. In the small and medium-sized concern, which regardless of the legal form is called a "one-man enterprise" because it is dominated by a single man, one can put the finger on the one who in this particular enterprise stands for the entrepreneur of theory. In the average medium and in the large scale enterprise, however, as Gordon has rightly stressed recently,⁷ entrepreneurial functions are fulfilled at different places in the organization and by different men, who taken together constitute the entrepreneur of theory.⁸ Chief executives, members of the boards of corporations, committees of staff members, committees of boards of corporations, and numerous members of the staff down the line can make and have made entrepreneurial decisions and have determined entrepreneurial policy. This they have done officially or unofficially, that is, simply by influencing the man or the men who have the power of decision.

But one cannot even stop here. People outside of an enterprise who personally, or as members of another enterprise, possess or represent a controlling interest can also make entrepreneurial decisions for an enterprise with whose staff or board they are not legally connected. To give an example: when in the early Nineteen Hundreds the United States Steel Corporation saw a fight for power between Judge Gary and Charles M. Schwab, it was J. P. Morgan who decided it in favor of the former. Consequently, Schwab left, and built up a flourishing steel concern of his own; while the United States Steel Corporation, led by the less efficient of the two, started declining. Morgan's decision was of the highest importance for the United States Steel Corporation, but he was, from the legal point of view, an outsider, since he did not sit on its board.⁹

⁷ Robert Aaron Gordon, "Business Leadership in the Large Corporations," (Washington, 1945), *passim*.

⁸ This point has been clearly seen before by von Gottl-Ottlilienfeld.

⁹ Incidentally we may be near the point at which government administrators make entrepreneurial decisions for business enterprises, with which, of course, they are not legally connected.

To sum up: In the modern large-scale enterprise the entrepreneur of theory is or can be represented by a number of co-operating and contending business administrators, plus a co-ordinating chief executive¹⁰ who is a business administrator himself, plus controlling outsiders if they exert an influence on the policy of the concern. Disregarding the outsiders for the time being, the nearer the top the business administrators are the more of their time will be spent in doing the job of the entrepreneur, and the less with the job of the manager; while at the bottom of the ladder stands the manager who only occasionally makes a decision which is entrepreneurial in character.¹¹ Both entrepreneurial and managerial decisions stand for the will of the enterprise in question and are made in its behalf. They are thereby fundamentally different from decisions made by outside agencies such as trade unions or legislative and governmental bodies or cartels which may force a change in policy on an enterprise. The latter type of decision is made with a view to, but not in behalf of the enterprise which has to react on them by entrepreneurial or managerial decisions, respectively. The answer to a trade treaty, for instance, will be an entrepreneurial, that to the administrative order of a public-health agency a managerial decision.

IV

SO FAR consideration of the problem of risk has been avoided, although, as a matter of course, entrepreneurial and some managerial decisions result *ipso facto* in the creation of risks. It goes without saying that the risk created by entrepreneurial and managerial decisions falls first of all on the enterprise in question as such; its existence is at stake in connection with every major decision. It would be a truism to state that the enterprise bears the risk evolving from entrepreneurial decisions. The real economic problem is that of risk-bearing within the enterprise, a distinction which, incidentally, should be seen in a broader context. There are two different problems at the root of all discussions in the field under investigation. First, down to the eighteenth century individuals in their capacity as

¹⁰ Chester I. Barnard's "executive," the man who maintains an organization in operation, is also an "Idealtypus." Barnard himself is aware of the fact that "probably" all executives do a good deal of non-executive work. Barnard's "Idealtypus" executive is, not congruous, of course, with the "Idealtypus" entrepreneur. To the extent that the "executive" maintains the organization in its relations with the external world he fulfills entrepreneurial functions, to the extent that he keeps it from disintegrating he assumes managerial ones. As commonly used, the term executive covers a "Realtypus" which is almost identical with that of business administrator. ("The Functions of the Executive," Cambridge, 1938, especially pp. 215, 216.)

¹¹ Entrepreneurial decisions of members of a board of outsiders will also tend to be occasional, while at the same time they will not make any decisions which are managerial in character.

merchants, craftsmen, farmers, etc., were the carriers of economic life. A partnership was then an aggregate of individuals, and corporations held only a negligible share in the economic field. In contrast, modern economic life is carried on by social structures (firms), not by individuals, as such. But, secondly, this does not mean that the individual has disappeared from the economic scene; nothing could be farther from the truth. What has changed is his rôle therein: instead of carrying economic life as an individual he carries it by determining the will of those social structures which are decisive in modern economic life.

When one speaks of risk-bearing within the enterprise one must keep in mind that two types of risk are involved in entrepreneurial decisions: they can be characterized as financial and as "other" risks. In contrast to Adam Smith's day and to the early nineteenth century, in our era it is typical of economic life that the man or men who make the decisions in the enterprise do not as a rule bear the financial risk. (They may do so to a certain extent as "capitalists" or creditors.) To be sure, the decision-maker always bears a risk, but one classed above as "other." If he makes serious mistakes which lead to a heavy loss or breakdown of the enterprise whose will determines, he may lose his job, endanger the jobs of family members and he may lose his source of income and the standing within his community. But when one speaks of risk-bearing one usually means the financial risk, and the latter is borne by those who, in one capacity or another, have provided capital to the firm in question.

In this connection a development has taken place which parallels the one described above.¹² For many decades following the time of Adam Smith the decision-maker was a "proprietor" of the enterprise for which the decision was made. But, as has been described, economic development has now reached the point where the man who makes entrepreneurial decisions is, as a rule, an employee and in some cases may not even legally be connected with the enterprise. In those earlier decades it was a matter of course that the risk resulting from decisions was borne by the men owning the enterprise and to a large extent by the decision-maker in his capacity as one of them ("capitalist"). The financial risk of a corporation today, however, is widely distributed. It is borne by owner investors, by non-owner investors, by banks as providers of short-term capital and by purveyors in their capacity as creditors. (The owner-investor bears the first brunt and it is therefore advisable to treat him differently from the others, as has been done in the analysis presented in section I). This distribution

¹² See footnote 2.

of risk has important consequences. The four categories: owner-investors, non-owner investors, providers of short-term capital, and purveyors as creditors can be made up of firms themselves and to the extent that firms are risk-bearers the risk is actually borne by their own owner-investors, non-owner investors, lenders of short-term capital, and purveyors; and so on *ad infinitum*. In the last analysis, someone may bear the risk evolving from entrepreneurial decisions for an enterprise of which he has not as much as heard the name. This diffusion of risk is of great importance for the functioning of our economic system because it enables the national economy to survive the disasters of large scale enterprises. It is evident that one must discard the age-old concept of the entrepreneur as the risk-bearer and make a clear distinction between decision-making which results in risk and the bearing thereof, if one wishes to understand modern enterprise and business leadership. To repeat: the modern business leader as a rule does not bear the financial risk that evolves from his decisions.

At this point a few words must be said about entrepreneurship and profit. Barring some exceptions, such as windfalls, profit is due to the activities of the entrepreneur, but it does not necessarily accrue to him. In order to understand the present situation one has to cut loose from another old concept, namely the concept of profit as being what is left from the income of an enterprise after wages, rent, and interest have gone to their respective recipients. This theorem does not fit twentieth century reality. For understanding the latter one must rather define profit as that part of the income of an enterprise that is *due* to the activities of the entrepreneur, in contrast to those parts which are due to the contributions of land, labor, capital, and management, the latter as defined before.

Thus we have reached another problem, namely, that of the distribution of "profit" in the above sense. In tackling it one has to keep in mind that in our century the entrepreneur appears typically as the employee of a corporation and his remuneration, or the largest share thereof, is paid in the form of a salary. Consequently the distribution of "profit" will depend on the distribution of power within the enterprise, on bargaining capacity, and accidental factors, such as the availability of one or several men for a position requiring entrepreneurial capacity.^{12a} Occasional entrepreneurial

^{12a} The problem was already seen by Francis A. Walker: "Disguised profits also enter into the dividends of many companies or corporations which have had the good fortune, good sense and good feeling to retain as managers men of the highest business ability, born captains of industry, who yet by considerate treatment and high salaries (the force of habit and perhaps pride in the work concurring) are induced to remain long after they have reached the pitch of reputation which would give them command of the situation if they chose to set up as manufacturers for themselves." "The Doctrine of Rent and the

contributions of men down the line, as have been described above, may well remain without any reward; or to put it differently, profit due their entrepreneurial activities may go to capitalists or employees of the corporation who are the superiors of the entrepreneurs. Very important for the distribution of "profit" is whether or not the entrepreneur controls the corporation and how essential a large *venture capital* is for its success. It is at this point that the risk problem enters the scene. The distribution of "profit" within the enterprise runs the gamut between the entrepreneur receiving all "profit" and the entrepreneur being exploited. In the former case we may find extremely high salaries of corporation officials and numerous members of their families employed, while no or only low dividends accrue to the stockholders. In the latter case the real head of the corporation (entrepreneur) may receive no more than wages of management while dummy presidents representing the controlling groups are highly paid and large dividends are enjoyed by the stockholders. Incidentally, in an era of strong and ruthless labor unions, "profit" (that share of the income of an enterprise that is due to the entrepreneurial contribution) may well be absorbed by high wages to the labor force which in this case would collectively exploit the entrepreneur. The exploitation of the entrepreneur which became possible when he moved into the position of a salaried employee of a corporation is, however, by no means a new problem. It appeared also in the era of partnerships, only in a different garb. At that time it was common that well established businessmen took into their enterprises promising young men as junior partners who, in many cases, after a few years became the entrepreneurs. Nevertheless the senior partners who, to the same extent, retired into the position of highly trusted capitalists, continued to receive the lion's share of the "profit" (that part of the income of the partnership that was due to the contribution of the entrepreneur).

To put it differently, dividends paid to the stockholders of a corporation may contain "profit" besides interest (to the extent that the shares are represented by real capital) and rent (to the extent that the corporation is a land owner). Again "profit" may appear in the salary account: high salaries of corporation officials which are larger than customary wages of management can be expected to contain a good deal of "profit." In exceptional cases, if labor unions have established a tight monopoly, "profit" may even appear in the wage account.

Residual Claimant Theory of Wages" (first published in the "*Quarterly Journal of Economics*") in Francis A. Walker, "Discussions in Economics and Statistics," Davis R. Dewey, ed. (New York, 1899), I, p. 427.

Recently the matter has been touched upon by Guido Turin, "*Der Begriff des Unternehmers*" (Zürich, 1947), pp. 113, 213, 220.

V

SOME HISTORICAL MATERIAL may contribute to illuminating the theoretical problem. In Adam Smith's time capitalist, entrepreneur, and manager were combined in the person of the merchant or small industrialist typical of the late eighteenth century. However, when the corporation became important in the industrial and banking fields, the capitalist split off, and Jean Baptiste Say discovered the entrepreneur, in fact the manager-entrepreneur typical of the nineteenth century. The latter was rather a manager who fulfilled entrepreneurial functions whenever necessary. In the second half of the nineteenth century, Francis Amasa Walker in America and various German economists in Europe,¹³ taking the next step in theoretical progress, discovered the manager as distinct from the entrepreneur, and, in fact, a change had taken place in the meanwhile. In the large-scale enterprise the old manager-entrepreneur (with the emphasis on the manager) was being replaced by the modern entrepreneur-manager (with the emphasis on the entrepreneur).

It seems to this author that (at least in America) business administrators in the field of banking first freed themselves from most managerial detail and came nearer to the modern type of entrepreneur-manager. He thinks of such men as Nicholas Biddle and the New York banker Isaac Bronson.¹⁴ But for their times, the Eighteen Twenties and Eighteen Thirties, these men represented exceptions. A much later generation, that born in the Eighteen Thirties, the one that found itself at the fork in the road leading on the one hand to "business" and on the other to "industry," as Veblen put it, created, as a typical phenomenon, the new type of business administrator who is an entrepreneur who has freed himself from most managerial function. Andrew Carnegie and J. P. Morgan were early representatives and the most impressive of the new type. The historian who is acquainted with the manner of living and the methods of work of pre-Civil War business leaders (men like Peter Cooper, Abram S. Hewitt, William Sturgis, etc.) is amazed when he reads the authorized biographies of the above two men.

Andrew Carnegie did not work regularly; in fact, he disliked work. He spent most of the year away from his enterprises on pleasure trips or at his castle in Scotland. He wrote silly and insincere books which were

¹³ The theoretical discovery of the manager as distinct from the entrepreneur has been described in some detail by the author in his "History of American Business Leaders," pp. 7-8.

¹⁴ See this author's "The Molding of American Banking," (New York, 1947), pp. 45 ff., 110 ff.

admired by a generation that adored money, bigness, and success. He had numerous interests that had nothing to do with his enterprises, of which, in fact, he knew very little. He was a master in money making rather than a far-seeing leader of his enterprises. Nevertheless, his was the ultimate power of decision; he was the driving force; he set the pace for his enterprises, and he contributed much through his contacts to their success. Thus he was one of those who created a new social type, which like every other social innovation resulted in all sorts of difficulties. There was much friction and bad feeling within his enterprises. For Carnegie's lieutenants were no longer manager-entrepreneurs of the old type, let alone mere managers. Nevertheless much of their entrepreneurial functions had been taken away from them by one who fulfilled one hundred per cent entrepreneurial functions, but was not alone the entrepreneur of theory in the concern in question. Those men plus Carnegie were the entrepreneur of theory. They knew that industrially they were much smarter and much more important than their "big boss." This fact underlay the conflict between Carnegie and Frick, the bad feeling of Phipps (who was a manager, not an entrepreneur by character), and the uneasiness felt by most of the other Carnegie officials who often thought of throwing off the golden yoke. The result furthermore was that Carnegie could never take a high-ranking outsider into the administration of his enterprises. These were run by young men, whom he had promoted and who were more or less accustomed to the idea that they did the work while he goaded them, whip in hand, and that he had the final decision and made most of the money, although they were indispensable for the functioning of the concern.¹⁵

J. P. Morgan's case is different in detail, but fundamentally the same. In contrast to Carnegie, he was a worker; however, he did not work more than nine months in the year. The remaining three months he spent traveling in England, France, Switzerland, or Egypt. He enjoyed yachting, dog-breeding, and shopping. He was a collector of books, manuscripts, pictures, miniatures, china, and jade. When one keeps in mind the devotion to business of the hardworking earlier type of business leaders and their Puritan pride, one is surprised how often his son-in-law and biographer stresses the fact that Morgan enjoyed a very good time. Even while working we see him one day each week besides Sunday at his country home in the Hudson valley, almost every evening in summer on board his

¹⁵ Burton J. Hendrick, "The Life of Andrew Carnegie," (Garden City, New York, 1932); James Howard Bridge, "The Inside History of the Carnegie Steel Company," (New York, 1903).

yacht and every so often in his mountain camp or on an island off the coast of Georgia. It was this very ability to relax that enabled him to shoulder the tremendous responsibility and strain of his position. As a matter of fact, Morgan, like Carnegie, thus became the prototype of the man who performs entrepreneurial functions pure and simple, the prototype of the great business leader who has got rid of all management and has yet remained the decisive figure in his enterprise, thereby being a powerful factor in the economic life of his nation.

Morgan's lieutenants, however, again like Carnegie's were the typical modern entrepreneur-managers, and in contrast to an earlier stage of social development, in the most important matters subject to the final decision of the man who fulfilled entrepreneurial functions pure and simple. They were lesser entrepreneurs than he but far more than mere business managers, and were more entrepreneurs than the old type manager-entrepreneurs. They shared the responsibility¹⁶ and had to do all the actual work. Again they, plus Morgan, represented in the banking house the entrepreneur of theory. The men could not afford to live as Morgan did but, although there was apparently much more harmony around Morgan's office than in Carnegie's shops, these men were worked to death. Morgan's biographer states that the former tired out most men with whom he worked or who worked under him.¹⁷ One of his early important partners, Egisto P. Fabbri, resigned; Charles H. Coster broke down; other partners, such as George W. Perkins and Robert Bacon, left after a number of years.

Thus there can be no doubt that the phenomenon, which Gordon was probably the first to describe in a systematic treatment in 1945, was then at least fifty years old.

VI

TO SUM UP: to the conceptions of *capitalist*, *manager*, and *entrepreneur* in the static theory correspond the conceptions of *creative capitalist*, *creative manager*, and *creative entrepreneur* in the dynamic theory. Both the *Idealtypuses* entrepreneur and creative entrepreneur have their counterpart in life in the *Realtypus* business administrator who may or may not gain influence on economic development. If he does, then he corresponds to the creative entrepreneur of the dynamic theory, if not, to the entrepreneur of the static. What distinguishes the business administrator of modern economic life from the entrepreneur of theory are two features: first,

¹⁶ Robert Bacon, for instance, one of Morgan's partners, was responsible for the outbreak of the Hill-Harriman war.

¹⁷ Herbert L. Satterlee, "J. Pierpont Morgan," (New York, 1939), p. 551. See also Lewis Corey, "The House of Morgan," (New York, 1910).

most business administrators in contrast to the entrepreneurs of theory fulfill managerial functions in addition to entrepreneurial. Secondly, even those few business leaders who have got rid of all managerial detail and who spend one hundred per cent of their time with entrepreneurial work are not the theoretical entrepreneur in their enterprises. The entrepreneur of theory has his counterpart in the modern medium and large scale enterprise in a number of co-operating and contending business administrators, who perform entrepreneurial and managerial functions in various degrees, co-ordinated by a chief executive.¹⁸

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¹⁸ The author is indebted to Prof. Arthur H. Cole for reading the manuscript and for offering valuable suggestions.

Rights to the Land in India

AFTER A DEBATE of several days, the Constituent Assembly of the State of India in New Delhi adopted a seven-point article on fundamental rights last December. Unlike the United Nations, which in framing a bill of human rights seemed to be totally unaware that man has special rights to the land and natural resources, the Indian legislators were aware that any adequate statement on fundamental rights involved man's right to the earth. In the course of the debate, according to a domestic broadcast over the New Delhi radio, this question came up: "A new point was proposed by Sir Govind Das who said that the proposed rights of property might come in the way of the progressive legislation, and by Chaudhuri Anil Singh, who thought they might go against laws like the Land Alienist Act of East Punjab and create a new crop of zamindars. On the other hand, Mr. Pontethrai welcomed these provisions saying Harijans would henceforth be enabled to acquire land, a right they had hitherto not enjoyed. Mr. Deshpande Gupta also welcomed the general rights to acquire land." What these allusions mean precisely this writer will be in no position to know until some specialist in Indian land economics analyzes the article and the debate in this or some other journal in the field. They seem to indicate, however, an awareness of the ethical and technical economic aspects of the land question which one expects to find only in such organizations as the Catholic Rural Life Conference in the United States, the smallholders league in Denmark and the Justice party in the Netherlands. They whet one's appetite for more details and enoughtening interpretation.

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