

Factors of capitalism and modern entrepreneurship



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“ Men/women work ‘ to get rich’, in a large proportion of cases...Whatever our philosophy of human motives, we must face the fact that men/women do raise more corn to feed more hogs, to buy more corn to feed more hogs, to buy more land to raise more corn to feed more hogs to buy more land...and, in business generally, produce wealth to be used in producing more wealth”

(Knight, 1921: 319). The most evident trait of capitalism is here clearly identified: the first motivation for work is ultimately profit-related. However, capitalism can not be reduced to this one characteristic.

Among the many available definitions of Capitalism, I will align here with professor Hunt who states that Capitalism is to be defined by four sets of institutional and behavioral agreements: a private ownership of the means of production, a market-oriented commodity production, a significant proportion of the population that depends on selling its labour power in the market, and the individualistic acquisitive optimizing behaviour by most individuals within the economic system (Hunt, 2011, p. 4). Max Weber (1864-1920), who grew up witnessing the important changes caused by the Industrial Revolution in Germany; the growth of cities, emergence of new companies and the replacement of old aristocracy by a new managerial elite, also reflected on the functioning and future of capitalism in his work *The Protestant Ethic and the Spirit of Capitalism* (1905). Along with his macroeconomic analysis, Weber explains that capitalism did not arise from new technologies or new financial instruments, but rather from religious beliefs and more precisely from Protestantism. Indeed, the Protestant recognition of business as a receivable economic activity and of profit as a divine grace or in other words, the religious approbation of material benefit,

created the genesis of capitalistic entrepreneurship. He also explains what he considers to be a capitalistic enterprise: one that involves a disciplined labor force and a permanent re-investment of capital. Additionally, the Austrian School of Economics, founded in 1871, rallies different authors including Joseph Schumpeter and Israel Kirzner. These authors also participated in the analysis of capitalism, and thus of entrepreneurs, by completing Weber's definition, based on a micro-economic level, and mentioning the behavior of the entrepreneur and his qualities.

Thus, the following question arises: what are the key factors of modern capitalistic entrepreneurship? If, Weber's work enlightens the factors of entrepreneurship through religious, rational and social features, the Austrian School of Economics also participated in the determination and analysis of those key factors with the views of Schumpeter and Kirzner.

Weber's work stresses out three key features of the modern capitalistic entrepreneurship: religious features, rational features, and social features – each dividing into subsets.

First of all, Weber analyses how capitalistic entrepreneurship began with religious reasons, belonging to the spirit of Capitalism in the *Protestant Ethic and Spirit of Capitalism* (1905). John Calvin is mentioned in Weber's work as the introducer of theological doctrines about predestination, which, combined with Martin Luther's, advanced an original behavior towards work. The predestination doctrine outlines the trust in the existence of a Final Judgment: The Judgment God gives to either damn or save humans at the end of their existence on Earth. Humans thus need to assure themselves

they will be saved, and in this aim, only one choice persists: to be transported by faith and constantly work in order to forget the apprehension of the Final Judgment. In some ways, God saves those who help themselves and strive for others, which is why work is a solution to the struggle of religious and existential anguish. This theory is based on the confrontation of the lonely individualism of men faced to God's expectation of them (Weber, 1905: 56-78). Weber presents the concept of a "*calling, a religious concept, that of a task set by God*" (Weber, 1905-40), as a new idea and a Protestant notion. The optimal form assumable by the individual's moral activity would thus be the achievement of duty in worldly-affairs, which offered an "*every-day worldly a religious significance*" (Weber 1905-40). Weber finds in Calvin's works, the clearest expression of the relation between the calling and the capitalistic spirit as he would not point out to ethical culture or social behavior but to the development of capitalistic spirit. Martin Luther brings additional elements reinforcing the doctrine of the Calling: he indeed adds the notion of man as a product of divine will and thus its obligation to accept and remain where he was assigned in the organization of society and work. Luther's approach also raises the fact that one can waste divine grace but reconquer it through penitence, humility, and contrition. Furthermore, Weber demonstrates that asceticism forbade any enjoyment as it guides humans away from religion. These theories already highlight some of the premises of capitalism: the birth of the constant need for work as a life goal to attain before one's death. Richard Tawney (1880-1962) in accord with Weber, identified in his work: *Religion and the rise of capitalism* (1926), the "purist" Protestants forming the gentry as those who faced the old aristocracy and became profit maximisers, exemplifying the entrepreneurial attitude. Weber

further builds on the transition from traditional to modern capitalism. Indeed, he uses the example of the peasants (Verleger) in the XIXe century, who were leading the economic activity in Germany. Peasants were factually driving entrepreneurial capitalistic activity, but in their spirit, it remained traditional entrepreneurship. (Weber, 1905: 29) In the following generations, a set of ethical qualities towards the acquisition of capital and the activities involved rose, bringing modern entrepreneurship to life. It is not the quantity of capital invested but a new spirit that leads to these changes: the spirit of capitalism. (Weber, 1905: 10-31). Modern capitalistic entrepreneurship, therefore, takes root in the Protestant religion, and helps us identify relentless work and perseverance as additional features.

Second of all, Weber analyses how capitalistic entrepreneurship evolved and expanded by means of rational factors. Indeed, Weber exposes the spirit of capitalism to fall within the elaboration of rationalism as a whole and could be deduced of the original situation of rationalism on the primary issues in life: it is the triumph of rationality over tradition. Weber, considering the Calvinists' will to work and save money, demonstrated that they constituted the group that the necessary work ethics and savings when the industrial revolution required consequent amounts of capital investments. They were thus the firsts to benefit from the Industrial Revolution which represents an explosion for capitalism and entrepreneurship. During this period, social, educational and religious institutions promoted a "Laissez-Faire" economy, in which governments had a minimum power of intervention in economic activities. This economy was beneficial for entrepreneurs as it created an individual ambition as becoming a 'noble gentleman' (Smith, 1776: 188-

192). The Industrial Revolution allowed the fast transportation of merchandise, the improvement of means of production and thus the expansion of efficiency in economic activities. According to François Crouzet, the percentage of incremental exports in proportion to the national British income increased from 3.3% to 40.3% between 1760 and 1801 (Crouzet, 1980: 78). The progress allowed by the industrial revolution triggered the national growths, the investments, and the productivity, offering entrepreneurs an ideal configuration to grow, and providing an easier access to profit. We can thus state that rational facts as Industrial Revolution and the climate-induced helped modern capitalistic entrepreneurship to rise impressively, and opened new opportunities for entrepreneurs.

At last, Weber analyses how capitalistic entrepreneurship also took relief with social considerations. After the industrial revolution, people started creating alliances to exchange knowledge and to help one another. The creation of social structures such as clubs, affiliations, organizations, and reform groups, enhanced the importance of networks and participated in the development of modern capitalistic entrepreneurship. Weber's theory focuses on the sense that men attach to their initiatives in their interactions with others among special contexts. Hence, four ideal types of social actions come out (Weber, 1979: 24-25) The '*Zweckrational*', or instrumentally-rational, is an action of which the means to reach the specific aim are rationally selected. Weber uses the example of an engineer who builds a bridge to cross a river: it is a rational way of achieving the aim. The '*Wertrational*', or value rational is an action which aim is not rational in itself. The value originates from social, religious, ethical contexts: it is not '

rationally' selected. The Affective action is the one that relies on emotional state rather than on the rational balance between means and ends. Coser (1977) offers an example of this type of action: a person going to university with social motivations; meet people and make new friends. The last one is the Traditional action which is the one that follows the rules already implemented and integrated in the society. Weber gave the example that we eat with cutlery because everyone has accepted that it was the way to behave. Elwell (1999) provides another illustration: a person going to university because it is embedded in its education and family values. Weber considers the instrumentally rational action as the one expanding the most in modernity, and the three others to decrease. Social actions and networks expand and represent a growing importance in the success of companies. Reid Hoffman, founder and CEO of LinkedIn, underlines the crucial role of social skills in the well-functioning of a company and explains that today, a company shall not survive without these non-economic skills. We can thus say modern capitalistic entrepreneurship is also defined by social skills and an ability to connect and exchange with others.

Religion, rationalism and social features of modern capitalistic entrepreneurship undertake different sub-features; relentless work, labour force's perseverance, the seek for efficiency, the capitalistic environment, the will to maximise profit and to seek for more productivity, the management of teams, social skills, the knowledge exchange and the separation between ownership and workers.

The Austrian School of Economics, including Joseph Schumpeter and Israel Kirzner, provides additional elements to the definition of the key factors of modern entrepreneurship.

First, Joseph Schumpeter (1883-1950), in his work ‘ The Theory of Economic Development ’ (1911), highlights this importance of the entrepreneur. The theory of Economic Development can be resumed in four main points; circular flows, the role of the entrepreneur, the cyclical process and the end of Capitalism. Circular flow is the state where economic activity self-sustains itself constantly, it takes as pre-requisite the competitive equilibrium of the market and thus a static frame. To create development and become more consistent and dynamic, the circular flow must be disturbed; thus appears the concept of innovation. Indeed, Schumpeter describes development as a “ *Spontaneous and discontinuous change in the channel of flows, disturbance of equilibrium which forever alters and displaces the equilibrium state previously existing* ” (Schumpeter, 1911: 64). He defines five types of innovation: the introduction of a new good (as the arrival of cell phones on the market), the introduction of a new method of production (as Fordism), the opening of a new market (as Elon Musk and the rocket market), the conquest of new sources of supply of raw material (as a new source of oil), and the carrying out of new organisations of any industry (as the creation of a monopoly). Any of these types of innovation can disturb the equilibrium and thus start the development process, they are to be managed by developing agents as innovators or entrepreneurs. This leads us to the role of the entrepreneur. The entrepreneur is clearly defined as a hero, a key figure that occupies the most central place in the economic development

process. He faces high risks and thus needs to be self-confident and motivated, he shows a deep need to conquer and show his superiority and an enjoyment, a creativity in investing energy and capital into a new project. Schumpeter defines two essential pre-requisites for an entrepreneur: the disposable technical know-how allowing the entrepreneur to introduce new products and new combinations of factors of production, and the capital resource that provides control over these factors of production. The cyclical process means that economic life can be considered as a circle that reproduces itself constantly. It starts when banks offer credit to customers increasing their purchase power, and at the same time the demand for products, and thus the supply. The supply increasing, the investments and credits naturally rise creating an access for entrepreneurs. This is the prosperity period, where the major innovation comes to suppress older products (cell phone replaced the telegraph) but leads to many minor innovations, it is the principle of creative destruction. At one point, a moment of doubt appears sparking a pessimist wave and investment drop. Companies' profit decrease: the depression phase starts until the point of previous neighborhood of equilibrium is reached. Economic life then stagnates until a new wave of innovation reappears. Finally, the end of Capitalism is the decay of capitalism due to the fact that its success weakens the social institutions that protect it, establishing an environment in which Capitalism is not capable to survive. Schumpeter also differentiates material and immaterial types of capital the entrepreneur have: material capital being the concrete tools that allow the building of a new business, and immaterial capital being all the intangible skills as knowledge. Thus Schumpeter

considers the entrepreneur as the brain of this economic system, he is a hero and visionary that disrupt the placid and creates new opportunities.

Secondly, Israel Kirzner (1930-) emphasizes neo-classical microeconomic concepts and overpasses Schumpeter's point of view in his analysis. Mainly focusing on the opportunistic entrepreneur, Kirzner's entrepreneur firstly "perceives" the opportunity and secondly "grasps" the opportunity (Kirzner, 1979: 48). He considers the entrepreneur as an alert person that notices opportunities but not compulsorily creates them. Meaning many of us have this ability to become an entrepreneur if only there is a will to manage and recognize opportunities. These opportunities can occur in the environmental field, as much as in the social, or economic fields. It essentially only is a problem to be solved. This ability to perceive the world in a different way, which is accessible to anyone, is the essence of entrepreneurship. Kirzner defends Schumpeter in many ways, and overpasses him about the entrepreneur spotting opportunities.

Schumpeter and Kirzner enlighten some features of modern capitalistic entrepreneurship: the importance of the entrepreneur, his qualities, innovation, and innovative disruption.

To answer our primary question, we can declare Weber's, Schumpeter's and Kirzner's works assembled, as defining completely the key factors of modern capitalistic entrepreneurship. They cover the economic management aspects (separation between ownership and labour force, the capitalistic environment, the perseverance, the seek for productivity and maximisation of profit), the social aspects (social skills, knowledge exchange) and the

creative aspects (innovation, opportunity management and recognition, innovative disruption). Entrepreneurship is however meant to evolve, and we can observe new entrepreneurs, as Elon Musk, who might bring additional features to the modern capitalistic entrepreneurship.

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