

## The ABC of Economic Literacy: 'E' is for entrepreneur

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As George W. Bush allegedly once said, "the problem with the French is that they don't have a word for entrepreneur." That may not be entirely correct, as the French may be short of business sense but certainly not of words. What is clear, though, is that most people have no idea what entrepreneurship really means.

So let's take the word 'entrepreneur' and dissect it a little. It was actually coined by (quelle surprise!) a Frenchman (of Irish origin), one Richard Cantillon (1680–1734). Quite literally, entrepreneur means 'under-taker' and this is how it translates into many other languages (e.g. 'Unternehmer' in German or 'imprenditore' in Italian).

Unfortunately, the connotation with funerals and gravediggers prevented a similar English translation. It might have helped to elucidate what entrepreneurs do because, well, they undertake things.

Undertaking itself is a word with many potential meanings. It is about committing oneself to a task, taking charge and obligating oneself to a project, often while bearing risks. In a nutshell, this is how most economists would describe entrepreneurs.

There are two definitions of entrepreneurship which one can often find in economics textbooks. One focuses on the risk aspect that is inherent in entrepreneurial activity. While employees do not bear any residual risk for the company they work for, entrepreneurs stand to lose some or all of their investment if things go wrong. Seen from this angle, an entrepreneur is the bearer of insecurity relating to his income. Therefore, a small shareholder is an entrepreneur while a highly paid employee (like a CEO) is not.

The second way of looking at entrepreneurs focuses not so much on their responsibilities but on their activities. For Austrian economist Joseph Schumpeter, entrepreneurs are people who are always on the lookout for new and better ways of doing things – inventing new products, conquering new markets, finding more efficient production methods. In this way, their actions promote a process of 'creative destruction'.

US economist Israel M. Kirzner, meanwhile, emphasises that an entrepreneur's core function is spotting hitherto unexploited opportunities. In a way, this is also what Schumpeter's entrepreneur does but Kirzner takes it a step further – we all behave as entrepreneurs in this sense, even in our roles as consumers.

So, next time you are looking for a better bargain, or a new job, you may feel a little like Gordon Gekko, Citizen Kane or Mr Burns. We are all entrepreneurs now... even the French.

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*The New Zealand Initiative is a Wellington-based think tank formed by the merger of The New Zealand Business Roundtable and The New Zealand Institute. [www.nzinitiative.org.nz](http://www.nzinitiative.org.nz). CEO Dr Hartwich is a regular speaker at PortfolioConstruction Forum programs.*

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