

R. CANTILLON'S CONCEPT OF THE ENTREPRENEUR

Zuzana Džbánková – Pavel Sirůček

Abstract

The year 2024 will probably be 290 years since the death of Richard Cantillon. He was a French-born Irish merchant and banker whose life was dedicated to making money. However, his only surviving work on economics is considered the first truly economic treatise. He contributed to developing many topics and is credited with several firsts. Cantillon's work was written during the formative period of the classical school of political economy. In the early 1730s, this successful banker and speculator wrote a pioneering essay in French, *Essai sur la nature du commerce en général*. Due to the censorship of the time, the work was not published, but the manuscripts were leaked to literary and intellectual circles and published in 1755. It is supposed to be the first genuinely economic study, the first systematic treatise on political economy, describing the internal relations and processes of the economic system. One of the few firsts attributed to R. Cantillon concerns the uncertainty or the role and person of the entrepreneur. Cantillon redefines the entrepreneur. He sees the existence of entrepreneurs taking reasonable risks as a necessary part of the prosperity of the economy and the functioning of cyclical processes.

Key words: the concept of the entrepreneur, Richard Cantillon, the origins of economic thought

JEL Code: B 13, B 31, L 26

Introduction

The year 2024 will be the 290th anniversary of R. Cantillon's death. He was a post-Franco Irish merchant and banker who was to devote most of his life to making money. However, his only surviving work on economics is thought to be the first truly economic treatise. He contributed to the development of many topics and is credited with some firsts. One concerns the analysis and emphasis on the importance of the entrepreneur facing uncertainty. Risk-taking entrepreneurs are essential for the prosperity and functioning of cyclical processes.

The term '*entrepreneur*' has its roots in antiquity and the Middle Ages, when it was used to refer to people producing products. In the early 18th century, entrepreneurs were suppliers. In

particular, they were people who had contracts with the government. Usually, governments paid for the contracts, which were less risky occupations. Cantillon redefines the entrepreneur. He considers them risk-takers rather than those who receive a regular salary. He divides producers in a market economy into two classes. The *'hired'*, who receive fixed wages or fixed annuities, and the entrepreneurs without fixed, secure earnings. The entrepreneur-farmer bears the risk of fixed production costs and uncertain selling prices; similarly, the trader or manufacturer pays similar fixed costs and relies on uncertain earnings. Cantillon recognizes both the uncertainty of the future and the fact that all economic activity is inherently risky. He also notes that the pervasive uncertainty that entrepreneurs are subject to is partly the result of a decentralized market. The article is an original scholarly essay. The authors used a historical approach, a search of the available literature, and methods of description, comparison, qualitative analysis, induction, and deduction to achieve their goal.

1 The question marks of the life and death of R. Cantillon

He has amassed Richard Cantillon (1687? - 1734?) died a multimillionaire, but not much is known about his life. He would have been born into a Catholic family of Irish minor gentry in County Kerry, in the town of Ballyronan, in the period 1680-97. Irish parishes of the time did not keep records of births. He became a French citizen in 1708 and would have been 21 years old then. His family was dispossessed in the reign of O. Cromwell, and a cousin of the same name emigrated to Paris, where he ran a successful banking business. There is no reliable information about R. Cantillon's education and youth. From 1711-14, he was to be clerk to the British military treasurer in Spain, where he was responsible for the pay and equipment of the fighting troops. He joined the Irish emigration in France in 1714 and worked as a chief assistant to his cousin in his Paris bank. In 1716, he took over the bank and became a banker in Stuart court in exile and to the British and Irish emigrants.

One of his most successful deals came from his collaboration with J. Law, about which legends abound. As Law's business partner, Cantillon sold stocks in a rising market and made a fortune on the "Mississippi Bubble" (Blaug, 1992). Cantillon had to flee France for a time but returned to France as a multi-millionaire. In Paris, the wealthy Cantillon was not popular with his former associates and many debtors. A complex system of transactions, speculation, and various tricks drew him into legal and other affairs. He had to decide to return to England and live a life of debauchery and luxury. In 1722, he married into an Irish military family connected

with the Stuarts and the French court. He and his wife traveled widely. Around 1730, he wrote an economic treatise.

Like his birth or career, his departure remains mysterious and adventurous. Cantillon owned several residences across Europe. On the night of 14 May 1734, a fire engulfed the London house, and Cantillon is said to have died. An unfortunate coincidence is contemplated. One version is that he was murdered (several murder plots are thought to have taken place earlier) by, for example, his cook, and the fire was set to cover up the deed. Another version claims Cantillon was not in the house when the fire started. The death was staged to end a protracted feud. There are disputes over the identification of the body's remains, the collection of a sum of money the day before the fire, or the fate of his papers, which were later to be found in South America. While in Suriname, he was supposed to have lived as Chevalier de Louvigny (Murphy, 1983; Thornton & Brown, 2023).

2 Methodology and significance of Cantillon's treatise

Cantillon's work was written during the formative period of the classical school of political economy (Ananyin, 2023). In the early 1830s, the successful banker and speculator wrote an essay in French, *Essai sur la nature du commerce en général*. Due to censorship, the work was not published, but the manuscripts penetrated literary and intellectual circles and were published in 1755. It is supposed to be the first genuinely economic study, the first systematic treatise on political economy, describing the internal relations and processes of the economic system (Thornton, 1998). Cantillon is therefore sometimes referred to as the "*father of economics*" (Nevin, 2013) or "*the first modern economist*" (Spengler, 1954).

Cantillon is the first theorist to define an independent field of knowledge – economics – and to write a general treatise on it. He frees economic analysis from its connection with ethical (the moral and theological framework of scholasticism) and political issues (the interests of state power-building among the mercantilists). He was the first to use the economic abstraction tools of the "*thought experiments*" type. He develops a systematic abstraction method, e.g., *ceteris paribus*. He uses analytical methods to reveal a market economy's "*natural*" cause-and-effect relationships. However, the advent of the classical school of political economy partially erases pre-Smithian economics. Cantillon was rediscovered in 1881 by W. S. Jevons, who was passionate about discovering forgotten economists buried by the dominant Smithian-Ricardian economics.

The legacy of Cantillon (which is subject to different interpretations) is also highlighted by liberal adherents of the Austrian or neo-Austrian tradition (Rothbard, 1995), including a pioneering view of the pervasive uncertainty in the market. Cantillon's methodological contribution remains valued, as does the monetary theory or business cycle outline, with an analysis of changes in the money supply. Increased money supply is supposed to be associated with the boom phase that starts the cycle. However, sooner or later, problems will arise (Thornton, 1998; Berdell, 2009).

The "Essai" is divided into three parts and presents a series of simple principles explaining the workings of an economic system whose different sectors are linked by money flow. The first part describes the workings of the real economy, with the principles of producing goods and hiring people to produce goods. The role of the entrepreneur is to bear uncertainty or risk, including changes in demand faced in the market. This is meant to reflect Cantillon's early career as an agent in Spain in the British service during the War of the Spanish Succession. There, he learned and excelled as an accountant and contract negotiator and was educated in banking and international finance fundamentals. At the same time, these experiences exposed Cantillon to gross government inefficiency and corruption (Thornton, 1998). Part Two presents a groundbreaking analysis of monetary economics with a critique of some of the postulates of mercantilism. It deals with the monetary system and the relationship between money and the real economy. This is meant to parallel Cantillon's subsequent career as a Parisian banker, which began in the service of his older cousin's bank (Thornton, 1998). The third part of the *"Essai"* is devoted to issues of foreign trade, exchange rates, and the role of banks.

Cantillon describes a series of cyclical flows, or economic interrelationships, and formulates one of the first concepts of the economic cycle. He establishes spatial economics by examining economic activity related to geographical location (Hébert, 1981). It is named in the context of the cost theory of value. He is behind the first sophisticated analysis of market valuation. He also develops considerations of land rent, forming an autonomous source of expenditure. In the spirit of the Austrian subjective tradition, Cantillon's theory of value and price is also conceived as *"pre-"* Austrian since it was supposed to place more emphasis on price formation in the real world etc.

Cantillon's theory of wages, in the long run, depends on the supply of labor, which depends on the number and growth of the population. In contrast to Malthus, Cantillon analysed the determinants of population growth. He believed that the population grows only if economic opportunities are available. He made a significant contribution to monetary theory and is also considered the founder of the *"classical monetary theory"* for his analysis of the economic

effects of money. He is one of the representatives of the quantitative theory of money, which he takes over from the English economists. The uncertain effects of increasing the quantity of money are described as the '*Cantillon effect*.' The effect on the price level depends on the hands in which the money falls. If it reaches traders and producers who spend it on investment, the increase in money will be reflected in an expansion of production and trade. If spent mainly on consumption, an increase in the amount of money in circulation leads to an increase in the price level. Cantillon was probably the first to formulate the mechanism of the flow of precious metals and contribute to the development of the concept of automatic balancing of the balance of trade. He is supposed to be the first to develop a theory of international monetary equilibrium. Cantillon favors protectionism and promotes the creation of trade surpluses in production. However, this policy is to be defended more on military grounds.

3 Cantillon's entrepreneur in a world of uncertainty

Cantillon contributed to the development of the concept of self-regulating market mechanisms. He was to be the first to show in detail how the parts of a market economy "*naturally*" fit together, and through supply and demand and the prices and wages and direction of production they generate, regulate themselves and achieve equilibrium. Consumer valuations create demand, while the population is supposed to adapt to cultural and economic factors. The entrepreneurs bring the economy into equilibrium, adapting to and combating the omnipresent uncertainty of the market. Cantillon examined the economic functions of the entrepreneur during the cyclical production process. Someone must bear present risk in anticipation of achieving future profits. Without this, there would be no production. The existence of risk-taking entrepreneurs is essential to the prosperity of the economy and the functioning of cyclical processes.

As a real-world trader, banker, and speculator, Cantillon does not fall into the trap of theoretical assumptions about perfect information and static certainty (Rothbard, 1995). The actual market is supposed to be riddled with uncertainty, and it is the entrepreneur whose function is to find and undergo risk through investment, the payment of expenses, and the subsequent hope of profit. Profits are supposed to be the reward for successful predictions and for successfully undergoing uncertainty in the production process.

The roots of the term entrepreneur go back to ancient and medieval times when it was used to refer to people producing products. The etymological aspects of the words entrepreneur and entrepreneurship are critically discussed by (Aspromourgos, 2014), with references to

(Higgs, 1892). In the early 18th century, contractors were considered entrepreneurs. In particular, they were persons having contracts with the government. Usually, governments paid for the contracts; therefore, these were less risky occupations. Cantillon redefined the entrepreneur. He considered entrepreneurs to be those who take risks, not those who receive a regular salary.

In the second half of the first part of the *"Essai"* (e.g., chapter XIII. *The Circulation And Exchange Of Goods And Merchandise As Well As Their Production Are Carried On In Europe By Undertakers, And At A Risk*), R. Cantillon becomes the first economist to develop the role of the entrepreneur and the role that entrepreneurs and entrepreneurship play in the economy. In addition to rulers and landowners, Cantillon divides the population into *"hired"* and entrepreneurs. Entrepreneurs are supposed to represent a distinct economic class and function, but this does not mean they also constitute a distinct social class. More narrowly, producers in a market economy are divided into two classes. The *"hired"* ones receive fixed wages or fixed annuities and may be differentiated by the functions and rank they perform (general, courtier, servant etc.). All others are businessmen without fixed, certain earnings who live in uncertainty in proportion to the interest of their customers. Whether they are entrepreneurs with capital or entrepreneurs with their labor without capital, these include merchants in the wholesale, retail, and transport and distribution of goods, farmers, bakers, butchers, cooks, confectioners, innkeepers, maltsters, artisans, carpenters, blacksmiths, manufacturers, coopers, shoemakers, wigmakers, hatters, as well as beggars and robbers etc. Even entrepreneurs who work in the arts and sciences, such as painters, doctors, lawyers etc., live in uncertainty. Some entrepreneurs do not work at all, and Cantillon himself is an example. Cantillon's entrepreneurship is defined by reference to risk-bearing and includes various forms of risk-bearing work or work-like activities.

According to Cantillon, the entrepreneur-farmer, for example, bears the risk of fixed production costs and uncertain selling prices. Similarly, the trader or artisan producer pays similar fixed costs and relies on uncertain earnings. Apart from those who merely sell *'their labor,'* entrepreneurs have to spend money in the market, which is then *'fixed'* or given from their point of view. Since sales and selling prices are uncertain and not fixed, the income from the business remains uncertain.

Cantillon is pioneering in recognizing the uncertainty of the future and that all economic activity is inherently risky. He also notes that the pervasive uncertainty that entrepreneurs are subject to is partly the result of a decentralized market. In the world of a single monopoly owner, only he decides prices and production, and there is, therefore, little entrepreneurial uncertainty.

However, decentralized entrepreneurs face huge uncertainty in the real world and have to take risks. According to Cantillon, competition and entrepreneurship go hand in hand.

For Cantillon, there is no explicit distinction between calculable risk and non-calculable uncertainty, hence the use of both terms in this paper. However, (Aspromourgos, 2014), Cantillon writes about various risks that he considers susceptible to being adequately priced, implying that these are more likely to be calculable probabilities. That is calculable risk rather than mathematically ungraspable uncertainty. Risk, seen as an undesirable attribute of activities or contracts, can then be compensated for by a payment of a specific size. Without understanding mathematics and probability, Cantillon understood that certain premiums could compensate for the risk.

According to (Aspromourgos, 2014), the uncertainty aspect (in a looser sense) only refers to uncertain market prices due to random shocks to demand or supply. In doing so, Cantillon believed that the actual market prices of objects whose consumption is tolerably constant and uniform do not differ much from the '*intrinsic value*' in well-organized societies. Let us add that Cantillon tends to be named in the context of the cost theory of value. He distinguishes between market price and '*normal price*' (which is supposed to be '*intrinsic value*'), derived from the amount of labor and land required to produce the commodity. It explains the deviations of the market price from the '*normal price*' due to changes on the demand and supply side. In the long run, market prices tend to be close to '*intrinsic value*,' i.e., the cost of production in the form of land and labor. R. Cantillon stood at the origin of the first sophisticated market pricing analysis (Sirůček, 2015).

Innovation does not occur in Cantillon, but structural changes in the composition of aggregate production, generated by the changing consumption behavior of Cantillon's '*independent*' class, the landowners and the monarch, are considered. In such processes of structural change, the Cantillonian entrepreneur is supposed to be the subject who adjusts production to changing demands. Moreover, in doing so, he bears the corresponding risks, perhaps even a certain uncertainty, associated with the processes in question. This indicates the coordinating role of entrepreneurs under conditions of disequilibrium.

Conclusion - Some elaborations of the entrepreneur category

R. Cantillon – as the first theorist of entrepreneurship – opened the door to perceiving the entrepreneur in terms of a specific creative force. The entrepreneur is supposed to be an integral part of the market, a risk-taker in removing the mismatch between demand and supply. The

entrepreneur primarily as a risk-bearer later figures, for example, in J. S. Mill. Following R. Cantillon, H. K. F. Mangoldt attempts to clarify entrepreneurial profit. Representatives of the German historical school G. F. Schmoller, W. Sombart, and M. Weber refer to the entrepreneur as the engine of economic growth.

A. Schumpeter came up with the entrepreneur-innovator concept, emphasizing the entrepreneur's characteristics. The endogenously generated innovations are linked to the activities of the private entrepreneur-innovator, as the central figure who dynamizes the capitalist system and whose creative activity realizes economic development. Schumpeter associates the entrepreneur with dynamism, while the function of entrepreneurs is the realization of innovation. The absence of a key aspect of modern entrepreneurship in the form of innovation in Cantillon is critically analyzed (Aspromourgos, 2014). Schumpeter is followed, for example, by A. H. Cole, who sees entrepreneurship as a fourth factor of production.

The entrepreneur was contemplated by J. B. Say, with a distinction between the capitalist (owner) and the entrepreneur. The latter must have specific capabilities while performing functions in the form of projecting the wishes of consumers into the allocation of resources (Steiner, 1997). For Say, the entrepreneur is the pillar of the economy who takes on the responsibility, leadership, and risk associated with running the firm. The owner of capital, land, or personal services rents these services to a "*tenant*," the entrepreneur. In return for fixed payments to factors, the entrepreneur takes on the speculative risk of potential profit or loss (Rothbard, 1995).

Cantillon's concept of uncertainty in the market precedes the consideration of the entrepreneur and uncertainty in F. H. Knight and the Austrian economists who focus on the entrepreneur's function in the entrepreneurship theory. Mention may be made of the theory of entrepreneurial discovery of I. M. Kirzner etc., or the view of entrepreneurial activity as the acquisition and economic use of information in the spirit of F. A. Hayek and I. M. Kirzner. For Cantillon, the entrepreneur does not act as a creatively destructive force (in the spirit of J. A. Schumpeter), but his function is to bring the market closer to equilibrium. By successfully anticipating and investing resources in the future, he helps to adjust and align supply and demand in the various markets (in the spirit of L. E. Mises).

Another possible dimension of entrepreneurship may be the relationships regarding explanations of the formation and structuring of firms, which are related in particular to the response to the work of R. H. Coase and the development of the discipline of the industrial organization etc. The role of the entrepreneur in economic development is clarified by the new

institutional economics, emphasizing the importance of the institutional environment (Grochová, Otáhal, 2010).

Cantillon's notion of the entrepreneur as a necessary risk-bearing creative force remains inspiring in today's world of globally functioning markets and the search for adequate approaches to ensure economic prosperity.

Acknowledgment

This article is provided as one of the outputs of the Faculty of Business Administration IP 300040 'Competitiveness' research project.

References

1. Ananyin, O. I. (2023). Theoretical economics of Richard Cantillon. *Voprosy Ekonomiky*, 4, 103-118.
2. Aspromourgos, T. (2014). Entrepreneurship, Risk and Income Distribution in Cantillon's Essay. In Salvatori, N., Gehrke, Ch., Steedman, I., Sturn, R. (eds.) (2014). *Classical Political Economy and Modern Theory: Essays in Honour of Heinz Kurz*. London: Routledge, 105-119.
3. Berdell, J. (2009). Interdependence and independence in Cantillon's Essai. *European Journal of the History of Economic Thought*, 16(2), 221-249. DOI 10.1080/09672560902890988
4. Blaug, M. (ed.) (1992). *Richard Cantillon (1680–1734) and Jacques Turgot (1727–1781)*. Cheltenham: Edward England.
5. Cantillon, R. (1755). *Essai sur la Nature du Commerce en Général. Traduit de l'Anglais*. Londres (or Cantillon, R. (2001) *Essay on the Nature of Commerce in General*. London: Routledge).
6. Grochová, L., Otáhal, T. (2010). Podnikání a ekonomický rozvoj: Jaký je rozdíl mezi neorakouskou a novou institucionální ekonomikou? *Politická ekonomie*, 53(5), 623-640.
7. Hébert, R. F. (1981). Richard Cantillon's Early Contributions to Spatial Economics. *Economica*, 48(189), 71-77.
8. Higgs, H. (1892). Cantillon's Place in Economics. *Quarterly Journal of Economics*, 6(4), 436-456.
9. Murphy, A. E. (Winter 1983). Richard Cantillon — an Irish banker in Paris. *Hermathena*, 135, 45-74.

10. Nevin, S. (2013), Richard Cantillon – the Father of Economics. *History Ireland*, 21(2), 20-23.
11. Rothbard, M. N. (1995). *An Austrian Perspective on the History of Economic Thought. Vol. 1*. Cheltenham: Edward Elgar.
12. Sirůček, P. (2015). Polozapomenuté postavy ekonomického myšlení: R. Cantillon. *Acta Oeconomica Pragensia*, 23(1), 61-68.
13. Spengler, J. J. (1954). Richard Cantillon: First of the Moderns, I, II. *Journal of Political Economy*, 62(4 and 5), 281-295 and 406-424.
14. Steiner, P. (1997). La théorie de l'entrepreneur chez Jean-Baptiste Say et la tradition Cantillon-Knight. *L'Actualité économique*, 73(4), 611-627.
15. Thornton, M. (1998). Richard Cantillon and the Origin of Economic Theory. *Journal des Économistes et des Études Humaines*, 8(1), 61-74.
16. Thornton, M., Brown, Ch. R. (2023). Richard Cantillon and public policy. *Journal of Entrepreneurship and Public Polici*, 12(1), 115-124. DOI 10.1108/JEPP-02-2022-0031

Contact

Zuzana Džbáňková

Prague University of Economics and Business, Faculty of Business Administration,
Department of Managerial Economics

Sq. W. Churchill 1938/4, 130 67 Prague 3, Czech Republic

dzbank@vse.cz

Pavel Sirůček

Prague University of Economics and Business, Faculty of Business Administration,
Department of Managerial Economics

Sq. W. Churchill 1938/4, 130 67 Prague 3, Czech Republic

sirucek@vse.cz