Entrepreneurial History in Motion: A Reply to R. Daniel Wadhwani's Comment

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Galambos and Amatori applaud this discourse over entrepreneurship but contend that the multiplier is not a metaphor. They acknowledge Wadhwani's insightful analyses and look forward to further fruitful discussions focused on innovation, capitalism's major strength. They briefly argue for scalar evaluations rather than binary evaluations of innovation and the socio-economic problems they inevitably create.

We appreciate R. Daniel Wadhwani's thoughtful comment on "The Entrepreneurial Multiplier Effect."[1] As he correctly observes, scholarly interest in the entrepreneur has increased dramatically in recent years, and he provides a useful survey of the academic literature in this corner of economic and business history—literature to which he has made a substantial contribution. We like the word "impressive" and his acknowledgment that we attacked a "long-standing conceptual problem"[2] in the field. His concluding remark that we offered "a fresh perspective for seeing anew a process that historians have long sought to understand"[3] inspired flashes of pride in Milan and Baltimore.

While we appreciated the seriousness of the commentary, we nevertheless found a few areas of disagreement, and were left with some questions that we hope will be answered as Daniel and we push ahead in the effort to understand the role of the entrepreneur in the capitalist

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1. Galambos and Amatori, "Entrepreneurial Multiplier Effect."
2. Wadhwani, "Gales, Streams, and Multipliers."
3. Ibid.,

system. There are already many talented historians, economists, sociologists, political scientists, and psychologists working on this and closely related issues; we are as pleased as Wadhwani is with the revival of entrepreneurial studies. Our general position is that entrepreneurs perform three vital functions: first, they develop new goods and services and organizations that enable capitalist systems to deal effectively with fundamental changes in economic, technological, political, and social environments by developing disruptive innovations; second, they enable existing firms to improve efficiency, a less dramatic but extremely important form of adaptive innovation; and third, they spawn cultures that encourage a continued search for new opportunities for innovation in spite of the frequently overwhelming uncertainties and risks that are incurred. In short, entrepreneurs provide the major driving force that keeps capitalism from achieving a stable equilibrium.

Since entrepreneurs take specific actions in specific places and in specific historical settings, we believe their cumulative activities lend themselves to measurement, comparison, and general analyses. That is, after all, what the critics of capitalism do when they attack the system for producing inequalities of income and wealth—an inevitable outcome of the growth process, as we noted. While acknowledging this and other negative aspects of capitalist economic development (instability, for instance), our focus is on the sources of growth and, in particular, the manner in which entrepreneurship creates sequences of innovation that frequently multiply the impact of the initial act of entrepreneurship.

The multiplier is thus not a metaphor. Schumpeter's "gale" is a metaphor but his "creative destruction" is not—a conclusion obvious to anyone whose livelihood was destroyed by innovation. Arthur Cole's "stream" is also a metaphor, and we are indebted to Wadhwani for bringing Cole and his ideas back into the discourse on entrepreneurship. So we agree with Wadhwani's observation that we are "trying to grasp the cumulative nature of entrepreneurship,"[4] but our "multiplier" is no more a metaphor than are the multiplication tables we all learned in grade school. The relationships between a new cotton mill and a new grocery store or bar are also not metaphorical, but Wadhwani does not discuss these or our other specific examples of the multiplier at work. Nor does he discuss our emphasis on culture as an essential aspect of entrepreneurship.

Wadhwani is certainly correct in noting our stress on the "variable magnitude"[5] of innovations. We see variable degrees of innovation

4. Ibid.,
5. Ibid.,

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between the first railroad and the seventeenth railroad. We see variable degrees of impact between a railroad and a new corner grocery store, both of which we consider entrepreneurial ventures. In general, we applaud scalar analysis and reject simplistic binaries. Wadhwani is also right on target when he says we note but do not devote much attention to the negative consequences of entrepreneurship. They too are frequently multiplied as growth takes place and capitalism becomes the rule and not the exception in a society. Our focus, however, is not on the dark side of capitalism, a subject that has and continues to be abundantly described and analyzed by the cohort of scholars who have made this the centerpiece of their work. Our hope is that the cohort of critics will be as thoughtful as Wadhwani is in considering the multiplier as they attempt to grasp the essence of the capitalist system.

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