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THE ENTREPRENEURIAL CULTURE AND THE MYSTERIES OF ECONOMIC DEVELOPMENT

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Culture is easy to study but difficult to specify. This essay attempts to pin down this illusive subject by linking it to entrepreneurship—that is to specific efforts to combine land, labor, capital, and knowledge in the creation of economic activity that has some aspect of novelty. Entrepreneurship is important because of its central role in capitalism. Culture is important because it influences the willingness of individuals to take the risk of exploring possibilities for entrepreneurial ventures even though the most of them will be unsuccessful in the long-run. In search of entrepreneurial culture in America around 1800, this paper examimes immigration, agriculture, commerce, and the beginnings of the Industrial Revolution in the US. These insights are then employed in an examination of the post-WWII efforts of the World Bank—most of which failed—to promote economic growth in nations that had not yet experienced "modernization."

Introduction

Culture is like fog. You know it is there because you can barely see the road ahead, but if you try to grasp it, you have but a damp empty hand.[1] Keeping that aspect of culture in mind, we will attempt to specify the elusive subject of an "entrepreneurial culture" by tracing it through specific efforts to combine land, labor, capital, and knowledge in the creation of profitable, growth-inducing economic activity that has some

[1] For discussions of the historiography and methodology of cultural studies see the superb analysis in William H. Sewell, Jr. (2005, 152-74). In Sewell's categorization, I am treating "culture as practice." I am thinking "of worlds of meaning as normally being contradictory, loosely integrated, contested, mutable, and highly permeable." I also found extremely useful the treatment of cultural studies in Gabrielle M. Spiegel (1997, 3-28, 44-56).

aspect of novelty.[2] All start-ups are considered entrepreneurial even though many of them involved only a small degree of novelty. Those efforts with a high degree of novelty (for instance, the first cotton mill) tended also to involve a high degree of uncertainty. Less novel undertakings (for instance, the eighth cotton mill) encountered less uncertainty but still had an element of risk. Novelty, as well as the conversion of uncertainty into manageable risk, is thus seen as a normal aspect of entrepreneurship.[3]

This approach to the subject breaks decisively with the analysis of Joseph A. Schumpeter, the father of modern entrepreneurial studies. Schumpeter's focus (1950, 83) was upon the heroic entrepreneurs who first introduced the new consumers goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates. These first-movers were certainly important in early America, as were the emulators who followed and helped to carry forward the process of "creative destruction" that drove older, less efficient, less competitive organizations and individuals out of their markets. Without denying the importance of this process or Schumpeter's heroes, my contention is that entrepreneurship was also taking place in more humble sites across a much broader range of economic activity than that which concerned Schumpeter. It was taking place on new farms and wholesale and retail organizations, many of which were small and seemingly insignificant. However, a blend of the heroic

[2] There are numerous definitions of the word "entrepreneurial." In this essay, I am using a slight variant on the definition developed in Louis Galambos and Franco Amatori (2016). My definition thus eliminates arbitrage as an entrepreneurial act. For other definitions see, for instance, Mark Casson (2010) and Robert F. Hébert and Albert N. Link (2009). Casson links his definition to neoclassical economics, and by contrast, I am linking mine to historical studies in the field. See also Joe Carlen (2016), who ranges from ancient Mesopotamia to Elon Musk's SpaceX and employs an all-inclusive concept of entrepreneurship. In my essay, entrepreneurship does not include illegal and unproductive activities along the lines specified by William J. Baumol—see Baumol and Robert J. Strom (2010, 527-541).

[3] Frank H. Knight (1921) developed the contrast between uncertainty, a situation for which you cannot calculate probabilities, and risk, a situation for which probabilities can be calculated and for which insurance can thus be provided.

and non-heroic innovators opens an analytical avenue to the entrepreneurial culture that is here the central concern.

The culture associated with these entrepreneurial activities was important because it encouraged people to take the risks of exploring possibilities for innovation, even though most of them would be unsuccessful in the long-run and many would fail in the short-run.[4] The culture thus helped to sustain an extended entrepreneurial search for new opportunities.[5] My focus in this essay is on the early United States, circa 1800, when the evidence strongly suggests that a vibrant entrepreneurial culture already existed and the search for new opportunities was well underway.[6]

Neither the entrepreneurial culture nor the search for new opportunities to innovate was unique to early America. With that in mind, I will also briefly discuss how an understanding of the U.S. experience might have helped planners at the World Bank who were trying in the early post-World War II era to promote economic growth in Sub-Saharan Africa and elsewhere. Like the early United States, many of the new African societies were attempting to marshal their agricultural, commercial, and entrepreneurial resources for an extended transition to modern, industrial growth. I will consider the World Bank's role in the early decades of that effort, but first we need to look to early America and to the major elements,

[4] My assumption is that the entrepreneurial culture was just one strand in a much broader American culture that included values in conflict with innovation and, in particular, innovation associated with commerce or manufacturing. I explore some of those counter cultures in the following pages. On failure see Scott A. Sandage (2006).

[5] The entrepreneur creates, discovers, and exploits opportunities that others have ignored or simply failed to see or understand. For literature on the nature of entrepreneurial opportunities see Andrew Popp and Robin Holt (2013). Several of the essays in David S. Landes, et al (2010) provide insights on the entrepreneurial culture; the chapters I found most useful were those by Joel Mokyr (183-210) and Louis P. Cain (331-66). Cain focuses primarily on changes in America after 1800, but he provides an excellent introduction to the institutional setting under the Constitution. Eric L. Jones (2006) concludes that economic factors shaped and reshaped cultures, rather than the other way around. Obviously, I disagree.

[6] Edwin J. Perkins (1989, 160-186) reached a similar conclusion. Perkins used a different definition of entrepreneurship than I do, but we both conclude that colonial America was "heavily imbued with entrepreneurial values."

including immigration, shaping the young nation's entrepreneurial performance and culture.

Immigration

In 1800, the U.S. population was over five million persons, many of whom had immigrated to the New World from Europe or had been enslaved and shipped to America. Opportunities in the new country—real and imagined—beckoned white immigrants, and the population had grown by 35 percent in the previous ten years.[7] Whether they came to seek religious freedom, political autonomy, fish, furs, gold or silk, the immigrants were predominantly white and young, with males slightly outnumbering females.[8] Immigration to port cities like Philadelphia was enhanced by financial innovations on both the European and the American side of the carriage, innovations that enabled poor as well as middle- and upper-class families to take their chances across the Atlantic.[9] Many of the European immigrants came as indentured servants.

Immigration was important for its contribution to America's entrepreneurial culture. The colonies were labor and capital poor. Immigration, which reinforced the high birthrates characteristic of most agricultural societies, added to the markets as well as the capabilities, and sometimes even the capital, of the new country. Rough estimates are that

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[7] All of the figures in this paper are drawn from Susan B. Carter, et al. (2006), unless otherwise indicated. See also David W. Galenson (1996, 135-207).

[8] In these early years of the republic, most of the immigrants of color were enslaved, and the total black population in 1800 was slightly over one million. Regardless of their talents, many slaves were not allowed to exercise their skills in independent entrepreneurial enterprises. As Juliet E.K. Walker (1998, 1-51) notes, the slaves brought with them long established traditions in trading, agriculture, mining, fishing, and craft production. Working as slaves, some but not all were allowed to continue to use their expertise in these occupations. Free blacks also carried forward this heritage in the colonies. The hundred thousand plus free blacks started enterprises—as blacksmiths, shoemakers, barbers, carpenters, house joiners, maritime traders, and shop keepers—that I consider entrepreneurial. See also Michael L. Nicholls (2000) and Robert E. Desrochers, Jr. (1997). As with women, the regional and national economies clearly lost entrepreneurial talent by refusing many African-Americans the opportunity to innovate and by constraining the efforts of free blacks to advance their enterprises. See also footnote 63 below.

[9] Marianne S. Wokeck (1997a, 1997b, 1989).

about 4,400 white immigrants settled in the new nation in 1800 alone—a figure that would increase sharply in the following years.[10]

Leaving one's home country, traveling across a dangerous ocean, and settling in a strange land involved elements of uncertainty and risk—two important dimensions of entrepreneurial ventures. The ships were frequently overloaded, the mortality rates high, and the voyages lasted between 47 and 70 days.[11] For those immigrants who then ventured to frontier areas, the brutal struggles between Native Americans and settlers multiplied the risks for men, women, and children alike.[12] Historian Ulrich B. Phillips described the tragedy of the Davis family: pushing West in search of land, they "lost the way, [and] stopped one winter night in the fork of a creek. Rising water extinguished their fire, the father was drowned while swimming the stream to bring embers from another camp, and the mother and some of the children died from exposure." As Phillips noted, "Prosperity, in short, and even livelihood, came not with ease but with effort; and life was marked by lonely isolation, savage contacts, crude makeshifts and recurrent emergencies."[13]

Immigrants who regularly confronted uncertainty and risk helped lay the foundation for an entrepreneurial culture in the colonies and the new nation. This aspect of the population deserves serious consideration.[14] The early immigrants to Virginia and Massachusetts were forced to innovate in a variety of different ways and this experience boded well for the region's economic future.[15] In New England, men like the fur trader

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[10] E.P. Hutchinson (1958). Henry A. Gemery (1989) notes that the generally accepted figure is around 350,000 for the entire period from 1700 to1790.

[11] Hans-Jürgen Grabbe (1989).

[12] For the ongoing struggles between settlers, Native Americans, and their respective leaders see Richard White (1991, especially 315-517).

[13] Ulrich B. Phillips (1929, 27. 75-76).

[14] Even without considering entrepreneurship, Larry Neal and Paul Uselding (1972, 68-88) conclude that: "The international flow of human beings to America was responsible for the formation of a large portion of the capital base of the economy and quickened the pace of development."

[15] See, for example, T. H. Breen and Stephen Foster (1973, 189-222); sticking close to the specifics, they take note of the career of Nicholas Busby, a weaver who tried farming and then moved to Boston "to set up as a merchant trading primarily in cloth." He clearly was the exception among those who came in the Great Migration, but entrepreneurs are always the exception in every society.

William Pynchon were determined to build both a godly and a profitable venture in the wilderness. With a blend of shrewdness and energy, Pynchon became a successful innovator in the fur trade and a leader in the Connecticut Colony.[16]

During the eighteenth century, Philadelphia and its hinterland acquired a large community of German immigrants. Very quickly, German-American entrepreneurs created a variety of small enterprises to provide goods and services to their compatriots in Germantown and Lancaster, as well as Philadelphia.[17] Immigrant artisans—that is, men who worked with their hands—started small, sometimes tiny, businesses that were engaged in innovation just as surely as the great merchants of the seaport cities.[18] As Thomas Doerflinger (1986, 52, 55) notes, "The successful mechanic was no less of a businessman than a shopkeeper was, for both types of tradesmen needed some knowledge of bookkeeping and the marketplace." Lumped together, these tradesmen made up 59 percent of Philadelphia's business population.[19]

One of the new German-American entrepreneurs was Christopher Sauer, a printer who blended Christianity with a staunch ethnic orientation in building a substantial following for his new business. Sauer produced pamphlets, an almanac, hymnals, and a newspaper that had broad appeal in Pennsylvania's growing German-American population. He was successful, as well, in fighting off the efforts of Benjamin Franklin and his newspaper cohorts to win over the German communities to Franklin's various political schemes. Whether one regards Sauer's innovations as particularly "creative" or not, they were certainly successful in driving a

[16] Pynchon's activities are discussed in Bernard Bailyn (1964).

[17] A.G. Roeber (1991) is not focused on commerce but the author touches in passing upon the lively, newly-founded business environment of the German-American communities. Roeber covers other colonies, as well as Pennsylvania.

[18] Daniel Vickers (1996, 212-237). Perkins (1989) includes artisans in the entrepreneurial class.

[19] Doerflinger (1986, 52, 56) briefly describes the careers of William Forbes, who started as a cooper and eventually became a merchant dealing in wholesale groceries: "Forbes was not alone in his ability to parlay manual skills into a mercantile career during the Revolution; we know of five men who changed their occupation from carpenter to board merchant during the conflict."

number of competitors out of business; this was a diminutive version of Schumpeter's concept of "creative destruction."[20]

The process of immigration, which had been going on since the early seventeenth century, grew stronger after the American Revolution. Many of those who immigrated came from relatively stable communities. While they tried in New England and elsewhere to recreate those communities, the adjustments forced upon them by frontier conditions undercut this effort.[21] By itself, immigration would probably not have sufficed to mold a strong, sustainable entrepreneurial culture. Nevertheless, it was certainly a contributing factor to the early American willingness to take on the uncertainty and risks of innovation. Experience shaped the culture, and the culture in turn encouraged some Americans to look for new entrepreneurial ventures.

Agricultural Entrepreneurship

For other factors that contributed to the American entrepreneurial values we can look to the predominant occupation around 1800: agriculture. Scholars, including Schumpeter and most economic and business historians, have long distinguished the establishment of new farms and plantations from the entrepreneurial activities in commerce and manufacturing. The distinction between agriculture and commerce/ manufacturing is partially a product of specialization in historical research and in part a product of an agricultural myth that has deep intellectual and political roots in America and Europe. America's most famous advocate of the agrarian myth was Thomas Jefferson, himself a farmer, among other things.[22]

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[20] Roeber (1991) and Ralph Frasca (1997). As noted before, the idea of "creative destruction" comes from Schumpeter (1950 edition of the book published in 1942). See also his much earlier book (1961 edition of the 1911 book).

[21] As Vickers (1996, 213) notes, the frontier economy "was a region of some opportunity, at the price of considerable risk, for those short on wealth and power."

[22] The agricultural myth is an ideology that distinguishes between farmers and their farms (which the belief system assumes contribute positively to their society) and commerce and manufacturing (both of which are condemned for corrupting society). See also the references in footnote 43 below.

But Jefferson and many others ignored the fact that each new farm or plantation was a start-up enterprise destined (when successful) to combine scarce labor, scarce capital, some good ideas, and abundant natural resources in an income producing, capital building economic unit.[23] Every improvement to the land was a capital-building process. Andrew H. Baker and Holly V. Izard describe the multi-generational building process of the Ward family of Shrewsbury, Massachusetts. Starting from rental property, the family finally acquired title to the land they had improved and slowly expanded their holdings. Although they produced what they needed for home consumption, they were, like their neighbors, engaged in markets and were "innovative in their farming methods."[24]

Central to settlement and agricultural expansion was a never-ending process of experimentation and adjustments to new conditions involving the soil, the climate, and the pests and diseases that plague farmers everywhere and in every century. Long before the United States had a Department of Agriculture, farmers had been seriously and relentlessly engaging in "biological innovation." As described by Alan L. Olmstead and Paul W. Rhode (2008), this was a lengthy, dynamic process that "revolutionized the crop and livestock sectors, increasing both land and labor productivity."[25] Some of the early settlers in Virginia and Massachusetts had the goal of subsistence agriculture; many sought and were satisfied with a "competency," that is, "a degree of comfortable independence."[26] Most were nevertheless quick to enter the market as soon

[23] Perkins (172-77), attempted unsuccessfully to convince business and economic historians to consider a significant number of farms as innovative institutions. My hope is that the recent explosion of entrepreneurial studies will create an environment less oriented to the Jeffersonian ideology and more attuned to the realities of agricultural development in American history. See footnote 28 below, for some important information in support of my optimistic conclusion.

[24] Andrew H. Baker and Holly V. Izard (1991, 29-52).

[25] The quotation is from the unnumbered frontispiece labeled "Creating Abundance."

[26] Vickers (1990, 3). Even those who sought "competency" could, however, engage in entrepreneurial ventures. As Vickers notes (pp. 9-10), the Johnson family started a shoe-making business and soon were producing and selling hundreds of shoes.

as they could produce a surplus for sale.[27] As the soil's fertility declined and subdivision of estates continued, their children and grandchildren also frequently found it necessary to push off to the West and confront new challenges to their entrepreneurial abilities.[28]

The Puritan culture, which favored stability and conformity rather than innovation and mobility, had a powerful intellectual component with deep historical roots, something that the entrepreneurial culture lacked.[29] Over time, and certainly by 1800, however, the agricultural entrepreneurs in New England and elsewhere in America were in the ascendency on a day-to-day basis. Even without a coherent intellectual foundation they were dominant by 1800, and they did not need a "halfway-covenant" to buttress their culture.[30]

The situation in the middle and southern colonies was different. Agricultural entrepreneurship commenced with the first settlements in Virginia. Under severe distress in a hostile, ill-understood environment, the settlers launched a process of organizational and agricultural innovation that enabled them to survive and, eventually, for the colony to prosper. The prosperity in the Chesapeake and the Low Country further

[27] Amy D. Schwartz (1995), carefully discusses the extended academic debates on these issues; my reading of the various studies indicates that many and probably most colonial farmers were alert to market opportunities and that all needed cash to buy some goods (an axe head for instance). See also Nancy Grey Osterud (1993) and Allan Kulikoff (1993). Richard Lyman Bushman (1998) does an excellent job of bringing the issue to a conclusion.

[28] The debate over subsistence vs. commercial agriculture leaves out one of the vital aspects of all agricultural start-ups and of all expanding farms: the farmers were building capital with every tree that they felled, every acre that they plowed for the first time, every pond that they created, and every marsh that they drained. See Baker and Izard (1991, 29-52) and Olmstead and Rhode (2008).

[29] On the ideological and cultural setting of the early republic see Christopher L. Tomlins (1993, 1-97).

[30] On the Puritan theology and culture see Perry Miller (1939 and 1956). The "halfway covenant" was a relaxation of the early Puritan requirement to have a distinct religious experience in order to be a member of the Church; the change accommodated later generations that were unable to have that type of experience. Emma Hart (2016) ranges widely and develops an intriguing concept of a distinctive economic culture; my concept of an entrepreneurial culture is an essential element in that broader culture, an element with a focus on varying degrees of innovation.

south was based on the use of slave labor to produce commodities for distant markets. The colonists and slaves produced and perfected cultivation methods for tobacco, rice, indigo, hemp, and cotton.[31] They grew their own food, and like the farmers in the North, they expropriated the Native Americans who stood in their way and pressed westward to cheap, fertile land.[32] Less favored by the climate, farmers in the middle colonies nevertheless established thriving commodity-oriented businesses in food crops and live-stock. This was the countryside that James T. Lemon (1972) memorably labeled "The Best Poor Man's Country." Maryland farmers built up a solid reputation for their tobacco and the colony also became a major source of wheat in the eighteenth century.

By 1800, frontier agriculture extended through the southern Midwest to the Mississippi River and in the South along the Piedmont and into the land around New Orleans. Every step westward involved expropriation—usually with force—of Native American land.[33] Every step westward also required additional biological innovations, adaptations to the unfamiliar soils, climates, pests, and diseases. The settlers faced uncertainty and risk. The process did not end with widespread settlement in the Midwest. Competition forced eastern farmers to change. Their move to intensive agriculture required additional adaptations and experiments, prompted in part by competition from fertile land to the West.[34] Mechanical innovations—particularly Eli Whitney's improved cotton gin (1793/1794)—worked hand-in-hand with biological adaptations to accelerate the move into fresh, fertile land.[35]

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[31] Russell R. Menard (1996) and Philip D. Morgan (1998). Sven Beckert (2015) emphasizes the cotton producers and labels the entire system one of "war capitalism." I agree with second part of this label.

[32] Joyce E. Chaplin (1991) provides an excellent description of the process of economic and social evolution in the lower South. She also gives us a telling description of Samuel Edward Butler's agricultural entrepreneurship on the Georgia frontier. For a study of one of the variations in relations between the settlers and Native Americans see James Taylor Carson (1997).

[33] White (1991) puts the reader inside this deadly struggle in the American Midwest.

[34] Olmstead and Rhode (2008, 2-4, 69-71, 91-2, 100-107).

[35] Angela Lakwete (2003).

Competition from cheaper western commodities promoted several waves of agricultural entrepreneurship in the Northeast. Western grain and other products undercut eastern prices. Poor soil and a short growing season left farmers in the East scurrying for new products and new markets. Their adaptations included the production of dairy products, fruits, and vegetables for growing urban centers like Boston, New York, Philadelphia, and Baltimore. In an era before refrigeration, proximity to the market was of crucial importance to hinterland farming.[36]

Favored by abundant fertile land and related natural resources, frontier agriculture in early America buttressed and spread essential elements of the entrepreneurial culture.[37] It was a risky venture—physically, financially, and socially—to push west and, unfortunately, we know less about the losers than we do about the winners in this extended process of agricultural expansion. The process continued, however, despite the constraints imposed by a lack of capital and labor. The opportunities to build capital through agricultural entrepreneurship were attractive enough in 1800 to push the American frontier to the Mississippi River. Many farmers in the East—even those in seemingly well-established families—headed West, pulled by frontier opportunities and pushed by depleted soil, family crises, and the subdivision of estates. Their values and accomplishments blended with those of the immigrants and further strengthened the culture of entrepreneurship.

Commercial Entrepreneurs

The vital catalyst for agricultural innovation in early America was a complex and expanding commercial sector. Thanks to several generations of ardent historians, we know a great deal about the merchant entrepreneurship of the colonial years and early republic. In describing and

[36] For a recent treatment of this transition see Emily Pawley (2016). Douglass C. North (1961) long ago mounted a case for the importance of the hinterland economies in the North.

[37] This conclusion is consistent with the perspective developed in Jack P. Greene (1988). As Greene notes, "farmers everywhere showed an especially strong propensity to move" (181). Like other Americans, they were interested primarily in "the quest for the good life, defined as the pursuit of individual happiness and material achievement" (205).

analyzing commerce, most historians are comfortable using the label "entrepreneurship." Even the pickiest purist will concede that the new merchants of New England and the Middle Colonies were innovators. Given the challenges of the sea, they were engaged in a business in which they were frequently forced to entrust their futures to weather capable of destroying their products, ships, and maybe their entire businesses (or even their lives). [38] Frequently, they depended upon the decisions of agents in distant ports, and one can easily understand why they often worked with trusted family members in conducting that trade. That was one way to exercise some control over what modern economists refer to as the principal-agent problem.[39]

Bernard Bailyn's landmark study of *The New England Merchants of the Seventeenth Century* provides an ideal entry to the culture of early American commerce. [40] Following a period of exploration and early failures, the merchants Bailyn studied continued to be relentlessly innovative. They had to be. Without searching for new sources of commodities, new markets, and trustworthy agents, they could shortly be out of business.

Even when they became successful entrepreneurs—as did Robert Keayne of Boston—they might find themselves in conflict with Puritan authorities devoted to the goals of a stable, landed society and of a "just price."[41] Merchants favored market prices that would go up when goods were scarce. But the Puritan leaders of the society thought that was unfair to customers who needed supplies, especially foodstuffs, to get through hard times.[42] This tension between commercial capitalism and religion had deep historical roots that historian John G.A. Pocock explored in his magisterial study of *The Machiavellian Moment*; credit, the life blood of business, was considered by many to be dangerous and trade "in its nature

[38] See, for instance, Toby L. Ditz (1994).

[39] The problem involves an analysis of how a principal controls an agent who works for him/her or a firm. The agent might well be inclined to do what is best for his or her interests rather than the interests of the principal.

[40] For opposition to this culture see footnote 43 below.

[41] Bailyn (1964, 20-23, 41-44).

[42] The concept of the just price has a long history. See, for instance, A.B. Hibbert (1963, 203); and C.M. Cipolla (1963, 404-407).

a pernicious thing."[43] Keayne's dilemma gives us a good sense of the cultural riptides of that era, as does Naomi Lamoreaux's (2003) perceptive account of the hodge-podge of values, attitudes, and actions that co-existed in early American capitalism.

Despite opposition, commerce in New England, the Middle Colonies, and the South continued to grow through the eighteenth century even though war, revolution, independence, and the creation of a new government under the Constitution generated a series of existential challenges to America's merchant entrepreneurs.[44] Those north of the Chesapeake soon became "merchants in the full sense of the word: owning and managing ships, providing banking and insurance services for other dealers, financing local industries, and buying and selling in a multitude of different markets." They built effective teams, something generally true of successful entrepreneurs.[45]

Many failed.[46] None were successful with every effort to adapt to a tumultuous international context. But men like Thomas Hancock of Boston weathered the political, economic, and climatic storms and gave

[43] John G.A. Pocock (1975, 423-552). Pocock (507) concludes that "Not all Americans were schooled in this tradition [of civic humanism], but there was (it would almost appear) no alternative tradition in which to be schooled." I disagree. The entrepreneurial culture was an alternative with roots deeply planted in Italian business before Machiavelli's grand moment. See, for instance, Raymond de Roover (1963a, 42-118; and 1963b). Gordon S. Wood (1969, 28-36, 107-118) deals with the English and American versions of corruption—in both of which commerce plays a central role.

[44] On the economic problems, see Terry Bouton (2016).

[45] Vickers (1996, 230-231) suggests that the team-building aspect of the business detracted from the role of merchants; to the contrary, it is a decisive aspect of leadership in innovative enterprises and can be the difference between success and failure. Vickers is right on target, however, when he notes that to develop northern commercial enterprises, "successful entrepreneurs had to be on the spot." Absentee ownership would not work—as the failure of the original colonial companies indicated. See also Toni Pitock (2016, 271-303) on the manner in which the Ashkenazi Jews established networks that enabled them to deal with the agency problems of eighteenth-century commerce. The Jewish merchants of Philadelphia also spawned new hinterland commercial enterprises in Lancaster, Pennsylvania, and other communities.

[46] Vickers (1996, 232). See, for instance, Doerflinger (1986, 2-15, 135-164) on the problems of George Dunlope, William Glenholme, et al. The author, who focuses on "Enterprise and Adversity," in Chapter 3, does not want for examples.

the new nation an active, aggressive force of commercial entrepreneurs looking for new opportunities to invest and increase their capital.[47] Frequently, those opportunities left the colonial and early national merchants in conflict with governments and with the moral standards of their local communities. The line between lawful trade and illegal smuggling was crossed and re-crossed by merchants in search of new markets and sources of goods to sell. If the slave trade beckoned, they were likely to heed that call more often than their distinguished heirs and the institutions they founded would like to admit.[48]

Transgressions of law and morality notwithstanding, the commercial class in early America built up the new nation's capital, were forced to innovate anew by the struggle for independence, and survived the financial stringency following the adoption of the Constitution.[49] They had developed a powerful entrepreneurial culture.[50] They had built a vigorous commercial class without the advantage of formal, colonial banking institutions.[51] But by the 1790s, many American merchants were eager to establish banks that would facilitate commercial exchanges and help them to obtain the capital they needed to continue to grow their businesses. The banks were themselves products of entrepreneurship, or better, "political entrepreneurship."[52] Banks held the sorcerer's wand: they could in effect print money in an economy perpetually short of capital.

[47] W.T. Baxter (1945). See also Edward C. Papenfuse (1975); and Stuart Bruchey (1956).

[48] James B. Hedges (1951). See also a more recent, popular account by Charles Rappley (2006).

[49] Bouton (2016). See also Tom Cutterham (2017, 17-25).

[50] Doerflinger (1986, 197-250) calls the postwar era (283-334) a period of "Entrepreneurial Efflorescence." For a more recent interpretation of the transition to the First Industrial Revolution in Britain and America see Yi Wen (2015).

[51] Bray Hammond (1957, 3-39).

[52] Further financial innovation at both the federal and state levels followed as the new nation consolidated its political and economic position under the Constitution. The early banks did not finance industrial startups. The banks provided capital and credit to merchants who were involved with financing and participating in these new industrial undertakings, but most of the impact of the financial innovations on manufacturing came later in the nineteenth century. See, for example, Naomi Lamoreaux (1994, especially 1-30, 50-83); Thomas K. McCraw (2012, 350-365); Cathy Matson (1996, 388-401); Peter L. Rousseau and Richard Sylla (2005) mount the strongest argument for financial innovation as the

Some of these merchants were also ready to support the country's turn toward manufacturing. They had already accumulated some experience with the production of goods, their newest attempt to mimic Britain's economic—if not its political—system.[53] Merchants, rather than bankers backed the entrepreneurs in manufacturing because the eastern banks were more risk-averse than the traders.[54] Insofar as the earliest banks encouraged commerce, however, they had a generally positive if indirect impact upon early industrialization in the Northeast—especially after the War of 1812.[55]

The Roots of America's First Industrial Revolution

While the first step toward this dramatic economic transformation was a product of one immigrant's daring theft of information and successful flight to America, factory production of cotton yarn would not have succeeded without the support of the merchants who could provide Samuel Slater with capital and an experienced sales and marketing organization.[56] The institutional setting—including protection for private property, reasonable taxes, and a recently strengthened federal government—was favorable to enterprise.[57] But the development of a thriving factory system in New England would certainly not have spread as rapidly as it did without a strong commercial sector and a culture that favored change, dealt with uncertainty and risk, and embraced novelty.

When Slater arrived in America in 1789, he had in his head the stolen secrets of British success in factory production of cotton yarn. His apprenticeship in a mill using Arkwright machines had given him the technical knowledge he needed, but his prospects were uncertain. He did

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driving force of U.S. modernization and economic growth in the early nineteenth century. Brian Phillips Murphy (2015) explores in depth New York's banking and infrastructure development by way of "political entrepreneurship."

[53] Jonathan Prude (1983, 34-41).

[54] See, for instance, Paul F. McGouldrick (1968, 14-18). See also Caroline F. Ware (1966, 40, 57, 67, 89, 91, 101, 122, 137, 179-82).

[55] The influences were not always positive. See ibid., 15, 40, 57, 67, for the negative impact of problems in the early banking sector.

[56] Barbara M. Tucker (1984); E. H. Cameron (1960)

[57] For a perceptive treatment of the institutional synthesis see Lamoreaux and Wallis (2016).

not have the money necessary to start a successful factory. Like most entrepreneurs—then and now—he needed both fixed and working capital. For that essential support, he turned to Moses Brown, a well-established Providence, Rhode Island merchant. The combination of Slater's technical knowledge with Brown's capital and ability to distribute the cotton yarn was quickly successful in their factory in Pawtucket, Rhode Island.[58]

If the story had stopped there, it would be interesting but not terribly important. As it was, however, the combination of an entrepreneurial culture and an innovative commercial sector with capital and access to credit ensured that others would shortly emulate Slater and seek the same sort of profits that would ultimately make him a millionaire. Emulation—the process Joseph A. Schumpeter emphasized—soon created what contemporary observers called "the cotton-mill fever."[59] Water site after water site throughout New England was used to turn out cotton yarn and, shortly, to manufacture cloth using the power loom. Up and down the East Coast, entrepreneurs developed new industrial enterprises, many of them small but all of them important.[60] The movement spread to wool and other products that could be standardized and manufactured using techniques similar to those used in the burgeoning cotton-textile industry. Out of this process came a new machine-tool industry that was able to capitalize on the need for new machines using water and then steam power. In a relatively short period of time, America had entered the "take-off" phase of its first industrial revolution.[61]

This particular revolution only spread to those states that had merchants both willing and able to finance the new enterprises and a cultural setting favoring industrial entrepreneurs. In the South, commercial

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[58] Rappleye (287-293).

[59] Schumpeter (1961, 128-156) on "Entrepreneurial Profit."

[60] Ware (1-38) and Prude (1-41). On the early efforts to promote manufacturing in the Delaware Valley see Paul F. Paskoff (1983, 1-73); Doerflinger (329-33); Frederick B. Tolles (1948, especially 97-100), emphasizes iron production and is substantially more positive about the merchants' industrial innovations than is Doerflinger. Tolles also concludes that the Quaker "holy experiment" gave way in the mid-eighteenth century to a materialistic culture (of which, I would add, the entrepreneurial culture was an important element) just as the Puritan experiment did earlier in New England.

[61] W.W. Rostow (1960) popularized the concept of the "take-off."

interests were locked into the profits that could be made by financing and distributing agricultural commodities produced largely with enslaved labor. There was plenty of agricultural entrepreneurship in the South as new farms and local businesses pressed westward toward fertile and relatively inexpensive land. But the South did not at this time develop a mixed economy with a manufacturing sector that could compete with the mills of New England and Britain. There were a handful of southern cotton-textile mills, which have been carefully studied. Thanks to several generations of historians, we know a good bit about William Gregg, the South Carolinian who developed a successful cotton-textile mill in the antebellum years. We also know something about other southern innovations in manufacturing and in the exploitation of the region's timber and mineral resources.[62]

As these ventures indicate, the South was not devoid of entrepreneurship and its supporting culture. But that culture was overwhelmingly focused on agricultural innovation, with a planter/farmer emphasis. The South solved its labor shortage through slavery. Slaves and free blacks clearly demonstrated their potential for entrepreneurial ventures in this period through their work as artisans and managers. But they could not acquire—either as slaves or as free men and women—the financial resources or support they needed if they were to provide the region with even modest industrial innovations.[63] The commercial sector that might have generated a broader, sustained emphasis on manufacturing was attenuated and considerably less developed in the South than in New England. As a result, innovations like Gregg's cotton mill stood out as exceptions to the rule in a society oriented primarily to the production of commodities for national and international markets. The delicate interweaving of economic opportunity, culture, and capital left the South

[62] See, for instance, Tom Downey (1999) and Carole E. Scott (1994). Beckert (2015) does not include William Gregg in his account of the *Empire of Cotton*.

[63] See Morgan (1998, 130-31, 138, 157, 163-64, 167-68, 173, and especially 204-54), for a remarkable and wonderfully detailed history of slave skills in everything from producing clothing, wood and iron products, to management and small-scale retailing. On free black entrepreneurship, see the references in note 8 above.

far behind in manufacturing and its related businesses. The South thus initially failed to solve the mysteries of diversified economic development.

Deprived of slave labor after the Civil War, however, the southern states generated a new enthusiasm for manufacturing and a more robust New South entrepreneurial culture. Innovations in transportation and steel production—drawing at times on convict labor—favored industrialization even though the planter culture dissipated slowly, as cultures are wont to do.[64] In the Piedmont a combination of northern capital and businessmen, southern innovators, and relatively cheap white labor combined to produce a belated but intense sectional economic revolution. As early as the 1880s, a Sunbelt industrial transformation was underway—a transformation that continues today.[65]

In these same late nineteenth-century years, the Industrial Revolution in the North and the continued expansion of agriculture throughout the South and West—crossing now the Mississippi River—strengthened the entrepreneurial culture in America. The resulting process of economic change searched out new opportunities for innovation in energy, in manufacturing, in transportation, in finance, and in agriculture. To a media given to exaggeration, the entrepreneurial tradition became for a time almost synonymous with America's economic culture. While this was and is clearly not the case, we can, I believe, draw upon the early American experience to help us explore economic development in other settings.

The Mysteries of Economic Development

To explore this subject, we will fast forward in US history, past the "Age of Opportunity,"[66] through World War I, the Great Depression of the

[64] Alex Lichtenstein (1996, xiv) points out, "southern convicts built railroads, mined coal, made brick, labored in the forest industries, and paved roads far more than they picked cotton." Share-cropping was the primary means of controlling the essential African American workers in agriculture.

[65] I first discussed the industrial make-over of the South and its implications for the New England industry in Galambos (1966).

[66] The era following the Civil War is usually known as The Gilded Age–so named by those who considered almost all successful business leaders Robber Barons and all commerce a likely source of corruption to the American Republic. I think of those years as either the Age of Opportunity or the Age of Capitalist Hegemony.

1930s, and into the post-World War II era, when for the first time economic development became an academic sub-discipline and a major policy concern in several of the world's leading industrial nations.[67] At that time the United States was a dominant international economic and military power. America and its allies, clients, and a wide variety of neutral and semi-neutral nations were working through a new array of international institutions as they attempted to close the economic gap between the developed nations of the West and the large number of countries in Africa, Asia, and Latin America that had been left behind economically. The charge was led by the new World Bank, with support from the new International Monetary Fund and the United Nations.[68]

In the first phase of this extended and complex effort the planners of the World Bank had to return to their history books and study the first and second Industrial Revolutions in their effort to induce changes in the member states that were lagging behind the industrialized West. Drawing upon their direct experience as bankers and engineers, they focused primarily upon infrastructure projects which they hoped would promote economic transformations in the societies that had yet to experience what was frequently called "modernization." The infrastructure projects of this first developmental wave were large-scale undertakings–dams, roads, and railroads, for instance—that were public projects. These, the original plan went, would encourage local business men and women to launch a wave of entrepreneurial undertakings.

The results, however, were very disappointing. The combination of engineering and large-scale financial or physical investments employed by the World Bank seldom got the dynamic results the organization's leaders sought. For reasons that were not entirely clear in the 1950s and 1960s, even though the projects improved transportation and electrical supplies in the Third World, they did not produce a broad wave of entrepreneurial

[67] Albert O. Hirschman (1981); Paul Krugman (2016).

[68] The World Bank—later the World Bank Group—was initially focused on spurring recovery of the war-damaged industrial powers, but soon, its leaders expanded its mission to include promoting the economic recovery of the "under-developed countries" of the so-called Third World. Later, the official name shifted to "developing" countries, a more positive term that sometimes reflected reality.

change. This was particularly true in Sub-Saharan Africa, where the need for economic growth was acute. Some critics of the Bank suspected that too much of the money had been siphoned off and deposited in the Swiss banking accounts of the ruling elites.[69] Others expressed doubts about programs that were solely in the public sector.[70]

Robert McNamara, who left his previous service as US Secretary of Defense and became president of the Bank in 1968, believed that the institution simply lacked sufficient resources to spur modernization. Thus, with great energy and skill, McNamara enhanced the lending capacity of the Bank. As German Chancellor Helmut Schmidt later observed, McNamara "transformed that institution into the world's largest and most important single source of international development assistance. When he took office in 1968, the Bank was lending about a billion dollars a year. By 1980, that figure had grown to $12 billion. In his final year, this one development agency was supervising over 1,600 projects, with a total value of some $100 billion, in more than a hundred developing countries."[71]

In addition to pumping up the Bank's resources, McNamara provided the institution with a new, energetic cadre of leaders and new goals. He continued to seek economic growth along lines of the western powers, but he also sought greater social equity. In particular, he focused upon educational programs and population control in an effort to pull the poorest citizens of the poorest nations to a higher standard of living.[72] McNamara's new cadre included a large number of economists, who began to play central roles in the planning process. The economists kept certain aspects of the Bank's loans unchanged—the funds continued to go directly to governments—but they began to shift support toward Latin America and Africa. Under McNamara's leadership, the Bank developed

[69] Susan Rose Ackerman (1997-1998, 92-114). Ackerman says, "there is a bias in favor of making loans without asking too many questions about the integrity of the projects." Megan Wanless (2013) says the Bank's policy was "See nothing, hear nothing, say nothing." Both authors were dealing with the type of non-productive innovations that Baumol distinguished from entrepreneurship; see footnote 3 above.

[70] Catherine Gwin (1997, 195-274).

[71] Helmut Schmidt (1981, ix).

[72] See, for instance, Robert S. McNamara (September 29, 1969, 67-94) in ibid.

a five-year plan that was designed to impact "the internal dynamics of development … in such a manner that the entire society can make the transition to modern life."[73] The level of abstraction was high and the concepts were for the most part universal, in keeping with the main thrust of neo-classical economics in the postwar setting.

Development economist Walt Whitman Rostow of MIT had described and analyzed this type of development plan in his 1960 study of *The Stages of Economic Growth*. Rostow (1960) posited a five-stage evolution from the traditional society, to the preconditions for take-off into rapid growth, the take-off, the drive to maturity, and finally the age of high mass-consumption.[74] Rostow and his academic colleagues made MIT a leading center for development analysis. While Rostow acknowledged the role of technological and political change, he focused attention in particular on an increase in "effective investment and savings" from 5 to 10 percent of national income. This central concept appealed to economists—including those at the Bank—seeking to push the undeveloped economies of Africa into a quick take-off.[75] Building the level of investment was something the Bank was equipped to do, and McNamara had given the institution the capital it needed to accomplish this objective.

Once again, however, the results fell far short of the planners' goals and that was especially true in Sub-Saharan Africa. My discussion of the central role in American development of the commercial sector and the manner in which it funneled capital into new ventures that fostered an entrepreneurial search process and strengthened the culture of innovation suggests that the World Bank largely failed in Sub-Saharan Africa because it pumped capital into the wrong part of those societies. Instead of public infrastructure, the Bank should have used its loans to fuel the private commercial sector that could have drawn upon, guided, and promoted the

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[73] Ibid., 74.

[74] Rostow had already published "The Take-Off into Self-Sustained Growth," in March, 1956. At that time, Rostow's ideas were so important that the International Economic Association focused an entire conference on *The Economics of Take-Off into Sustained Growth* (1963).

[75] Devesh Kapur, John P. Lewis, and Richard Webb (1997, 207-208, 381, 1125) discusses Rostow's involvement with the Bank. My interest, however, is more in the type of thinking characteristic of development economics than the influence of one development theorist, even an important one like Rostow.

local entrepreneurs capable of developing more diversified economies. Commercial interests in Africa needed capital—just as the American merchants did—in order to foster broadly based, cumulative development processes. As that happened and capital became available, African entrepreneurs would have been encouraged to launch those "searches" that yield new opportunities for innovation. Opportunity is a product of imagination as well as the material and institutional aspects of society. Entrepreneurs see and take advantage of uncertain and risky situations.[76] When they are successful, á la Schumpeter, society and the entrepreneurs benefit. In all of the nations that experienced an industrial revolution, the commercial sector has provided the access to capital and markets that the entrepreneurial searchers—successful or unsuccessful—need.

Turning to Sub-Saharan Africa to explore these ideas, we can benefit from the work of developmental economist Alex Duncan, who surveyed the Bank's experience with project lending in four East African countries: Kenya, Malawi, Tanzania, and Zambia.[77] Duncan noted that by 1989, "after twenty-five years of post-independence development, all four countries remained in the Bank's category of low-income countries."[78] Initially, the projects went well and there was a sense of harmony between the Bank and the four newly independent countries.[79] Large amounts of money will do that to individuals and even to entire societies. By the late 1970s, however, optimism had given way to reassessment and then to a series of ill-fated structural adjustment loans designed to ease the countries through their current economic crises while guiding them toward long-term policies of which the Bank approved.

On balance, the Bank's first and second grand forays into economic development were failures because the projects were unable to promote

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[76] Jeffery S. McMullen, Lawrence A. Plummer, and Zoltan J. Acs (2007, 273-283).

[77] Alex Duncan (1997, vol. 2, 385-434).

[78] Ibid., 392. Advances were nevertheless logged in healthcare and education in all four countries.

[79] Kenya achieved independence in 1963, Malawi and Zambia in 1964, Tanzania in 1961. Two of the countries in East Africa–Zambia and Malawi–started with relatively successful leading sectors (copper and estate farming) but failed to diversify in a manner that would have eased them through the crisis years of the 1980s. Côte D'Ivoire in West Africa had a somewhat similar situation.

the commercial enterprises and the entrepreneurial search processes needed to encourage diversified growth.[80] The countries did not lack entrepreneurs. But like those in America's antebellum South, the indigenous entrepreneurs were focused upon other activities. They also lacked the capital and commercial assistance they needed to move their economies toward the modernization goals. The Bank and the countries worked from the top down in the public sector and never reached into the commercial sectors of society essential to a successful surge of indigenous entrepreneurial effort.

As early as the mid-1950s, the Bank had begun to recognize that it needed to pump resources into the private sector of the underdeveloped nations. With US support, it created the International Finance Corporation (1956) to perform this function.[81] But during McNamara's tenure as Bank president, he preferred to work through public institutions. Despite his background at the Harvard Business School and the Ford Motor Company, McNamara was a vigorous convert to the American brand of liberalism. He kept the Bank leaning solidly toward public development programs, despite the emerging evidence that these policies had serious, frequently fatal, problems.

Provisional Conclusions

In a recent, best-selling book, Daron Acemoglu and James Robinson (2012) blamed "extractive" institutions that concentrate the resulting wealth and income in too few hands for the failure of national economies to make the transition to modern patterns of growth. Earlier, Hernando de Soto (2000) had similarly and famously focused our attention on the inability of would-be business men or women in many of the poorer countries to mortgage property in order to start a business. De Soto also stressed the laws and bureaucracies that threw up barriers to business.

This paper's examination of the early American experience, and the much later World Bank experience, with economic development suggests that while changes in the public sector help to ease the transition to

[80] For analysis of a different World Bank experience with a similar conclusion in West Africa see Jacques Pégatiénan and Bakary Ouayuogode (1997, vol. 2, 109-160). See also Dambisa Moyo, (2009); and William Easterly (2006).

[81] Gwin, 204-206.

industrialization and accelerated growth, two additional factors are crucial in fostering development. First society must have a vigorous, locally-oriented commercial sector. This is necessary to provide capital to help facilitate the flourishing of the second factor, a broadly based entrepreneurial search process and sustaining culture. Such a culture is important because it brings into play the local entrepreneurial talent and broadens the search for opportunities to innovate. The positive sanctions of successful entrepreneurship then can strengthen both the commercial class and the culture. This cumulative process can transform a society—its economy, its polity, and its culture—as it certainly did in early America.

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