Chapter II

Re-Intermediation and Deferment through E-Commerce: Neo-Austrian Interpretation of Capital and Time

Parthasarathi Banerjee
NISTADS, India

Abstract

Contrary to the common belief that e-commerce disintermediates—or even while reintermediation takes place the economic circuit fails to get lengthened—this chapter argues following the Austrian perspective, that through e-commerce consumption gets deferred and the economic circuit lengthens. Inappropriate use of transaction cost theory, in particular, has often weakened the received theory. This implies that e-commerce increases capital because capital is time according to the Austrian theory. Consequently the efficiency-focus of received theory is replaced by a capital-enhancing theory of this new commerce. Several novel functions of intermediaries including coordination have been utilized to support the departure from the efficiency perspective. Citing several well-known examples from the literature has adumbrated this argument.
Introduction

It is commonly believed that electronic commerce (Ecom) reduces intermediation and the time in a business circuit. Several authors have argued that dis-intermediation resulting from the use of Ecom increases economic efficiency and reallocates resources better. Alternatively, transactions cost economics (TCE) theorists argue that electronic commerce decreases transactions cost by way of reducing the distance between the producers and the customers. Proponents of increasing economic efficiency through dis-intermediation in electronic commerce have employed TCE as well. We argue from a Neo-Austrian perspective contrary to this efficiency theory of dis-intermediation and of quickened money that this efficiency perspective is limited to technological changes alone (Baumol, Panzar & Willig, 1986). In so far as Ecom is purely technological there would be gains in economic efficiency arising out of changes in technological relations. However, mediation in the market is only limitedly technological. Mediation refers more to the market microstructure. Moreover, Ecom can affect efficiency through means other than dis-intermediation.

In contrast, we argue that efficiency fails to increase rate of profit or the pace and spread of innovations. For us, intermediation refers to not just a certain value chain, such as a typical SIC industrial segment. Contrarily, intermediation goes beyond a market segment to the depth of market microstructure (O’Hara, 1997) to provide for coordination (Richardson, 1960, 1972, 1998) in two modes; first, amongst the competitors (including potential competitors and complementors), and second, between the producer and its consumers. Efficiency perspective refers to the continuation of the same basic structure of intermediation but accentuated and hastened through elimination of several mediatory links. We argue contrarily from the Austrian perspective that Ecom transforms the intermediation structure in order to afford higher coordination, higher capital and increased rate of profit—and all this by virtue of a new market microstructure of intermediation. Ecom is an innovation in trade and linkages in an economy and we would argue that it substitutes the previous intermediary-based value chain by a new coordination across several value chains and specifically along the scope dimension (North, 1989). It appears that this commerce ushers the economy to a new institutional mooring. This innovative coordination is afforded by generation of new and novel cybermediaries (Sarkar, Butler & Steinfeld, 1995). Further, Ecom brings in several layers of possible intermediaries such as the virtuals and the aggregators, and as a result tends to keep transactions incomplete. This significant departure from transactional completeness to incompleteness forces deferment of consumption and consequently increases capital and the period of production. It extends the completion of transaction indefinitely and thereby Ecom, instead of shortening the business circuit, the proverbial value chain, would extend such a circuit indefinitely along both vertical and horizontal dimensions.

Indefinite extension of business circuits, that is, the lengthening of business transactions, increases effectively the period of production. We argue that the lengthened circuit or the period of production necessarily demands more intense cooperation than what could be provided by the simple value chain intermediation. Noticing that Austrian theory recognizes capital as time that is as the period of production, we can recognize that Ecom enhances capital twice, first by lengthening the period and second by
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