



UNIVERSITÀ DEGLI STUDI DI ANCONA

DIPARTIMENTO DI ECONOMIA

Smith, Bentham and the Development of
Contrasting Ideas on Entrepreneurship

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Apart from sporadic references to the work of Cantillon, scholarly treatments of the features and the functions of the entrepreneur have for many years been dominated by a twofold conviction: a) that J.B. Say was the first economist to recognize the importance of the entrepreneur; b) that Adam Smith, by contrast, greatly undervalued the importance of the subject, thereby establishing a tradition that would have long-lasting effects on English economic literature of the early nineteenth century.

It was mainly F. Redlich and B.F. Hoselitz¹, in works that may be regarded as classics, who showed the baselessness of such a claim and demonstrated the long history of the concept of the entrepreneur within the broad panorama of European, and, especially, British literature. Hoselitz, in particular, points out that Gide and Rist were chiefly responsible for this misconception when

* I wish to express my thanks to Professors R. Faucci, P. Pettenati, A.S. Skinner and J.K. Whitaker for discussing previous versions of this paper. I have also benefited from comments by anonymous referees of this journal. The usual disclaimers apply.

¹ F. Redlich, *On the Origin of the Concepts of 'Entrepreneur' and 'Creative Entrepreneur'*, "Explorations in Entrepreneurial History", February 1949, pp. 1-7; B.F. Hoselitz, *The Early History of Entrepreneurial Theory*, "Explorations in Entrepreneurial History", April 1951, pp. 193-220.

they declared that Smith had omitted to provide a definition of the concept of 'entrepreneur'.

Schumpeter adopted an even more critical position:

"A. Smith", he argues in the *History of Economic Analysis*, "glanced at the type occasionally - he speaks occasionally of the undertaker, the master, the merchant - and, if pressed, would not have denied that no business runs by itself. Nevertheless this is exactly the over-all impression his readers get. The merchant or master accumulates 'capital' - this is really his essential function - and with this 'capital' he hires 'industrious people', that is, workmen, who do the rest. In doing so he exposes these means of production to risk of loss; but beyond this, all he does is to supervise his concern in order to make sure that the profits find their way to his pocket"².

² J.A. Schumpeter, *History of Economic Analysis* (London 1955), p. 555. A number of scholars have argued against this still widely-accepted interpretation (although they do not exhaust the various positions that have been taken on the issue) and have shown themselves more sympathetic towards Smith's analysis. Among these, F.H. Knight has claimed that Smith "recognized that profits even normally contain an element which is not interest on capital" (*Risk, Uncertainty and Profit*, New York 1921, p. 24). C.A. Tuttle has pointed out that "early in his great work... Adam Smith takes direct issue with the view... that organizing and directive labor is the determining element in the function with which profit is associated" (*The Entrepreneur Function in Economic Literature*, "Journal of Political Economy", August 1927, pp. 504-5). However Tuttle adds that "Adam Smith's failure... consciously to distinguish between capital and production goods rendered it impossible for him to differentiate, as Turgot had done, the ownership of capital from the ownership of a business" (ibid., p. 506). According to S. Hollander, Smith formulated the concept of profit as the reward for the uncertainty of the income to be earned from the utilization of capital in the setting up of an enterprise. Hollander adds that "the distinction, sometimes attributed to J.B. Say, between the reward of the entrepreneur as 'organizer', from that of the capitalist is apparent in the *Wealth of Nations*" (*The Economics of Adam Smith*, London 1973, p. 170). More recently - and this strikes me as being the most successful contribution on the subject - J. Spengler has argued that the figure of the entrepreneur that emerges from Smith's description differs from the one described in both the Cantillon-Say tradition and by Schumpeter. Smith's 'decision maker' may confront risk and uncertainty in the manner described by Cantillon (whose

Schumpeter argues that the landmark contribution in this area was made by Say, and, in particular, by his "pithy statement that the entrepreneur's function is to *combine* the factors of production into a producing organism"³. By contrast, classical economists "merely continued an old practice that had been sanctioned by A. Smith"⁴, a practice which F. Redlich subsequently dismissed as an "unfortunate legacy"⁵.

More recently R.F. Hébert and A.N. Link continued in the same vein. They maintain that Adam Smith "failed to separate the entrepreneurial decision maker from among the various kinds of 'industrious people' in the economy", and argue that, because of this failure, classical economists did not recognize "a separate share of output to the entrepreneur"⁶.

I

Despite these claims to the contrary, the concept of the entrepreneur can indeed be found in the *Wealth of Nations*, and in at least three different forms. The first of these (also historically) is the

work Smith knew very well), but this he saw as a matter of *routine* (*Adam Smith and Society's Decision-makers*, in A.S. Skinner - T. Wilson (eds.), "Essays on Adam Smith", Oxford 1975, pp. 397-400). Even more recently, I. Kirzner, in an interesting book devoted to the development of the theory of entrepreneurship, argues that "Smith's treatment of the independent worker confirms that, in spite of his insight into the entrepreneurial role, he was unable to perceive it in isolation from the role of capitalist or laborer with which the entrepreneurial role comes packaged in the real world" (*Perception, Opportunity, and Profit*, Chicago 1979, p. 42).

³ Op. cit., p. 555.

⁴ Ibid., p. 554.

⁵ *Towards the Understanding of an Unfortunate Legacy*, "Kyklos", vol. XIX, 1960, pp. 709-18.

⁶ *The Entrepreneur*, New York 1982, pp. 37-8.

figure of the 'adventurer'. This term had been part of English vocabulary at least since the fifteenth century, and in Smith's time most frequently associated with the term 'merchant'. It was also used to refer to entrepreneurial or speculative activities of various kinds. It later fell into disuse. However, it did not entirely disappear, although its range of meaning became increasingly more restricted. In his *Dictionary of the English Language* (1755), Samuel Johnson provides the following definition: "He that seeks occasion of hazard; he that put himself in the hands of chance"⁷. And, despite Smith's well-known criticism of Johnson's dictionary, it is in precisely this sense that he uses the term in the *Wealth of Nations*. According to Smith, 'adventurers' are those who, in the frenetic search for risk, spurred on by unrestrained confidence in success, hazard their capital on the most difficult undertakings. This, he emphasizes, is in spite of the fact that "the ordinary rate of profit always rises more or less with

⁷ In his *The Universal Dictionary of Trade and Commerce* (London, 4th ed. 1774), M. Postlethwayt provides a list of the possible meanings of the term. These may serve as useful points of reference for an understanding of Smith's treatment:

"Adventurer, a term used in commerce by sea, which the French seldom employ without adding to it the epithet grosse: mettre de l'argent à la grosse aventure, that is, to apply money in order to share in the profits of ships.

Adventurer, signifies also a person little or not known in public business, who boldly thrusts himself into affairs, and proves a trickster: all prudent merchants ought to be well aware of such persons.

Adventurers, so they call these bold and enterprising pirates, who join together against the Spaniards in the West-Indies [...] See Buccaneers.

Merchant-Adventurer, is a merchant that adventures his good to sea, and trade to foreign ports; so called, in distinction from such as carry on only an inland or home trade.

Adventurers, those also are called so, who undertake either by themselves, or in companies, the settlement of colonies and plantations in America; which distinguishes them from the planters, by the name of proprietors of such lands, colonies, or plantations. the latter are employed in planting and cultivating the lands, and the others lend their money, and hazard or adventure it, in hopes of the profits they are to receive thereby [...]", op. cit., I, Article ADVENTURER.

the risk. It does not, however, seem to rise in proportion to it, or so as to compensate it completely"⁸. The 'adventurer', Smith adds, "may sometimes acquire a considerable fortune by two or three successful speculations; but is just as likely to lose one by two or three unsuccessful ones"⁹.

The second type of entrepreneur described in the WN is the 'projector'. Hoselitz has already pointed out that during the seventeenth century, this term was still used to some extent synonymously with 'schemer', 'cheat' or 'speculator'¹⁰. Johnson's *Dictionary* gives a milder definition of a 'projector' "as one who performs schemes or designs". The term is evidently ambiguous; an ambiguity lying in the two contrasting meanings of 'scheme' as either 'plan' or 'intrigue/plot'. The definition given by Postlethwayt's *Dictionary*, "one who contrives, schemes, or forms any public design", is very close to Johnson's. And Postlethwayt also gives a number of other possible definitions for the term that fall within its general range of meaning:

"Others break the bounds of laws to satisfy that general law of nature, and turn open thieves, house-breakers, highwaymen [...].

Others, being masters of more cunning than their neighbours, turn their thoughts to private method of trick and cheat, a modern way of thieving [...].

Others, yet urged by some necessity, turn their thoughts to honest invention, founded upon the platform of ingenuity and integrity. These two last sorts are those we call Projectors; and as there were

⁸ A. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Oxford 1976, I, p. 128. Hereafter referred to as WN.

⁹ Ibid., pp. 130-31.

¹⁰ Op. cit., p. 203.

always more geese than swans, the number of the latter are very inconsiderable, in comparison with the former [...]"¹¹.

The ambivalence of Postlethwayt's definition reflects a generally hostile attitude towards 'projectors' within the society of the time. Postlethwayt, however, does give an extremely sympathetic treatment of the function of the 'honest projector', especially if one examines the entries for "artificer" and "asphaltum" in his *Dictionary*, where, unexpectedly, he takes up the topic again.

Smith's position on the subject seems to oscillate between the two positions, although he seems to be unwaveringly critical of the function of the 'projector', which he treats either with unconcealed irony or with moralistic contempt. Hence, throughout his work, Smith attacks the projectors, who "have within these few years amused the public with most magnificent accounts of the profits to be made by the cultivation and improvement of land"¹², that is, those who have devised "expensive and uncertain projects [...] which bring bankruptcy upon the greater part of the people who engage in them", like the "search after new silver and gold mines"¹³. Thus, from various perspectives, Smith regards the function of the 'projectors' as a profoundly negative one, since "[e]very injudicious and unsuccessful project in agriculture, mines, fisheries, trade, or manufactures, tends in the same manner to diminish the funds destined for the maintenance of productive labor"¹⁴. Smith's censure

¹¹ Op. cit., II, Article PROJECTOR.

¹² WN, I, p. 374.

¹³ Ibid., II, p. 562.

¹⁴ Ibid., I, p. 341. Smith's observations concerning the negative role of adventurers and projectors seem to have been quite common at the time. They link closely with the remarks concerning the broader category of 'projectors of systems of thought' made by Lord Kames in his *Essay on the Principles of*

of 'projects' and 'projectors' is not surprising if we also consider the overt hostility that he displayed in his polemic against monopolization, cartelisation and the establishment of large enterprises¹⁵. And he often directly or indirectly associates adventurers and projectors, as well as the "monopolizing spirit of merchants and manufacturers"¹⁶, with this kind of undertaking.

However, close reading of Smith's work shows that his position is not unequivocally hostile towards 'projects' and 'projectors'. Many passages might be cited in support of this argument, but I shall limit myself to only a few taken from the final part of the last chapter of Book I of the WN. Here Smith discusses again, and emphasizes the importance of, the "three great, original and constituent orders of every civilized society, from whose revenue that of every other order is ultimately derived"¹⁷. In defining the third class, that of "those who live by profit", Smith stresses - and this should be borne in mind - that its distinguishing feature is not so much the possession of capital as the planning element:

"It is the stock that is employed for the sake of profit, which puts into motion the greater part of the useful labour of every society. The *plans* and *projects* of the employers of stock regulate and direct all the most important operations of labour, and profit is the end proposed by all those plans and projects".

Morality and Natural Religion (Edinburgh 1751, p. 33): "Superficial knowledge produces the boldest adventurers, because it gives no check to the imagination, when fired by a new thought. Writers of this stamp lay down plans, contrive models, and are hurried to execution, by the pleasure of novelty, without considering whether, after all, there is any solid foundation to support the spacious edifice".

¹⁵ See for example, WN, II, pp. 555 ff.

¹⁶ *Ibid.*, I, p. 493. On this point see J. Spengler, *op. cit.*, p. 408.

¹⁷ *Ibid.*, I, p. 265.

"Merchants and master manufacturers are, in this order, the two classes of people who commonly employ the largest capitals, and who by their wealth draw to themselves the greatest share of the public consideration. As during their whole lives they are engaged in *plans* and *projects*, they have frequently more acuteness of understanding than the greater part of country gentlemen"¹⁸.

What relation is there between Smith's position here and his decidedly hostile stance to be found in other parts of the WN? In this regard it is precisely in those parts of his work where the polemic is most extreme - as for example in the section of the WN devoted to show the necessity of the fixing of a maximum legal rate of interest - that Smith contrasts 'projectors' with 'sober people', and 'prudent and successful undertakings' with 'injudicious and unsuccessful ones'. The use of the adjective 'prudent' is particularly illuminating here, since, as Campbell and Skinner have pointed out, the expression 'sober people' refers to the 'prudent man' of the *Theory of Moral Sentiments* ¹⁹.

In the last edition of the *Theory* (1790), Smith dwells on analysis of the psychological factors involved in the exercise of economic activity. In particular, he regards the pursuit of higher social status and approval and admiration by one's peers as one of the most important objectives for man's innate tendency to improve his conditions of life and his propensity to truck, barter, etc. It is precisely in this context that he introduces the figure of the prudent man, defining his concept of 'prudence' as that sort of behaviour which

¹⁸ Ibid., p. 266, italics mine.

¹⁹ Ibid., p. 357, note 17.

"is averse to expose our health, our fortune, our rank, or reputation, to any sort of hazard. It is rather cautious than enterprising, and more anxious to preserve the advantages which we already possess than forward to prompt us to the acquisition of still greater advantages. The methods of improving our fortune, which it principally recommends to us, are those which expose to no loss or hazard; real knowledge and skill in our trade or profession, assiduity and industry in the exercise of it, frugality, and even some degree of parsimony, in all our expences"²⁰.

As far as the prudent individual himself is concerned, Smith adds that "[i]f he enters into any new projects or enterprises, they are likely to be well concerted and well prepared. He can never be hurried or drove into them by any necessity, but has always time and leisure to deliberate soberly and coolly concerning what are likely to be their consequences"²¹. The prudent man embodies the quality of abstinence, once again one of the most important properties of the virtue of prudence, and he is also the man of slow but steady progress:

"In the steadiness of his industry and frugality, in his steadily sacrificing the ease and enjoyment of the present moment for the probable expectation of the still greater ease and enjoyment of a more distant but more lasting period of time, the prudent man is always

²⁰ A. Smith, *The Theory of Moral Sentiments*, D.D. Raphael, A.L. Macfie (eds.), (Oxford 1976), p. 213. Hereafter referred to as TMS.

²¹ *Ibid.*, p. 215.

both supported and rewarded by the entire approbation of the impartial spectator... The man who lives within his income, is naturally contented with his situation, which, by continual, though small accumulations, is growing better and better every day... He does not go in quest of new enterprises and adventures, which might endanger, but could not well increase, the secure tranquillity which he actually enjoys"²².

These are the exact features of the third type of entrepreneur described in the WN - the 'undertaker'. It is not surprising, therefore, that of the three types of entrepreneur this is the only one to receive Smith's sympathetic treatment and esteem.

We are now in a position to resolve the apparent contradiction in Smith's treatment of 'projects' and 'projectors'. On the one side there stand the 'projects' of the 'adventurer', on the other those of the 'undertaker', and Smith draws the same distinction between them as he did between prudent and injudicious undertakings. But what is the dividing line between the two types of enterprise? It is a difference we have already encountered in Smith and it is closely connected with the characteristics of the 'prudent man', by contrast with whom the 'adventurer' is defined. In particular, the distinction depends on the differing assessments of these two types of entrepreneur of the feasibility of economic undertakings where the expected increase in the rate of profit is not proportionate to the increase in the risk that has to be faced.

According to Smith, it is possible to draw up a classification of different types of 'undertaker'. Thus, "[a] merchant is commonly a bold; a country gentleman, a timid undertaker. The one is not afraid

²² Ibidem.

to lay out at once a large capital upon the improvement of his land, when he has a probable prospect of raising the value of it in proportion to the expence. The other, if he has any capital, which is not always the case, seldom ventures to employ in this manner"²³. These two 'ideal' types can therefore be seen as representing the two extremes of a continuum, where the former closely approaches the point where a 'projector' turns into an 'adventurer' and where the latter clings closely to the restricted role of the 'prudent man'. However, there is no doubt as to which of them attracts Smith's sympathies throughout the WN.

At this point, we may recapitulate briefly the functions of Smith's undertaker by collecting together the various hints on the subject that he scattered throughout the WN, and by supplementing them with his treatment of the prudent's man role in the economic field.

First of all, Smith's undertaker faces risk and uncertainty²⁴. The importance of these two factors in Smith's system links closely with his well-known emphasis on personal incentives in the exercise of economic affairs. By way of contrast, this also emerges from his discussion of such different areas of entrepreneurial activities as, for example, those associated with the management of joint stock

²³ WN, I, p. 411. See also J. Spengler, *op. cit.*, pp. 406-7.

²⁴ See, for example, WN, I, pp. 66, 105.

companies²⁵, monopolies²⁶ and privileged companies²⁷.

Secondly, the undertaker formulates plans and projects, in the sense used above.

Thirdly, he seeks out the necessary capital for implementation of his planned undertaking. And here, Smith argues, it is of little importance whether the undertaker is also the owner of the funds, since even in the case of borrowed capital, "the stock is at the risk of the borrower"²⁸.

Fourthly, he combines and organizes the productive factors, a process described in the following passage (which also makes a glancing reference to the undertaker's ability to introduce innovations): "The person who employs his stock in maintaining labour, necessarily wishes to employ it in such a manner as to produce as great a quantity of work as possible. He endeavours, therefore, both to make among his workmen the most proper distribution of employment, and to furnish them with the best machines which he can either invent or afford to purchase"²⁹. The concept is elaborated further in another part of the WN, where Smith discusses the additional capital required to increase the productive

²⁵ "The directors of such companies... being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own... Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company", *ibid.*, II, p. 741, see also p. 755.

²⁶ "Monopoly... is a great enemy to good management, which can never be universally established but in consequence of that free and universal competition which forces every body to have recourse to it for the sake of self-defence", *ibid.*, I, p. 164.

²⁷ *Ibid.*, pp. 592 ff., 731 ff. On these different points see J. Spengler, *op. cit.*, pp. 401-4.

²⁸ WN, I, p. 114.

²⁹ *Ibid.*, p. 277.

output of labour: "The productive powers of the same number of labourers cannot be increased, but in consequence either of some addition and improvement to those machines and instruments which facilitate and abridge labour; or of a more proper division and distribution of employment. In either case an additional capital is almost always required. It is by means of an additional capital only that the undertaker of any worth can either provide his workmen with better machinery, or make a more proper distribution of employment among them"³⁰.

Last but not least, the undertaker inspects and directs production. Smith regards this function as unrelated to profit and in one case - namely, "in many great works" - he acknowledges that this function may be delegated "to some principal clerk"³¹.

³⁰ Ibid., p. 343.

³¹ Ibid. p. 66. When these points are taken as a whole, it seems excessive, in Smith's case, to speak in terms of a "overall neglect of the entrepreneurial function" (R.F. Hébert-A.N. Link, op. cit., p. 38). Although in general terms it must be admitted that, after having recognized innovation as a professional activity, Smith "did not develop this fruitful line of inquiry" in connection with the entrepreneurial function (ibid., p. 39), it must also be said that this statement cannot be accepted in unqualified form - especially if this 'neglect' is connected to a presumed failure "to accord a separate share of output to the entrepreneur" (ibid., p. 38). Moreover Smith - at least in one case, namely, the establishment of a new enterprise - shows himself to be well aware of this possibility: "The establishment of any new manufacture, of any new branch of commerce, or of any new practice in agriculture, is always a speculation, from which the projector promises himself extraordinary profits. These profits sometimes are very great, and sometimes, more frequently, perhaps, they are quite otherwise; but in general they bear no regular proportion to those of other old trades in the neighbourhood. If the project succeeds, they are commonly at first very high. When the trade or practice becomes thoroughly established and well known, the competition reduces them to the level of other trades" (WN, I, pp. 131-32). As I have tried to show, Smith's reference to projectors is not a *necessarily* censorious one as Hébert and Link seem to presume when they quote the same passage (op. cit., p. 38), although Smith seems to place more emphasis on the automatism of the market in restoring equilibrium than on the importance of the innovative function of projectors.

II

Smith's opinions on the necessity for government intervention in favour of an established maximum rate of interest were sharply criticized by Bentham. The passage of the WN where Smith expounded his views on this subject, and which provided the main target for Bentham's criticism, warrants extensive quotation:

"The legal rate, it is to be observed, though it ought to be somewhat above, ought not to be much above, the lowest market rate. If the legal rate of interest in Great Britain, for example, was fixed so high as eight or ten per cent the greater part of the money which was to be lent, would be lent to prodigals and projectors, who alone would be willing to give this high interest. Sober people, who will give for the use of money no more than a part of what they are likely to make by the use of it, would not venture into the competition. A great part of the capital of the country would thus be kept out of the hands which were most likely to make a profitable and advantageous use of it, and thrown into those which were most likely to waste and destroy it. Where the legal interest, on the contrary, is fixed but a very little above the lowest market rate, sober people are universally preferred as borrowers, to prodigals and projectors. The person who lends money, gets nearly as much interest from the former, as he dares to take from the latter, and his money is much safer in the hands of the one set of people than in those of the other. A great part of the capital of the country is thus thrown into the hands in which it is most likely to be employed with advantage"³².

Arguments such as these prompted Bentham's critical dissent. In

³² WN, II, p. 357.

Letter XIII of his *Defence of Usury* (addressed to Smith and significantly entitled 'On the Discouragement imposed by the above restraints to the progress of inventive industry') he appeals to Smith's belief in a free economic mechanism and argues against Smith's position:

"I shall begin with acknowledging, that, as far as your track coincides with mine, I should come much nearer the truth, were I to say I owed you every thing. Should it be my fortune to gain any advantage over you, it must be with weapons which you have taught me to wield, and with which you yourself have furnished me: for, as all the great standards of truth, which can be appealed to in this line, owe, as far as I can understand, their establishment to you, I can see scarce any other way of convicting you of any error or oversight, than by judging you out of your own mouth"³³.

Bentham criticized Smith in particular for having underestimated the role of those talented men who through their inventiveness and imagination have been responsible for the progress and the wealth of nations. This is a direct reference to 'projectors'. Indeed, Letter XIII takes as its subject "the defence of projectors", and Bentham provides his own definition of the term in his - heavily ironic - opening address to Smith where he declares:

"... if I presume to contend with you, it is only in defence of what I look upon as, not only an innocent, but a most meritorious race of men, who are so unfortunate as to have fallen under the rod of your

³³ W. Stark (ed.), *Jeremy Bentham's Economic Writings*, New York 1952, I, p. 167.

displeasure. I mean *projectors* under which invidious name I understand you to comprehend, in particular, all such persons as, in the pursuit of wealth, strike out into any new channel, and more especially into any channel of invention"³⁴.

Bentham defines the 'projector' as the active agent of development. Even if the undertakings promoted by him should fail, society as a whole is left intact; both because others will avoid making the same mistakes again, and also because any innovations introduced by the 'projectors' into productive processes or machinery will spread through the economic system, regardless of the personal fate of their original promoter. Bentham's argument concerning the multiplicative effects of the introduction of innovations into productive processes is articulated lucidly in the following passage: "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 success: and then, what is it to the public, though the fortune of Titius, or of his usurer, should have sunk under the experiment ?"³⁵.

The main thrust of Bentham's argument therefore centres on the role of projectors as introducers of innovation, and on innovation as the driving force behind the development of mankind through history. Hence, his violent attack on Smith, who "condemns as rash and ill-grounded, all those projects, by which our species have been successively advanced from the state in which acorns were their

³⁴ Ibid., p. 168.

³⁵ Ibid., p. 170.

food, and raw hides their cloathing, to the state in which it stands at present: for think, Sir, let me beg of you, whether whatever is now the *routine* of trade was not, at its commencement, project ? Whether whatever is now *establishment* , was not, at one time, innovation ?"³⁶.

In another passage, one that is another salvo in Bentham's critical broadside against Smith for having lumped prodigals and projectors together, he declares that the distinguishing feature of the latter is their departure from routine patterns of behaviour, their standing out from the common herd, their membership of a necessarily restricted élite:

"the stuff to make a prodigal of is to be found in every alehouse, and under every edge. But even to *err* in the way of projecting is the lot only of the privileged few. Prodigality, though not so common as to make any very material drain from the general mass of wealth, is however too common to be regarded as a mark of distinction or as a singularity. But the stepping aside from any 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 in 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 enterprizes by which arts and manufactures have been brought from their original nothing to their present splendor ?"³⁷.

³⁶ Ibid., p. 172.

³⁷ Ibid., p. 177.

This passage is interesting for another reason. Bentham cites at least two cases of innovation where plain courage, as opposed to genius, is all that is necessary. And these are those that also Schumpeter described: the opening up a new market and the finding of a new source of supply. When we add Bentham's other two determinants for innovation - the production of a new good and the introduction of new methods of production, both clearly delineated in the following passage where he further sharpens his definition of 'projector' - then no fewer than four out of the five 'new combinations' listed by Schumpeter in his *Theory of Economic Development* prove to have been first introduced by Bentham:

" the term *projectors* ... falls upon all such persons, as, in the cultivation of any of those arts which have been by way of eminence termed *useful* , direct their endeavours to any of those departments in which their utility shines most conspicuous and indubitable; upon all such persons as, in the line of any of their pursuits, aim at any thing that can be called *improvement* ; whether it consists in the production of any new article adapted to man's use, or in the meliorating the quality, or diminishing the expence, of any of those which are already known to us. It falls, in short, upon every application of the human powers, in which ingenuity stands in need of wealth for its assistant"³⁸.

Of special significance is Bentham's deliberate use in this passage of the term *improvement* (the italics are his). Previously, he had used the term 'invention' when discussing scientific progress. From this

³⁸ Ibid., p. 170.

we may deduce that Bentham, too, had become aware of the methodological necessity for drawing a terminological distinction between new methods of combining resources for productive purposes and the progress of science as such. It must be also pointed out that Bentham's 'projector' does not belong to a specific social class, and that his role is distinct from ownership.

Of the various harmful effects consequent on the fixing of a maximum rate of interest, Bentham stresses in particular the decrease in the numbers of possible lenders, and the formation of a black credit market. A measure of this kind would damage the 'projectors' most of all. The fixing of a maximum rate of interest would limit the earnings of the banker. And he would then be much more cautious in his assessment of the margins of risk involved in the projects to be financed. Loans would therefore normally only be granted to those entrepreneurs operating in the well-known "beaten paths" of production and distribution; those facing a low level of risk. The 'projector' would find it difficult to find financiers for a different reason: "Whatever be the prudence or other qualities of the project, in whatever circumstance the novelty of it may lie, it has this circumstance against it, viz., that it is new ...no new trade, no trade carried on in any new channel, can afford a security equal to that which may be afforded by a trade carried on in any of the old ones"³⁹.

In both cases, it would be the banker who made the choice. Thus,

³⁹ Ibidem. This concept is further elaborated in the passage that follows: "to... limit the legal interest to a rate at which the carriers on of the oldest and best-established and least hazardous trades are always glad to borrow, is to give the monopoly of the money-market to those traders, as against the projectors of new-imagined trades, not one of which but, were it only from the circumstance of its novelty, must, as I have already observed, appear more hazardous than the old", *ibid.*, p. 179.

Bentham argues, the main effect of a maximum rate of interest would be the blocking of any form of innovation and, in the final analysis, of the mechanism of development itself⁴⁰. Hence the need to put one's faith in market forces, and Bentham's ironic admonition to Smith to observe more closely those principles that he had preached in the WN⁴¹.

III

As is well-known, Bentham finished his *Defence* in May 1787 and sent the manuscript to George Wilson, a barrister in Lincoln's Inn, who passed it on to the printers. Towards the end of 1787 the book at last appeared.

In a letter to Bentham of 4 December 1789, Wilson wrote: "Did we ever tell you what Dr. Adam Smith said to Mr. William Adam, the Council M.P., last summer in Scotland? The Doctor's expressions were that 'the *Defence of Usury* was the work of a very superior man, and that tho' he had given him some hard knocks, it

⁴⁰ See, *ibid.*, pp. 172 ff.

⁴¹ Bentham's remarks concerning the characteristics and the central role of the entrepreneurial function have gone almost unnoticed by scholars of economics. Most surprising of all is the fact that Schumpeter, apart from a brief reference in his *Change and the Entrepreneur* (Research Center in Entrepreneurial History, Harvard University 1949, p.64), makes no mention of Bentham on the subject. F. Redlich, on the other hand, who worked very closely with Schumpeter, has a very different approach to the problem and lucidly sets out some of fresh insight into the subject to be found in the *Defence of Usury*. According to Redlich: "Bentham's treatment of the problem is remarkable for various reasons, but especially for his admirable insight into what was then a new type of businessman, developing in connection with the progress from early to high capitalism", (*op.cit.*, p.7). In the same year G. Heberton Evans Jr. adopted, although only incidentally, a similar approach to this issue (*The Entrepreneur and Economic Theory: A Historical and Analytical Approach*, "The American Economic Review", Papers and Proceedings, XXXIX, may 1949, pp. 337-38). Some interesting comments have been made on this point by R.F. Hébert and A.N. Link (*op. cit.*, pp. 40-4).

was done in so handsome a way that he could not complain', and seemed to admit that you were right".

According to John Rae, who reported this letter in his *Life of Adam Smith* ⁴², "[a]fter this confession it is reasonable to think that if Smith had lived to publish another edition of his work, he would have modified his position on the rate of interest" ⁴³. Bentham referred to this presumed conversion in the second edition of the *Defence* (1790) but, as Mossner and Ross have remarked, "he was careful to state that the conversion of Smith had not been reported to him directly from the author of WN himself"⁴⁴.

Nevertheless, there is substantial evidence that Adam Smith did not convert to Bentham's position; as a matter of fact, as we shall see, he could not convert to them.

The prudent man, whose economic behaviour has already been described, is the personification of the stoic virtue of inferior prudence. He plays a central role in Smith's analysis of moral judgements in TMS and, as an increasing number of scholars have shown, is one of the major themes of the WN.

The following extract from TMS demonstrate the close affinity between the two books on this and a number of other points:

"In the middling and inferior stations of life, the road to virtue and that to fortune, to such fortune, at least, as men in such stations can reasonably expect to acquire, are, happily, in most cases, very nearly the same. In all the middling and inferior professions, real and solid professional abilities, joined to prudent, just, firm, and temperate

⁴² Op. cit., London 1895, pp. 423-24.

⁴³ Ibidem.

⁴⁴ *The Correspondence of Adam Smith*, (Oxford 1977), p. 387.

conduct, can very seldom fail of success... Men in the inferior and middling stations of life, besides, can never be great enough to be above the law, which must generally overawe them into some sort of respect for, at least, the more important rules of justice. The success of such people, too, almost always depends upon the favour and good opinion of their neighbours and equals; and without a tolerably regular conduct these can very seldom be obtained. The good old proverb, therefore, That honesty is the best policy, holds, in such situations, almost always perfectly true. In such situations, therefore, we may generally expect a considerable degree of virtue; and, fortunately for the good morals of society, these are the situations of by far the greater part of mankind"⁴⁵.

This passage - a true hymn of praise to the prudent man - is arguably the finest tribute to the virtues of common people ever written. It raises three points that warrant particular attention. First of all, it reveals Smith's undoubted preference for the "inferior and middling stations of life". These he sets against the "superior stations" where "flattery and falsehood too often prevail over merit and abilities" and which exemplify those situations where behaviour is often "above the law". This point links closely with Smith's distinction between a "proper regard for self", as an expression of the quality of self-love, and selfishness or rapacity.

Secondly, the passage reiterates Smith's contention that the success of the prudent man's undertakings, in the exercise of a proper regard for self, depends on the approbation of his neighbours and equals.

Thirdly, the passage demonstrates Smith's conviction that prudent

⁴⁵ Op. cit., p. 63.

men, as a whole, constitute the bulk of society.

These subjective and objective characteristics are responsible for the fundamental role played by the concept of the prudent man in Smith's thought. They direct self-oriented initiatives towards social ends. In other words, in the exercise of his economic activity, the prudent man submits his own actions to a certain degree of *self-control* in order not to harm others and in order to receive their approbation. The prudent man *unconsciously* promotes the interest of society because he *consciously* sets limits on the pursuit of his own interests. He is the *visible* promoter of the *invisible* hand; he is the *fulcrum* but also the *limit* of Smith's belief in the working of a self-adjusting mechanism. Seen in this light, the WN can, and I would argue, should be read as an exercise in economic policy, one aimed at establishing a framework of rules which would enable prudent men to rise to pre-eminence in the exercise of economic activities.

In the following extract from Letter XIII, Bentham employs Smith's concept of prudent man to describe the reluctance of bankers to finance new projects. He shows himself to be well aware of Smith's reference to the prudent man as part of his treatment of the legal rate of interest in the WN, although Bentham himself deals with the concept in very restricted terms: "A prudent man, (I mean nothing more than a man of ordinary prudence) a prudent man acting under the sole governance of prudential motives, I still say will not, in these circumstances, pick out the good projects from the bad, for he will not meddle with projects at all. He will pick out old established trades from all sorts of projects, good and bad; for with a new project, be it ever so promising, he never will have any thing to do"⁴⁶.

⁴⁶ Op. cit., p. 171.

Bentham also seems to have been aware of the central role played by this figure in Smith's system as a whole. And it emerges from the following passage (where he conducts an imaginary debate with Smith over the conflicting roles of prudent men and projectors) that Bentham wanted Smith to go much further than merely change his opinions concerning the fixing of a legal rate of interest. He wanted him to revise his opinions on the function performed by the prudent man in his overall system:

"Here then (you conclude) lies the difference between us: what you look upon as the cause of the increase about which we are both agreed, I look upon as an obstacle to it: and what you look upon as the obstacle, I look upon as the cause"⁴⁷.

Here we have arrived at the nub of the controversy. On a more general level, two different explanations of human progress confront each other. On a lower level, in the economic field, and as a by-product of these contrasting explanations, two types of entrepreneur square off against each other: the one (Bentham's) representing an exception, a minority in society, a man who is above the "common herd of people"; the other (Smith's) representing a common type, one necessarily, and fortunately, widespread in society⁴⁸.

In the light of these contrasting views, two different broadly-based conceptions of economic development may be derived: the first

⁴⁷ Ibid., p. 174.

⁴⁸ According to Spengler: "[i]n Smith's system... economic change is primarily the product of a vast number of minor changes introduced by a multitude of comparatively small undertakers. It is not essentially the result of activity on the part of a minority of creative leaders", *Adam Smith's Theory of Economic Growth - Part II*, "The Southern Economic Journal", XXVI, July 1959, pp. 8-9.

(Bentham) is characterized by discontinuous changes determined by "improvements", and for this reason highly susceptible to a non-linear trend; the other (Smith) is slow, gradual, uniform, and not susceptible to sudden variations.

In my opinion all these various factors combine to explain why it was not possible for Smith to change his ideas on the role of projectors and why, as a matter of fact, he did not. Moreover, it is not difficult to confute Rae's statement concerning Smith's alleged conversion: he would have had the time, if he had had the will, to change his opinions in the 1789 and in the 1791 editions of the WN. In fact he did find the time and the will - although he was suffering considerably - to re-write the sixth edition of TMS (published posthumously in 1790) where he reconfirmed and reinforced, probably also as a reaction to the events of the French Revolution, all his ideas on the central role of the prudent man in his system.

Summary

A comparative reading of *The Wealth of Nations* and of *The Theory of Moral Sentiments* has made it possible to identify the characteristics of Smith's 'undertaker', and to reveal the irreconcilable nature of these with those that Bentham ascribed to 'projectors'. In particular, Smith developed a multi-functional theory of entrepreneurship, although his analysis essentially focused on the undertaker as risk-bearer.

By contrast, Bentham developed a mono-functional theory, one based on the revolutionary concept of the 'innovator' or 'creative entrepreneur'. And it also transpires that he anticipated - sometimes in an extremely surprising fashion - many of the components of Schumpeter's analysis of the subject.