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## How innovation maintains and develops democracy

**Abstract.** Innovation is a superior driving force for economic development in a capital, market-based economy. Entrepreneurs carry out innovations, be it business or social entrepreneurs. Theoretically, according to the Franco-Austrian-Norwegian (FAN) scientific tradition, innovation is defined as a new combination of the first and second input factors in a production function. The result of successful business and social entrepreneurship is economic development, equal rights, a better world, peace, freedom, a more secure society for everyone, as well as technological, economic and social progress. These are all parameters that define the modern Western style democracy, and even more, these prerequisites represent the conditions for the maintenance, construction and dissemination of democracy to new territories throughout the world. Successful entrepreneurs are private individuals whose role can never be substituted by any group of members, be it political parties, governments, boards of directors, committees or power based authorities like the political boss. Throughout history, we have seen national states, big and small, trying to overrule the wisdom of science and that they have failed. We have seen the horrors imposed on civil populations, both nationally and globally, as a result of the failed Marxist-based socialist political ideology concerning the distribution of wealth. The process of wealth creation lays the foundation of a democracy, and only individuals can undertake the formation of economic progress.

**Keywords:** Innovation; Entrepreneurship; Democracy; Individual and Economic Freedom; Caring Economy; Sharing Economy

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#### Як інновації підтримують і розвивають демократію

**Анотація.** Інновація – головна рушійна сила економічного розвитку в ринковій економіці. Інноваційну діяльність здійснюють як соціальні підприємці, так і особи, що займаються бізнесом. Теоретично, згідно франко-австрійсько-норвезької наукової традиції, інновація визначається як нова комбінація першого та другого елементів витрат будь-якої виробничої функції. Результатом успішного бізнес та соціального підприємництва є економічний розвиток, рівні права, кращий світ, мир, свобода, більш захищене суспільство, а також технологічний, економічний та соціальний прогрес. Усі ці параметри визначають сучасну західну модель демократії та, понад те, вони є умовами для підтримки, побудови та розповсюдження демократії у всьому світі. Успішні підприємці – це фізичні особи, функція яких не може бути виконана групами людей, наприклад, політичною партією, урядом, радою директорів, комісією або представниками влади. В історії є приклади великих та малих держав, які намагались спростувати постулати науки та зазнали невдачі. Ми є свідками того, який негативний вплив на національному та глобальному рівні мав крах соціалістичної марксистської ідеології на населення у сфері розподілу матеріальних благ. Процес створення матеріальних благ – це фундамент демократії; лише фізичні особи можуть забезпечувати економічний прогрес.

**Ключові слова:** інновація; підприємництво; демократія; особиста та економічна свобода; здійснення економіки розподільного користування.

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#### Как инновации поддерживают и развивают демократию

**Аннотация.** Инновация – основная движущая сила экономического развития в рыночной экономике. Инновационную деятельность осуществляют как социальные предприниматели, так и лица занимающиеся бизнесом. В теории, согласно франко-австрийско-норвежской научной традиции, инновация определяется как новое сочетание первого и второго элементов затрат производственной функции. Результатом успешного бизнес и социального предпринимательства являются экономическое развитие, равные права, лучший мир, спокойствие, свобода, более защищенное общество, а также технологический, экономический и социальный прогресс. Все эти параметры определяют современную западную модель демократии и, более того, эти предпосылки являются условиями для поддержки, построения и распространения демократии во всем мире. Успешные предприниматели – это физические лица, чья функция никогда не сможет быть выполнена группой людей, например, политической партией, правительством, правлением директоров, комиссией или любыми представителями власти. В истории есть примеры больших и маленьких государств, которые пытались опровергнуть постулаты науки и потерпели неудачу. Мы стали свидетелями того, какое негативное влияние на национальном и глобальном уровне оказал крах социалистической марксистской идеологии на население в сфере распределения материальных благ. Процесс создания материальных благ – это фундамент демократии и только физические лица могут обеспечить экономический прогресс.

**Ключевые слова:** инновация; предпринимательство; демократия; личная и экономическая свобода; осуществление экономики раздельного пользования.

### 1. Introduction

The capitalist era is characterised by the rise of democracy. Democracy is dependent on economic progress. Over the last two to three decades, we have seen a tremendously rapid economic growth in some parts of the world with a corre-

sponding decline in global poverty. The main explanatory factor is a decline in the ideology of Marxist-based socialist societies and the capitalist-based economy takeover of large proportions of the dominating global economies with redistribution of wealth from the middle class in the West. The political shift in

economic philosophy has pulled hundreds of millions of people out of poverty and into a higher standard of living, i.e. societies that are more just, giving a greater hope for the future and an economic and social progress. This has taken place despite the fact that the world has come to a situation where introduction of major innovations have flattened. It is not likely that the trend will continue. After the breakdown of the communist states, the center point of Marxist-based socialist ideology as a political platform has moved to the West, mainly to Europe and its northern countries, Scandinavia in particular. The development has come with higher prices, stagnation of income and propensity to buy for large groups of the population in the West, along with turmoil, terrorism, war, increased production and export of weaponry from democracies in the West, unwanted migration and refugee tragedies of unknown scope. Political manipulations regarding interest rates and offshore activities by the upper strata, especially the political leadership and society's heroes, the front figures, the ones who set the moral ethical standards for the population but live their lives according to their own lusts, can be added to the list of unwanted effects of the development. The transition cannot be characterised as peaceful or friendly. Referring Staffan I. Lindberg [1], responsible for the first Varieties of Democracy (V-Dem) Annual Report of Gothenburg University, engaging more than 50 social scientist on six continents with more than 2,800 country experts, «Sadly, our first annual report comes at a time when democracy and freedom are challenged in many countries». The report testifies the critical global situation [1]: «Is there evidence of a global democratic backslide? The answer is, unfortunately, yes. The average level of democracy in the world seems to have regressed back to, roughly speaking, where it was some 10 to 15 years ago. Even if this change falls within the confidence levels, the trend in the data is worrisome». Democracy-index 2016 [2] shows that the number of full democracies globally has declined to 19, equivalent to 11.4 percent of the total number of nations and 4.5 percent of world population, overrun by authoritarian regimes with respective 51 in number states, and percentages of 30.5 for the number of nations and 32.7 of world population. There are many methodological, as well as political, problems with this kind of data. Except from the fact that many individual researchers are under one authority, and that they are salaried, the main problem is that the research goal and indexes are politically justified and do not measure the sense of individual freedom. In his study on democracy, Max Roger [3] notes that «a democracy is a political system with institutions that allows citizens to express their political preferences, has constraints on the power of the executive, and a guarantee of civil liberties». This is a typical definition that we find in most surveys measuring democracy: the individual's interaction with the political system.

However, another leadership scientifically has proved to be more democratic by nature than the political one. That is innovation, carried out by the entrepreneurs, with more than two hundred and fifty years scientific theory base, and still urgently relevant. Innovation and entrepreneurship are the basis of modern development of democracy. Uber, Google, Amazon, Netflix, Airbnb, Alibaba, Tinder, OKCupid, Skype, Whatsapp, WeChat, Facebook, Twitter, and Snapchat are some of the up-to-date examples of innovations that spread the ideas of democracy in the practical life worldwide [4]. All over the world, in Asia, Americas, Africa and Europe, the situation is the same. The relations between governments and people are fragmented. Democratic innovation involves greater participation in both private and civic life and seeks to resolve a range of particular public problems [5].

The research goal of the article is to analyse how innovation maintains and develops democracy. The tasks of the research are to formulate the urgent situation in political and economic development and show how innovation carried out by entrepreneurs contribute to democratic rise. The research presents a Brief Literature Review of relevant theories in the political economy and entrepreneurial theory leading to the conclusion that innovations can never be a political tool. The paragraph on Purpose justifies the distinctions between politics and innovations as building stones for democracy. The paragraph on Results analyses

the findings, both theoretically and empirically, which are relevant for a deeper understanding of the process of innovation. Finally, in the paragraph on Conclusions the scientific approach to the phenomena underlines the necessity of private individual initiative among the population for democracy building.

## 2. Brief Literature Review

Social entrepreneurship is a form of leadership that aims to create a better life for most people. It is about contributing to changes in those areas where society does not reach the population's legitimate wishes and demands for welfare and development, and where the market does not contribute to good solutions [6]. Social entrepreneurship is unpaid activity based on innovation, and is run by independent, creative and strong individuals [6]. Social entrepreneurship counteracts nature destruction, political lies, elitist arrogance, public financial waste, financial support, taboo, unwanted migration and creates better conditions for the individual's freedom and personal economic growth and independence. Political leadership is not as easy as it might look like. In a democratic context, ideologies are not necessarily acknowledged by people unless they are backed by meaningful actions that are seen to align with them [7]. Mistrust, corruption, decline, experience of failure, suspicion of power and hierarchy are not easily forgotten by people. These attitudes tempt leaders to choose solutions that cannot be met. The political boss has gained power through the electoral system; this person represents the will of the people, and not his own interests in any ways. Being a people's representative, this person cannot perform any kind of innovation or change based on entrepreneurship, he is not a player in the market, and if this person tries to do so, he/she obviously breaks the law. According to J. Gregory Dees (Dees, 2007), public authorities cannot perform the same services as social entrepreneurs do. Mark E. Warren (Warren, 2003) underlines that too great a resource mix between power, money and normative means could have negative effects on the democracy [10]. According to Mark Casson (Casson, 1982), only individuals can take decisions, while corporate bodies (a team, a committee or an organisation) arrive at decisions by aggregating votes [11]. An individual entrepreneur stands against the political body, the political boss, so to speak, in the scientific tradition explaining the economic development and democracy building based on innovation as the superior driving force.

The Franco-Austrian-Norwegian scientific tradition on innovation and entrepreneurship has its roots in the Physiocrats' era, going back to Richard Cantillon (Cantillon, 1755), who stated that the farmer is an entrepreneur in the sense that he is a risk bearer, filling a greater role than just a mere producer of agricultural products [12]. Jean-Baptiste Say (Say, 1816) formulated the entrepreneur as an economic agent in a competitive economy who unites all means of production and thereby makes a profit which belongs to him [13]. Joseph A. Schumpeter in *Theorie der Wirtschaftlichen Entwicklung* (Schumpeter, 1912), later translated into English, based on the second edition; *Theory of Economic Development* (Schumpeter, 1934), underlines that less entrepreneurs in the market become a cause of economic stagnation and pave the way towards socialism. To avoid socialism, democracy is the only solution for society [14-15]. In the Norwegian scientific tradition, Jan-Urban Sandal (2007) underlines how the individual entrepreneur demonstrates the ability to introduce innovation in the economy and thereby contribute to the democratic development and progress [16].

Even though the theoretical base is humongous and points in one direction that the entrepreneur is an agent in the social system, whose role is undisputable, the theories of the entrepreneur do not constitute anything that can be used as a political handbook (Sandal, 2011) [17]. The entrepreneur and the innovation cannot easily fit into a political program, as other theories have shown to do, like for example the theory of John Maynard Keynes (Keynes, 1936) [18].

There is unfinished work to be done in social injustice around the world and anyone can take on the role as a master of social change [19]. Since the economic global recession of 2008, many communities around the world struggle with economic and financial turndown in their neighborhoods

and in their state budgets as well. However, many responses from below enforce alternative social changes based on innovative initiatives and solutions [20]. If democratic practices do not carry out equality or democracy, the name should be changed as well as the practices. The European democratic practices should not be transferred throughout the world, because it brings neither justice nor better changes in life for all. In this context, democracy is misnaming [21].

### 3. Purpose

Politics is all about gaining power, be it through revolution or election. Innovation is all about people and profit. Politics and innovation are conflicting approaches to democratic development, peace and prosperity. No state accepts any man to be superior, or over the head of the political jurisdiction. At all times, the rulers must believe that they are in charge of the political system and the development, not only of society, but also of the will of the people in the sense that they are the representatives of the population and thereby have the official power to make legal decisions and judgments. The political system is by nature static, which means that society can only produce more of what they already have, or introduce minor changes within the existing paradigm. Production run by political ideology will always be predictable, thus not satisfactory for the population. Predictable production is very comfortable for the ruling elite, at least for a short while. In the end, it will inevitably result in stagnation, which, in turn, causes all recognisable problems and conflicts like brain drain, unwanted migration, reduced quality of life and unsatisfactory conditions of basic needs, reduced independent freedom and personal economic freedom, riots, rebellions and revolutions. Static production does not have the capability to change its own production, to open up for new ways of production because that would inevitably result in an attack on the existing investments and political structure. It is not in the interest of the static society to change.

Innovation is made by people, carried out by the single individual called entrepreneur, or social entrepreneur, depending on the specified kind of activity being undertaken by the individual person. Innovation is an economic process, the new combination of the first and second input factors according to Schumpeter [10], taking place on the market, and brings back a profit, the entrepreneurial profit, to the entrepreneur. Profit is a proof that a change has taken place, that the new way of producing is superior to the old static production and product. Innovation changes the pattern of behaviour, both in the production function and in peoples' lives. Innovation is development made by people for people. In the process of innovation, politics has no function, but the political boss might function like a filter, a brake or hindrance to dynamic societal changes.

Is it likely to believe that the political system with its representatives is able to take the lead in dynamic development, as well as to strengthen and spread democracy to new territories in a rapid changing world, or should that be the task of the entrepreneur, introducing ever new innovations?

### 4. Results

There are many results pointing in the same directions when we analyse the effects innovation has on maintaining and developing the democracy. The historical examples and proofs are plentiful, going back a long way in the history. However, the closer we come to our own era, the more rapid and significant the occurrence of innovation is. The steam engine, the telegraph, the telephone, the car, the airplane, and the computer are some classic innovations that describe and define the capitalist era. Successful entrepreneurs made them all. Entrepreneurs can be analysed and organised in a scientific system, depending on their numbers and significance for societal and democratic development. In the Social Entrepreneur Pyramid (SEP) (Sandal, 2010), entrepreneurs are presented on five levels, with business entrepreneurs on the top level of the pyramid. Business entrepreneurs are believed to be of a smaller number, but of much more significance for the development than any other kind of players in the field of societal development. The reason is that every time a business entrepreneur succeeds in launching an innovation in the market, the effect on peoples' lives and the way production is changed is of a non-reversible nature. The old patterns will disappear as a result of the introduction of the new

ones. There is a competition, not on the same market with the same producers and products heading towards the optimum, but the competition is between the new and the old. The old will always lose, because free and independent people will inevitably choose the new and superior solutions to their old problems, needs and traditions. In economic philosophy, this change is called development. Joseph A. Schumpeter described the process in terms of creative destruction (Schumpeter, 1942); the creation of the new will unavoidably destruct the old [23]. Releasing individuals from the old hardship and giving them new opportunities in consumptions and new patterns of organising their lives is obviously an act of democratising. David Ricardo (Ricardo, 1817) argues the same in his connotation that the working man would benefit from new machinery in the production, because the buying price for commodities on the market would decrease while the salary would be the same or even higher [24]. The worker would thereby have an opportunity to buy more to satisfy the needs for his and his family's consumption and for a better life condition. Innovation is in itself a democratic process, because it is non-discriminatory. Innovation takes place in the production as well as in the market. However, its power is not restricted to production lines or laboratories only; the diffusion of innovation throughout the whole of the economy represents the democratic potential. When the new way of producing or use of the new product or service has proven a success, everyone will have to follow and change his or her patterns of consumption, tradition or culture. New products and services that appear as a consequence of innovation do not discriminate between people. Take one example - the electric light (Kennedy, 2016); it will shine the same way for everyone who has the opportunity to take advantage of that innovation [25]. Only political decisions and human-made regulations will prevent individuals from benefitting from the electric light. The car is an innovation with far-reaching benefits for society and the individual. Its use and work stretches from private individual and family use to productive work like the military, the police, the ambulance, the rescue, the fire patrol, production and construction activities to transport passengers, goods and services. Cheap and easily accessible transportation has had a tremendously significant impact on the democratic development throughout the capitalist era. Connecting people, professional and private, and cheap distribution of all kinds of commodities have contributed to the rise of human life in all spheres in terms of life expectancy, health, literacy, income, standard of living, human rights, individual freedom and economic independency for families and the individual. Anyhow, the pure existence of the car has caused difficulties and disadvantages, both for the individual and society. Nature destruction is one of the disadvantages, not created by the car or use of the car itself, but mainly because of the political system. When mountains are demolished in order to make roads, through road cuts and excavations or tunnels that represents a serious violation on nature, which is non-reversible. The damages will be there forever, handed over to the next generations. It is obviously not the innovation or the users of the cars or the car owners who make the decisions to damage nature. It is done by politicians. Car transportation, as we know it through the last century, has probably not come to last; the future will bring other innovations and use of the car transportation, but the destruction of nature will remain. Nature destruction is a common consequence in societies where innovation is not present or is hampered due to the rule of Marxist-based socialist political ideology [26]. It is easy to understand, it is cheaper for the government or the government-owned industries to pollute rather than to introduce innovations that are friendlier to nature. At the same time, governments and authorities believe that they are in control of the development as long as there are no successful entrepreneurs that can threaten their position as societal leaders. Let us take one example. The Kingdom of Norway is a nation economically based mainly on production of oil and gas, and fish farms. Norwegian government-controlled activities bring pollution everywhere, not only in Norway, but also abroad, in countries like Canada and Brazil. In both Sweden and Norway, we have seen a positive institutionalised and structural racism. When government uses formal institutions to discriminate their inhabitants based on race, giving the white population better civic and

economic rights and opportunities. It expresses institutionalised racism, whereas positive institutionalised racism expresses the opposite. Positive institutionalised racism derives from positive discrimination between a man and a woman, giving women better conditions than men in certain situations; affirmative discrimination. Positive discrimination is always anti-democratic, whoever benefits from it. Per Albin Hansson, who became the Swedish Social Democratic Party prime minister in 1932, expressed the concept of a just and equal society, the People's Home (*Folkhemmet*), or a home where «the good house does not consider anyone either as privileged or unappreciated; it knows no special favourites or stepchildren» [27, 53]. Positive institutionalised racism is both a means of production and a weapon against the state's own national population, and is a logical consequence of international socialism. It is anti-democratic and a hindrance of democratic development based on innovation. Stefan Löfven, the Swedish prime minister explained in 2015 that during the immense immigration wave Sweden lacks competent workers, especially in the health care sector, welcoming medical doctors from Syria, and that would be a good business for Sweden. His statement is fully in line with international socialism, taking advantage of needy people in desperate life situations for the nation's own benefit. One year later, in 2016, Sweden took a U-turn, restricting immigration as a political response to xenophobia in people, showing how positive institutionalised racism interacts with structural racism. Structural racism identifies dimensions in a nation's history and culture, both economic and social, by which people allow themselves to express priorities and privileges associated with their race, and it has endured and adapted over time. The prime minister's statement also shows that Sweden is not capable to secure the right supply of education and depends on import of skilled workers. Despite from being recognised as a Marxist «tax state», with marginal taxation rates as high as 80% in the mid-1980s, and public expenditure close to 70% of GDP, including free education at all levels, the Swedish educational system cannot cope with the demand on higher education and international standards. The relatively high standard of living in Sweden derives mainly from the fact that the country did not take part in, or suffered from any of the two world wars and that the post war period has been characterised by taking advantage of innovations and entrepreneurs, which took

place under the liberal late 19<sup>th</sup> and early 20<sup>th</sup> centuries. Sweden was the freest, least regulated, and least taxed nation in Europe, and people such as Alfred Nobel, Sven Wingquist, Gustaf Dalén, Baltzar von Platen and companies like Volvo, Saab and Ericsson laid the foundation for the Swedish economic and social prosperity in the future. Since 1997, the Bologna project (also called the Bologna decree) has taken over most of the higher education in Europe, focusing on educating the younger generation to fit into the job market. The educational system is by its nature static (Sandal, 2017) [28], a European master's degree is no guarantee for getting a job, and even not a double master's degree can secure the future on the labour market for its holder. However, higher education is a significant factor in both the creation and development of democracy. Liberal education and innovative learning methods are by their nature dynamic and contribute to the formation of both individuals and society. Entrepreneurs in the scientific educational industry are the ones who develop dynamic innovative learning methods.

## 5. Conclusions

Theoretically and pragmatically, entrepreneurs carry out innovations. The scientific approach to the topic on innovation as a force for developing and maintaining democracy has further been strengthened through the analyses based on the research material. Two main topics are obvious: government representatives or authorities cannot carry out innovations, only single individuals can do that. The political system is static, which indicates a non-transformative peaceful way, while innovation is a dynamic process that leads society in democratic directions, which means more personal freedom and individual economic freedom, and a more friendly and peaceful society with less structural and positive institutionalised racism. The center point of Marxist-based socialist ideology as a political platform has moved to the West, mainly to Europe and its northern countries, Scandinavia in particular. The static educational system, limited economic activity and redistribution of wealth are part of the problem, not the solution. Liberal education and innovative dynamic learning systems have the capacity to move more individuals from their dependency on the state to a brighter future with independent freedom. Innovation is made by people for people, while democracy is both the creator and the creation of that process.

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