

Meeting blindly... Is Austrian economics useful for dynamic capabilities theory? [☆]

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Abstract

This paper relates competition studies and views on competition policy within Austrian economics to the dynamic capabilities theory. The idea of interacting research programs in economics is used to provide the frame for reflecting on particular issues of competition, on the one hand, and (1) ignorance, (2) knowledge (including tacit knowledge), (3) rationality, (4) equilibrium, (5) innovation, (6) entrepreneurship, and (7) monopoly, on the other hand. Unlike the majority of previous studies, these issues are discussed here mainly through the lens of new institutional economics. Williamson's three-level scheme is used to explain opportunities and constraints for mutually enriching exchange of concepts between different but close approaches in economic research. This paper shows that there are important interconnections and complementarities despite significant differences in objects of study and weak mutual flows of ideas and concepts.

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JEL classification: B41; B53, L00, L40, O31.

Keywords: competition, antitrust policy, entrepreneurship, dynamic capabilities, Austrian economics, new institutional economics, strategic management, sustainable competitive advantages.

1. Introduction

Unlike neoclassical economics (NCE), Austrian economics (AE) has elaborated a set of concepts that are quite akin to recent developments in strategic manage-

[☆] The paper has benefited from discussions at the 10th Conference of the International Network for Economic Methodology, St. Petersburg, May 2012 and Conference "Dynamic Capabilities and the Sustainable Competitiveness of Firms and Nations", St. Petersburg, October, 2012.

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Peer review under responsibility of Voprosy Ekonomiki.

ment theories and evolutionary approaches to firm performance. To some extent, AE is even closer to the dynamic capabilities theory (DCT)—a contemporary concept in strategic management—than some concepts within new institutional economics (NIE) and even transaction cost economics (TCE). This is true despite significant differences in the specific object of studies: the market (AE) and the firm (DCT). As they are focused on different dimensions of economic activity coordination, the scientific schools often meet “translation difficulties” that become barriers to interaction of research traditions both at the level of systemic approach (e.g., NCE, AE, NIE, TCE) and with regard to particular issues concerning economic analysis. What are the sources of the misunderstanding? Is it possible to mitigate at least a part of the problem? That is what we would like to discuss.

The interplay of ideas between AE and DCT is very fragmented and not as well sustained as between AE and NIE. Some concepts are used in both theories (e.g., tacit knowledge, innovations), and some flows of ideas are not well articulated, such as the functions of an entrepreneur. Among the rare exceptions it is worth mentioning several works by Kirsten and Nikolai Foss devoted to these issues (Foss and Foss, 1998, 2001, 2002, 2006). This fact would not be so important if it were not for one circumstance: firms’ dynamic capabilities are not invariant to processes in the environment, namely to competition, restrictions of competition and competition policy. At the same time, these processes, as innumerable studies show, are crucially important for both economic growth and economic development.

The main purpose of this paper is to identify opportunities to intensify the flow of ideas between theories in order to better understand practical aspects of interactions between economic agents. This issue plays an important role in determining optimal competition policy design, in particular, and the potential engines of economic development, in general. From this perspective, the paper addresses the claim made more than 15 years ago by Oliver Williamson:

“...what is missing in business strategy, but is desperately needed, is a core theory... the microanalytic, comparative institutional, economizing orientation of transaction cost economics deals with many of the key issues with which business strategy is or should be concerned... The economizing approach to strategy should both contribute to and be the beneficiary of these developments (in the new science of organization).”

(Williamson, 1996, p. 321)

At the same time, as it will be demonstrated, AE concepts (especially related to competition issues) are very close in spirit to the analysis of dynamic capabilities and the search for sustainable competition advantages (SCA) of the firm—although there is considerable criticism of AE coming from NIE. This paper continues the line of work by Foss and Foss in interpreting the concept of competition within the AE, the interrelation between competition and ignorance, knowledge (above all, tacit), equilibrium, entrepreneurship, innovations and monopoly. Special attention will be devoted to the understanding of antitrust policy in Austrian economics in the context of antitrust law evolution and the accumulation of experience in applying its provisions.

Before proceeding it is necessary to describe the assumptions, limitations and general framework of this study.

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