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# MEETING BLINDLY...

Whether Austrian Economics is useful for dynamic capabilities  
theory?

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# Preface

- **Austrian Economics (AE)**. Abolishing antitrust for the reason of “cobra effect”: antimonopoly policy against competition + impossibility of monopoly (as opposite of competition) in non-regulation case
- **New Institutional Economics (NIE)**. Market power «efficiency defence»: competition vs. efficiency trade-off
- **Neoclassical Economics (NCE)** before 70-ies (hostile tradition for non-standard contracting) and after (contestable markets etc...)

# Motivation

- Economic way of thinking is actually competing WAYS of thinking for competition issues
- It does matter (at least) when
  - (1) there are different normative conclusions on the same (at first glance) issues
  - (2) there is no direct evidence on sufficient level of understanding of competing concepts by ones proponents and opponents
  - (3) lack of reflections from non AE-NCE dispute dimension with DCT implications
- Does the meeting of competing research traditions is always and inevitably meeting blindly, including competition and antitrust policy (=not popular theme for DCT[Stefano, Peteraf, Verona, 2010, p.1198])?



# The Aim

- To provide better understanding of AE as (1) the structural alternative of thinking (for NIE) for filling gaps between rigorous assumption on rationality, optimality and equilibrium in NCE and changing, complex reality and «strange» forms of economic organization (Menard) and (2) the intellectual source of DCT.

# The object

- Views on Competition and Antimonopoly Policy by Austrian Economics (AE) from the lens of the New Institutional Economics (NIE) with applications for DCT

# Structure

- Williamson's three-level system "individual – institutional arrangements – institutional environment" [Williamson, 1995, p.28]
- +
- Research programs [Lakatos, 1978] interplay on antimonopoly policy issues
- +
- Dynamic capabilities theory as a recipient of AE and NIE ideas



# Warning

- «NIE is research program (after Lakatos)»  
(1) assumption?, (2) axiom?, (3) theorem?,  
(4) the problem...
- AE is research program with lack of  
homogeneity on some important issues  
(Kirzner vs Rothbard; Kirzner vs.  
Lachmann)

# AE's singular definition of competition and Dynamic capabilities

Process of discovery of new opportunities of using the known resources and discovery new resources as a result of the entrepreneurs' taking advantage of their alertness edge [Mises, Hayek, Kirzner, Rothbard]

=

Explication of Dynamic capabilities of competition participants



# Individual Behavior

# Knowledge and Ignorance

- Competition is a process of moving the borderline between ignorance and knowledge
- Neither the costs nor the benefits, nor the very moment of acquiring knowledge can be evaluated *ex ante*, and hence, cannot be an object of rational (in the sense this concept is interpreted by NCE) choice.
- DCT might explain SCA due to regular incentives of individuals to adapt to changing circumstances by getting valuable knowledge
- **Application N<sup>o</sup>1**: Ex post study of results only creates the veil, or effects, of certainty which might create significant risks for errors in decision-making if it will be transferred in normative area. For antimonopoly policy it is related to risks of errors of I type: accusation and prosecution of innocent which might harm dynamic capabilities oriented on value creation/cost minimization

# Competition and Rationality

- Instrumental vs. Functional Rationality
- IR: Competition in terms of conditions and results with high predicting strength of decision-making
- FR: Competition as a process (Procedural Rationality, Bounded Rationality, Variable Rationality) = for DCT
- Competition involves more rational actions defined in terms of results, although there is no clear mutual consistency between the strength of competition and reasoning behind the market players' actions. = AE which follows the logic of organic rationality, or rationality of the process [Williamson, 1985].

**Application №2:** Substitution of FR for IR is a source for errors of I type due to strict imputation of awareness for decision-makers and prevent compose meta-routines to cope with structural uncertainty in the changing world



# Innovation and Entrepreneurship

- Entrepreneurial activity is competitive by definition and is an inseparable characteristic of the competition as a process [Kirzner, Rothbard]
- Opportunities ignorance = direct precondition for entrepreneurship
- Opportunities discovery – not due to search optimizing process but advantages in alertness = not operational routine, but higher order routine
- Disclosure *hidden* opportunities can be closely connected with the creation of *new* combinations [Schumpeter] = Innovations

**Application N°3:** Open list of prohibited organizational design forms – ground for errors of I type in antitrust and excessive constraint for Dynamic capabilities

# Collective Action

# Competition and Equilibrium

- Mutually exclusive concepts in AE: from non-sense (Lachmann) to final point of competition (Kirzner)
- The extent to which models in the NIE contain less elements of hybrid models, the farther away they are from the orthodox methods of NCE, the less these structures rely on the concept of equilibrium and the more – on description of characteristics of incentives and the process of coordination.
- DCT in positive sense is correlate of disequilibrium as a way to identify DC but not speculate on it.
- **Application N°4:** Positive analysis of markets for antitrust purposes is restricted (implicitly) to equilibrium and comparative statics which is unacceptable for AE and leads to errors of I type in case of antitrust bans.



# Competition and Monopoly

- Monopoly as a fiction on free market
- Monopoly vs. exclusive rights
- Monopoly vs. boundaries of the firm (Coase-like argument)
- Monopoly and substitutability (Rothbard «budget constraints» approach with no consumers collective action problem)
- Man (state) made monopoly on markets

**Application N°5:** AE lacks richness of incentives structure for economic exchanges explanation but useful for critics of extreme normative conclusions (as impossibility of centralized planning). That is why for DCT development is necessary to complement by TCE

# Antimonopoly Policy

# Discrete structural alternatives of thinking in Economics relate to antitrust evaluation

- AE critics of antitrust has been based on idea that all designs connected with the development of antimonopoly policy measures proceed from the model of perfect competition [Kirzner, 1997, p.94].
- Theory of perfect competition is a “theory of the blackboard” + AE (knowledge) as a source of NIE (Transaction Cost Economics)
- The problem: there are serious “difficulties in interpretation” between competing research programs as two very different languages or the contemporary models can actually be reduced to basic elements of the model of perfect competition?



# Some particular areas

- Merger control: selective control (and prohibition) vs. absence of control
- Cartel prohibition and prosecution (Vitamin cartel)
- Rule of reason: fundamentalism vs. operationalism

**Application N°6:** AE underestimate errors of II type and overestimates errors of I type in antitrust as compared with NIE. What are the implication for DCT from policy oriented perspective if there is so?

# Conclusions - 1

- «Market for concepts» is highly imperfect due to lack of understanding of what is precisely imported and where it is exported to.
- Simplified understanding of the essence of the competing concepts creates the grounds for discussion not with real intellectual opponents, but with phantoms on all sides of the discussion

## Conclusions -2

- AE might be and in some perspectives is realized as useful tool for DCT conceptualization, operationalization and positioning on the field of research programs interplay
- AE concepts viewed through NIE lens would be useful not only for main DCT domain study – internal organizational environment – but for external too as well as for its interconnectedness (policy implications)



Meeting is not blind due to at least one  
reason: imperfection degree  
varies...ex(nd)ogeneously(?)

Thank you!