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The theory of industrial organisation is a well-established branch of microeconomics. Firms are understood to have market power if they can influence the price of the product they sell. Economic students learn that competitive firms cannot increase the price of their outputs because they face a perfectly elastic demand curve. This contemporary vision of competition as opposed to market power took shape in the 1930s. In her concise monograph, Manuela Mosca, a professor of economics at the University of Salento, traces the pre-1930 history of the contemporary theory of monopoly power in the thinking of Italian economists: Maffeo Pantaleoni, Vilfredo Pareto, Enrico Barone and Antonio De Viti de Marco. She argues that they contributed to different aspects of our understanding of the theory and policy of market structures and thus deserve to be collectively recognised as a “distinct intellectual tradition by historiography” (p. 188). Like classical political economists before them, marginalist economists envisaged competition as an activity not antithetical to market power. According to Mosca, the particular interest that Italian marginalists took on the question of monopoly power reflects the rise of large industrial firms, railway companies and public utilities after the unification of Italy.

Mosca is very clear about the limit of her inquiry: it is not a history of formal models of monopoly, duopoly or imperfect competition. Nor is it a history of antitrust policy. In the grand tradition of the history of economic analysis, she is interested in what economists had to say on a set of issues which today fall within the remit of industrial organisation: competition and monopoly power, the latter used interchangeably with market power. In that respect, the fact that the concept of “market power” seems not to have been used (at least in English) before the 1950s is not a problem. The main contribution of the book is to show, besides the extreme situations of perfect competition and monopoly, the rich diversity of ideas on competition and market power held by Italian marginalists at the turn of the century (p. 198).

The four economists under study all belonged to the same generation. Three of them were friends and co-editors of the Giornale degli Economisti, the journal in which Barone in 1908 published his most acclaimed contribution: “Il ministro della produzione nello stato collettivista”. Pareto and Barone were by the far the most mathematically inclined of the group and we owe to them the idea that perfect competition implied price-taking, as well as the suggestion that a single firm would not turn into a monopoly if its minimum efficient scale was small relative to the size of the market. Beyond the characterisation of the static perfectly competitive equilibrium, the Italian marginalists were more interested to understand competition as a dynamic process. Under this heading, Mosca presents their views on the possibility of transitory market power, on the role of innovation, and on competition as a process of adaptation to changing conditions.

Before the theory of imperfect competition Italian marginalists had correctly identified structural and strategic barriers that explained deviations from the perfectly competitive situation. Among the former, we find in their writing a generalisation of Ricardian rent to
other non-reproducible inputs. In addition, the non-rival dimension of some public services leading to natural monopolies was well understood by Antonio De Viti de Marco, a leading scholar of public finance. Strategic action by firms seeking market power was not perceived by the Italian economists as necessarily bad. Horizontal integration could save industries from “ruinous competition” and lead to efficiency gains. Combinations, whether they took the forms of syndicates, trusts, cooperatives or large department stores, were understood to be harmful to society if they aimed at “escap[ing] from the pressures of free competition” as Pareto put it in 1906 (p. 112). Whereas De Viti de Marco denounced “parasitic” trusts and organised groups who secured legal protection for their products, Pantaleoni was favourable to large firms since he did not think they could survive in the long term if they were inefficient.

Mosca labels her group of intellectuals as marginalists to avoid the often-misused tag of neoclassical, and yet the qualifier is relevant in many ways. Firstly, Pantaleoni and Pareto were the first economists to make constructive use the expression homo economicus, the central economic character of their pure economics. Secondly, all four economists shared the classical view that, aside from legally enforced monopolies, market power was generally transient. As Mosca puts it: “Their stated theoretical aim was therefore to translate the classical theories into more rigorous terms, in order to strengthen their foundations.” (p. 77) Thirdly, like British classical economists, they were also staunch liberals. Liberal methodological positions on competition at the turn of the century were ranged across a broad spectrum (Baranzini and Fèvre, 2019). Yet, all the four Italians considered here supported free trade, and built their social analysis on individualistic premises. Even Barone, who demonstrated the theoretical possibility of a centralised efficient general equilibrium, believed that it would not be feasible in practice. Moreover they were all, at best, suspicious of extensive government intervention.

What separates these neoclassical economists from the classical economists was the watershed created by Karl Marx’s and Charles Darwin’s ideas of class struggle and evolution (on which see Claeys, 2019). In one way, the public interventions of the Italian marginalists, especially the three editors of the Giornale, attempted to counteract the ascendency of socialist and historicist currents in Italian academia (p. 49). It is especially true of their conceptions of the state, discussed by Mosca in the last chapter of the book. Yet, their visions of dynamic competition bear the mark of social Darwinism. To this reader, it seems that both their theoretical positions on market competition (Chapters 2 and 3) and their “applications” to social and political issues (Chapters 4 and 5) reflect an anterior social Darwinist world view. For instance, De Viti de Marco talked of competition as a “struggle” between social forces, with the “most powerful and best organised” firms being selected (p. 69). When it came to politics, he argued that groups who are “better fitted for the production of public services” would come to control the state (p. 162). Contempt for the masses was more explicit in Panteloni, who argued that “selection eliminates the ‘social slag’” (p. 155). Likewise, Pareto remarked that “in every race a scum always develops that must be destroyed by selection” (p. 158). Their anxiety with respect to social dynamics must be understood against the backdrop of the extension of the franchise in the later nineteenth and early twentieth centuries (on which see Augello and Guidi, 2005). It led them to develop sophisticated theories of the circulation of elites. Barone, for one, was strongly opposed to universal suffrage. De Viti de Marco is presented as the “democrat” of the group, but he also warned his readers against the dangers of “parasitic proletarian groups” (p. 159).
This book won the Joseph J. Spengler Best Book Prize awarded by the History of Economics society in 2019. With extensive references to the primary source as well as the vast secondary literature, it is certainly a work of great erudition. It will appeal to economists and historians of economics who want to learn what the Italian Marginalists wrote on competition and market power.

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References

