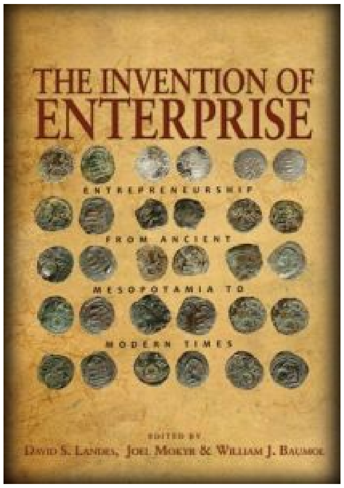

Book The Invention of Enterprise

Entrepreneurship from Ancient Mesopotamia to Modern Times

David S. Landes, Joel Mokyr and William J. Baumol
Princeton UP, 2010
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Recommendation

Money might make the world go around, but the spinning wouldn't happen without entrepreneurs and their innovations. This thorough examination of world entrepreneurship delves into many of the globe's important economies, from the ancient Middle East to modern China. Edited by three scholars, David S. Landes, Joel Mokyr and William J. Baumol, this work is a collection of essays by more than 20 academics. While not exactly a page-turner, it serves up historical context that will help readers understand the cultural currents and political forces that shape entrepreneurship throughout the world. It's intriguing to note, for instance, that most major economies (with the exception of the US) have harbored a deep-seated bias against entrepreneurs. *BooksInShort* recommends this book to business people who love history or to historians who want to know about the development of commercial enterprise.

Take-Aways

- Many financial tools already existed in the Near East in the third millennium BC.
- During the Middle Ages, Europe transformed from a backwater into a commercial hub.
- The Islamic world has had a love-hate relationship with entrepreneurship.
- European and Chinese cultures often harbored hostility toward entrepreneurs.
- Thanks to sophisticated farming, fishing, manufacturing and shipping industries, the Dutch flourished during their Golden Age from 1580 to 1650.
- The United States has always embraced entrepreneurs. An American infrastructure surge in canal and railroad building created entrepreneurial booms in the 19th century.
- In the 20th century, British entrepreneurs failed to adapt quickly to innovations such as electricity and internal combustion engines.
- For centuries, Chinese entrepreneurs were as sophisticated as their Western counterparts.
- In the late 20th century, post-Mao China embraced enterprise under Communist rule.
- In present-day China, a businessperson must cultivate a close relationship with a Communist Party patron to become successful.

Summary

Entrepreneurship's Deep Roots

The roots of enterprise stretch back thousands of years. The Near East, the cradle of modern enterprise, had developed money, weights, measures and prices by the third millennium BC. Assyrian and Babylonian cultures created such innovations as trade, interest, land leases and a culture of private enterprise. Business flourished in Mesopotamia between 3500 and 1200 BC. Because southern Mesopotamia lacked crucial resources such as cotton and hardwood, it had to trade. Commerce moved west from the Near East into the Mediterranean. A 1200 BC Greek archaeological site includes storerooms and accounting records. But the rise of the Greek and Roman empires spelled bad news for profit-motivated entrepreneurs. As wealth passed from generation to generation, the Greeks and Romans began to value riches gained through conquest more than trade wealth. Military spoils had a more legitimate reputation than earnings from enterprise. The early years of entrepreneurial development are noteworthy for what they didn't include: business lending, patents, intellectual property and marketing.

> "Entrepreneurship does not only lie in creating new enterprises. It lies also in developing inherited enterprise and in maintaining and using the family fortune effectively."

The neo-Babylonian period, 626 to 539 BC, marks the next epoch of entrepreneurial advancement. Businessmen were either "rentiers" who wanted steady, risk-free income, or entrepreneurs, who shouldered larger risks. Romans considered entrepreneurship tainted, but no such taboos blocked business in Neo-Babylon. Marriage was crucial to an entrepreneur's ambitions. Eldest sons strived to marry up, seeking women with family business connections and generous dowries. Neo-Babylon was agrarian, but entrepreneurs found new opportunities in niche products such as onions. Businessmen established market relationships for services like irrigation. Some slave owners taught their slaves a profession and rented them out, an early form of human capital. This is when account keeping became sophisticated.

> "Hereditary landed wealth tends to gravitate toward corrosive forms of enterprise, and the Greek and Roman mode of seeking gain was more military than commercial."

The Islamic world has had a long love-hate relationship with entrepreneurship. During medieval times, Middle Eastern merchants opened new markets in East Africa, where they introduced accounting, arithmetic and currency, and they established Arabic as the language of business. But Muslim entrepreneurship slowed, and Islamic nations have lagged the West in economic development. The 1,000-year-old trade patterns that brought historic prosperity to East Asia, Europe and North America left the Middle East, Africa and Latin America behind. In some ways, enterprise flocks to open, democratic societies that welcome dissent. Those characteristics do not apply to most Muslim nations, with the exceptions of either oil-rich or less-culturally rigid countries (for instance, Indonesia, Malaysia and Singapore).

> "Dutch entrepreneurs did so well in the Golden Age that it seems difficult to explain why the economy lost much of its luster in the late 17th and the 18th century."

The introduction of coffee as a product illustrates the challenges that faced some Islamic entrepreneurs. Egyptian Ismail Abu Taqiyya began importing Yemeni coffee in the late 1500s and early 1600s. He faced opposition from religious traditionalists, who considered coffee sinful and thought Muslims should consume nothing that was unavailable in Muhammad's time. Some clerics reviled "black water" so much that they exhorted their followers to destroy coffeehouses. Muslims ultimately accepted coffee, but their response shows the challenge of innovating in Islamic markets. Television received a similarly harsh welcome in the 1960s.

European Aristocrats' Tastes Spur Business Growth

Europe transformed from a backwater into a commercial hub in the Middle Ages (500 to 1500). The rise of the nobility spurred enterprise. Conspicuous consumption was a badge of honor, and every nobleman needed a castle, food, entertainment, and troops with horses, armor, and weapons. Such demand drove trade and business activity. Innovations included windmills, plows and harnesses. In 1434, a new ship, the caravel, opened West Africa to Portuguese traders. Larger, better armed ships fueled exploration of Africa and the Americas.

> "The use of traditionalist rhetoric to discredit innovation is not unique to Islam."

Aristocratic demand for books led to Gutenberg's invention of the moveable-type printing press .The wealthy continued to impel economic development though French law blocked noblemen from any trades except agriculture, public service and warfare. Slavery was rampant, as wars led to the capture of prisoners for forced labor. Being rich was praiseworthy, but earning riches was deemed unsavory, as Europe embraced the church's teachings against materialism. By the mid-1500s, wealth was back in vogue; European entrepreneurs continued to innovate. It led shipbuilding, boosting its trading advantages. A new furnace invented around 1540 allowed coal to replace charcoal, ushering in the Industrial Age.

The British Usurp the Dutch for European Dominance

With Europeans dominating world trade, no society was more entrepreneurial than Holland during the Dutch Golden Age of 1580 to 1650. The Dutch flourished thanks to their sophisticated farming, fishing, manufacturing and shipping industries. Amsterdam drew merchants, financiers and skilled tradesmen, but entrepreneurship went beyond the elites. Tens of thousands of people thrived as business owners, shopkeepers or small manufacturers. Dutch bankers used many financial and corporate structure innovations to build markets, including equity finance, promissory notes, collateralized loans, and limited liability firms.

> "In 1900 Britain was at the apogee of confidence in the justness and might of its role as a world leader."

The decline of Dutch power after 1650 let Britain take the lead during the Industrial Revolution (1760 to 1830). Parliament embraced free markets in the 1700s and abolished many market controls, like monopolies and tariffs. Adam Smith's *The Wealth of Nations* espoused the free market theory in 1776, but society did not embrace his ideas.

> "As the political and institutional conditions around the world changed, so the traditional role for the British overseas entrepreneur diminished."

As enterprise accelerated, other European entrepreneurs settled in Britain. Moneymaking still carried an unsavory taint, but some entrepreneurs hoped to accumulate enough wealth to buy respectability as gentlemen farmers. Thus, the cultural bias against entrepreneurship spurred some businessmen to succeed. Britons looked askance at earned riches during the Victorian age, 1830-1900, the glory years for British entrepreneurship. Society considered inherited wealth superior to commercial gain, but entrepreneurship thrived. Britain began to build factories, ports and railways, as it continued to amass colonies. The steam engine, a crucial technological advance, powered Britain's trains and ships. By 1845, the success of the trains led to a full-fledged "railway mania." The Industrial Age economy emboldened factory workers to demand better pay. With many other jobs available, they unionized, driving up labor costs. With this, business shifted to more profitable infrastructure projects.

"The persecutions of Protestants by Louis XIV and then the troubles under the Revolution had more or less durably weakened entrepreneurship in many parts of France."

By 1900, Britain stood atop the world's economy. A nation with less than 2% of the world's population handled 35% of its international trade in manufactured goods. Alas, the 20th century wasn't kind to British enterprise, which failed to adapt quickly to innovation. Britain's aristocratic bent continued to undermine its competitiveness. Most business leaders came from the ranks of the privileged, not the self-made titans of industry. The Depression, the pound's devaluation, World War II and the decline of the colonies shrank the markets for Britain's entrepreneurs. Britons became protectionists, reversing their earlier free-market tack.

"Throughout Chinese history, political control over all aspects of business activities has always been a given even though merchants had significant autonomy so long as they did not infringe on the power of the state."

After the war, the British failed to keep up with the more nimble American economy. In the 1950s and '60s, in the absence of a US-style over-the-counter stock market, Britain lacked initial public offerings in hot sectors such as electrical appliance companies. In 1979, Margaret Thatcher's administration ushered in a new era of free-market policies. In the '80s and '90s, the UK re-emerged as an international finance leader with entrepreneurs in a position of respect.

Germany and France: Diverse Paths to Entrepreneurship

In the 20th century, Germany's aggressive role in two world wars and its shifting borders made for an unstable entrepreneurial environment. The Nazi years damaged the culture of entrepreneurship. In addition to vicious anti-Semitism, Hitler slashed university enrollments, so Germany's once highly educated people became far less prepared for business. Germany spent much of the century as an "over-industrialized" nation that could manufacture products but lagged in softer areas like marketing and service. The post-WWII period has been the kinder to German entrepreneurs, though they don't tend to be cutting-edge trendsetters. Instead they are "incremental innovators" in industries like car manufacturing.

"Classical economic theory as applied in the United States was based on the principle that the state best encouraged economic growth and development by leaving entrepreneurs alone."

Britain's economic development outpaced France's in the 19th and 20th centuries, but France got a late start since the French Revolution and the Napoleonic Wars stalled its industrialization. As in Britain, many 19th century French entrepreneurs saw business as a way to gain wealth, buy respectability and obtain a civil service position. A cultural distaste for large private industry lasted into the 1940s. France has a long tradition of state-controlled economies, run by either the monarchy or a socialist government. Even so, French entrepreneurs were free to innovate, and the northern and eastern regions, as well as Paris, were home to very creative entrepreneurs. After François Mitterrand's presidency\, the state stopped intervening in the economy. French stocks soared, and France entered a new age of welcoming and supporting entrepreneurs.

The United States: A Nation of Entrepreneurs

While many European countries had hostile feelings toward entrepreneurship, the US always embraced the profit motive. Its first settlement in Jamestown, Virginia, was a failed business venture bailed out by the British government. The US Constitution provided for patents from the outset, and US politicians invariably interpreted economic theory to mean government's role was to get out of the way of private enterprise. The government established the rudiments of capitalism, including central banks created in 1791 and 1816 for 20-year spans.

"Americans have always admired entrepreneurs."

Private enterprise built crucial transportation infrastructure, such as roads, steamboats and canals. A canal-building binge from 1812 to 1837 yielded many new waterways, including the Erie Canal, which links states east of the Appalachians to the western territories. After the Civil War, the US embarked on a period of rapid expansion, beginning in about 1865, that included a railroad boom, a spurt of patent filings and growing speculative ventures such as prospecting for gold. Greed and government corruption tempered Americans' late-1800's love affair with entrepreneurship. By World War I, government saddled private enterprise with strict regulations. Entrepreneurship was volatile in the 1920s and 1930s, and stagnant from 1941 to 1975, when innovation took off, much of it centered on technology.

Meanwhile, Back in China

Like European societies, Chinese culture traditionally looked down on merchants as unsavory characters. Even so, Chinese innovation thrived for centuries. By 900, its inventors had created the compass, woodblock printing, paper, irrigation pumps, piston bellows for kilns and furnaces, and sophisticated canals. In 1750, Chinese farmers were every bit as productive as their European counterparts. But Western dominance began soon after, when the Qing state allowed a few merchants to trade with Europeans, who gained the upper hand with unfair treaties and tariffs, leading eventually to the Opium Wars.

"What became the United States of America was born of entrepreneurship."

For centuries, whether in tumultuous time or in periods of peace, every merchant needed a good relationship with China's government to succeed. Politics and factionalism hampered the business environment in China during much of the 20th century. The advent of the People's Republic in 1949 "brought an end to...any form of private business or market economy." While Chinese entrepreneurship proliferated in the post-Mao era, every successful Chinese businessman gets his start thanks to a Communist Party official. Former politicians are especially adept at working the system of *guanxi*, or relationships. For example, Huang Guangyu, owner of the Gome Electric Appliance Enterprise Group, a retail chain, came from humble beginnings and worked as a traveling salesman. He gained the friendship of a Communist Party official who helped him lease his first store in Beijing. Entrepreneurs who lack such help tend to remain small, so they can avoid scrutiny. While China has added Western-style legal protections for entrepreneurs, the system remains somewhat arbitrary.

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