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## ДОПОВІДІ УЧАСНИКІВ КРУГЛОГО СТОЛУ

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### Competition or Innovation?

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Joseph A. Schumpeter (1883 – 1950) is considered among many as the father of innovation. There is a widespread view among both theorists and practitioners that Schumpeter's definition of entrepreneur is the core of entrepreneurship, which focuses on innovation and entrepreneurship in the development of the social sector. In his book *Theorie der Wirtschaftlichen Entwicklung*, 1912, he introduced the entrepreneur as an independent social agent in the economy [3].

The entrepreneur makes a new combination of the first and second input factors in the production function and thereby creates innovation. Schumpeter underlies that innovation implies that one is able to do something that previously could not be done, or at least not so efficiently or economically. Innovation is an impulsive alteration from static production. Static production means producing more of the same and inevitably bring the economy to an optimum and accordingly stagnation, leading the march from capitalism into socialism, a horrifying ideology that cannot work. According to Schumpeter, development of the economy as a whole, and thereby an advancement into real democracy, is only possible when innovations successfully are introduced in the economy. Schumpeter named this transformative process creative destruction.

Creative destruction is a spontaneous change in the production function and established patterns of production alter. New and more efficient ways of production open new markets and change the rules of competition. Companies that are not able to change the production method will cease [4]. Dynamic production gives society new possibilities and opens up for new products, services and markets. It is worth noticing that new jobs and expansion of the labour market is only one of the fruits of creative destruction. Entrepreneurship is a democratic process because everyone can take the role as entrepreneur and thereby carry out the new combinations and participate in the creation of the real democracy; no formalities or requirements are needed other than the will and the act of the individual. Anyhow,

there are obviously many hindrances and obstacles to overcome as an entrepreneur, other than those made by the political bosses. Jean-Baptiste Say points out some of the realities the entrepreneur faces: "In the course of such complex operations, there are an abundance of obstacle to be surmounted, of anxieties to be repressed, of misfortunes to be repaired, and of expedients to be devised" [2, p. 330].

These types of obstacles are closely linked to the nature of economic life and do not refer to political interventions or manipulations. Innovation is made by people for people. Governments and public authorities cannot do the same as individuals. The successful entrepreneur has the ability to create the innovation by abstract thinking and can comprehend the results of the innovation long before the innovation has been introduced on the market. The entrepreneur operates based on judgemental decision making, while legal authorities, like any other democratic body jump to conclusions and decisions by collecting votes. Parliamentarism operates based on majority votes in order to carry out the will of the people. This is typically a demand-focused activity. Static production is also demand focused.

Competition in the static market is all about winning the favour of consumers. The ultimate question for the players in the static market is always what they can do to meet the needs of consumers and thereby win the competition. Innovation is supply oriented. When the successful entrepreneur introduces the innovation in the market, consumers have the choice to buy or not to buy. Innovation is beneficiary to the vast majority of the population. As described by David Ricardo, also the working class would benefit from innovation: "In proportion as the machine came into general use, the price of the commodity produced would, from the effects of competition, sink to its cost of production, (-) The class of laborers also, I thought, was equally benefited by the use of machinery, as they would have the means of buying more commodities with the same money wages" [1, p. 263].

This truth is relevant for all sectors of the economy as well as in all matters of human life. Entrepreneurial profit is the economic output based on innovation, and it belongs to the entrepreneur. Innovation based successful entrepreneurship is an individual process that cannot be delegated to anyone; individuals, boards, committees or political institutions, and no dividend can be shared; the entrepreneur is the sole owner. Entrepreneurial profit is important because it is the proof that the entrepreneur was right; he succeeded. Furthermore, Schumpeter emphasizes that entrepreneurial profit is the only real profit, and it has the capacity to elevate the entrepreneur and his family to a higher social class affiliation and secure their economic future. The entrepreneurs' relations to concrete people and things,

especially the family circle, the factory, the company and the ancestral home are very important.

Entrepreneurial profit enables the individual to provide a good home, access to everything he considers important and necessary for a decent life for his family as well as providing his staff, servants, and network of individuals, neighbors and community with economic and social support. This reality is in stark contrast to competition in the static market. Because companies operate in the same markets, with the same costumers, suppliers of raw materials, the same labor costs, the same competitors, and the same sales prices, the margin over production cost will not be enough to cover both a sufficient amount of profit to owners or to bear the weight of R&D. expenditures.

Competition in the static market undeniably means a pressure on larger volumes and thus unnecessary quantities of products, which in turn means a strain on the production function as well as a burden on nature. Neither the market nor the nature can overcome this situation in a prosperous way. They are both losers. The workers will undeniably be fired, because they were hired to produce for the market, the customers who bought the products they produced payed their wages. The market forces will send the unemployed workers on social benefits and into poverty. At the same time, more and more people will appreciate socialist ideology as a final response to the process of market economy, and the march into socialism has begun. Anyhow, socialism cannot work. An ideology based on redistribution of wealth, and elected by majority and dictated by the few, is incapably of meeting the demands in the market and secure quality of life of its people. The market is an outstanding arena for giving people material goods and opportunities to exercise their intellectual and moral excellences of character. The entrepreneur stands against the political boss; innovation stands against competition.

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