

## 1. Introduction

This paper analyses the notions of competition and monopoly power in the writings of two well-known Italian marginalists: Vilfredo Pareto (1848-1923) and Enrico Barone (1859-1924). As everybody knows, Pareto's profound impact on economics is mainly due to the concepts of "Pareto optimality", "cardinal utility", "Pareto's Law" of income distribution, and in general to the refinements of Walras' general equilibrium theory<sup>1</sup>. Barone, who became an economist after spending much of his life as an army officer, is known mainly for his independent discovery of the marginal productivity theory, and even more for getting the "socialist calculation" debate started<sup>2</sup>.

Their personal and intellectual relationships were very close. One example among many that testifies to the interweaving of their lives and work can be found in this passage in a letter from Pareto to Maffeo Pantaleoni: "All the theories I have set out are only the germs of theories. Economists, like Barone, who possess knowledge, culture and intelligence, should ... develop these theories, and seek *new* truths" (Pareto 1960: 445). Schumpeter reminds us that starting from the 1890s the economists belonging to the Italian Marginalist School took Italy into a leading position<sup>3</sup>, so there are good reasons to think that their ideas played an important role not only for Italian economic thought, but also worldwide.

Historians of economics have indeed studied the history of the profit maximisation analytical models in a non-competitive setting, starting from Cournot (1838). Nevertheless they have always neglected the analysis of economists' ideas on the causes of market power. I wish to demonstrate here that the history of the theory of imperfectly competitive markets can be significantly modified if the reconstruction of the way in which the economists of the past described the sources of market power is taken into consideration. From this point of view, marginalists are very important because of the new kind of entry barriers they identified.

## 2. Vilfredo Pareto

In Pareto's *Cours d'économie politique* (1896-97) the first definition of monopoly is based on the role of prices in the maximization of profit: Pareto solves the profit maximisation analytical problem in a monopolistic regime (following Cournot), and even takes up the treatment of duopoly, though we shall not be dealing with those issues here. Nor shall we get involved in the large number of well-known observations by Pareto on the inefficiencies of the monopolistic regime compared to the competitive one.

We shall deal here with his reflections on the causes of market power, that he traces in the *Cours* essentially to the "difficulty, or ... impossibility, that exists in transforming savings into certain kinds of capital" (§ 138). He also considers that "capital whose quantity remains virtually constant in a closed market" (*Cours* §

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<sup>1</sup> Pareto was an engineer before succeeding Walras in Losanna (Kirman 1998).

<sup>2</sup> See Dooley (1998).

<sup>3</sup> Schumpeter (1954, ed. 1976: 855).