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# 64 САМІТ СОЦІАЛЬНОГО ПІДПРИЄМНИЦТВА

64 Summit "Conversations on Emerging Issues in Social Entrepreneurship"



**МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ**

**ЖИТОМИРСЬКИЙ НАЦІОНАЛЬНИЙ  
АГРОЕКОЛОГІЧНИЙ УНІВЕРСИТЕТ**

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**ДИСКУСІЇ З АКТУАЛЬНИХ ПИТАНЬ  
СОЦІАЛЬНОГО ПІДПРИЄМНИЦТВА**

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ENTREPRENEURSHIP**

**Матеріали 64-го Саміту  
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## **THE ROLE OF NATIONAL LAW IN ECONOMIC DEVELOPMENT: A THEORETICAL ASPECT**

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*The study is based on individual factors of economic growth in the theory of economic science in close connection with the development of the legal system of the state emphasizes the important role of law in economic development.*

*Keywords: role of law, legal system, factors of economic growth, the theory of economic science.*

Law has always played a significant role in the development of public relations. The question of its role and influence on the development of society, economic relations has evoked scientific interest from ancient times (Albert V. Dicey,1982). Periodically, this interest is intensified, then faded away. However, in general, this research industry is still unfamiliar to many legal scholars, practicing lawyers and politicians. Scientists have so far failed to create a complete theory of explaining the system-forming relations between law and development, which would enable law and development to be defined as a reliable and consistent academic field. In a sense, this publication rethinks these categories. Analyzing and comparing the theoretical approaches of J. Schumpeter to understanding economic development, the author demonstrates the validity of the studied general theory. Applying certain empirical characteristics of the economic and social development of Ireland in the period 1987–2005 in historical terms, the author reinforces the view of the importance of national laws on economic freedom for economic development and economic growth. As the practice of economic development shows, the era of entrepreneurship and innovation by the broad road is rapidly entering our life. When Bill Gates, the founder and CEO of Microsoft, or Anita Roddick, the founder of the Body Shop, seems to know more than most heads of state around the world, the conclusion suggests itself that the era of entrepreneurship has arrived. It shows its active role far beyond the economy.

Equally important for economic progress are less well-known, ordinary entrepreneurs. In his time, J. Schumpeter, developing the Theory of Economic Development, developing the teachings of R. Cantillon, J. Say, in the study of economics singled out and in a completely new way drew attention to a particular category of people who find and implement innovations. And who are called entrepreneurs. On the basis of

innovative solutions, entrepreneurs form new, previously unknown combinations of production factors. On this basis, Schumpeter believed that if entrepreneurial opportunity acts as a factor of production, then its limited (well-defined) quantity should generate diminishing returns with an increase in other factors of production. (Schumpeter J., 1934/2008). Returning to the origins of the birth of this economic theory, the following should be recalled. The epochal work of Josef Schumpeter's *Theory of Economic Development* was born in 1911, and published in 1912 in a German edition. J. Schumpeter introduced into scientific theory the distinction between economic growth and economic development in the economy.

The easiest way to express the difference between these two terms is the words of the author himself: "Put as many mail cars in a row as you like - you won't work at the same time". Economic growth is an increase in the production and consumption of the same goods and services (in particular, postal transportation) over time. Economic development is the birth of something new, previously unknown (for example, railways) or, in other words, innovation. In an economically growing society, money and goods move towards each other along long established routes. Schumpeter designated such a movement as a circular stream of economic life. Economic development makes adjustments to this circular flow, identifies new industries and ends the life of an obsolete industry. At the same time, economic development cannot be infinite because innovative ideas are not born daily. Innovation, and with it economic development, occurs periodically (Schumpeter J., 1934/2008).

Therefore, when considering the issue of the role of national law in economic development, it is also very important to take into account the above theoretical conclusions. Since innovations and entrepreneurial activity are among the key factors of economic development, this is precisely what the

legal regulation of the economy should be aimed at. In other words from the perspective of legal science, it should be emphasized that law cannot hinder the development and introduction of innovations, which are an important tool and driving force for entrepreneurship. Otherwise, it adversely affects economic development. This position is held by J.Sandal and other researchers (Sandal Jan-Urban, 2016). Ireland's historical experience is proof of effective economic growth in the period 1987–2005.

It was the freedom of enterprise that made it possible to get such results. Analyzing various factors of economic growth in a given country, one can partially answer the question about the role of national law and its effect on economic growth. For more than two centuries, Ireland was one of the poorest countries in Europe. However, in the 1990s, it showed impressive growth rates. By the end of the 1990s, Ireland's per capita GDP was \$ 25,000 per year (at purchasing power parity): it surpassed the United Kingdom (\$ 22,000) and Germany (\$ 23,500) by this indicator (Economist Intelligence Unit, 2000). While in 1987, per capita GDP in Ireland was only 63% of UK GDP (The Economist, 1997). Ireland "overtook" the British neighbors for ten years. In the period from 1990 to 1995, the growth rate of its GDP reached an average of 5.14% per year, and in 1996-2000 it increased to an average of 9.66% (International Monetary Fund, 2001). And as the research shows, the most important role in this process was played not by the right, but, first of all, by free enterprise. On the other hand, the right to economic freedom, enshrined in national law, promoted the active development of entrepreneurship in the economy, including through the effective use of financial and other resources. Why should government officials allocate resources to the most stimulating growth project, even if they can consider it as such? Entrepreneurs direct available resources to the most efficient projects, since they have the

right of ownership to the profit from investments. Government officials have no such component. They can get more benefits creating a concentrated benefit for their political partners (Olson 1965).

Conclusion. The study, based on individual factors of economic growth in the theory of economic science in close connection with the development of the legal system of the state, using the empirical data of a particular country (Ireland 1987-2005), emphasizes the important role of law in economic development. However, the positive role and positive impact of the law (in the face of national law) on economic growth in a particular state largely depends on the degree of regulation of economic freedom of entrepreneurship. The greater the level of economic freedom of entrepreneurship in national law, the greater the chances of creating successful economic growth and improving the material well-being of citizens. Based on this, a promising task for researchers of modern legal and economic science is the further development and justification of factors (indicators) of the effectiveness of the influence of national law on economic growth and social development. As well as identifying factors that have a negative impact or hindering economic progress in the context of globalization.

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