1. **Introduction**

In this paper I look into the notion of market power in the history of economic thought. In particular I investigate: a) the kind of entry barriers the economists took into consideration; b) the role they attributed to the number of firms present in a market, and their consideration of potential competition.

As it is well known, modern economic theory states that market power is “the ability of firms to influence the price of the product or products they sell” (Martin 1989: 16). According to the traditional *structure-conduct-performance* approach to industrial analysis, this ability depends on the number of firms in the market, that is to say on the dimension of firms with respect to the market demand. In this view, the number of firms depends, in turn, on exogenous barrier to entry, which can be natural (like the uniqueness or scarcity of some resources), institutional (like patents, property rights, State privileges, State licences), technological (in particular economies of scale) or based on the characteristics of the market (like preferences, the size of market demand and the price elasticity of demand). The absence of perfect knowledge is also a barrier to entry.

The approach of the Chicago School to industrial economics denies the possibility of permanent barriers to entry. In its view market power is only temporary, because freedom of entry can always eliminate monopolies, unless the State blockades entry.

In the view of the New Industrial Economics, barriers to entry are not only exogenous, but depend also on the strategic behaviour of established firms aiming to prevent potential competitors from entering. Moreover, according to this approach, if there are neither institutional entry barriers nor sunk costs, even a limited number of firms can allow prices to converge towards marginal costs: “Such a market is called *contestable*, and in it the force of potential competition alone is sufficient to produce the same performance as a competitive market” (Martin 1989: 68).

Historians of economics have indeed studied the theory of non-competitive markets from two points of view. On the one hand, they have analysed the history of the profit maximization analytical models in a non-competitive setting, from Cournot (1838) to Chamberlin (1933). On the other, they have studied the history of antitrust policies (since the *Sherman Act*, 1890). But in both of these veins of research the historical reconstruction of the sources of market power has been neglected. In the former, the reason for their negligence lies in the lack of a proper explanation regarding the sources of market power by economists themselves: in the economists’ contributions, in fact, those sources were taken as a given. In the latter, i.e. in the debates on antitrust policies, the reason is that obstacles to competition were not explained on the basis of economic theory (Martin 1989: ch.3).

To the best of my knowledge, the history of the theory of the sources of market power has not been written yet. In the handbooks of Microeconomics or Industrial Economics one can easily find the attribution to Cournot of the first analytical model of profit maximization in a non-competitive setting, but it’s hard to find the name of an economist, before Bain (1956), credited with the paternity of the notions of the entry barriers I have mentioned above.

The method of my research was that of investigating selected periods in the history of economic thought in order to find the origins of the notion of market power. I started by looking at the writings of the most important economists belonging to the Italian marginalist school (Antonio de Viti de Marco, Maffeo Pantaleoni, Vilfredo Pareto, Ugo Mazzola, and Enrico Barone). The main reason that prompted me to investigate the writings of these particular economists is that most of them were public economists. As such, I presumed that they must have been interested in the theoretical definition of barriers to entry, because they were interested in the public intervention aimed at correcting market failures deriving also from those barriers. Moreover it is well-known, as Schumpeter reminds us, that starting from 1890s, those economists took Italy into a leading position in the world[1]. Three of them (De Viti de Marco, Pantaleoni, and Mazzola) took over the editorship of the *Giornale degli Economisti* in 1890, and turned it into the Italian voice of the new economic science. It became the most important review in Italy, and one of the most distinguished in the world in the field of pure theory. Hence, there are good reasons to think that their ideas played an important role not only for Italian economic thought, but also worldwide.

In this paper I analyse the writings of two of them: Antonio De Viti de Marco and Maffeo Pantaleoni.

2. Market power for Antonio de Viti de Marco

De Viti de Marco (1858-1943) is well-known internationally as an expert in public finance. Quite some time before Buchanan dealt with him in his famous essay on the Italian school of public finance (Buchanan 1960), the various editions of his *Principles* had been translated into German, Spanish and English (Cardini 1991: 588)[2]. Historians of economic thought look upon Antonio de Viti de Marco as one of the economists who, at the end of the 1880s, introduced marginalism into Italy (Barucci 1972).

De Viti deals with the sources of monopoly power mainly in an article against the public running of the telephone industry (De Viti 1890). The article is written with the aim of demonstrating that the telephone industry is not a public service. For De Viti, public services are characterized by two features: a) they are monopolies; b) they satisfy a collective want. He claims that while to some extent the first feature was present in the telephone industry, there was not, and there was not going to be, a collective need for the telephone (it was 1890). Hence, in his opinion, there was no need for it to be nationalized, but only regulated by the State through licences, as we will see later.

In this context De Viti gives many explanations of the causes of monopolies. The first one is the following:

"big private monopolies […] are the characteristic phenomenon of the present economic organization and the natural result of three causes: division of labour, competition and big enterprises. The action of combining these forces in various ways leads to the triumph on the market of the most powerful and best

[1] "The most malevolent observer could not have denied that it [Italian economics] was second to none by 1914" (Schumpeter 1954, ed. 1976: 855).

[2] For a discussion of De Viti's popularity outside Italy see also Kayaalp (1998).