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MEETING BLINDLY?

Andrey Shastitko
Moscow Lomonosov State University,
Russian Academy of National Economic and Public
Administration

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

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) no reflections from non AE-NCE dispute dimension
- Does the meeting of competing research traditions is always and inevitably meeting blindly, including competition and antitrust policy?

The Aim

- To provide better understanding of AE as a structural alternative of thinking (for NIE) filling gaps between rigorous assumption on rationality, optimality and equilibrium in NCE and changing, complex reality which is full of uncertainties and «strange» forms of economic organization (Menard) on the example of competition issues.

The object

- Views on Competition and Antimonopoly Policy by Austrian Economics (AE) from the point of view by New Institutional Economics (NIE)

Structure

- Williamson's three-level system “individual – institutional agreements – institutional environment” (Williamson, 1995, p.28)
- +
- Inter-research programs interplay on antimonopoly policy issues

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
(Behm-Bawerk vs. Wieser; Kirzner vs.
Lachmann)
- The very issue of the paper is venture

Set of issues

1. AE's singular definition of competition
2. Competition in the Context of Individual Choice
 - Competition, Ignorance, and Knowledge
 - Competition and Rationality
 - Competition, Innovation and Entrepreneurship
3. Competition in the Context of Interaction between Market Players
 - Competition and Market Equilibrium
 - Competition and Monopoly
4. Antimonopoly Policy

AE's singular definition of competition

- 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)

vs. descriptive +NIE...

Comment: to avoid context non-specific connotations (negative cross externalities vs. collusion)

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 neoclassicists) choice.
- **Implication №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

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)
- 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).

Implication N°2: Substitution of FR for IR is a source for errors of I type due to strict imputation of awareness for decision-makers

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 process but advantages in alertness
- Disclosure *hidden* opportunities can be closely connected with the creation of *new* combinations (Schumpeter)

Implication №3: Open list of prohibited organizational design forms – ground for errors of I type in antitrust.

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.
- **Implication N^o4:** Positive analysis of markets for antitrust purposes is restricted 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

Implication №5: AE lacks richness of incentives structure for economic exchanges explanation but useful for critics of extreme normative conclusions (as impossibility of centralized planning)

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

Implication N°6: AE underestimate errors of II type and overestimates errors of I type in antitrust as compared with NIE

Conclusions

- «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 both sides of the discussion
- Whether Economics Methodology might help find tools and ways to transform dialogue between blind and deaf to dialogue between possessing the power of speech and sighted but still different?

The main message

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

Thank you!