

# Power in Economic Thought

*Edited by Manuela Mosca*



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Manuela Mosca  
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# Power in Economic Thought

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# 1

## Introduction

Manuela Mosca

1. In an article published in 1898 in the *Economic Journal*, the Italian marginalist Maffeo Pantaleoni claimed that the perspective of economic theory was “singularly narrow” (Pantaleoni 1898, p. 184). For him, the only phenomena studied by economists were those of a contractual, voluntary and peaceful nature, excluding the possibility of considering the strengths and weaknesses of the parties. He identified three political settlements resulting from the division of the world into weak and strong: the *predatory* settlement where the strong eliminates the weak, the *parasitic* one where the strong exploits the weak, and the *mutualistic* one in which there are no opportunities for conflict (and which he considered merely utopistic).<sup>1</sup> This work by Pantaleoni was

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<sup>1</sup> De Cecco (1997, p. 192) called this work “a masterpiece”.

I would like to thank Piero Bini, Bruna Ingraio, Heinz D. Kurz and Stephen Martin who helped me a lot in the preparation of this volume. I am particularly indebted to Bruna Ingraio for her precious suggestions, especially on the structure of the book.

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perhaps the first in which an economist had pointed out that the economic theory springing from the marginalist revolution excludes the treatment of power.<sup>2</sup>

Since Pantaleoni's time, in every decade, various voices from economists belonging to different schools of thought have lamented the lack of the concept of power within economic science and have suggested various ways of introducing it. In the 1940s, Yasuma Takata stated that the "effects of power upon an economy are conspicuous, but for the most part ignored" (Takata 1995, p. 3). Building on the assumption that "if rents and wages are distorted by the wielding of power, then their displacement would extend to the price of other commodities and general equilibrium values would be influenced across the board" (Morishima 1995, p. xxiv), he developed a power-based theory of economics. Other attempts made in the 1940s, 1950s and 1960s are collected in a book edited by K.W. Rothschild (1971), who attributed the lack of power considerations in the hundred years after the marginal revolution both to the "complete victory of 'perfect competition' as the basic model for economic theorizing" (p. 8) and to the specialization of disciplines inside the realm of the social sciences (p. 11). However, Rothschild mentioned the "important exception" of "monopoly and trade union questions" (p. 9), and the "big exception" of the Marxist, institutionalist and historical schools (pp. 13–14). The essays included in his book<sup>3</sup> dealt with power in the realms of game theory and bargaining theory; some of them focused on the influence of economic power in the political sphere, others analyzed the power of managers and experts, or expressed doubts on the effectiveness of the countervailing powers, and inquired into the causes and consequence of the uneven distribution of wealth and power at the national and international level. In the 1970s, we find very different approaches to the issue of the relation between power and economics. For the

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<sup>2</sup>According to Groenewegen (1998, p. 58) Pantaleoni's "essay is ... an insightful attempt at defining what economics can, and what cannot, offer on issues of power, relative strength and weakness".

<sup>3</sup>The book includes essays written by H. Albert, E. Ronald Walker, F. Perroux, J. Harsanyi, J. Pen, E. Preiser, M.D. Reagan, D. Lynch, R.A. Brady, J.K. Galbraith, C.S. Wilson, T. Lupton, M.J. Ulmer, A. Hunter, P.A. Baran, P.M. Sweezy, T. Balogh, G. Adler-Karlsson.

libertarian anarchist M.N. Rothbard (1970), the two elements in the title of his book, *Power and the Market*, cannot co-exist: he stated that where there is the market (the place of voluntary exchanges), there is no power (present in the coercive and “unnecessary” institution of the state). From an opposite perspective, F. Perroux (1973), after stating that the neglect of power in economic theory does not occur by chance (p. 5), proposed an ambitious plan to construct a general theory of power in economic relations (p. 13) incorporating this concept in micro- and macroeconomics.<sup>4</sup> Then, A.O. Hirschmann (1977) investigated “the salutary political consequences of economic expansion” (p. 117) seen as a victory for the disciplinary effect of interests over passions, including those of the powerful. Finally, Foucault (1978–79) has shown how, after the collapse of a state (as in the case of post-Nazi Germany), political reconstruction can take place starting from economic institutions, especially the market. We also mention his notion of “biopower”,<sup>5</sup> and his analysis of the intimate relationship between knowledge and power, also considered in its economic dimension.<sup>6</sup> The 1980s opened with the institutionalist book *The Economy as a System of Power* (Tool and Samuels 1980, second edition completely revised 1989) the subject of which was the “locus and use of the power to determine economic institutions and their operation and outcomes” (p. viii).<sup>7</sup> Then, in 1983, another author associated with the institutional school, J.K. Galbraith, wrote a book intended to be a “general theory of power”,<sup>8</sup> but “not especially concerned with economics or economic power” (Galbraith and Bartel 1983, p. 26). At the end of the decade, there was a systematic attempt to develop an economic theory of power by R. Bartlett (1989, p. 198), who considered the “possibility of social influences on human utility functions” (p. 170)

<sup>4</sup>Notice that Perroux (1973, p. 5) cites Pantaleoni, and uses his categories in some of his other works.

<sup>5</sup>The term “biopower” refers to the power exercised over the lives of individuals.

<sup>6</sup>The theme of power is central in Foucault’s philosophy. These are only a few examples of his contribution on the subject of power and economics.

<sup>7</sup>The book contains articles published in *Journal of Economic Issues*. Most of the articles in the second edition were written in the 1980s.

<sup>8</sup>This was the title Galbraith initially intended to give his book *The Anatomy of Power* (1983). See the interview with the author (Galbraith and Bartel 1983).

and focused on decision-making processes in order to pinpoint how an “external human intervention into the constrained maximizing behavior of individuals” could affect their final utility (p. 37).<sup>9</sup> Bartlett identified power relations in cases of asymmetric information and uncertainty, underlined the role of power as the rationale behind the existence of organizations, its centrality in employment relation and in the creation of rights. He showed that, in many examples taken from microeconomics, power was indeed present, but it was not recognized as such. In the 1990s, S. Bowles and H. Gintis introduced power into the theory of competitive markets by relaxing the “exogenous enforcement axiom”<sup>10</sup>: basing power on the possibility of imposing “sanctions to further one’s interests” (1993, p. 325), they show how it is exercised by owners over managers and workers, by employers over employees and by creditors over debtors. At the end of the decade, the volume edited by S. Bowles et al. (1999) analyzed the power relations deriving from transaction costs, incomplete contracts, bargaining costs and opportunistic behavior. The papers therein included<sup>11</sup> showed, for example, the counterintuitive idea that “[t]he exercise of power is a characteristic of voluntary exchange under quite general conditions” (p. 14). They also built on Hirschman’s exit/voice categories, proposing a sanctioning/recontracting response to opportunistic practices (Chap. 3), and, following in the footsteps of Hirsch, considered power as a positional good (Chap. 5). Despite these contributions, the dissatisfaction with the absence of power in economic theory continued in the new century. Rothschild (2002) complained again that “the treatment of power problems ... [was] almost completely restricted to ... monopoly power and bargaining power in goods and labor markets” (p. 433) and identified “*deliberate* strategies to remove power questions to a subordinate position” (p. 437). In 2014, a conference

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<sup>9</sup> He considered his theory “suited to an examination of strategic decisions made by identifiable individuals seeking explicitly and intentionally to change the behavior of other identifiable individuals” (1989, p. 68).

<sup>10</sup> It “holds that exchanges between agents in the economy can be enforced by a third party (for example, the judicial system) at no cost to the exchanging parties” (1993, p. 328).

<sup>11</sup> The book includes essays written by S. Bowles, M. Franzini, P. Milgrom, J. Roberts, U. Pagano, J. Dunn, A. Breton, G. Galeotti, V. Vanberg, E. Gellner, R. Hardin, R. Wintrobe, U. Witt.

was organized in France, on the subject of “The Economists and Power”,<sup>12</sup> mainly devoted to the role of the economists as experts and policymakers. In the same year, M. Perelman (2014) again denounced “the systematic absence of power in economic analysis ... except for what it considers to be abuse of power by government and labor unions” (p. 284). However, in the recent book *Economics and Power*, its author G. Palermo (2016) does not claim that economic theory neglects the role of power but denounces the fact that power is commonly linked to some imperfection in the competitive process. His Marxist critique is addressed to all the approaches which dealt with the concept of power on the basis of the hypothesis of rational individuals. The author develops “an explicit ontology of coercion and power in the capitalist mode of production” (p. 112), surprisingly showing that this “coercive mechanism” is due to the presence (not the absence) of competition. In 2016, the conference “Economics and Power: An Historical Perspective” was organized,<sup>13</sup> which was at the origin of the present book.

2. In order to directly verify whether or not the category of power is present in contemporary economic theory, I made a search in three mainstream economic journals<sup>14</sup> for articles that in the last twenty years used the word “power” in a title.<sup>15</sup> My criterion of selection is therefore far more restrictive than that of Bartlett, who looked for power even where it was not recognized.<sup>16</sup> Despite the limited size of my sample, I found a large number of articles, and their treatment of power falls into four broad areas, in each of which power emerges prevalently from situations of asymmetric information or from bargaining problems, and is mainly dealt with using the formal approach

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<sup>12</sup> *Les économistes at le pouvoir*, XV<sup>e</sup> Colloque international de l'Association Charles Gide pour l'étude de la pensée économique, Lyon (France), 2–4 June 2014.

<sup>13</sup> *Economics and Power: An Historical Perspective*, XIV Conference of the Italian Association for the History of Economic Thought (AISPE), Lecce (Italy), 28–30 April 2016.

<sup>14</sup> The journals are *American Economic Review*, *Journal of Political Economy*, and *Economic Journal*. I thank Raimondello Orsini for his suggestions.

<sup>15</sup> In the case of *American Economic Review*, also in the abstract. I obviously excluded articles in which the word power had a meaning that was irrelevant for this research.

<sup>16</sup> In the *Journal of Economic Perspective*, I also considered both a longer time span (1987–2018) and the articles containing the word power *in the whole text*. This expanded form confirmed the results.



of game theory. The first area is *political power*. It includes economic models of the political process, the analysis of legal power, rent-seeking, lobbying, elections, voting behavior and all the aspects related to the decision-making process in the political sphere. The second concerns *asymmetric positions in private organizations*, that is, the analysis of collective decision-making in private institutions, the power of leaders, elites and private authorities. It also includes the analysis of labor markets, the economics of gender and of minorities. The third area, *market power*, is related to the study of market structures (monopoly, oligopoly, imperfect competition), market performances, firm strategies and firm behaviors. The fourth area is *economic policy*, which deals with the policies decided by the Central Bank and by the government (monetary, fiscal, regulatory, trade policies). The articles I have identified testify to the interest in the subject of power by recent economic theory, an interest also confirmed by the inclusion of the entry “power” into *The new Palgrave dictionary of economics* for the first time since its first publication in the 1890s (Bowles and Gintis 2008).

3. Scholars who complain of the exclusion of power from economic theory seem to be nostalgic for the era when it was an integral part of the discipline. However, their references to economists of the past are brief and infrequent, or not particularly focused on the link between economics and power. Rothschild (2002) sometimes cited Smith and Marx; Perroux (1973) mentioned Ricardo and Böhm-Bawerk, too. Foucault investigated the role played by the economists in the emergence of “biopolitics”, that is the form of power exercised over biological elements of human beings (see Guizzo 2015). Hirschmann (1977) reconstructed seventeenth- and eighteenth-century social thought focusing on the rise of the spirit of capitalism. However, a systematic reconstruction of the notion of power in the history of economic thought has never been made, and neither will it be in the present volume. In fact, this book is not intended to be a history of economic thought on the issue of power itself, that is, an examination of the theories of the scholars who dedicated their studies to the specific relation between power and economics, as was the case with the names we reviewed above. Its aim is rather to consider some significant examples of the way economists of the past have used the concept of power in

its different meanings, considering it as pertaining to their realm of inquiry. It is an overview of how this concept has been employed in the various domains in which it was found helpful, and how it was brought into economic theorizing by economists of different orientations. This last point is very important in characterizing the present research: in fact, while it does not attempt to cover all the authors, the book draws on a multiplicity of traditions of thought, offering a plural vision of the many ways in which the concept of power has been employed by economists. A transversal reconstruction of a theme like power is not frequently found in historiography.

4. This book is structured around the four broad areas identified earlier with reference to the articles from recent years. To allow for reflection on the possible parallel between the past and the present, let us focus on the themes it includes, without specifying a time reference for the moment. The first part considers the way economists have handled the issue of *political power*, ranging from authoritarian to democratic forms; it analyzes the theories they elaborated to place limits both on the arbitrary power of the sovereign and on that of political institutions in democratic regimes. The second part examines the way economists have tackled the *asymmetries of economic power* associated with inequality of income and wealth and their position concerning social legislation. The third part focuses on the *market power* of large firms from the standpoint of the institutions, theories and policies; as examples it takes a war of power between educational institutions, such as business schools and the university; it also considers the mathematical treatment of non-competitive markets, and the goals of antitrust policies. The fourth and last part concerns the *power of economists* in the role of both policymakers and experts,<sup>17</sup> and compares their different visions of how to manage a market economy. As can be seen, there is a certain overlapping between these four areas as dealt with in the more distant past and those linked to the articles of the last twenty years that we have examined before. But there are also remarkable differences. A serious comparison between past and present on the issue of power as analyzed by economists would deserve a deeper analysis that we shall put off to another occasion.

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<sup>17</sup>A discussion on the role of experts, also in historical perspective, can be found in Levy and Peart (2017).

5. As we said, these chapters are merely examples of how the concept of power has been used in economic thought. However, we can try to link them together, showing the pathways and derivations of ideas so as to draw up a possible history of the four aspects of power mentioned above.

5.1 As for the first aspect, *political power*, our history begins in the second half of the eighteenth century in France, when the Physiocrats “expressed the utopia of a rationally governed society, where arbitrary power was tamed”. This ideal of enlightened despotism was then criticized by Adam Smith, who had a more realistic vision of the state; for him “the deviation of government towards oppression and tyranny is intrinsic to the very goal of controlling the natural course of things” (Chap. 2). At the turn of the century, the complexity of the relation between state power and individual self-determination was fully recognized by the Swiss “scholar of liberty” Sismondi who, under the influence of both Smith and Rousseau, proposed a “slow, repeated and articulated process of plural and inclusive deliberation” in order to “integrate different interests in the expression of a common will” (Chap. 3). The nineteenth century was an age in which different visions of government power co-existed. On the one hand, economists like Cournot and Walras embraced the utopia of a “growing expansion of the rule of rationality with the effect of reducing the turbulence of political life”, while also recognizing in the state a “benevolent role, complementary to private activity” (Chap. 2). On the other hand, Marx and the socialists saw the state as an instrument in the hands of the bourgeoisie for pursuing its own interests. The great effort to respond to the Marxist theory of the state, and to its immense political impact, in particular through the development of the workers’ movement and the progressive extension of the suffrage, pushed many economists of the following generation to fight a battle of ideas in defense of liberalism and the market economy. It is in this context that the very influential group of

Italian marginalists (Vilfredo Pareto, Maffeo Pantaleoni, Antonio de Viti de Marco and Enrico Barone) tackled “the question of the distribution and the exercise of the political power in a democratic system”. In the years between 1882 and 1924, they proposed a new theory of the state based on the circulation of elites, defended social selection against the growing egalitarianism, and denounced the degeneration of parliamentary democracies (Chap. 4). Then, in the 1940s, after the emergence of the totalitarian regimes in Europe, two outstanding economists (Schumpeter and Hayek) reacted to “the cultural atmosphere of hostility to capitalism ... from [two] radically different perspectives”, in particular, they had divergent ideas on the relation between centralized economic power and democracy (Chap. 2).

- 5.2 The second aspect, the *asymmetries of economic power*, is associated with inequality of income and wealth. At the origin, the economists’ view was influenced by Hobbes’s *Leviathan*, seen as the creature who “brings about a condition of social equilibrium”. Hobbes’s idea that “wealth is an important source of power” was taken up by Adam Smith, for whom the “persistence of social classes [reflects the] persistence of power asymmetries” due to “differences in property, political power and access to information and knowledge”. Smith suggested a measure for the asymmetry of “economic power of capitalists relative to that of workers”; he also thought that the way to remedy these asymmetries could only be through the action of a “good government” (Chap. 5). It was the trust in an active government that in the eighteenth century prompted the call for public policies aimed at improving “the social conditions of the poor”. The reforms of the English system of social legislation in the 1780s and 1790s reflected Adam Smith’s suggestions to adopt “policies fostering income redistribution”, as well as the criticisms he made to the previous systems of assistance for the poor based on workhouses (Chap. 6). At the beginning of the nineteenth century, David Ricardo, greatly influenced by

Adam Smith, gave his well-known explanation of income distribution. For him rents were “tied to the legal institution of private property of land”, which gave “power to landlords”, whose interests are always opposed to those of the other classes. He also showed that “certain forms of technical change ... affected the balance of power between capitalists and workers in favor of the former”. The classical approach was then developed by Karl Marx and followed both by the Marxian current, which included scholars such as Hilderfing and Kalecki, and by the neo-Ricardian tradition, among which Dimitriev, Bortkiewicz and Sraffa: the latter’s concept of the standard commodity echoed the measure of power suggested by Smith (Chap. 5). At the end of the classical period, the need to help those in a weak position was also felt inside the French liberal school, with the non-secondary aim of limiting the rise of socialism. The question they faced was: “how to help the workers, without giving too much power to the government”? The answer—debated by Guyot, Leroy-Beaulieu, Colson and Cheysson—was that a system of social insurance was needed, but not to be managed by the state (Chap. 7). With the last two engineer-economists (Colson and Chysson), we enter the marginalist period, in which the concern with the asymmetries of power due to income distribution was put aside, following the argument set forth in 1914 by the Austrian marginalist Eugen von Böhm-Bawerk that power can never change economic laws (Chap. 5).

- 5.3 At the beginning of the twentieth century, the diffusion of new phenomena like trusts and big corporations brought the question of power back to center-stage, this time in the form of *market power*, the third aspect we consider. In a context in which “the distribution of corporate ownership ... became the central concern”, Thorstein Veblen and the institutionalist economists (like Wesley C. Mitchell) were particularly well equipped to analyze the influence of industrial and financial power on all kinds of institutions, including education. One of the problems they tackled was whether business training should take place inside the university or in private business schools and, in both

cases, how to deal with the interference of the big companies in the content of the teaching (Chap. 8). Another consequence of the diffusion of phenomena like cartels, mergers and vertical integrations was that the economists tried to improve their understanding of the functioning of markets characterized by few firms endowed with market power. After the first mathematical treatments of non-competitive markets by Cournot, Edgeworth and the other pioneers, in the interwar period this study became a very active research field. The intense debate that took place on how to deal with the interdependence of firm behaviors saw the effective participation of economists belonging to the Paretian tradition. As always, the “contrast ... between the rigor of mathematical models and interpretative realism was very strong” and, despite their undoubted mathematical skill, “in the interwar period, the pendulum swung in favor of the request for greater realism” (Chap. 9). Market power was examined not only from a theoretical point of view but also in its policy dimension. One of the goals attributed to the US anti-trust was “the dispersion of economic and other kinds of power”, which was initially pursued by promoting competition. The objectives ascribed to US antitrust policy from its formative period through the early 1970s were very hotly debated. In particular in the 1960s, the Chicago economist Robert Bork criticized the received antitrust policy, holding that it “should concern itself with and only with practices that reduce welfare”. Although his analysis “has been rejected by the Academy ... , the Academy has failed to persuade the judiciary” and today US courts still adhere to this “indefensibly narrow” policy prescription (Chap. 10).

- 5.4 The fourth aspect we consider is the *power of economists* as managers and advisors of economic policies. We start with an economist whose liberalism marked the history of economic thought: Jean-Baptiste Say, the “staunch republican” belonging to the “second generation of the Enlightenment”. He conducted his political struggle directly as a member of the finance commission in the Tribunat, and indirectly through his teaching and his works. In

criticizing the 1793 French Constitution, he claimed that “there was no such thing as general will . . . , only individual wills existed and those that could express themselves were those with a fortune or an education”. The fundamental role he attributed to the state in disseminating education was due to his conviction that the “passage from the individual to the collective was . . . achieved through the voluntary adherence to a morality of duty”. At the end of his life, “Say sought to define the rules that should govern [the] state action in society”, insisting above all on the importance of “responsible individualism” (Chap. 11). As we know, Say’s law was accepted for almost 150 years,<sup>18</sup> it was such an essential element in the “classical”<sup>19</sup> analytical scheme that its rejection overthrew that paradigm. The rejection of *laissez faire* and the problem of how to manage a market economy gave rise to two very influential non-socialist policy orientations, among others: demand management and rule-oriented ordoliberalism. The different visions of the two economists who elaborated them, John M. Keynes and Walter Eucken, were strictly linked to their conceptions of power: “if Keynes put his faith in the complementary nature of private and public bodies as a way to reach a balance of interests, Eucken favored the existence of an independent office in charge of monitoring competitive market structures, disempowering private agents” (Chap. 12). The calls for an active government from the interwar period produced their major effects in the 1970s, when most of the economists advocated a “greater intervention by the government in the economy, also supporting some forms of planning”. In the Italian case, Sraffian, post-Keynesian and Marxist scholars suggested economic policies in favor of the workers. After the 1980s, an ineffective disinflationary policy, the use of “public resources to maintain electoral consensus” and a contractionary monetary policy were described as “a schizophrenia

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<sup>18</sup>In the words of Keynes (1936, pp. 32–33), “Not only was his theory accepted by the city, by statesmen and by the academic world. But controversy ceased; the other point of view completely disappeared; it ceased to be discussed”.

<sup>19</sup>I am using the word “classical” as used by J.M. Keynes, meaning all the economists of the past who accepted Say’s law.

in ruling powers”. Then, with the measures adopted for convergence toward the Maastricht parameters in the 1990s, accompanied by very unsatisfactory productivity and growth rates, and *a fortiori* with “the Great Recession in 2008, various criticisms towards the EMU began to emerge”, mostly addressed against the policies imposed by Brussels (Chap. 13).

6. This book provides an historical overview of how economists have employed the concept of power in western economic thought. In spite of its inevitably sketchy character, it provides a broad survey of the development of economic ideas on four different aspects of power by economists with different theoretical approaches and political positions, coming from different countries, such as Austria, France, Germany, Great Britain, Italy, Switzerland and the US, and stretching from the age of the Physiocrats to the current debates over the policies of the European Union. Of course, there are lacunas, even significant lacunas. However, the history that emerges shows us in a sufficiently convincing way that power plays an important part in the economic discourse. The economists’ different perspectives on the four aspects of power we have identified have since been clarified and criticized, they have disappeared and resurfaced, some have influenced the following generations, others are still lost to history.

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# Part I

**The Republic and the Sovereign:  
Economists on Political Power**



# 2

## The Dream to Tame the Leviathan: Authoritarian Power and the Market

Bruna Ingrao

### 2.1 Ideas and Definitions of Power

Ideas of power form a large semantic field in political philosophy and in economic thought. What is power is controversial, and the word ‘power’ admits alternative interpretations in social science. As the political philosopher R. Dahl suggests, its open semantics with the broad range of meanings it involves might be an insidious trap more than a sound scientific conception (Dahl 1957: 201). In popular imagination, power is often identified with the extraordinary capacity some elite circles are endowed with, whose members conspire in secrecy with formidable underground resources to change the course of events. These may be banks, multinational corporations, financial speculators or the media, which are deemed to globally regulate the state of markets or world events. In social science, the range of meanings involves disparate notions such as the institutional state authority on subjects or citizens, the unstable equilibrium of States on the international scenery, the hierarchical

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order among social groups, the conflicts on income distribution and the norms that regulate status by gender or age. Philosopher Foucault tried to decipher the underground, reticular web of power built in by the shaping of personal identities and the control over bodies in repressive social institutions. The Panopticon, the 'ideal' prison born out of Bentham's imagination, becomes the theoretical model to portray the impersonal, pervasive nature of power through the dominance on bodies and minds.<sup>1</sup>

In 1789, Bentham defined power in terms of the pleasures experienced in exercising it:

The pleasures of power are the pleasures that accompany the persuasion of a man's being in a condition to dispose people, by means of their hopes and fears, to give him the benefit of their services: that is, by the hope of some service, or by the fear of some disservice, that he may be in the way to render them. (Bentham 1789 [1909], Cap.V, VIII, 6)

Dahl, echoing Bentham's definition, looks at power as a relationship between two 'actors': on the power basis including all the resources that actor A has the capacity to mobilize, A forces the choices or influences the behaviour by actor B, against or beyond B's will. Power works by threat, promise or persuasion; it may be evaluated in terms of its amount or the range of scopes to which it extends (Dahl 1957: 203):

My intuitive idea of power, then, is something like this: A has power over B to the extent that he can get B to do something that B would not otherwise do. (Dahl 1957: 202)

This open definition covers a large range of social interactions. In political science, authoritative scholars such as J. March, H. Simon, L.S. Shapley or J. Harsanyi advanced alternative ideas of power, some of which formalized within game theory (Harsanyi 1971). Controversies on definitions dealt with their overall consistency or compatibility, or with the residual ambiguities in the underlying ideas of causality and the core scope of power relationships (Riker 1964; Wittman 1976). In political

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<sup>1</sup>Digiser signals the distance of Foucault's idea of power from both the 'liberal' and the 'radical' vision (Digiser 1992).

science, concepts of power aim at explaining and measuring the capacity various political actors have to influence political choices, government and the voting process in general elections (Parsons 1963a, b). Controversial is the idea of power in international relations, in the theoretical constructions that address the issue; in historical interpretation, the label 'power' may be too easily applied as a shortcut, in lieu of appropriate reconstruction of the context to deal with (Guzzini 1993: 478).

In this chapter, we deal with the controversial notion of power as related to State authority within societies with established and more or less stable, fragile, contested, political institutions; notably, we deal with arbitrary power as built up in authoritarian or totalitarian States, looking both at the tragic experiences of totalitarianism in the twentieth century and at the return of authoritarianism in the contemporary global world. The focus is on arbitrary power as the capacity to force choice or behaviour on individual persons or communities through threat, promise, or persuasion not explicitly sanctioned by the rule of law, or extending well beyond what the law dictates. The instruments include discretionary, hierarchical command, acts of violence and physical coercion, acts of cruelty, abuse of legal power, but also the building up of political charisma, the apparatus for organized persuasion, the systematic abuse of asymmetric information, spying activities with the intrusion in private life, the imposition of personal stigma and social exclusion. In the twentieth century, authoritarian power was a devastating force that left deep marks on economic life. How should scholars in economics deal with the arbitrary exercise of power that shapes the workings of the markets and affects the economic aspects of social life?

In the first half of the twentieth century, totalitarian rule forced vast communities in the territories under the control of totalitarian States to face arbitrary power in the most cruel and brutal aspects that contemporary history witnessed, in peace and war. Let the numbers speak. More than one million<sup>2</sup> people died in the Armenian genocide during World War I. The victims under Nazi rule were 17 million or up to 21 million or even more, including 6 million Jews who died in concentration camps. Around three million or more civilians died in the 'Holodomor', the terrible famine in Soviet Ukraine between 1932 and 1933; in the estimates including

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<sup>2</sup> According to other estimates up to 1.5 or 2 million lives were lost.

persecuted people or people forced to escape from Soviet Ukraine, the victims go up to four or five million. In the two years 1937–1938 of Stalin's Terror, the victims were around 1.6 million, counting casualties and arrests; in the 1930s almost 25% of the adult population was hit by repression under Stalin's rule. Historians calculate that more than 20 million people were affected (Graziosi 2007: 426). Beyond such tragic figures, in the first half of the twentieth century, totalitarian States destroyed human capital by killing intellectual elites. Totalitarian rule caused the massive, irreversible destruction of skills and knowledge, including technical training, administrative capacities, political and managerial abilities. Millions of children were deported or taken away from their families; the survivors suffered devastating trauma in their psychical growth to adulthood.<sup>3</sup> In the second half of the century, in communist China during the 1958–1962 period, famine killed 23 million people, cautious estimates say; recent calculations have raised the losses to up to 36 or 38 million people, if not 47 million (Dikötter 2011: 324). Military rule in authoritarian regimes in South America, notably in Brazil, Chile and Argentina extolled high number of losses. In the years 1975–1979, in Cambodia the Khmers Rouge genocide murdered 1.5 to 2 million people.<sup>4</sup> To these figures should be added the victims of African conflicts during the Cold war; the Tutsi genocide in Rwanda in 1994; the civilian deaths in Congo between 1998 and 2003, which might reach more than five million people, and the massacres still are ongoing. It is a long, tragic list.

After the fall of the Soviet bloc and the end of Maoist China, authoritarian rule with aspects of brutal arbitrariness and patrimonialism is still widespread in the world; it affects the lives of millions. In the milder experience of partially authoritarian States, with an apparent democratic base, political power and economic interests mingle; a legitimate question arises on where the dividing line runs separating private interests and the State apparatus. A complex picture emerges of how the State and the market interact in parliamentary democracies set up in postcolonial States or after the disintegration of the Soviet bloc, where in the market space the commixture prevails of public influence and private activity,

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<sup>3</sup>On the hardship and trauma children suffered under Soviet repression till Stalin's death, see Frierson and Vilensky (2010).

<sup>4</sup>According to some estimates, the victims were two million or more.