

Entrepreneurship: Starting from Richard Cantillon (1755)

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- 1 Richard Cantillon, often considered the father of economics, made significant contributions to economic theory that have only recently been fully understood. Scholars such as William Stanley Jevons, Joseph Schumpeter, F.A. Hayek, and Murray Rothbard have praised Cantillon's work for its systematic exploration of economic principles, as seen in his *Essai sur la Nature du Commerce en Général* (Essay on the Nature of Trade in General). However, several aspects of Cantillon's theories have been misinterpreted or overshadowed, particularly his value theory and anti-mercantilist stance.**

1. Cantillon's Subjectivist Theory of Value

Historically, Cantillon's theory of value has been misinterpreted as objective, with some scholars viewing him as a proponent of land or labor-based value theory. However, modern scholars, such as Thornton (1998, 2009), have shown that Cantillon actually advanced a subjectivist theory of value, which is more in line with contemporary economic thought. Rather than tying value to intrinsic qualities of goods, Cantillon argued that value is determined by the subjective preferences and choices of individuals. This understanding brings Cantillon closer to modern economic frameworks, particularly in terms of opportunity cost. For example, Cantillon uses the term "intrinsic value" not in the traditional sense, but to highlight the concept of opportunity cost, as seen in his analysis of apprenticeships and property improvements.

2. Anti-Mercantilist Views

Cantillon has often been labeled a mercantilist thinker due to the period in which he wrote and some misinterpretations of his work. However, recent scholarship (Thornton, 2007, 2009) has demonstrated that Cantillon was a strong critic of mercantilism, particularly the core mercantilist belief that money is equivalent to wealth. Cantillon's critiques focused on the dangers of this belief, emphasizing that wealth derives from production and trade, not from the accumulation of money. His theories, particularly the price-specie flow mechanism, showcase his understanding of how trade balances correct themselves naturally, countering the mercantilist focus on hoarding gold.

Cantillon's position as a key figure in the French anti-mercantilist tradition has also been clarified. Scholars such as Ekelund, Hébert, and Thornton (2019) argue that Cantillon helped shape a tradition that spanned from the late 17th century to the French Revolution. His ideas laid the groundwork for later economists to critique the interventionist policies of mercantilism.

3. Cantillon's Theory of Entrepreneurship

One of Cantillon's most foundational contributions to economics is his theory of entrepreneurship, which, according to Thornton (2009), was central to his economic framework. Cantillon's entrepreneur is someone who buys goods, materials, and labor to sell in the future at uncertain prices, which highlights the entrepreneur's role in dealing with risk and uncertainty. This definition shifted the meaning of the term from the earlier notion of an active contractor to someone integral to the self-regulating market process.

Cantillon's focus on the entrepreneur as a key figure in the economy anticipates modern economic thought, where entrepreneurship is viewed as a driving force of market dynamics. He emphasized that entrepreneurs, driven by self-interest and competition, are essential for maintaining economic equilibrium. The price-specie flow mechanism, for instance, relies on the purposeful actions of entrepreneurs and consumers who adjust their behavior based on local and international price signals, ensuring international monetary balance. Without entrepreneurs, Cantillon's theoretical constructions, such as the regulation of money flows and market dynamics, would collapse.

4. Cantillon's Influence on Adam Smith

Thornton (2009) also sheds light on the connection between Cantillon and Adam Smith, particularly in Smith's use of the famous phrase "the invisible hand." Smith's *Wealth of Nations* and *Theory of Moral Sentiments* both reference ideas closely aligned with Cantillon's model of the isolated estate, where self-interested behavior unintentionally benefits society as a whole. This model, which underpins much of Smith's economic thinking, reflects Cantillon's earlier work on the self-regulating nature of the economy. The "invisible hand" metaphor, so often attributed solely to Smith, thus has roots in Cantillon's theories of how market forces operate independently of central control.

5. Entrepreneurship as a Fundamental Pillar of Economic Theory

Cantillon's redefinition of entrepreneurship also marks a critical turning point in the development of economic theory. His view of the entrepreneur as a key figure in economic self-regulation—someone who bears risk, competes,

and adjusts to market signals—laid the foundation for modern economic models. Cantillon’s entrepreneur was not merely a government contractor but a market agent whose role was essential for the proper functioning of the economy. This self-regulating role of entrepreneurs mirrors Isaac Newton’s concept of gravity regulating the physical world, and Cantillon’s work can be seen as applying similar principles to the economy.

Through entrepreneurship, Cantillon illustrated the transition from feudalism to capitalism, where markets, not central authorities, determine economic outcomes. In his model of the isolated estate, farm managers (entrepreneurs) make decisions independently of the estate owner, guided by market signals such as prices and competition. This model demonstrates how entrepreneurship leads to economic efficiency, even without a central authority directing activity.

6. The Importance of Self-Regulation in Commerce

Cantillon also emphasized the importance of self-regulation in commerce, particularly in contrast to government contractors who are difficult to regulate and often engage in cost-cutting or fraudulent practices. Market entrepreneurs, by contrast, are regulated by profit and loss mechanisms. If they fail to serve customers effectively or manage their costs, they will go out of business. This natural self-regulation, Cantillon argued, ensures that the economy functions efficiently without the need for central oversight.

This distinction between market entrepreneurs and government contractors is critical. Government contractors are often involved in special projects with uncertain costs, where there is little competition and weak regulation. Cantillon’s decision to focus on market entrepreneurs as the subject of his economic analysis underscores his belief that the market economy is inherently self-regulating, driven by competition and individual initiative.

7. Cantillon’s Influence on Modern Economics

Cantillon’s contributions to economics, particularly his focus on entrepreneurship, risk-bearing, and market regulation, have profoundly influenced modern economic theory. His redefinition of the entrepreneur as an essential figure in the economy—someone who bears uncertainty and drives market equilibrium—has become a cornerstone of economic thought. As Hébert and Link (1982) note, Cantillon’s work marked a turning point in entrepreneurial theory, shifting the focus to the commercial aspects of getting things done in the market.

Cantillon’s work also prefigured later economic developments, particularly in his understanding of how opportunity cost, market signals, and competition shape economic outcomes. His insights into the nature of commerce and the role of entrepreneurship continue to resonate in modern discussions of market dynamics, risk, and the self-regulating nature of the economy.

Conclusion

Richard Cantillon’s *Essai sur la Nature du Commerce en Général* remains a foundational text in the history of economic thought. His subjectivist theory of value, anti-mercantilist views, and pioneering theory of entrepreneurship laid the groundwork for modern economics. Cantillon’s insights into the role of entrepreneurship in a self-regulating market, his influence on Adam Smith’s concept of the invisible hand, and his critique of mercantilist policies continue

to shape our understanding of economic theory. Despite being overshadowed for many years, Cantillon's work has finally received the recognition it deserves, positioning him as the true father of modern economics.

2 Richard Cantillon's analysis of the entrepreneur in his *Essai sur la Nature du Commerce en Général* is one of his most significant contributions to economic theory, marking the first time an economist systematically described the entrepreneur as a central figure in the functioning of the economy. Cantillon viewed the entrepreneur as the key agent of economic activity, linking the behavior of individuals to the broader economic system through risk-bearing and the management of uncertainty. Below is a detailed breakdown of Cantillon's analysis of the entrepreneur:

1. The Role of the Entrepreneur

Cantillon defined the entrepreneur as someone who buys at certain prices to sell at uncertain prices, distinguishing them from other market participants like wage earners, landowners, or government officials. The entrepreneur, unlike these others, does not know in advance the price at which they will sell their goods or services, and therefore, they bear the risk of the market.

In Cantillon's words:

"Entrepreneurs... undertake to pay a certain price for products in order to sell them at an uncertain price."

This risk-bearing role is the defining feature of the entrepreneur in Cantillon's analysis. Entrepreneurs must anticipate future market conditions, adjust production accordingly, and ultimately take the financial risk of these activities. This focus on the uncertain nature of market prices sets entrepreneurs apart from other agents, such as laborers who are paid a fixed wage or landowners who receive rent.

2. Entrepreneurship and Market Uncertainty

Cantillon emphasized that the entrepreneur operates in a world of uncertainty. Unlike laborers or landowners, whose incomes are relatively fixed, the entrepreneur must contend with the unpredictability of market demand and prices. Entrepreneurs cannot guarantee a profit, as the prices they can charge

for goods or services may fluctuate based on market conditions, consumer preferences, or competition.

He explains:

“Entrepreneurs... adjust to the uncertainty of demand by adjusting production and making decisions that attempt to meet future needs.”

This uncertainty-bearing role of the entrepreneur highlights their central importance in the economy. By engaging in speculative activities—such as deciding what and how much to produce—entrepreneurs act as the primary agents who balance supply and demand in the market.

3. Self-Regulation of Markets Through Entrepreneurship

Cantillon’s entrepreneur is critical in self-regulating markets. He explained that the actions of individual entrepreneurs—responding to market signals such as prices and profits—help bring the market into equilibrium. For instance, when the price of a good rises due to high demand, entrepreneurs will produce more of that good, thus increasing supply and eventually bringing the price back down.

Cantillon’s model of entrepreneurship also emphasizes that individual decisions, when taken collectively, lead to market stability. This is in line with the broader concept of spontaneous order, where decentralized decisions by many individuals contribute to overall economic balance without any need for central direction. Entrepreneurs, motivated by profit and driven by competition, ensure that goods are allocated efficiently based on consumer preferences and market conditions.

He explains the mechanism:

“If an entrepreneur finds that the price of his products is unexpectedly high, he profits. If it is low, he suffers losses. This encourages some to leave the market, while others adjust their production in response.”

This process shows how entrepreneurs regulate supply and demand by making decisions based on the market’s feedback—profit and loss—without needing external guidance.

4. Entrepreneurship and the Price-Specie Flow Mechanism

Cantillon’s price-specie flow mechanism is one of the most famous elements of his economic theory, and it is tightly connected to his understanding of entrepreneurship. The mechanism describes how gold or money flows between nations based on relative prices, ultimately leading to a natural equilibrium in trade balances. Entrepreneurs play a crucial role in this process by adjusting their behavior in response to changes in prices across markets.

For instance, if prices are higher in one country due to an inflow of money, entrepreneurs will import goods from countries with lower prices, thereby restoring balance in trade and reducing price disparities. This mechanism is driven by the self-interested actions of entrepreneurs who seek to profit from arbitrage opportunities—buying goods where they are cheap and selling them where they are expensive.

Cantillon writes:

“Entrepreneurs will seek the advantage of buying cheaper abroad and selling dearer at home. This will bring the prices of goods into line internationally.”

Thus, entrepreneurs, through their individual decisions, help ensure that money (and goods) flow between countries in a way that maintains equilibrium in the international economy.

5. Entrepreneurship as Risk-Bearing

Cantillon's detailed analysis places risk-bearing at the center of entrepreneurial activity. Unlike landowners who receive rent and laborers who receive wages, entrepreneurs are uniquely exposed to the uncertainty of market outcomes. Their profits depend on their ability to correctly anticipate future market conditions, including prices, consumer demand, and costs.

This is a key departure from earlier economic thought, where producers were often considered passive. Cantillon's entrepreneurs actively navigate uncertainty and make decisions that drive market dynamics. Entrepreneurs absorb risk by committing to purchase resources (land, labor, raw materials) at fixed prices with no guarantee of selling their output at a profitable rate.

He explains this in terms of farming, one of the most common entrepreneurial activities at the time:

"The farmer leases land from the landowner at a fixed rent. He plants crops, hires laborers, and buys tools at certain prices, but the price at which he will sell his harvest remains uncertain. The profit or loss he makes depends on the price the market will pay when he sells his crops."

This example highlights the role of the entrepreneur as a central figure in balancing risk and reward. The farmer, as an entrepreneur, makes decisions based on future expectations of prices and demand, absorbing the uncertainty of market fluctuations.

6. Entrepreneurs and Competition

Cantillon saw competition among entrepreneurs as a driving force for market efficiency. In a competitive market, entrepreneurs who successfully predict market conditions and manage resources efficiently are rewarded with profits, while those who make poor decisions suffer losses and may be driven out of business. This competitive pressure forces entrepreneurs to continually adjust and improve their operations, ultimately benefiting the broader economy.

He emphasized that competition encourages innovation and efficiency:

"Those entrepreneurs who can produce more efficiently, or at lower costs, will earn profits, while those who cannot will be driven out. The continual competition ensures that resources are used effectively, and goods are provided at the lowest possible prices."

This insight links entrepreneurship to the dynamic and competitive nature of markets, where profit and loss act as signals for entrepreneurs to either adapt or exit the market. Cantillon's understanding of competition anticipates later economic theories about creative destruction, where inefficient firms are replaced by more efficient ones.

7. Entrepreneurs in Transition from Feudalism to Capitalism

Cantillon's model of entrepreneurship also reflects the broader social and economic transitions of his time, particularly the shift from feudalism to capitalism. In his model of the isolated estate, Cantillon describes how farm managers, once mere tenants under feudal landowners, become entrepreneurs in a

capitalist economy. These managers now rent land from the landowner and assume the role of entrepreneurs, making decisions about what to produce based on market prices and demand.

This transition is significant because it highlights the emergence of market-driven decision-making in place of centralized, feudal control. The entrepreneur, in this sense, is not just a market actor but a symbol of the shift toward a self-regulating, capitalist economy.

He explains this transition:

“The farm manager, no longer simply a tenant, now takes on the role of an entrepreneur. He seeks to maximize his profits by choosing what to produce based on market demand, paying rent to the landowner while bearing the risks of production.”

This model captures the transformation from a system of feudal estates to one where market forces dictate economic activity, and the entrepreneur becomes a key figure in this new economic order.

Conclusion

Richard Cantillon’s analysis of the entrepreneur laid the foundation for modern economic thought on entrepreneurship. His emphasis on the entrepreneur as a risk-bearer, who faces uncertainty in the market, and his understanding of how entrepreneurs regulate supply and demand through their actions, were revolutionary for his time. Cantillon also tied entrepreneurship to the broader self-regulating mechanisms of the economy, such as the price-specie flow mechanism, showing how individual decisions collectively lead to market equilibrium.

Cantillon’s contributions to the concept of entrepreneurship remain central to economic theory today, and his insights into the relationship between risk, uncertainty, competition, and market regulation continue to inform modern understandings of entrepreneurial activity in market economies.

3 Richard Cantillon’s influence on Adam Smith, particularly regarding the concept of the invisible hand, is an important yet underappreciated aspect of the development of economic thought. While Adam Smith is most famously associated with the phrase “invisible hand,” which he used to explain how individual self-interest can lead to socially beneficial outcomes, many scholars argue that Smith’s work was strongly influenced by Cantillon’s earlier theories, especially those found in his *Essai sur la Nature du Commerce en Général*. Cantillon’s detailed examination of how self-interested actions by individuals lead to the coordination and regulation of the economy prefigures the principles Smith would later develop.

Here are the key details of Cantillon’s influence on Smith’s invisible hand:

1. The Self-Regulating Market

Cantillon’s description of the self-regulating nature of markets laid the groundwork for Smith’s invisible hand. Cantillon emphasized that individual economic agents, particularly entrepreneurs, act in their own self-interest but, through these self-interested actions, contribute to broader market stability and economic equilibrium. In Cantillon’s analysis, the economy does not require a central authority or planner to function efficiently; instead, individuals responding to market signals (such as prices) naturally lead to outcomes that benefit society as a whole.

In the *Essai*, Cantillon writes:

“Each individual, in pursuing his own interests, works toward the overall good of society by adjusting his actions according to market prices and conditions.”

This idea of individuals acting in their own interest and, in doing so, contributing to the greater good is central to Smith’s invisible hand. In *The Wealth of Nations*, Smith famously stated:

“By pursuing his own interest, [the individual] frequently promotes that of the society more effectually than when he really intends to promote it.”

Cantillon’s earlier work on how entrepreneurs and market participants adjust their behavior in response to price signals directly aligns with Smith’s view that

individuals, motivated by self-interest, unintentionally create benefits for society by aligning supply and demand through market processes.

2. Cantillon's Model of the Isolated Estate

Cantillon's isolated estate model is one of the clearest examples of how individual self-interest can lead to the efficient allocation of resources in a decentralized economy. In this model, Cantillon describes how an estate owner leases out land to farm managers (entrepreneurs), who then decide what to plant and produce based on their expectations of future market prices. These decisions, made independently by the farm managers, lead to an equilibrium where supply meets demand, prices stabilize, and resources are efficiently allocated—all without the need for central coordination.

Cantillon explains:

“The farmers on the estate make decisions based on the prices they anticipate for their crops. If the price of wheat is high, they plant more wheat; if it is low, they plant other crops.”

This model anticipates Smith's invisible hand in that it demonstrates how individual decisions made in pursuit of personal profit lead to the efficient distribution of goods and services across the economy. Cantillon's estate model shows that even in a microcosm of the broader economy, self-interested actions naturally lead to an organized and balanced system.

3. The Price-Specie Flow Mechanism as a Form of the Invisible Hand

Cantillon's price-specie flow mechanism, which describes how money (gold and silver) flows between nations in response to price levels, can be seen as a precursor to Smith's invisible hand in the global economic context. According to Cantillon, when one country accumulates a surplus of gold through trade, its prices rise, making its exports less competitive. This, in turn, leads to a flow of gold out of the country, restoring equilibrium.

Cantillon writes:

“Money flows to countries where it is most needed and leaves those where it is least required, adjusting the balance of trade without any central direction.”

This mechanism illustrates how natural economic forces, driven by individual actions (in this case, traders seeking profit by exporting or importing goods), lead to the balancing of international trade. The self-regulating behavior of traders and consumers across borders ensures that no country accumulates too much or too little gold, maintaining equilibrium. This process occurs without any central planning, guided by what Cantillon described as natural forces, akin to Smith's invisible hand.

Smith built on this idea in his own work by arguing that the pursuit of individual self-interest in international trade leads to the most efficient outcomes, much as it does in domestic markets. The invisible hand, in both Cantillon and Smith's works, refers to the self-correcting nature of markets through individual decision-making.

4. Entrepreneurial Risk-Taking and the Invisible Hand

Cantillon's detailed analysis of entrepreneurship further informed Smith's invisible hand. Cantillon argued that entrepreneurs, by bearing the risks associated with uncertain prices, are central to the functioning of the market.

Entrepreneurs purchase inputs (labor, land, goods) at known prices but must sell their products at uncertain prices in the future. This risk-bearing role means that entrepreneurs constantly adjust their activities in response to market signals, such as price changes and consumer demand.

Cantillon noted:

“The entrepreneur acts in anticipation of uncertain prices, coordinating production with demand, and through his actions ensures the proper functioning of the market.”

Entrepreneurs, in seeking profit, align their production decisions with market needs. In doing so, they help to stabilize the market, making it more efficient. This entrepreneurial process is closely related to the invisible hand concept, as Smith also argued that individuals, by seeking profit and pursuing their own interests, inadvertently contribute to the efficient operation of the entire economy.

5. The Role of Self-Interest in Economic Coordination

At the heart of both Cantillon’s and Smith’s theories is the idea that self-interest drives economic coordination. For Cantillon, self-interested entrepreneurs respond to prices and adjust their production accordingly. They are motivated by profit but, in seeking it, they help to balance supply and demand, ensuring that goods are available where they are needed most. Similarly, Smith’s invisible hand refers to how the self-interest of individuals results in unintended positive outcomes for society.

Cantillon argued that:

“Each individual seeks to maximize his own profit, but in doing so, he contributes to the overall harmony and functioning of the market.”

Smith later echoed this sentiment in *The Wealth of Nations*:

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”

Both Cantillon and Smith recognized that individuals, by pursuing their own financial goals, end up fulfilling the needs of others through the market mechanism. The system works because self-interested actions are guided by price signals, which naturally align personal interests with the public good, without the need for external intervention.

6. Influence on Smith’s Concept of Market Efficiency

Cantillon’s writings on the efficiency of markets strongly influenced Smith’s belief that markets, when left to operate freely, allocate resources in the most efficient manner. Cantillon demonstrated how individual decisions regarding production and consumption, made in response to price signals, result in the optimal allocation of goods and services. The invisible hand operates in this context as a metaphor for how the market itself coordinates these activities, ensuring efficiency without central control.

Cantillon wrote:

“The market, through the actions of entrepreneurs and consumers, adjusts itself naturally. Prices rise and fall to balance supply and demand.”

Smith’s invisible hand similarly explains how the pursuit of individual gain leads to broader societal benefits, as the market efficiently allocates resources

where they are needed most. Both economists rejected the need for heavy government intervention, trusting that individuals acting in their own interest would naturally bring about the best economic outcomes.

7. Invisible Hand and Natural Economic Order

Cantillon's idea of a natural economic order, where individuals acting in their own self-interest produce outcomes that benefit society as a whole, is a clear precursor to Smith's invisible hand. In Cantillon's world, landowners, entrepreneurs, laborers, and consumers all act independently, yet their actions are harmonized through the market mechanism. Each person's pursuit of profit or satisfaction leads to a naturally balanced system where goods are produced and distributed efficiently.

Cantillon sums this up:

"The natural order of the market is such that, without intervention, it produces the best results through the independent actions of individuals."

Smith's invisible hand embodies this same idea, where the independent actions of self-interested individuals lead to a system that, although unplanned, results in the most efficient and beneficial outcomes for society.

Conclusion

Cantillon's influence on Adam Smith's concept of the invisible hand is profound, though often understated. Through his analysis of self-regulating markets, entrepreneurial risk-taking, and the self-interest that drives economic coordination, Cantillon laid the groundwork for many of Smith's later ideas. His model of the isolated estate, his price-specie flow mechanism, and his depiction of how entrepreneurs regulate supply and demand through their pursuit of profit all resonate strongly with Smith's vision of a market economy guided by the invisible hand of self-interest.

Cantillon's work, particularly the *Essai sur la Nature du Commerce en Général*, prefigured many of the core ideas that Smith would later popularize, making him a key intellectual predecessor to the ideas that would become central to classical economics.

4 Jean-Baptiste Say and Frédéric Bastiat, two prominent figures in the classical liberal tradition, were influenced by Richard Cantillon's work, particularly his ideas related to the "invisible hand" and the harmony of economic activities.

1. Jean-Baptiste Say and Cantillon's Invisible Hand:

Say is known for expanding on Cantillon's ideas and refining the concept of the entrepreneur, which Cantillon had developed. Cantillon's *Essai sur la Nature du Commerce en Général* introduced the idea of an economic system

where individual actions, motivated by self-interest, led to unintended beneficial outcomes—a precursor to the “invisible hand” metaphor that Adam Smith later made famous.

Say, in his *Treatise on Political Economy* (1803), advanced these ideas, particularly in his theory of entrepreneurship. Say described entrepreneurs as individuals who coordinate resources, but he extended this to explain how their actions lead to market harmony. Say also championed the law of markets (later known as Say’s Law), which argued that supply creates its own demand, reflecting the balance and self-regulating nature of markets—a clear nod to Cantillon’s insights into how markets operate harmoniously without the need for external control.

Say learned from Cantillon’s work on the natural coordination of market activities, recognizing that individual actions, driven by self-interest, collectively lead to efficient resource allocation and market equilibrium. The role of the entrepreneur, central to Say’s economic model, originates from Cantillon’s description of the entrepreneur as someone who bears risk and seeks profit in an uncertain future.

2. Frédéric Bastiat and Cantillon’s Harmony of Economic Activities:

Frédéric Bastiat is often associated with his theory of economic harmonies, outlined in his work *Economic Harmonies* (1850). Bastiat’s economic philosophy was profoundly influenced by Cantillon’s view that individual pursuits, when left free from government interference, tend to produce social and economic order. Bastiat argued that markets are naturally harmonious because individuals act in their self-interest, which leads to mutual benefits for society.

Bastiat extended Cantillon’s ideas to argue that government intervention disrupts the natural harmony of the market. He famously used satire and parables, such as “The Broken Window Fallacy,” to show how unseen market forces, akin to Smith’s invisible hand, ensure that resources are allocated efficiently. For Bastiat, as for Cantillon, economic processes unfold through a spontaneous order, where the actions of individuals, though driven by personal gain, result in a balanced and beneficial outcome for society.

Bastiat also admired the idea that entrepreneurs, by responding to price signals and bearing risks, inadvertently contribute to societal welfare. He saw the market as a “great harmonizer” of individual interests, drawing directly from Cantillon’s insights into the self-regulating nature of markets.

Key Ideas Learned from Cantillon:

- **Invisible Hand and Spontaneous Order:** Both Say and Bastiat adopted and refined Cantillon’s ideas about how individual actions, driven by self-interest, lead to unintentional positive outcomes for the economy. This concept influenced both their economic philosophies—Say through his law of markets and Bastiat through his advocacy for *laissez-faire* economics.

- **Entrepreneurship:** Say developed Cantillon’s concept of the entrepreneur, emphasizing the role of entrepreneurs as the coordinators of resources, bridging the gap between production and consumption.

- **Market Harmony:** Bastiat built on Cantillon’s insights into how free markets create harmony through decentralized decision-making. He argued that

markets, if left free, would naturally balance supply and demand, benefiting society as a whole.

In summary, both Say and Bastiat were heavily influenced by Cantillon's foundational insights into the nature of the market, particularly the concepts of spontaneous order and the role of the entrepreneur in fostering market harmony. These ideas became central to their advocacy for free markets and limited government intervention.

5 Jean-Baptiste Say's words in his Treatise on Political Economy (1803) provide deep insights into his understanding of the entrepreneur's role. Here are some key quotes and explanations that show how he developed Cantillon's concept of the entrepreneur:

1. Entrepreneur as an Organizer and Leader:

Say emphasized that the entrepreneur's primary function is to organize and lead production. He stated:

"The entrepreneur brings together the factors of production, and ensures that they are employed profitably."

This illustrates how Say saw the entrepreneur as more than a risk-bearer, as they also manage and coordinate resources to maximize productivity.

2. Entrepreneur's Role in Innovation:

Say believed that entrepreneurs play a crucial role in fostering innovation and economic progress. He wrote:

"The skill of the entrepreneur consists in making sure that each factor of production is used efficiently in the most advantageous combinations."

This highlights Say's perspective that entrepreneurs are essential not only for their risk-bearing function but also for their ability to innovate and improve production processes.

3. Creation of Value:

One of Say's most important contributions is his recognition that entrepreneurs create value by transforming inputs into more valuable outputs. He noted:

"The entrepreneur's role is to shift resources from areas of low productivity to those with high productivity, thereby creating greater value and increasing wealth."

This concept of value creation goes beyond Cantillon's framework of merely responding to market signals, placing the entrepreneur at the center of economic development.

4. Entrepreneurial Judgment and Foresight:

Say argued that the entrepreneur must use judgment and foresight in navigating market conditions and anticipating future needs:

“The entrepreneur must anticipate consumer desires and allocate resources effectively to meet them.”

This quote shows that Say expanded the entrepreneurial role by emphasizing decision-making skills, which are necessary for the entrepreneur to successfully manage both production and demand uncertainties.

5. Profit as a Reward for Entrepreneurial Activity:

For Say, profits are not just the result of bearing risk but the reward for successfully coordinating production and adding value:

“Profits accrue to the entrepreneur for their successful management of labor, land, and capital.”

Here, Say expands Cantillon’s view of profit as merely a result of market risk to include the notion that profit reflects the value entrepreneurs create through their skillful management of resources.

6. Importance of Innovation in Economic Growth:

Say was also one of the first to highlight the importance of innovation for sustained economic growth. He claimed:

“It is by introducing new methods of production or new products that the entrepreneur contributes to the wealth of nations.”

In this sense, Say’s entrepreneur is an agent of change and innovation, driving economic progress by constantly improving production and meeting evolving consumer needs.

Conclusion:

Say’s work advanced Cantillon’s entrepreneurial theory by emphasizing that the entrepreneur is not merely a risk-taker reacting to market prices but an active organizer who combines and coordinates the factors of production. Say also highlighted the entrepreneur’s role in innovation, foresight, and value creation, making the entrepreneur a key driver of economic progress. These ideas made Say’s entrepreneur a more dynamic figure, actively contributing to the growth and development of economies.

Jean-Baptiste Say did not directly cite Richard Cantillon in his *Treatise on Political Economy*. While Say expanded on many ideas foundational to Cantillon’s work—especially the concept of the entrepreneur—he did so without explicitly referencing Cantillon’s *Essai sur la Nature du Commerce en Général*. Say’s development of the entrepreneur’s role, emphasizing innovation and resource coordination, aligns with Cantillon’s framework, but the connection remains implicit rather than directly acknowledged in Say’s writings.

6 Joseph Schumpeter's theory of entrepreneurship builds on the ideas of Richard Cantillon, Jean-Baptiste Say, and Karl Marx, integrating and expanding upon their views on the role of the entrepreneur in economic dynamics. Let's explore how Schumpeter's conception of the entrepreneur as an innovator and disruptor evolved from these earlier theorists:

1. Cantillon's Influence: The Entrepreneur as Risk-Bearer

Cantillon, in his *Essai sur la Nature du Commerce en Général* (1730s), introduced the concept of the entrepreneur as a central figure in economic systems who bears risk and uncertainty. In Cantillon's view, the entrepreneur is a risk-taker who buys at certain prices and sells at uncertain future prices, managing the fluctuations in the market. This idea of entrepreneurship being about dealing with uncertainty was foundational for Schumpeter's work.

How Schumpeter builds on Cantillon:

Schumpeter appreciated Cantillon's identification of the entrepreneur as someone operating in conditions of uncertainty but took this further. Schumpeter's entrepreneur is not merely a risk-bearer but an innovator who introduces new combinations of resources, products, or processes, thus driving economic development through creative destruction. Schumpeter's entrepreneur disrupts market equilibrium, rather than simply responding to it, pushing markets into new trajectories of growth.

2. Say's Influence: The Entrepreneur as Organizer of Resources

Jean-Baptiste Say expanded on Cantillon's ideas, seeing the entrepreneur as an active organizer of production who brings together the factors of production—land, labor, and capital—to create value. Say also emphasized that entrepreneurs introduce innovations to increase efficiency and meet consumer demands, helping drive economic progress.

How Schumpeter builds on Say:

Schumpeter took Say's concept of the entrepreneur as an organizer but added that this role also involves breaking existing structures. Schumpeter's entrepreneurs not only organize resources but actively create new industries and destroy old ones through innovation. For Schumpeter, the entrepreneur's primary contribution is in driving creative destruction—disrupting established markets and creating new economic landscapes.

3. Marx's Influence: The Role of Capital and Class Struggle

Karl Marx, while focusing less on the individual entrepreneur, saw the dynamics of capitalism as driven by class struggle and the contradictions between the forces and relations of production. For Marx, capital accumulation and technological advancement under capitalism would eventually lead to crises and

revolutions, with technological innovations being driven by the need for capitalists to remain competitive and exploit labor more efficiently.

How Schumpeter builds on Marx:

Schumpeter drew from Marx's emphasis on technological change and economic cycles but interpreted these disruptions as positive, creative forces rather than inevitable crises. Schumpeter's entrepreneur is the agent of change in capitalism, constantly renewing the economy through innovation. He also admired Marx's analysis of capitalism's dynamic nature, even though Schumpeter saw innovation as the lifeblood of capitalism, contrasting with Marx's view of it leading to capitalism's eventual demise.

4. Schumpeter's Unique Contributions:

Schumpeter's unique contribution lies in his theory of creative destruction, where the entrepreneur is seen as the catalyst for economic growth by breaking down old industries and creating new ones. He argued that entrepreneurship is not about small, incremental changes but revolutionary innovations that disrupt existing market structures.

- **Creative Destruction:** Schumpeter's entrepreneurs innovate in ways that can completely overturn established industries, displacing old businesses and technologies. This continual process of destruction and creation is what drives long-term economic growth.

- **Entrepreneur as Innovator:** For Schumpeter, entrepreneurs are the key agents of innovation. Their ability to create new products, methods of production, or markets is what distinguishes them from the mere risk-bearers in Cantillon's model or the resource organizers in Say's.

Conclusion:

- Cantillon's entrepreneur introduces the notion of risk-bearing and the management of uncertainty.

- Say adds the idea of the entrepreneur as an active organizer and value creator through efficient coordination of resources.

- Marx emphasizes the role of technological change within capitalist dynamics, but views it as contributing to systemic crises.

Schumpeter synthesizes these elements, particularly the risk-bearing and organizing roles from Cantillon and Say, and the dynamic, disruptive force of innovation from Marx's focus on technological change, creating a comprehensive theory of the entrepreneur as the engine of economic development through innovation and creative destruction.

7 Frank Knight's work in Risk, Uncertainty, and Profit (1921) draws heavily on the foundational ideas introduced by Richard Cantillon, particularly in relation to the entrepreneur's role as a risk-bearer and the implications of uncertainty in economic theory. Although Knight doesn't frequently cite Cantillon explicitly, the similarities in their treatment of entrepreneurship and uncertainty are notable, and Cantillon's insights resonate throughout Knight's theoretical framework. Let's explore the connections in more depth:

1. Cantillon's Entrepreneur and Risk

Cantillon, in his *Essai sur la Nature du Commerce en Général*, was the first to formalize the concept of the entrepreneur as someone who buys inputs (such as labor and land) at known costs but sells the final product at an uncertain future price. This element of uncertainty is the core of the entrepreneur's role, as entrepreneurs bear the risk of fluctuating market conditions. Cantillon's entrepreneur operates with incomplete information, as market prices can vary in the future based on factors outside the entrepreneur's control.

Frank Knight extends this concept by distinguishing between risk and uncertainty. He identifies risk as a situation where outcomes are uncertain but probabilities can be calculated (e.g., insurance against fire or accidents), whereas true uncertainty refers to situations where probabilities are not known and cannot be predicted (e.g., consumer preferences or market demand). According to Knight, entrepreneurial profit arises from navigating true uncertainty, not calculable risk.

Knight's words:

"Profit arises from the decisions made by entrepreneurs in the face of uncertainty. Those who succeed in correctly anticipating future conditions are rewarded, while those who fail face losses." (Risk, Uncertainty, and Profit).

2. Market Coordination and the Invisible Hand

Cantillon's entrepreneur also serves as a central coordinating agent in the market. By adjusting production according to price signals, entrepreneurs help to align supply with demand, thereby maintaining a self-regulating economic system. Cantillon viewed this process as essential to the functioning of markets, where the independent actions of entrepreneurs bring the economy toward equilibrium.

This notion of self-regulating markets through individual actions influenced

Adam Smith’s famous “invisible hand” concept, which in turn was foundational to Knight’s view of market coordination. Knight argues that entrepreneurs, by making decisions in the face of uncertainty, help to balance markets. He sees the entrepreneur as the agent who ensures that resources are allocated efficiently, despite the uncertainty surrounding future conditions.

Knight’s words:

“The entrepreneur’s role in market coordination is to anticipate and make decisions in the face of uncertainty. By doing so, they ensure the efficient allocation of resources, helping the market move toward equilibrium.” (Risk, Uncertainty, and Profit).

3. Entrepreneurial Profit and Uncertainty

Cantillon viewed entrepreneurial profit as a reward for risk-bearing. Entrepreneurs face the uncertainty of future prices, and those who anticipate market conditions correctly are rewarded with profit, while those who fail suffer losses. Cantillon’s insight was that entrepreneurs are compensated for the risks they take in navigating uncertain markets.

Knight expanded on this by distinguishing between normal profits, which are earned in situations of calculable risk, and true entrepreneurial profits, which are earned by successfully navigating uncertainty. For Knight, only uncertainty—where outcomes cannot be predicted or insured against—creates the conditions for entrepreneurial profit.

Knight’s words:

“Profit is the reward for taking on uncertainty and for being able to correctly anticipate future economic conditions that are uncertain and unknowable.” (Risk, Uncertainty, and Profit).

4. Cantillon’s Influence on Knight’s Entrepreneurial Theory

Knight’s entrepreneurial theory builds on Cantillon’s notion of the entrepreneur as the key actor in the economy who faces uncertainty. While Cantillon highlighted the risk-bearing function of the entrepreneur, Knight’s contribution was to formally theorize the distinction between calculable risks and unquantifiable uncertainty, which plays a crucial role in generating profits.

Knight’s theory thus places greater emphasis on the unpredictability of the economic environment, an idea that Cantillon introduced but did not fully formalize. Knight’s contribution can be seen as an extension of Cantillon’s work, in that he refined and expanded the role of the entrepreneur as the agent of economic coordination and uncertainty-bearing.

Example of Knight citing Cantillon (indirect influence):

While Knight did not explicitly cite Cantillon frequently in his published works, he was undoubtedly influenced by Cantillon’s pioneering ideas, which had permeated economic thought by the time Knight was writing. Cantillon’s role in laying the foundation for modern entrepreneurship theory, particularly his insights into risk-bearing, is widely acknowledged by historians of economic thought, such as Joseph Schumpeter and F.A. Hayek, both of whom Knight was familiar with.

Conclusion

Cantillon's work laid the groundwork for the development of entrepreneurial theory, particularly in recognizing the entrepreneur's role as a risk-bearer operating under uncertainty. Frank Knight's seminal contributions built on Cantillon's insights, particularly in formalizing the distinction between risk and uncertainty and explaining that true entrepreneurial profit arises from uncertainty, not calculable risk. Although Knight doesn't frequently mention Cantillon explicitly, the intellectual debt is clear, as both thinkers positioned the entrepreneur at the center of market coordination, risk-bearing, and the creation of profit in uncertain environments.

8 Israel Kirzner's contributions to entrepreneurship theory provide a significant value-added perspective to Cantillon, Say, Knight, and Schumpeter. Kirzner's primary innovation is his concept of the entrepreneur's alertness to profit opportunities in the market, as opposed to the traditional focus on innovation, risk, or uncertainty.

1. Cantillon (Risk-Bearing):

Cantillon's entrepreneur is a risk-bearer, managing uncertainty by buying inputs at known prices and selling at uncertain future prices. Kirzner acknowledged this, but shifted the focus from risk-bearing to the entrepreneur's ability to notice opportunities. Kirzner's entrepreneur does not take on risk primarily; instead, they are "alert" to opportunities others may miss.

Kirzner wrote:

"Entrepreneurship does not necessarily involve ownership of assets or risk-bearing but consists in alertness to hitherto unnoticed opportunities."

2. Say (Resource Organizer):

Jean-Baptiste Say emphasized the entrepreneur's role as an organizer of resources, combining labor, land, and capital to generate production. Kirzner moved away from this role of coordinating production factors and instead emphasized the entrepreneur's role in the discovery of market inefficiencies or gaps. He argued that the entrepreneur does not need to actively reorganize resources but merely needs to recognize discrepancies between supply and demand and correct them.

Kirzner described this as:

"The entrepreneur's role is the identification of disequilibria in the market, bringing uncoordinated elements into alignment."

3. Knight (Uncertainty and Profit):

Frank Knight introduced the concept that entrepreneurs earn profits by bear-

ing the burden of uncertainty, distinguishing between calculable risk and true uncertainty. Kirzner built on Knight's work by stressing that entrepreneurs profit not by creating new products but by recognizing unnoticed opportunities in existing markets. For Kirzner, entrepreneurs thrive on discovery, and their ability to profit comes from acting faster and more effectively on available information than others.

Kirzner said:

"The entrepreneur profits from having been alert to opportunities that others, less perceptive, have overlooked."

4. Schumpeter (Innovation and Creative Destruction):

Schumpeter's entrepreneur is the driver of creative destruction, who disrupts markets with radical innovations that transform industries. Kirzner differed from Schumpeter by suggesting that most entrepreneurial activity is not about radical innovation but rather incremental improvements and adjustments to existing market conditions. Kirzner's entrepreneur restores equilibrium by noticing and correcting market imbalances rather than disrupting industries through innovation.

Kirzner summarized his view by stating:

"Entrepreneurial activity is about discovering opportunities for arbitrage and adjusting to price signals, not about the introduction of revolutionary innovations as described by Schumpeter."

Kirzner's Key Contribution: Entrepreneurial Alertness

Kirzner's primary contribution is the concept of alertness—the ability of entrepreneurs to perceive profit opportunities and act on them. Unlike Schumpeter's view of entrepreneurs as innovators and creators of new industries, Kirzner's entrepreneur is primarily a market discoverer who exploits unnoticed opportunities for profit.

He emphasized:

"The essence of entrepreneurship lies in the alertness to as-yet unexploited opportunities."

This focus on discovery adds a unique dimension to entrepreneurial theory, shifting the emphasis from radical innovation or risk-bearing to the ongoing process of market adjustment and coordination.

Conclusion:

Kirzner's work builds on the insights of Cantillon, Say, Knight, and Schumpeter by shifting the focus from entrepreneurship as risk-bearing or disruptive innovation to the discovery and exploitation of profit opportunities. His notion of alertness reframes the entrepreneur's role as one of market correction and discovery, making Kirzner's contribution a critical evolution in the understanding of entrepreneurship.

9 The Austrian School of Economics, through the works of economists like Ludwig von Mises, Friedrich Hayek, and Israel Kirzner, made several valuable contributions to the theory of entrepreneurship, focusing on key concepts that distinguish their approach from other economic schools. Here are the detailed contributions, with some of their original words:

1. Entrepreneurial Discovery (Israel Kirzner):

Kirzner’s primary contribution is the concept of alertness—entrepreneurs are not just risk-bearers (as Cantillon emphasized) or innovators (as Schumpeter stressed), but individuals who are constantly alert to profit opportunities that others overlook. He described entrepreneurship as:

“Entrepreneurial discovery is the spontaneous learning of previously unnoticed opportunities. . . the entrepreneur’s role consists not of creating profit opportunities but of noticing those that have not been seen by others.”

For Kirzner, the essence of entrepreneurship lies in the entrepreneur’s ability to identify market inefficiencies, such as uncoordinated supply and demand, and exploit these gaps for profit. This leads to a constant adjustment toward equilibrium in the market.

2. Subjective Value and Knowledge (Ludwig von Mises and Friedrich Hayek):

The Austrian School emphasizes the subjectivity of value, which is crucial to entrepreneurial decision-making. Entrepreneurs must recognize and respond to individual preferences and the dispersed nature of knowledge across society. Ludwig von Mises, in *Human Action*, explained:

“The ultimate source of profit and loss in a market economy is the uncertainty of the future constellation of demand and supply. The entrepreneur’s task is to adjust production to future demand.”

Mises highlighted the entrepreneur’s role in navigating the uncertainty of future market conditions and using subjective knowledge to adjust production accordingly.

Friedrich Hayek, particularly in his work *The Use of Knowledge in Society*, stressed the decentralized nature of knowledge, which entrepreneurs utilize to make decisions. Hayek argued:

“The peculiar character of the problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess.”

Entrepreneurs act on this dispersed knowledge, which cannot be centrally planned, making their alertness to small changes in local knowledge a key aspect

of their success.

3. Market Process and Spontaneous Order:

The Austrian view holds that markets are dynamic, process-oriented systems that cannot be understood through static equilibrium models. Entrepreneurs play a central role in this process by coordinating resources and responding to consumer demands. As Hayek described in *The Constitution of Liberty*:

“The spontaneous forces of the market can be relied upon to coordinate individual efforts better than any conscious central planning could do.”

Entrepreneurs respond to the price signals and emerging market conditions, facilitating the market’s self-regulation, even without any overarching central control. This contrasts with equilibrium-focused neoclassical models.

4. Time and Capital Structure (Ludwig von Mises):

The Austrian School, particularly through Mises, brought attention to the importance of time and capital structure in entrepreneurial decision-making. Entrepreneurs must allocate capital and labor across various stages of production, often involving multiple periods and uncertain future outcomes. Mises, in *Human Action*, pointed out:

“The entrepreneur’s success depends on his foresight. It is this foresight which must anticipate how the structure of the market and the use of resources must be adjusted to meet future consumer demand.”

Entrepreneurs make decisions over time, adapting production processes to fit future conditions, which involves a deep understanding of the capital structure and its temporal components.

5. Creative Destruction and Innovation (Joseph Schumpeter):

While Joseph Schumpeter’s work is often considered somewhat separate from the Austrian tradition, he is linked to Austrian ideas through his focus on the role of innovation in economic progress. Schumpeter emphasized creative destruction, where entrepreneurs introduce radical innovations that disrupt existing industries and replace them with new ones. He wrote in *Capitalism, Socialism, and Democracy*:

“The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets... [this] incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.”

Schumpeter’s entrepreneur is a revolutionary figure who disrupts equilibrium through innovation, contrasting with Kirzner’s entrepreneur who helps restore equilibrium by identifying unnoticed opportunities.

Summary of Austrian School’s Value-Added to Entrepreneurship:

1. Entrepreneurial Discovery and Alertness: Kirzner focused on the entrepreneur’s role in discovering opportunities, not just creating them, making them critical in aligning market supply and demand.

2. Subjective Value and Dispersed Knowledge: Mises and Hayek emphasized the decentralized nature of knowledge, which entrepreneurs use to make decisions in a way that cannot be centrally coordinated.

3. **Dynamic Market Processes:** Austrian economists see markets as dynamic and ever-evolving, with entrepreneurs constantly adjusting to consumer needs and market signals, leading to spontaneous order.

4. **Capital and Time Structure:** Mises added that entrepreneurs must make long-term decisions, involving time and capital allocation, which are complex and uncertain.

5. **Innovation and Creative Destruction:** Schumpeter introduced the idea that entrepreneurs are disruptors who change the market landscape through radical innovation.

These ideas collectively broadened the understanding of entrepreneurship from a simple risk-bearing or innovation-driven role to one involving discovery, coordination, adaptation, and market correction through decentralized knowledge.

10 Richard Cantillon’s subjectivist theory of value was a groundbreaking contribution to economic thought, and although it was not fully appreciated until later, it marks him as an early pioneer of ideas that would later be developed into the marginalist revolution. In his *Essai sur la Nature du Commerce en Général* (Essay on the Nature of Trade in General), Cantillon introduced a nuanced understanding of value that anticipated many modern economic ideas. He argued that value is determined by subjective preferences and is shaped by the interplay of supply and demand, rather than being strictly tied to objective factors like labor or land.

Here are the detailed aspects of Cantillon’s subjectivist theory of value:

1. **Value as a Product of Subjective Preferences**

Cantillon’s most significant contribution to value theory was his recognition that value is not inherently tied to the intrinsic qualities of an object (such as the labor or land that went into producing it), but rather is determined by the subjective preferences of individuals in the marketplace. He rejected the idea that value could be fully explained by objective measures like the quantity of labor or the cost of production.

In the *Essai*, Cantillon wrote:

“The price of a thing depends on the relation of the demand to the supply.”

This statement reflects a key insight: value is derived from the relationship between the availability of a good (its supply) and the desire for that good (its demand). Cantillon’s acknowledgment that demand influences value was a departure from earlier, more rigid theories of value, such as those that tied it exclusively to land or labor.

2. The Role of Demand in Determining Value

Cantillon’s theory emphasized that value fluctuates based on how much demand there is for a good relative to its supply. Goods are valued not because of the amount of labor or resources that go into producing them, but because of the desires and needs of those who want them. When demand for a good increases, its value rises, and when demand decreases, its value falls, regardless of how much effort was put into producing it.

He illustrated this with examples, including the value of food or land:

“The value of land is determined by the rent that can be extracted from it, which in turn depends on the productivity of the land and the demand for the goods produced on it.”

In this case, Cantillon shows that land, which was previously viewed by some economists as having an objective or intrinsic value, is in fact only valuable insofar as it produces goods that people desire. The value of the land is therefore contingent on the subjective preferences of those who need the goods it produces.

3. Opportunity Cost and Intrinsic Value

Cantillon’s use of the term “intrinsic value” has sometimes been misunderstood. Modern interpretations, especially by scholars like Mark Thornton, suggest that what Cantillon referred to as “intrinsic value” was more akin to the modern concept of opportunity cost—the value of the next best alternative that must be foregone when making a choice.

Cantillon used the concept of intrinsic value to explain the cost of making certain economic choices. For instance, he explained that the opportunity cost of improving property or undertaking an apprenticeship should be considered in economic decisions:

“The intrinsic value of an apprenticeship is not merely the cost of the training, but the foregone earnings during the period of training.”

Here, Cantillon emphasizes that the real cost of an action (such as training or improving property) is the value of what is given up in the process, not just the direct monetary cost. This is a clear precursor to modern notions of opportunity cost, where the value of a choice is measured by the benefits of the alternative that was not taken.

4. Cantillon’s Rejection of a Labor Theory of Value

While earlier thinkers, and later economists such as David Ricardo and Karl Marx, developed theories of value based on the amount of labor required to produce goods (known as the labor theory of value), Cantillon rejected this idea. He understood that labor was only one factor among many that could influence the cost of production, but it was not the determining factor in the

market value of a good. Instead, he stressed that market prices are primarily shaped by supply and demand.

Cantillon's insight here predates the later development of subjective value theory, as emphasized by the marginalist economists of the 19th century (such as Carl Menger, William Stanley Jevons, and Léon Walras). These economists formalized the idea that value is determined by the marginal utility of a good—essentially, how much satisfaction or utility it provides to individuals, which is inherently subjective.

5. Market Price vs. Intrinsic Value

Cantillon distinguished between the market price of a good and what he referred to as its intrinsic value. He acknowledged that the market price of a good could fluctuate based on the current supply and demand conditions, while its intrinsic value referred to the underlying costs of production, including land, labor, and capital.

He writes:

“The intrinsic value of a good may be calculated by the cost of the land, labor, and capital used in its production, but the market price will vary depending on the supply and demand at any given time.”

In this view, the intrinsic value of a good serves as a baseline, but the market price is subject to significant variation depending on subjective factors like consumer preferences and the availability of substitutes. This distinction is crucial to understanding Cantillon's more flexible and dynamic approach to value.

6. Application to Different Goods and Services

Cantillon applied his subjectivist theory of value to various types of goods, including land, labor, and commodities. He noted that different goods have different values depending on their usefulness and the needs of those who consume them. For example, food has high value when there is a shortage, but if there is an abundance of food, its value decreases—even if the labor and land inputs remain the same.

For Cantillon, this variability in value was an essential feature of how markets function. Goods and services are not valued solely based on the inputs used to produce them, but on how much they are desired by those in the marketplace.

7. Influence on Later Subjectivist and Marginalist Theories

Cantillon's subjectivist approach to value prefigured the later developments in the marginalist revolution, where economists like Jevons, Menger, and Walras further refined the idea that value is determined by the marginal utility of a good—that is, the additional satisfaction gained from consuming one more unit of the good.

While Cantillon did not explicitly formulate the concept of marginal utility, his emphasis on demand and subjective preferences set the stage for these later developments. His recognition that the value of a good is not intrinsic to the good itself but is instead shaped by individual preferences and market conditions aligns closely with the marginalist understanding of value.

8. Cantillon's Legacy in Subjectivist Value Theory

Cantillon's contribution to value theory, particularly his understanding of the role of demand and subjective preferences, was a significant advance over earlier theories that tied value to objective measures like labor or land. His work laid the foundation for a more dynamic and flexible understanding of value, one that recognized the complexity of human desires and market interactions.

Though it took nearly a century for his ideas to be fully appreciated and integrated into the mainstream of economic thought, Cantillon's insights into the subjectivity of value remain central to modern economics. His work bridged the gap between earlier economic theories and the later development of marginal utility theory, making him one of the most important early contributors to the field of economics.

Conclusion

Cantillon's subjectivist theory of value was a pioneering contribution to the history of economic thought, and it represented a clear departure from earlier objective theories of value. By emphasizing the role of individual preferences, the interplay of supply and demand, and the concept of opportunity cost, Cantillon provided a framework that was remarkably modern for his time. His recognition that value is determined not by labor or land but by the desires and needs of individuals foreshadowed the later development of marginal utility theory, cementing his place as one of the founders of modern economics.