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# Analysing the effects of business cycles on productive capabilities.

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## Résumé

The effect that business cycles have on economic development is an issue that is often overlooked in conventional economics. While mainstream economics has made attempts to analyse how business cycles can affect growth (e.g. through learning by doing) and with what implications for macroeconomic policy (e.g. by incorporating hysteresis in macroeconomic analysis), there are many methodological shortcomings. Not least the way in which the development of production through innovation is analysed and how the macro-economy and its development is envisioned. By analysing innovation and learning as an input-output function abstracted from its organisational, institutional and social setting, neoclassical theory fails to provide an understanding of how firms actually learn and innovate; other than somehow learning something from producing and spending resources to ‘innovate’. Compounding these issues is the inability of neoclassical theory to recognise the uniqueness of firm knowledge, and the path dependency of knowledge and production structures. Unsurprisingly, alternative theories need to be utilised to explore the relationship between business cycles and economic development. Evolutionary theory provides such an alternative as attempts to understand the innovation and learning process within and between firms, and how this relates to the production process and their institutional setting, lies at the heart of their analysis. By analysing how innovations and knowledge relate to firms’ capabilities, the production process and interactions therein, evolutionary theory opens the ‘black box’ of innovation and production enabling a deeper understanding of how business cycles influence development via affecting the learning and innovation process, and cooperation between firms.

Studies on the topic have been part of evolutionary literature since its inception. For example, Penrose (1959) dedicated a section on the effect of business cycles in her Theory of the growth of the firm, and more recently, largely spurred by the 2008-2009 crisis, there have been studies on resilience within firms/clusters, e.g. Begley et al (2016). Thus, foundations for analysing the effect of business cycles on development have already been laid, and on these this work will seek to build upon.

This work first accounts for the deficiencies of neoclassical theory and then, following the evolutionary approach, it turns attention on development of capabilities over and across business cycles in firms and clusters. Attention will be given to how business cycles affect individual and collective firm’s opportunities and decisions, the interdependencies between firms and their location, and in turn the influence upon productive and dynamic capabilities. Additional focus will also be on explaining what factors account for differences in these effects and how they relate to the specifics of a given cycle. A longitudinal comparative study of 2/3 clusters will be utilised to explore these points.

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**Mots-Clés:** Development, Business Cycles, Capabilities, Clusters, Evolutionary