

THE LINK BETWEEN THEORIES OF COMPETITION AND THE IMPLICATION FOR ECONOMIC POLICY UNDER THE CONDITIONS OF ECONOMIC RESILIENCE

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Abstract

In this article, the authors highlight the relevance of classic theories regarding competition behavior and involvement in the economy. The involvement of competition for economic policy requires the adoption of measures and strategies that promote a healthy, fair and efficient competitive environment in the economic markets. Competition is essential to drive efficiency, innovation and economic growth, and economic policies must be geared towards ensuring conditions that allow competition to function properly. Modern economic policies must balance competition with sustainability goals. This includes promoting socially and environmentally responsible business practices without compromising competition. Engaging competition in economic policy under conditions of resilience involves creating a framework that not only maintains competition, but also uses it as a tool to enhance the economy's ability to cope with and adapt to various shocks. This requires flexible, innovative and coordinated policies that protect consumers, stimulate innovation and ensure the diversity and adaptability of the economy.

Keywords: competition, economic policy, competitive theories, resilience, management

In a competitive market, information is not distributed evenly. Some firms or consumers may have access to better information, which may give them a competitive advantage. Competition, as an economic phenomenon, refers to the interaction between firms or individuals competing for scarce resources such as customers, raw materials, markets, or talent. This is a fundamental force in the market economy and plays a key role in determining prices, the quality of products and services, and innovation. Each firm or individual acts independently, making decisions based on its own business strategy, available resources and market objectives. The decisions of each actor are influenced by the actions of competitors, but are not dictated by them.

Thus, competition implies the existence of several firms or providers trying to satisfy the same consumer needs. Firms compete on the basis of either price, quality, innovation, or adjacent services to attract and retain customers.

In this context we consider competition to be a dynamic process that evolves over time, influenced by changes in consumer preferences, technology, regulations and economic conditions. Firms must constantly adapt to these changes to remain competitive.

Within the economic literature, classical approaches to competition have been developed by several important economists. These approaches define and explain how competition works in economic markets and how it influences the behavior of firms and consumers.

Adam Smith, in his seminal work *The Wealth of Nations* (1776), introduced the concept of perfect competition. He described competition as a market regulating mechanism, where prices stabilize according to supply and demand. Perfect competition is characterized by a large number of producers and consumers, homogeneous products, no barriers to entry or exit from the market, and total transparency of information.

David Ricardo developed the theory of comparative advantage, which explains how nations can benefit from international trade by specializing in the production of goods in which they have a comparative advantage. International competition, in Ricardo's view, stimulates efficiency and the optimal allocation of resources.

John Stuart Mill explored the concept of competition in *The Principles of Political Economy* (1848), discussing the role of competition in determining prices and wages. He emphasized the importance of competition in promoting economic efficiency, but also recognized its limitations in the context of market imperfections.

Léon Walras pioneered the theory of general equilibrium, which describes how all markets in an economy are interconnected and how perfect competition leads to an equilibrium in which demand and supply are equal in all markets. This approach is central to neoclassical economics.

Alfred Marshall, in "Principles of Economics" (1890), developed the concept of elasticity of supply and demand and analyzed how competition influences the prices and quantities of goods traded in markets. He integrated the theory of marginal utility and marginal cost to explain how competition determines market equilibrium.

Joseph Schumpeter argued that innovation is the driving force of economic growth and that it generates dynamic competition as new products, processes and business models replace old ones. In this perspective, competitive advantage is temporary, and companies must constantly innovate to remain competitive. Joseph Schumpeter proposed a dynamic view of competition known as "creative destruction". In his work "Capitalism, Socialism and Democracy" (1942), Schumpeter argued that competition is not static, but a dynamic process by which technological innovations and economic changes destroy old structures and create new ones. This view departs from the classical model of perfect competition, emphasizing the importance of innovation and change in the economy. Schumpeter argued that the economy is best understood through a dynamic lens, where competition is not only manifested through price adjustments, but through innovative processes that destroy old structures and replace them with new ones. This continuous process explains why certain firms survive and thrive while others disappear.

These classical approaches to competition were fundamental to the development of economic theory and continue to influence contemporary economic thought. They provide a theoretical basis for understanding how markets work and how prices are formed, but also for analyzing economic policies designed to promote competition and protect consumers.

The shift from classical to dynamic theories of competition reflects an evolution in understanding how markets work and how economic agents interact in a context that is not static but constantly changing. On the theoretical side, competition is argued by several researchers in different perceptions and circumstances. According to Michael E. Porter "Competition is the determining factor, essential in the success or failure of companies. Competition determines the appropriateness of those activities of a firm that can contribute to its performance, such as innovations, a unitary culture or judicious implementation". The present study tries, but without exhausting the entire issue, to define the concept of competition, through the prism of the approaches of representatives of economic schools over time, as well as the role, functions and typology of competition (Belostecinic 62). The Explanatory Dictionary of the Romanian Language defines the term competition as "an essential feature of the market economy, which reflects the rivalry, the dispute between economic agents to produce and sell similar or substitutable goods and services under the most advantageous conditions for them".

Jay Barney and other authors developed this theory, which focuses on a firm's internal resources and capabilities as a source of competitive advantage. Competitive dynamics are influenced by firms' ability to develop, maintain, and exploit valuable, rare, hard-to-imitate, and irreplaceable.

Authors such as Jean Tirole and Drew Fudenberg have explored how firms interact strategically in a dynamic setting. Dynamic game theory analyzes how a firm's decisions today influence competitors' reactions and future strategies. This theory is particularly applicable in markets with a small number of players and where there is significant strategic interdependence between firms.

Although Michael Porter is often associated with the five forces model, he also discussed dynamic aspects of competition, such as the role of innovation and technological change in competitive strategy. In later works, Porter recognized that the business environment is constantly changing and that firms must adapt and anticipate these changes in order to maintain a competitive advantage.

David Teece, Gary Pisano, and Amy Shuen developed the concept of dynamic capabilities, which refers to a firm's ability to integrate, build, and reconfigure its resources and capabilities according to the changing environment. Dynamic capabilities are essential to navigate an uncertain competitive environment and to continuously innovate.

Clayton Christensen developed the theory of "disruptive innovation," which describes how new technologies can change the structure of the market and create new market leaders. Christensen's dynamic approach focuses on how companies must recognize and adapt to such disruptive innovations in order not to be overtaken by competitors.

Ludwig von Mises and Friedrich Hayek, representatives of the Austrian school of economics, emphasized the idea that competition is a process of discovery rather than a state of equilibrium. Competition enables the discovery of new business opportunities, technologies and production methods. Hayek emphasized the role of prices as signals in this dynamic process, facilitating coordination between economic agents and contributing to the efficient allocation of resources in a complex and decentralized economy.

John Nash and game theory brought a new dimension to the understanding of competition by emphasizing the importance of strategic behavior and the interdependence of decisions in markets where participants have significant market power. This led to a more complex and realistic view of the competition.

These approaches offer varied perspectives on dynamic competition, emphasizing the importance of innovation, adaptability, and the development of new resources and capabilities for maintaining long-term competitive advantage.

Competition is a particularly important phenomenon for economic life, but also for social life, because it is the driving factor that motivates both businesses and people's existence. It is certain that man, from the time he is born until he dies, will try to adapt to the natural, social and economic environment in which he lives, which implies that he will have to know what competition means. First of all, he will compete with himself, to overcome his limits and to place himself in a favorable position in society. Then, he will have to compete with other competitors, highlighting certain skills, which will allow him to be in an advantageous position. If we refer to the economic sphere, an economic agent will have to constantly relate to the other competitors on the market, the game of competition being the one that will determine the competitors' place in the market. Of course, it will not be chance that will determine this position occupied within a market, but all the resources and skills available to an economic agent and which they use in the fight to gain a dominant position on the market.

Whether or not competition is beneficial for society can only be determined to the extent that, on the whole economy - at the macroeconomic level - a significant increase is recorded from one period to another, and at the level of an economic unit - at the microeconomic level - it is observed gaining a better competitive position compared to the previous period. It is known that due to the existing competition in a market economy, there will always be winners and losers.

Therefore, the answer to a question like: "Is competition beneficial or not?" it can be more nuanced. Thus, the "winner" will consider the competition beneficial, because it has allowed him to mobilize all his efforts, resources and skills at his disposal to achieve a superior competitive position by obtaining a definite competitive advantage over the other competitors.

It is obvious that for an economic agent located in the position of "loser", the competition will be less beneficial, because it eliminated him, he failed to win a place in the reference market. But, perhaps paradoxically, it can become beneficial, if this economic agent realizes that he lost due to his own mistakes, from which he will have to learn in the future. The market will be dominated by the one who will know how to use the resources at his disposal most effectively, by the one who will know how to adopt an advantageous competitive strategy. A "loser" may have the chance to imitate the strategies of the winners, thus being able to regain a position in the respective market.

Currently, competition continues to represent a particularly important phenomenon for all fields, being deeply embedded in economic, social, political, cultural life, etc. This concept is considered to be very common and well-known, but also extremely complex, with numerous definitions, adapted to the specific field of use.

Thus, with the development of the economy and the increase in the number of enterprises, this term is increasingly used to describe the market structure, starting with one of the extremes, namely perfect competition, up to pure monopoly.



Figure 1. Contemporary definitions of competition

At the same time, the existence of economic actors capable of facing other competitors on the market means the development of commercial exchanges with other countries, the encouragement of investments and a positive response to the evolution of the globalization phenomenon. Competition should not be seen as a

myth, it should not be seen only as a tool that could solve all the problems that arise in the economy. In the practice of countries with a market economy, the range of instruments and means used in the fight against competition turns out to be extremely wide. From more or less "peaceful" ways, the competitive struggle goes up to harsher forms, which come out of the legal framework.

Competition encourages entrepreneurial initiative and the entry of new competitors into the market, rewarding those who are effective and penalizing those who are not. Competition is therefore an essential engine of competitiveness, the source of the latter being the improvement of efficiency. Market mechanisms do not always work efficiently, there are economic operators that can diminish the role of the competitive process due to their monopoly or oligopoly position, affecting economic growth. However, these failures can be correlated through competition policy, supporting the processes of liberalization and regulation. In this sense, the adopted policy tries to prevent anti-competitive practices, as well as structural changes in the economic field that can facilitate these practices and that appear as a consequence of decisions issued or regulations adopted by public administration bodies that intervene in market operations, influencing directly or indirectly the competition (Kotler 106).

In general terms, the Smithian conception of competition assumes the existence of five conditions necessary for its realization presented in figure 2.

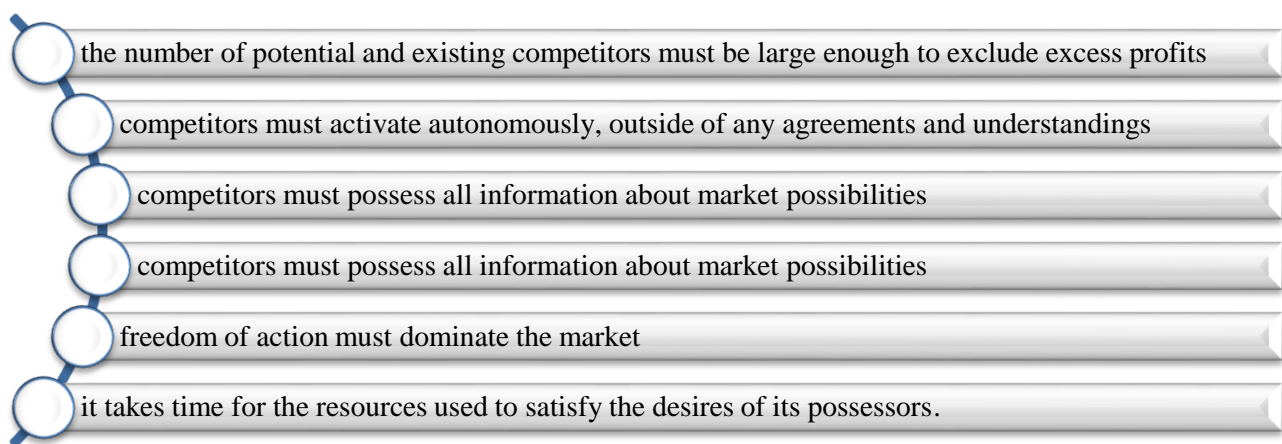


Figure 2. The five classical conditions for the existence of competition

The link between classical and dynamic theories of competition is based on the evolving understanding of economic markets and how competition influences economic development. Although classical and dynamic theories approach competition from different perspectives, they are not necessarily contradictory, but rather complementary, providing a more complete view of how markets actually work.

Although classical theories provide a basis for understanding how markets work in an idealized environment, dynamic theories bring into question the real complexity of markets and the role of innovation (Şargu, 2024: 252). In essence, classical theories can be seen as a description of an ideal situation from which real markets may deviate, while dynamic theories explore these deviations and the mechanisms that lead to change and evolution. The connection between these two approaches is obvious when we consider that markets are not always in equilibrium but are constantly changing. Classical theories may describe a moment of stability, but dynamic theories explain how that stability is reached and how it can be disrupted by innovation and structural change. Dynamic theories complement classical theories by explaining how competition and innovation affect markets in the long run.

Dynamic theories suggest that policies that promote competition and innovation are essential for economic growth. This shows the link with classical theories in that while pure competition may be ideal in theory, in practice economic dynamism requires interventions that enable and protect innovation. Modern theories of competition, inspired by both classical and dynamic approaches, suggest that regulation should be flexible so as to maintain a balance between effective competition and the stimulation of innovation. classical and dynamic theories of competition are linked through the prism of economic evolution and a deeper understanding of market mechanisms. While classical theories provide a basic theoretical framework, dynamic theories explain the variability and transformations that occur within real markets, thereby providing a more holistic perspective on economic competition.

In this context, we believe that the involvement of competition in economic policy are:

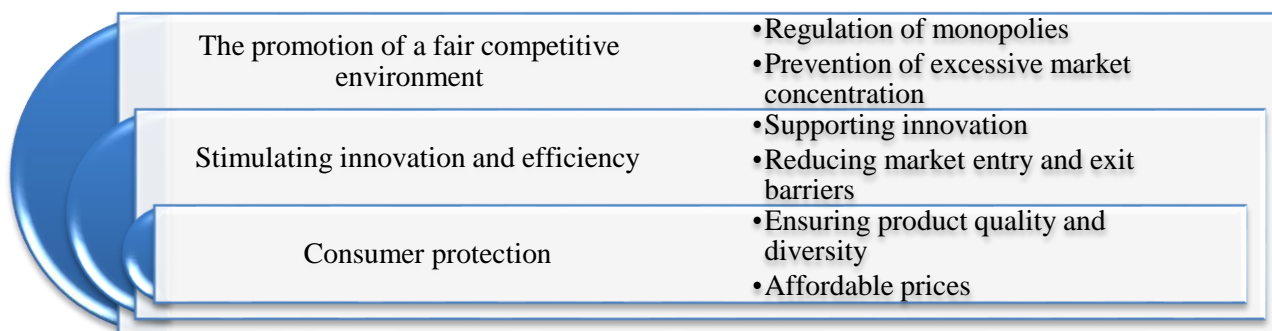


Figure 3. Implications of competition in economic life

Economic policy must prevent the abuse of market power by companies holding a dominant or monopolistic position. This involves regulating the behavior of large firms to prevent anti-competitive practices such as price-fixing, cartel agreements or foreclosing competitors from the market. Antitrust policies are essential to avoid market concentration, which can lead to reduced competition. This includes analyzing and, if necessary, blocking mergers and acquisitions that could reduce competition in the market. Economic policies should create an environment that encourages innovation. This may include funding research and development, protecting intellectual property and supporting entrepreneurship. A competitive environment encourages companies to innovate to gain a competitive advantage. To stimulate competition, economic policies should facilitate the market access of new firms and not prevent the exit of those that cannot compete effectively. Cutting red tape, simplifying regulations and access to finance are essential to maintain a steady flow of innovation and competition. A healthy competitive environment leads to a more diversified and higher quality offer of products and services, which benefits consumers. Economic policies must protect consumers from deceptive commercial practices and ensure access to clear and correct information about products and services. Competition lowers prices as firms compete with each other to attract customers. Economic policies should support market mechanisms leading to supply and demand pricing, avoiding interference that could distort this process.

So, the involvement of competition in economic policy requires the creation of a legislative and regulatory framework that ensures the efficient functioning of markets, stimulates innovation and efficiency, protects consumers and adapts to economic changes. A competition-oriented economic policy contributes to sustainable economic growth and improving the general well-being of society (Şargu, 2024: 15).

Engaging competition in economic policy under resilience means adopting measures and strategies that enable the economy to withstand and adapt to external or internal shocks while maintaining a healthy competitive environment (Meghişan 12). In this context, economic resilience refers to the ability of an economy to cope with and recover from disruptions such as economic crises, rapid technological change, pandemics, or other shocks. Competition policies must include mechanisms that allow a quick and efficient reaction to crises. This may include temporary measures to support competition during crises, such as temporarily relaxing certain regulations or supporting essential businesses.

Classical theories of competition, such as that of perfect competition, assume a large number of market participants, homogeneous products, perfect information, and the absence of barriers to entry and exit. These assumptions create an elegant theoretical framework, but one that rarely reflects the real complexity of markets.

In reality, markets are often characterized by imperfections such as barriers to entry, product differentiation, and information asymmetry. Thus, the classical theory of competition was considered insufficient to explain the real dynamics of markets.

Evolutionary theories of economics, inspired by biology, propose that firms and technologies evolve through a process of natural selection, where the most efficient and innovative survive. This dynamic approach focuses on continuous adaptation and how firms change their strategy according to market conditions.

The shift from classical to dynamic theories of competition can be argued for by the need to capture the real complexity of markets and economic behavior. While classical models provide an important basis for understanding competition, dynamic approaches bring a richer perspective, recognizing the importance of innovation, change and strategic behavior in the economy. These dynamic theories are better equipped to explain and predict how markets evolve over time.

Economic policies must take global competition into account. Opening domestic markets to international trade can increase competition and lead to improved quality and lower prices. However, trade policies must balance opening up to global markets with protecting national interests.

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