

Imperfect Competition - How Economic Science must not Become “the Celestial Mechanics of a Non-Existent World”

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Abstract The work aims to examine the real form of market structure that exists today. The framework of perfect competition is an abstraction. The principle of free enterprise, its application naturally leads not to perfect competition but to monopolistic competition, which becomes and is the form of market structure typical of the application of freedom of enterprise. From this perspective, since we oscillate between competition and monopoly, the important thing is to investigate the type, degree of monopoly and above all the type of social control over oligopolies. Because this interests citizens and the efficiency of the system.

Keywords Competition, Imperfect, Right

1. Introduction

“One of the fundamental differences between social sciences and natural sciences is that the facts that the former aim to explain are historical, or rather they change not only quantitatively, but also qualitatively and irreversibly over historical time. In other words, whereas in the natural sciences reality is generally immutable, in the economic field reality varies with the passage of time”.

Sylos Labini.

Setting the problem

In 2017, the European Commission fined Google for abusing its dominant position by favouring its own products and services over those of its competitors. To those who objected that users were in any case free to browse the pages of the search engine by choosing the option that was most convenient for them, the European Commission replied by looking at the reality of user behaviour, which takes into account the first three to five search results, and does not pay attention to all the others. This is an example of the way in which law examines real user behaviour, not rational behaviour, and thus opens itself up to the study of cognitive science (1). Could this be a mixing of social and political sciences, analysing legal phenomena from the point of view of and according to economic criteria, but also vice versa. Is this a crossing of borders between law and literature, law and music, law and cognitive sciences, between economics and

law, between economics and cognitive sciences? What about institutional knowledge and reform?

This is the first point of my work. A methodological point of view that informs my entire work expressed concisely, but hopefully I have made the point that I intend to proceed clear, which informs all the work expressed concisely but I hope I have clarified the sense of how I intend to proceed.

A second point is more economic. It starts from the old considerations of Piero Sraffa (in the 1926 essay, “*The laws of returns under competitive conditions*” in the December 1926 issue of the *Economic Journal* and republished in Italian in volume IV of the *Nuova Collana di Economisti* under the title “*Le leggi della produttività in regime di concorrenza*”) continued by Joan Robinson and Edward Chamberlin (with *Economia della concorrenza imperfetta*, for the former, and *Theory of Monopolistic Competition for the latter*) taken up by Paolo Sylos Labini in part, at least in Italy, which have so much influence on the theory of price determination (2), beyond that obviously relating to competition.

Following Sraffa's approach, taken up and developed by Robinson and especially Chamberlin, it seems to me that one conclusion can be reached. The competitive company finds a limit to the expansion of production in the increase in unit cost that occurs from a certain level of production. Since, according to traditional competition theory, price is “a given”, if the average cost increases from a certain volume of production, there will be a point beyond which any further expansion of production will lower the overall benefit. But concrete experience shows that the limit to the expansion of output, in competing companies, does not arise from cost trends but results from demand conditions. Does every attempt to expand production require a decrease in price? Then one

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would have to conclude, if one answered in the affirmative, that for the competing company, price is not a given but is a decreasing function of sales volume; the company is faced not with a single price but with a whole demand curve. The market structure that was hypothesised for the price to be a datum was that each company was very small in relation to the size of the overall market (and here, anticipating further remarks, I make a note: which market is referred to is very difficult if not impossible to determine). But for it to be possible to speak of an overall market, it is necessary to assume that for the buyers of a given commodity it is absolutely indifferent to buy from one company rather than another. Each company would have to imagine as if it were immersed in a vast (again, how this is determined and what it is difficult to say) perfectly homogeneous market, in which it would not be possible for any company to sell at a higher price than any other company, because then it would lose its customers. This leads to the formation of a single price that is, precisely, a given for each individual bidder.

But if one admits, on the contrary, that for a given company the price decreases as a function of sales, one finds that the depiction of the homogeneous market does not exist and one arrives at the conclusion that each company faces a kind of market of its own. That is, it is not indifferent for buyers to buy from one company rather than another. This phenomenon may be due to force of habit, personal knowledge, trust in the quality of the product, proximity, knowledge of particular needs, the possibility of obtaining credit, the prestige of a trademark, the particularities of a model or design of a product that are intended to make it stand out from the products of other companies. Sraffa is describing what will be called "imperfect competition" or "monopolistic competition" but which is reality. There are as many particular markets as there are companies and this leads to a kind of analogy between this market structure and monopoly. Even for monopoly, the price is a decreasing function of sales. There is a difference: the goods produced by the competing company possess a more or less extensive degree of substitutability (this is an approximation because even on this point we must verify the accuracy of the statement because it all depends on which market we are referring to, which segment of production we are referring to; we could say that each company, as part of a production process, produces a finished product even if it is then used in a further phase that eventually leads to another finished product, the mobile phone and its components, etc.), and therefore the substitutability at each stage of the process and in that particular market segment is to be seen) with goods produced by other companies, so that the decrease in sales volume that this company suffers when it raises its price is greater than in the case of a monopoly. In the former case, part of the customers may shift to substitutable goods (says the theory, which, however, needs to be verified because, as said in each segment of a market the degree of substitutability may in fact be limited or non-existent), which is in principle excluded in the case of monopoly. Monopolistic competition is quite different from perfect competition. In perfect competition

there would be a single price for goods produced by a myriad of companies, in the competition envisaged by Sraffa, each company can sell at its own price even though (this is where it differs from monopoly) these prices are not independent of each other.

But the system of monopolistic competition explains, unlike the system of perfect competition, the phenomenon of advertising, the phenomenon of influencers, etc., which are real, existing phenomena and which, with homogeneous products that can be substituted for each other according to the dictates of perfect competition, should not exist, but instead exist and create irreplaceability between products, the differences between them (among other things, there is also irreplaceability between advertising companies among themselves and between one influencer and another, and therefore the system among them is one of monopolistic competition and not perfect competition because they do not offer homogeneous services or products regulated by a single price).

So a first conclusion is that, at least until Marshall, the term competition had been used rather vaguely, a perfectly competitive market structure had been hypothesised, but in reality the discussions had introduced different hypotheses, had introduced markets characterised by a structure somewhere between monopoly and competition. But this awareness has never been fully realised, despite the fact that it is the real and existing structure and that perfect competition is a sort of abstraction (a phoenix). If this were the case, if resources existed they would be optimally deployed, providing one specifies the optimal term for people's lives: if pigs could fly. But, this awareness of the existence of reality (which is different from an abstraction) has never been fully realised in spite of the authors cited above and the concept of free enterprise continues to be identified, without much precision, with that of (perfect) competition, but in reality the result of a system operating on the principle of free enterprise is not perfect competition but monopolistic competition. The essential characteristic of the free enterprise system is that of "*the attempt by every entrepreneur to build its monopoly, extending it wherever possible, and defending it against the attempts of others to expand their own monopolies*", perhaps by creating special brand names, e.g. the Champagne product to distinguish it from similar wine products. On the one hand, therefore, Chamberlin's observation that Smith's and Marshall's tradition of equating markets of perfect competition with ideal markets from the point of view of the objectives of welfare economics, is not true, and on the other, the very desirability of a structure of perfectly competitive markets is questioned because it presupposes (and leads) to a homogenisation of products, of services, to an undesirable uniformity. Excessive standardisation of products would be a consequence of competitive markets and would not be desirable. Chamberlin says, "*differences in the tastes, desires, incomes and locations of buyers, and differences in the uses they wish to make of goods, all point to the need for variety*". Should we realistically look at an intermediate system between perfect competition and monopoly, involving both?

Then the question that arises, which I will examine in my study, is that of the quantity and type of monopoly and, above all, the degree of control by which it must be accompanied, which is more important today than ever given the large corporations and enterprises, for example in the world of information and the so-called social, which influence real behaviour that does not correspond to that of the neoclassical rational man but to the phenomena highlighted by Zuboff (4), for example.

In his famous essays, “*The Affluent Society*” and “*The New Industrial State*”, criticising on the whole the traditional description of the market process, both for the theory of demand and for the theory of supply and the behaviour of companies, Galbraith also pointed out how traditional price theory was faulty and how consumers were being played by companies.

It is traditionally assumed that the desires of individual consumers come from the individual and that the consumer is sovereign and directs the allocation of resources so as to satisfy his or her needs. In reality, it is the producers who create the desire for the goods they produce through a dependency effect and the needs are to a large extent created by the producers through this effect, thus changing the pattern of consumer behaviour as it is traditionally portrayed. At a time when we often manufacture goods not only for the sake of need, but rather for the sake of production, for the sake of increasing output, this concern and veneration is useful because, in this way, the problems of unequal income distribution, personal insecurity, and depression can be alleviated or even resolved thanks to this uninterrupted expansion of output, prompted by the companies themselves.

Corporations shape our social habits, produce goods and identify social welfare with an ever-increasing production of such goods, thereby re-evaluating their own role within society and attributing to themselves meritorious purposes to be pursued collectively. In contrast to the classical view of consumer sovereignty, as corporations become large and powerful, they control and manipulate consumer preferences; management of large corporations' plans are first aimed at ensuring the continuity or survival of the companies and then to increase sales, but include the management of consumer preferences, which has become an essential component of the economic system, and in doing so, production companies gain control of their markets by inducing consumption patterns and shaping the social attitudes of the people they are supposed to serve.

Galbraith speaks of an updated sequence, *revised sequence*, contrasting it with the traditional sequence called the retained sequence, *accepted sequence*. In turn, the state supports the technological structure of companies by often favouring social behaviour that aims to exalt the production of increasing quantities of goods. While even the neo-classical theory poses the problem of control, through the action of the antitrust and other bodies, it is the attitude that it is enough for the market to be conformed according to (abstract) principles of perfect competition that is wrong. For consumers and citizens, even if the problem of scarcity had

been solved, in reality, with this approach whereby it is enough to be inspired by the system of perfect competition and, for example, for the distribution of income, the action of the Antitrust Authority or the competitive forces (of perfect competition) competing on price is enough to protect the income of workers and citizens, the problem of the danger (5) of becoming “*servants of the industrial system instead of the masters*” is not solved.

Abba Lerner said, with regard to inflation, which is an issue that has come back into fashion today, that the price spiral could be triggered by the attempt of companies to increase margins when they are in a position of strength, they have market power. This situation occurs in the presence of an arrangement typical of monopolistic competition or imperfect competition: a structure I have said, like it or not, is one to which free enterprise leads ‘naturally’ through its evolution.

Under these conditions, generally if competition does not reflect the canons of perfect competition, demand cannot react to prices. Cost increases (e.g. of energy) are not absorbed by companies but transferred to prices, thereby leading to a reduction in real wages and making workers bear the cost of inflation alone.

In general, companies that have the ability to increase prices without losing customers or risking labour disputes can take advantage of inflationary tensions to raise their prices even in the absence of cost increases in their sector.

On the other hand, in a period of inflation, consumers may lose or weaken their ability to select companies and demand goods only from those with the lowest prices, also because the purchase is made and determined on the basis of a number of variables (proximity to residence or place of work, effect of advertising or brands, etc.).

A study by the Bank for International Settlements, an article by the International Monetary Fund, which analyses the role of profits, labour costs and import prices on price dynamics in the eurozone, indicates that the increase in profits explains almost half (45%) of the price increase in the last year (2023), followed by import prices (mainly energy) which explain 40%. Labour costs explain the remaining 25% and in Italy they affect the price increase by an even smaller percentage probably because real wages in Italy are lower than at the end of 2019; in Italy, wages have a loss of 7.3% as of 2019 and 7.5% as of the end of 2021.

In one article, the Wall Street Journal used the term ‘*greed inflation*’ to indicate that, in contrast to the 1970s, inflation, the rise in prices, is now driven by the price-price-profit spiral rather than by the run-up between prices and wages. Businesses, even before the energy price flare-up, had a tendency to raise prices even in sectors that were not affected by Covid-driven production bottlenecks.

To complicate matters, ECB data show that profits have grown considerably but not everywhere and not in the same way, as many companies have managed to increase profit margins especially in sectors where demand is not very price-sensitive (foodstuffs) or where demand bottlenecks have occurred (semi-conductors, for example).

Moreover, within these sectors, only a few companies, mainly those large enough to be able to reorganise their production and distribution between countries and markets, have increased their margins.

Cost increases were passed on, sometimes more than proportionally, to prices, inflating profits disproportionately. Fabio Panetta argued that in many cases retail prices continued to rise while wholesale prices fell.

So there is a spiral *not between prices and wages, as in the 1970s, but between profits and prices.* (6)

Mike Konczal, an economist at the Roosevelt Institute for the United States, shows that profit margins have risen especially in those sectors where they were highest before the pandemic, an indirect demonstration that for many economists (Francesco Saraceno) profits are the result of this not innovation and entrepreneurial spirit.

However, the monopolistic competition that characterises the modern market is likely to be affected more simply by the structure, which is natural and unstoppable for all the reasons outlined above. For this reason, the issue of control, the type of monopoly somewhere between competition and monopoly is important for companies to take advantage of their market power, especially at a time of inflation, which may not be due to their increased greed (greedflation) but may be amplified and fuelled by it, especially since consumers, for various reasons, do not have or lose the power to discern between companies more easily.

- (1) Francesco Vella. *Law and behavioural economics.* Il Mulino. 2023; See Harry Landreth and David C. Colander. *History of economic thought.* Il Mulino. 1996. page 766 on Herbert Simon and bounded rationality, on how real people, who are not wise, rational and intelligent, make their decisions, on the need to link economic theory to a different approach to rationality which should consist in assuming what is called "*bounded rationality*" in order to take into account the difficulties that the human brain encounters in processing the information in its possession or, as behavioural economists say, in order to simply arrive at "satisfactory" solutions.
- (2) Concerning the way prices are formed, several authors, Philips Andrews since 1949, Kaleki since 1954 Paolo Sylos Labini since 1956 have noted that entrepreneurs form prices in a certain way that is not the way envisaged by neoclassical models. To determine a price, entrepreneurs to the unit production cost (the cost of labour for each unit of the good produced) a certain percentage, which varies according to the various economic sectors, to cover fixed costs, plus about 10% to make a profit (price=unit cost + X% fixed costs +10% profit): this is the true theory. Not the other. In 1949, Philip Andrews argued that the average and marginal cost curves of enterprises were bowl-shaped and not U-shaped as assumed by the neoclassical theory. If companies, rather than small and price takers, as various quantitatively probative researches show, are price makers and quantity-takers

and managers make decisions with the size of the company rather than profit maximisation as an objective, this theory must be adhered to until new documents disprove it. Otherwise it is an ideological struggle. see Sebastiano Nerozzi and Giorgio Ricchiuti. *Thinking macroeconomics. History, debates, perspectives.* Pearson 2020. page 198 et seq.

- (3) Harry Landreth and David C. Colander. *History of economic thought.* Il Mulino. 1996. page 740 and 741 for quotes from Chamberlin.
- (4) Google is a monopolist. But what does the antitrust do? It employs very few people and what products does it offer? It offers information that can tell what people's behaviour will be through a mechanism that is articulated in the mining of data, the incursion into people's lives, the habituation, the adaptation, the redirection, the ability to influence see Shoshana Zuboff. *Surveillance Capitalism. The future of humanity in the age of new powers.* Luiss University Press. 2019; Seth Stephens -Davidowitz. *The lie detector. How Google and Big Data show us who we really are.* Foreword by Steven Pinker. Foreword by Gianni Riotta. Luiss University Press. 2018.
- (5) Harry Landreth and David C. Colander. *History of economic thought.* Il Mulino. 1996. p. 688. cf. for the opposite approach advocated here see Nicola Giocoli. The Chicago School. IBL Libri. 2023 where if the action of the Antitrust Authority is rightly extolled (and criticised), there is a tendency to focus only on its action and on the market forces that would naturally shape the market in the interest of all and of social welfare, as if the work of an Authority were sufficient without taking into account the power and behaviour of the large enterprise (supply side) that actually exists today and to which the market is directed, and the effect of dependence exerted on the consumer (demand side).
- (6) F. Saraceno. *Beyond central banks. Inflation, inequality and economic policies.* Luiss University Press. 2023. page 142, 143; A. Lerner. *Inflation: Not Inflation of Prices, Not DEflation of Jobs. What you always wanted to know about inflation, depression, and the Dollar.* New York. Quadrangle books. 1972; O. Aerce et al. *How Tit-for-Tat Inflation Can Make Everyone Poorer.* The ECB Blog. 30 March 2023; N. Hansen and F.G. Toscani and J. Zhou. *Euro Area Inflation after the Pandemic and Energy Shock: Import Prices, Profits and Wages.* Imf Working Papers 23/131. 2023; F. Panetta. *Everything Everywhere All at Once: Responding to Multiple Global Shocks.* Speech at the panel on *Global Shocks, Policy Spillovers and Geo-Strategic Risks: How to Coordinate Policies* at the XXIII Conference of the ECB and its Observers, 22 March 2023; M Konczal. *Why Market for Inflation.* testimony before the House Committee on Oversight and Reform, Subcommittee on Economic and Consumer Policy, 22 September 2022.

2. Chapter I - The Problem of the Economic Sector

The classical analysis of competitive markets predicts the existence of an ‘*industry*’ consisting of a ‘*large*’ number of enterprises. The concept of an industry in this context is often vaguely expressed and this already can undermine the classical theory, especially nowadays when product chains exist and defining an industry is difficult or arbitrary. For the classical theory to be consistent there must be a set of firms selling identical or homogeneous goods in identical markets and a large number of firms becoming a sufficient number to ensure that no single firm has any influence on market price determination. Companies are independent of each other and if one of them offers a large quantity of goods on the market, it would be required, in this logic, that its actions have no direct effect on the market nor any indirect effect as a result of the reaction of any other company operating in the same industry. Even if they were, in fact, interdependent, they would not be required to recognise that they are.

These statements often appear somewhat ‘self-made’ by those who want to make ends meet, but apart from that and their unreality, one might wonder why ‘one of them offers a large amount of goods on the market’. Why is it crazy? Why has the market (of free enterprises precisely) conformed, precisely on the teachings of Sraffa, in such a way that it sells a large number of goods? What is an industry? How do you define ‘an industry’?

Even in the agricultural sector, understood roughly speaking, market segmentations, market segmentations can be infinite or at least many, and products can be “born” and create an individual market different from others, as a result of research or product differentiation, in the same way as in the usual industrial market.

Just think of countless historical examples of agricultural products that were perhaps imported from one continent to another and took root and became a natural product of the destination state rather than the country of departure, such as the Pachino tomato from Israel.

Nowadays, there are a wide variety of tomatoes available from the supermarket, including those from Pachino. That town in the province of Syracuse and some neighbouring towns produce a tomato that can even boast the PGI (Protected Geographical Indication) since 2003.

In that area, the climate, temperature, soil, location and salinity of the irrigation water are particularly suited to producing one of the prides of Sicilian and Italian agribusiness: the *Pachino PGI tomato*.

Consumers now identify the classic “cherry” tomato with this term. The PGI label actually only identifies the production area. But in reality, the first production was the result of technology (greenhouses) not nature and it was in 1989 that the Israeli biotech seed company, Hazera Genetics introduced it in Sicily. And so the story of Creso rice, entered in the wheat variety register in 1974, is a wheat variety obtained from a Mexican hybrid of hard and soft grains, crossed with a genetically mutated line of the delicious

Senatore Cappelli wheat.

It was first widely distributed (in the 1980s and 1990s) in some countries such as Australia, China, the USA, Canada and Argentina, but it is a variety that is not the result of natural selection by some ingenious farmer, but is entirely “*made in the laboratory*”. It was discovered by Alessandro Bozzini and Carlo Mosconi within the group of geneticists at the Casaccia Centre of the CNEN, now ENEA.

Throughout history, hundreds of plants and agricultural products (let us not speak of the industrial or hi-tech sectors that did not exist until a few years ago) have been transported to other places to become national and local products of the place of arrival.

The Dutch experience is a great example.

The international market is not an abstract entity but a place where there are rich, industrialised countries and poor countries. If you want to grow, you have to look at the demand, which is decisive, of the former, which configures global demand. Even for agricultural products, as for more properly industrial products, there can be supply chains, each product along the supply chain is differentiated from another and even the so-called final product (each at its own level would be a final product) can be different from another: a tomato is different from another and differentiated even by a simple brand or preference.

We will examine the concept of an economic sector or industry in more detail then we will talk about the interdependencies between companies and the direct or indirect influence a company can have on a market.

But first the market must be defined.

The problem of the sector: this issue is preliminary to all the others because if the sector is not defined, reasoning cannot begin. In fact, pre-empting the conclusion somewhat, one could say that some goods (or services) are not suitable to be managed by markets. Such is the issue of public goods. It is too easy to say that the sector is legal services (1).

It is an empty and meaningless phrase because legal services, on the one hand, means nothing due to its generality and, on the other hand, combines different and heterogeneous sectors.

The first and fundamental step, also for antitrust purposes, is to define the relevant market, i.e. to identify “*the area in which companies compete with each other*” (Commission notice on the relevant market for the purposes of Community competition law, in OJEC [1997] C/327/3, §2).

To define this concept, reference is made to the degree of product substitutability.

In fact, a company produces services or goods that purchasers can easily substitute with others and, therefore, markets that include all products or services considered easily substitutable by purchasers must be analysed.

The scope of the market depends on the combination of the relevant product market and the relevant geographic market. First, for markets in general, replaceable products must be identified, and then, the geographic area in which substitution may take place must be determined.

But the fundamental criterion, overriding from the point of

view of the order, is an analysis of the replaceability of the goods or services produced or provided by the company in an antitrust case, with other goods or services.

Correctly, three requirements should be taken into consideration: demand-side replaceability, i.e., the existence of goods or services that consumers consider to be replaceable; supply-side replaceability, i.e., the existence of manufacturers capable of substituting, within a reasonable timeframe, the company involved in the antitrust case with their products; and potential competition, i.e., the possibility that, again within a reasonable timeframe, new companies may enter the market. Each of these factors should be evaluated separately, in terms of product scope and geographical scope. The relevant market "*within which a given competition problem is to be assessed thus results from the combination of the relevant product and geographic market*" (Commission Notice on the relevant market for the purposes of EU Community law. cit. §9): the relevant product market includes all products and services considered to be interchangeable or substitutable by the consumer, either on the basis of their characteristics, prices or intended use; the relevant geographic market is the area in which the companies in question are involved in the supply or demand of products or services, in which the conditions of competition are sufficiently homogeneous and can be distinguished from neighbouring geographic areas because the conditions of competition are appreciably different in those areas (Commission Notice on the relevant market for the purposes of EU Community law, cited above, §7 and 8).

Now, apart from the fact that many of these expressions are unclear in meaning, at times tautologies or empty of concrete meaning and get twisted up, enabling practically any situation, apart from that, these criteria can be useful to verify whether or not Parmalat that manufactures yoghurt is in competition with Giglio that makes powdered or extended-shelf-life milk, the former perhaps believing that its sector, micro-sector, is different from that of the latter, and thus a company that sells organic food may believe that it does not compete with a supermarket and vice versa. But are they only applicable to regulate relations between companies that seem to be related? Of course not.

Says the Commission (Commission Notice on the relevant market for the purposes of EU Community law, cit. § 18): "*One of the things to be decided in such a case would be whether drinks of different flavours belong to the same market. Basically, the problem to be solved would be this: would consumers of flavour A switch to another flavour when faced with a permanent 5-10% increase in the price of flavour A drinks? If a sufficient number of consumers would switch - hypothetically - to flavour B, such that the price increase of flavour A would not be profitable due to the resulting decrease in sales, then the market would have to include at least flavours A and B. The same test should be extended to other available flavours until a set of products is identified for which a price increase would not induce sufficient demand substitution*".

Here is another example, with regard to what has been said about the notion of the relevant market and how these

concepts are hardly applicable to the legal professions. In 2007, a controversy arose in America because two high-end organic food companies wanted to merge. The American antitrust authorities initially wanted to prohibit the merger because it would have resulted in a reduction of competition in a narrowly defined sector such as the market for natural foods or organic products. It later changed its mind and all that was needed was for the sector to be defined less narrowly.

With regard to the relevant economic sector, to see if, as is usually stated in an industry, there are a large number of companies operating without being able to determine the price or independent of each other etc., consider the phenomenon of production chains. At each step, a product or service is produced which in itself we could call finished. It becomes a convention to call it an intermediate good because it is not directed to the so-called consumer. The good or service is often absolutely vital to Apple or Mercedes who then give the product to the consumer, but they are also in some way the "*consumer*" of the good or service they receive. Within the supply chain, monopolistic competition can occur with respect to products supplied, for example, in catering or clothing, to the final consumer. At most, a distinction can be made between a so-called final consumer and a non-final consumer, but in the production process, for each good or service, its choice, its production, its supply in general may follow the same pattern as that seen with regard to monopolistic competition. In fact, this set-up, determined by the existence of supply chains, with companies that supply services or goods to other companies, also has an influence on measures linked to protectionist manoeuvres, effects that once did not exist. It was said that in yesterday's world (2), a duty on imports was nothing more than a tax on the purchase of a finished good, which led to an increase in its final price. Today, duty mainly influences the convenience of trading intermediate goods with results that amplify or modify the effect of the rate. If the good (conventionally, in my setting called final) travels from country A to country B the duty effects only unfold in these two economies. One will see the production of the good in A that applied the duty increase and that in B decrease. If intermediate goods are traded between different countries (however, in my understanding they are conventionally called intermediate goods, but they are final goods for the respective and corresponding consumer of these goods, and the choice of whether to source from one supplier of goods or services or another becomes one of monopolistic competition), then instead of inducing companies in country A to produce more, the effect of the duty induces them to relocate production to country C or D to avoid the duties levied by B. Thus the duty becomes one of the many factors influencing the process whereby for example Mc Donald's, at least in Italy, decides to source Cremonini meat that has characteristics (of brand, quality, proximity, even charm, etc., like Champagne wine compared to another wine product) and may or may not switch to other meat from another country. And despite the duty, may decide not to switch because of the presence of those characteristics.

The value of a consumer good is none other than the sum of the values added at the different stages of production. In fact, it is the aggregation of (so-called) intermediate goods to which services were gradually added that, at the end of the process, led to the (so-called) final good. If the chain of assemblies necessary to produce the final good is deployed internationally, we have the so-called *global value chain* (GVC), a chain that interconnects, step by step, branches of the same company, but also of different companies, and in this case there are as many markets and as many economic sectors as there are components or services for the (intermediate) good supplied. The relevance of GVCs is given by the possibility of exchanging not only goods, but also knowledge, integrating the know-how of multinationals with that of suppliers and also customers along the various production stages, but the choices are made within the chain and often according to the criteria of monopolistic competition, and the importance of factors other than price are those underlined since the 1920s and 1930s by Sraffa and Chamberlin. Skills and technologies, brands, etc. are deployed along the GVC path and jobs and high value-added productions or services are created that become non-substitutable for the companies that use them for the final good. The term production chain refers to the entire process that transforms a raw material into a finished product. In a nutshell, the succession of various processing stages. From a strictly operational point of view, distinctions can be made between: the production and processing of the raw material, research to improve this raw material, services to enhance the quality of the end product, logistics for the supply, storage and distribution of the product and, finally, its marketing on the most convenient markets to maximise its value. This process can be on a local, national or international scale. A classic example, that of textiles, helps make things clearer. For the production of woollen textiles, the chain starts with the breeding and shearing of sheep. After washing and sorting, the wool is sold to companies that spin it, the latter resell it to weaving companies that then sell their product to industries that make clothes and other garments. All the stages of this lengthy process can be carried out in one country as well as on a transnational scale: sheep bred and sheared, but difficult to replace because they are particular sheep, in Australia or New Zealand, spinning in China, weaving in some other region of Asia, garment making in Romania, distribution in Europe and the Americas. Moreover, the textile chain can also cross over with the furniture and furnishings chain. Each factor that creates value throughout the production process is, therefore, adequately remunerated. The supply chain model is found in all sectors, from agriculture to industry and the tertiary sector, and in fact represents the connective tissue of an advanced economic system. Companies executing one or more stages of the supply chain activity are either vertically integrated in the process leading to the production of a good or horizontally integrated by operating at the same stage of a production cycle. Obviously, with globalisation, the same supply chain can be localised and extend, as already mentioned, to different countries or even to several continents. From this

point of view, a distinction is made between short and long supply chains, depending on the number of steps required to reach the sale of the final product. In the former, which are very common in agriculture for products that do not require transformation processes, there is an almost direct relationship between those who produce and those who consume; in the latter, on the other hand, there is a much higher number of companies and intermediaries, and the distance between the place of production and that of consumption is also much greater. There are, however, productions where the two models can coexist in the same context, as companies may find it convenient to exploit the opportunities offered by both. The length of the supply chain and the distance between the company in it affect the final price of the good. Whether short or long, other advantages of this processing include product traceability, an element that has become increasingly important, especially in the agro-food sector.

By establishing supply chains, a phenomenon typical of monopolistic competition and falling within the criteria indicated by Sraffa, a relationship is also established with the territory that qualifies production and sales choices. All types of supply chains can be more or less efficient depending on local situations and the markets in which they operate. There is in fact a very close relationship between these production chains and the territory. The development of the former can favour or condition the development of the latter and vice versa, triggering a virtuous relationship. Supply chains can be the engine of a region's economic growth, in terms of employment, income, innovation, workforce training and per capita wealth. An engine that revolves faster the more a region supports businesses with modern infrastructure, efficient services and facilities for productive activities.

The presence in a circumscribed territory of strong groupings of companies oriented on the same production gives rise to so-called industrial districts. Realities characterised by a high degree of specialisation (the result of a more effective division of labour), a greater circulation of information, the optimisation of local cultural and institutional relations and the easier acquisition of professional and social skills. Qualities that together successfully project the district's companies even onto those international markets that would seem unattainable if one looked only at their size.

Classical, textbook discussions of monopolistic competition emphasise product differentiation according to style or type, location, quality, etc., but each of these differentiations gives rise to a market either in general, or within a supply chain, or within each production process. The concept of a sufficiently large industry or of a large number of companies, which is the basis of Marshall's concept of perfect competition, vanishes. In my opinion, but I am not a mathematician, it also becomes impossible and almost an exercise in pure abstract theory, given the various markets and the possible subdivisions, to elaborate concepts of monopolistic competition in the short term and in the long term. So much so that advertising assumes a role that triggers even irrational reactions, commercials can function as signposts where consumers have partial information, but advertising contributes

to product and service differentiation and creates multiple markets. One example is the Absolut vodka advertising campaign (3) that was explained in James B. Twitchell's book *"The twenty advertisements that shocked the world"*. Which makes Paul Krugman comment, not surprisingly, on the success of that vodka with expressions that echo what I said about game theory.. Krugman poses a question (which ties in with what I have been saying about the interdependence between businesses and game theory as a criterion for examining each other's behaviour, Aesop's fable about the scorpion): *"if Absolut does not taste different from other vodka brands, but advertising manages to convince consumers that they are buying a different product, who says it is not? Isn't the distinction in the eye of the beholder?"*. But this opens up another discussion around one of the most debated points about monopolistic competition. Traditionally, it has been said (4) that one of the reasons why the revolution represented by the monopolistic competition model has failed is the difficulty, or impossibility, of distinguishing between selling costs and costs related to product differentiation and thus determining what to include as a simple cost and what to include as a variable capable of influencing the demand curve. For example, *"whether you are a Pepsi-Cola or Coca-Cola consumer because these products are regularly consumed on television by attractive people, then it is not very easy to separate the actual product from its advertising"*.

But the truth of the matter is that this can, on the one hand, happen with any product, including BMW or McDonalds, which sell because of a certain charm they exude and because of advertising, and other products because of influencers, often women, who are richly remunerated, rather than because of material or construction characteristics (which, if anything, are emphasised by advertising and influencers). On the other hand, the attempt to make that distinction is futile and shows that we do not understand the new model and approach it by consistently reasoning under the paradigm of perfect competition. Everything is a cost, costs are all those elements and factors that make it possible to sell a good and all are inherent to the good or service and the distinction between mere cost and that which can influence demand (for that good) and thus form a specific market hardly makes sense.

Defining a sector is difficult, yet admittedly arbitrary, but it is a purposeful option that up to a certain point takes into account possible objective criteria. The criteria also vary or may vary over time as research or technology evolves. There was a time when there was no such thing as organic food, at least the concept of it, but nowadays it is customary to refer to it, and the examples could go on and on, and these concepts also depend on changes in society, historical developments and customs (today we often speak of vegan products, for example, and up to 20 years ago we did not know what they were), and the examples in every field could be countless, even in the field of supply chains (electronic and innovative products and others).

Consider some of the cases that have emerged in connection with oligopoly, which is a debated topic and where some criteria

(HHI cited in the footnotes) have been developed to verify its existence, but these criteria also always start from and must solve the problem of determining and delimiting the field of research or technique. A problem, the solution of which remains "arbitrary" for the purposes of the oligopoly issue. This invalidates the basic assumption on which the neo-classical theory of Marshallian setting and derivation is based (the Marshallian analysis of competitive markets envisages the existence of an "industry" made up of a "large" number of companies; but the concept of industry is vague or often expressed vaguely, even here in an arbitrary manner, and the set of companies selling identical or homogeneous products on identical markets presents vagueness and arbitrariness, if not for the number given by certain criteria such as the HHI, for the definitions of identical or homogeneous goods and identical markets).

- (1) See my interventions on the subject. Francesco Felis. *The notary. Between effectiveness and efficiency of justice*. Sensoinverso Editions. 2015; Francesco Felis. *The notary in the welfare system*. SBC Editions. 2015; AA. VV. *Notaries and the Constitution*. Ipoa. 2010; AA. VV. *Notary issues faced by tomorrow's notaries*. Ipoa 2014; AA. VV. *Real estate and corporate advertising in a modern security system*. Ipoa. 2016; AA. VV. *Notarial issues faced by tomorrow's notaries*. Vol. II, Ipoa. 2016).
- (2) Sebastiano Nerozzi and Giorgio Ricchiuti. *Thinking macroeconomics*. cit. p. 304; Marco Lossani. *The tariff war: who really stands to gain?* Life and Thought. 5, 2019. p 55-62.
- (3) For a textbook treatment see Paul Krugman and Robin Wells. *Microeconomics*. second Italian edition conducted on the third American edition. Zanichelli 2018. page 411 et seq. who, with regard to the advertising phenomenon, cites the case of Absolut vodka. In Twitchell's book (*Twenty ads that shook the world*) the author explains the success of that vodka: *the magnetic attraction of Absolut advertising is singular, because the product itself is tasteless: vodka is aquavit, and aquavit is the least sophisticated form of spirits... tasteless, odourless... And in fact the Swedes, who produce it, rarely drink Absolut: they prefer the cheaper brands [about price], such as Explorer, Renat, Brannwinn or Skane. The reason is that Absolut cannot advertise in Sweden, where promoting the consumption of spirits is forbidden"*. So market power only comes from advertising? According to recent analyses, one Italian in two buys what is recommended by influencers, but if they lose authenticity they *defollow* (data from research conducted by the Inside Observatory: it emerges that the trust of followers is a fundamental element) see Daniela Solito. *One Italian in two buys what is recommended by influencers*. In La Repubblica of 5 October 2023.
- (4) Harry Landreth and David C. Colander. *History of economic thought*. Il Mulino. 1996. page 741.

3. Chapter II - The Problem of Control. General Considerations

I have spoken of the Marshallian approach and analysis of competitive markets, which envisages the existence of an “industry” made up of a “large” number of companies; the concept of industry is vague or often expressed vaguely, arbitrarily, and the concept of a group of companies selling identical or homogeneous products on identical markets is also vague and arbitrary, if not in terms of number given certain criteria such as those of the so-called HHI, at least in terms of the definitions of identical or homogeneous goods and identical markets.

Monopolistic competition responds to a difference in tastes, in desires, in incomes, in the locations of buyers, in the uses they wish to make of goods, in elements that denote a variety that is incompressible, difficult to classify, in any case historically determined and mutable; it corresponds to the desire of every businessman to build a sort of monopoly of his own and to defend and extend it, it corresponds to an “ideal” that implies both monopoly and competition, an ideal that often constitutes reality unlike the other ideal, perfect competition, because the concept of free enterprise is certainly linked to competition: but it is combined with imperfect or monopolistic competition rather than perfect competition as is often claimed. Therefore, it seems to me more useful to dwell and focus on the type or rather the issues of the “amount of monopoly” and especially the “degree of social control” by which monopoly must be accompanied.

Concerning type and quantity, Facebook or Google or other companies are different from clothing shops in terms of the conditioning they bring about, the quantitative relevance becomes qualitative. And concretely, it becomes essential to discuss control more than to discuss the characteristics of systems, their short- or long-term equilibrium, which are often abstract and theoretical discussions like those on perfect competition.

When I use the term “*arbitrary*”, I mean decision-making in the sense of a decision that is not determined by supposedly abstract mathematical aspects, but taken on the basis of history, experience and also value judgements, which are of course not only variable but also individual and which, despite everything, can only be found in the representative bodies that try, through compromise, to settle (value) conflicts, prevent disputes, find a balance (which is also variable and debatable). For this reason, I have little faith in mathematical conceptualisations, which presume and make one presume what is not and cannot be, i.e. the discovery or finding of a certain solution and balance, one that cannot at least be challenged. This is why I believe that certain solutions can only be dictated by representative, legislative rather than judicial or quasi-judicial bodies that make law and become legislators under the pretence of neutrality and in fact create “a law” not only for the individuals and individual parties in the specific case, but also in general, especially when they feel they draw their decision from general concepts such as social welfare. Among other things,

the concept of social welfare has raised the question of whether it is possible to move from the functions of individual welfare to a function of social welfare and how. The process of political voting is one of the possible ways, imperfect but the only available and humane one. Although Kenneth Arrow in his work *Social Choices and Individual Values* believes that it is impossible to arrive at a single social welfare function and has given rise to social choice theory, it all starts from the misunderstanding that the process of political decisions is a process not to determine an abstract (and impossible) social welfare but to define conflicts and divergences of values with a changeable and transitory compromise and balance, with a solution that is satisfactory for the moment but which cannot be claimed, because there are so many different people and the value is that of “variety”, which in itself conflicts with patterns. The theory of monopolistic competition clashed with the progressive tendency towards formalisation that has characterised economic theory, which is not fond of substantive variety. His contextualised line of argumentation (i.e. which assumes that there is an institutional structure that limits the possibility of choice, e.g. the businessperson is probably not devoted to maximising profit, which assumes that decisions are inspired by general and externally determined principles of behaviour) has clashed against a mathematical or general balance theoretical framework (we have a mathematical microeconomics, which eliminates the study of economic history, the history of economic theory and institutions, with a formalist method): economic science becomes “*the celestial mechanics of a non-existent world*” (Kenneth E. Boulding) but at this point who needs it and what use is it other than to elaborate models of a non-existent world, if it does not take into account reality, real institutions, tastes, cognitive biases and the limits of human beings, the context and proceeds with non-contextualised analyses? This is why the theory that starts with Sfrarra and goes up to Chamberlin has not found sufficient space as it would first of all be a methodological revolution. But it constitutes economic reality.

The most relevant question arises under the concept of 'control' because, given that monopolies exist, if we want to examine an existing world and create a mechanics that is not celestial but earthly, we need to investigate the aspect of control, i.e. an earthly mechanics that applies to an earthly world, rather than spending time “*discussing, in a highly abstract and formalised manner, issues that are equivalent to asking how many angels can dance on the head of a pin?*” (Landreth and Colander) (1).

Free enterprise is combined with and leads to imperfect competition not perfect competition and its world.

Are mergers and big business always bad for consumers or citizens in general? Do they arise and prosper only because there are protections? Actually, this second question has often been answered in the negative.

Much more uncertain is the answer to the first question, which is about citizens' interest in pluralism and political freedom. But then liberalism, even in economics, one might say, rather than concentrating on the limits to be set against

the state, should pay attention to, and study the means of, setting limits to the large economic organisations, which also possess much of our data today. In this respect, control bodies, third parties, should increasingly have both economic and political-constitutional importance.

A persistent lack of agreement, along different lines, also exists with regard to the monopoly considered both in the various aspects it assumes and the advantages it can provide next, of course, to the disadvantages.

Many emphasise the losses to the community that monopoly creates, in terms of production efficiency, discrimination against consumers, and excessive power exercised in other fields as well. But many also had different views: an economist like Samuelson said "*if monopoly when judged from the narrow static point of view, can appear to be a source only of disadvantages and certainly inferior to atomised competition... it is possible that these judgments must be reversed in a dynamic world*" (2).

Monopoly, or even competition, must also be considered in terms of its possible positive effects for the community, in terms of technological advancement. Not only its shortcomings.

Moreover, it does not take into account that certain hyper-competitive configurations could cause or preserve structures, in the agricultural, industrial and service sectors, characterised by inadequate companies with respect to technical or scientific conditions or could lead to the non-application of forms of standardisation of production processes or induce negative forms of industrial localisation, which are merely the result of a random competitive mechanism without any attempt at coordination, or could lead to shortcomings in scientific research.

Faced with these challenges, I do not come with certainties, except that nothing should be exalted and absolute. Not even the concept of competition as a saviour for all circumstances.

And above all, if I do not come to any conclusions and certainties, And above all, if I do not come to any conclusions and certain conclusions, I will try and console myself with Norberto Bobbio's remark (when he observed that) according to which sometimes, I would add in the face of fragile solutions, it is preferable to "*ask serious questions*" (about competition and its usefulness and the limits to which it can be applied) rather than "*give feeble answers*". (3)

Scholars who have dealt with competition for a long time have had no doubts.

Competition is the engine of economic development, it stimulates innovation, technical and economic progress, and increases efficiency. The European Community would have constitutionalised the rules on competition in the sense that EU Community rules have become constitutional rules. Competition is the cornerstone of the system, cartels between companies must always be prevented. While in the United States the discourse on competition has never been unequivocal, if there has been a contrast between authors, Schumpeter and Arrows, between the Harvard and Chicago schools, in Europe the role of competition that can lead to the country's wealth has recently been emphasised.

If competition were perfect, profits, at least in theory,

should lean to zero.

But even if this were the case, we must see if it would be good for development and growth: one must invest and have a return for one's labour efforts, which cannot be over-compressed, and profit can be an incentive not only economically but also mentally, on a level beyond economics.

In reality, unlike in the ideal world of perfect competition, we have oligopolies that make huge profits and this poses the problem, however, of their control.

Therefore, not all rules of perfect competition can apply to everyone, at least not to those they control.

The European antitrust law may present solutions for company or sector crises but does not specifically provide anything for general crisis situations. For mergers, i.e. single transactions between companies, in order to derogate from antitrust principles, an actual and irreversible state of crisis of the acquired company is required and it must be proven that any more pro-competitive solution is not practically feasible. Liberalist ideology does not even pose the problem of the "crisis cartel". But precisely in the USA, following the last crisis, the state intervened to save companies, in the banking sector directly but also indirectly in other sectors (the intervention towards A.I.G. was dictated by the awareness of the consequences that its bankruptcy could have towards industrial companies as well).

In conclusion, for the time being, Europe, as defined by the EU, maintains a substantial continuity of behaviour with regard to the application of competition rules, with temporary openings in the area of state aid. Nor are any exemptions made in either the European or national contexts to the general antitrust rules (cartels, misuses, mergers) despite authoritative opinions of the doctrine, including Anglo-Saxon doctrine, and American experiences, past and present. The answer to the crisis would be to do nothing about competition policies, or rather to increase them. Increasing them would be the means to get out of the crisis more quickly, despite not only the fact that the crisis was not caused by a lack of competition, but the general economic arguments highlight how certain choices can aggravate the situation.

The classical depiction of the regime of perfect competition, which has been criticised for its utopia and certain flaws it might have if ever realised, is that of neoclassical theory. Even at first glance, we can say that this system, characterised by the absence of profits and losses, is not necessarily conducive to innovation, research and thus the development and prosperity that can come from research and innovation.

Moreover, perfect competition is rare because of so-called economies of scale.

In many sectors, companies need to be large enough to take full advantage of potential economies of scale.

Perfect competition presupposes many companies, small, often too small to take advantage of economies of scale. Small is often not beautiful even in theory. When a small company expands (this is also an aspiration of its protagonists), it becomes part of life, not necessarily in a bad way because of the benefits it can provide to the community. It is able to take advantage of economies of scale, it is able to charge

lower prices than smaller companies, it can drive them out of the market: thus perfect competition is lost.

The system of monopolistic competition that often takes place in most cases, where a company charges a price above marginal cost, could be negative because some consumers are willing to buy a slice of pizza, to use an example from my land, at a price equal to the cost of production, cannot do so. But the “*neither profit nor loss*” system typical of perfect competition, other than that the price issue must be intertwined with that of product quality, for the sake of public protection and beyond, the monopolistic competition system features (an excessive, for some) variety of products.

This feature, which might be, for some, a weakness, is not.

The diversity of products offered can be a benefit to consumers: the higher price paid is compensated for by the greater diversity.

Profits from monopolistic competition, at least, may be useful. Also for the general development of a country.

Graziani (4) reconstructs our economic history by differentiating between a dynamic and a less dynamic sector. In order to develop, back then, but also now, one had to imitate the production methods adopted in rich countries. Possibly methods based on more capital or with certain technology, even when domestic conditions would suggest a more extensive use of the labour factor, adds the author. However, if the workforce in the exporting sectors grew albeit moderately, this economic and labour growth had beneficial effects, including development in terms of research and general innovation. All that matters is that productivity grows equally with wages.

The notion that more competition leads to more innovation is not proven. Companies subjected to more competition might invest less in innovation and not more.

If multinationals need to use labour resources where they are least expensive, they need to be able to take capital in the cheapest markets, where the tax authorities do not take the resources to cover public deficits (or make welfare), the public budget must tend towards balance and it may become desirable to reduce the presence of the state.

But does this configuration of markets bring more efficiency?

The answer would be yes if the global market (at this point we would have to introduce this vision) was no longer national and operated under true competition. But does it?

The discussion on interdependence between companies and how the presence of different companies fuels overall growth is linked to my discussion on imperfect competition through certain observations made by those who have been called “*New Keynesians*”. It is said (5), classically, that there are two groups of them.

The former is concerned with providing “*the micro foundations for macroeconomics*” through an explanation of why the nominal price level should be considered fixed: issues such as costs associated with changing list prices or institutional wage or price rigidities are used. Given these institutional circumstances, Keynesian conclusions about economic policy, they argue, ensue.

The second group of “*New Keynesians*”, on the other hand, deals with the “*macro fundamentals of microeconomics*” and it is the most interesting one for my paper.

They accept the possibility that Keynesian economic theory and rational expectations theory can coexist. But they believe that the answer to so-called neoclassical theory (of Robert Lucas for example) is not to derive “*a micro foundation for macroeconomics*”, like the earlier group of *New Keynesians*, that is more institutionally realistic.

This second group, on the contrary, believes that the central issue is to recognise a “*macro foundation for microeconomics*”.

What does it mean? Is it a play on words? Of course not.

For example, it is not possible to analyse an individual's choices independently of the macroeconomic context within which they are made. Similarly, the aggregate production function cannot be derived from the production functions of individual companies, and output can fluctuate significantly for a multitude of reasons involving “*coordination failures*”.

The decisions of individuals or companies (hence the relevance to the subject of imperfect competition, which is based on the non 'pigeon-holed' variety element) are made taking into account expectations of the decisions made by others, and economic systems run the risk (something more, I would say, i.e. they are characterised) of falling into an endless and, therefore, unknown continuum of expectations.

A society made up of rational individuals (or companies) may find itself in an “*expectational enigmatic*” situation where everyone makes decisions rationally but the net result of those decisions (which do not depend solely on a “price” taken as a “given” but on the multiple iteration between individual decisions) is socially or aggregately irrational.

If individuals collectively can expect demand to be low and therefore decide to produce little because of the expectation then supply will indeed be low, precisely because expected demand is low.

Unless one assumes the existence of a system of expectation coordination (such that when an individual lowers his or her expectation of demand, some mechanism is put in place to counterbalance the effect that this lowering of expectations has on the individual's supply decision), the typical scenario will be that supply will be too low because demand is expected to be too low.

Therefore:

- it is not so much the matter of whether or not to embrace the theory of rational expectations or not, but rather the deeper matter that the economic system inevitably settles into the collectively desired equilibrium position that is often disputed;
- everyone's decisions are not independent of a macroeconomic context but are influenced and determined by it; often or always with an infinite and unknown link to expectations of and among others;
- as an Italian politician said at the beginning of the twentieth century after the First World War about an epoch-making change in politics but also applicable to the economy, namely Giovanni Amendola, who, with regard to the effects that the Great War had generated in

Italy, but one could say not only in Italy, noted the new mentality and the new way of looking at society's problems. He said that a new society had arisen as a result of the Great War. "*The old bourgeois society, on which history's judgement fell implacably in August 1914, was founded on the individualist dogma, the cornerstone on which the individualism of nations, classes and states rested, and the resulting anarchy of private interests and international relations*". He added: "*War has enlightened us. The individual has no absolute rights against tradition and against society, because tradition and society largely determine the individual. Therefore, the independence of the individual, on which civil liberty is founded, does not absolve the individual from responsibility for the past, present and future of the society within which the individual lives; on the contrary, it makes the individual's responsibilities more precise and imperative*". Therefore, he theorised a communitarian and solidarity-based liberalism and, within this framework, while respecting private property, a social cornerstone, he intended that this principle should not be directed against society, that society should be able to control the private interests that, anarchically, could destroy it, society should be able to take into account and force individuals in their actions to take into account the solidarity that unites them reciprocally, because the action of each individual is never isolated but is reflected to the advantage or disadvantage of others (6).

- (1) Harry Landreth and David C. Colander. *History of economic thought*. Il Mulino. 1996. page 779.
- (2) P. A. Samuelson. *Foundations of economic analysis*. Harvard University Press Cambridge, Mass 1948.
- (3) Norberto Bobbio. *Il Buongoverno*, in Proceedings of the Lyncean National Academy - Solemn Meeting of 26 June 1981, Lyncean National Academy, Rome 1983.
- (4) Augusto Graziani. *The Italian Economy: 1945 - 1970*. Il Mulino. 1972. pages 40-41.
- (5) Harry Landreth and David C. Colander. *History of economic thought*. Il Mulino. 1996. pages 840-841.
- (6) Giuseppe Bedeschi. *The factory of ideologies. Political Thought in 20th Century Italy*. Laterza. 2002, page 146, for Amendola's quotations.

4. Conclusions

The work by Paul Sweezy and Paul Baran Monopolistic capital, like all the work of John A. Hobson, of a "socialist" nature, points out, although detached from the classic Marxian analysis, how competition would have generated non-decreasing profit rates over time, but profits would have increased due to the progressive concentration of capital, or rather monopolistic capital, and the crises would have been caused by the phenomenon of under-consumption (which is now evident to all) rather than by lower profits: the response

was to create increasingly larger companies, increasing wasteful consumption and higher public expenditure, all with the aim of stabilising the system. Hobson added that the theory that income distribution would reward individuals according to their participation and productivity was not well-founded; in fact, it is impossible to attribute the various marginal returns to the factors of production considered separately, and the attempt to identify the marginal contributions of the various factors involved, using differential calculation, would be equivalent to implying that the ethical issues underlying income distribution have been resolved. There are three possible types of remuneration for the various production factors, i.e. remuneration for the maintenance of the factor itself, remuneration to allow quantity and productivity to increase, and remuneration to allow for the growth of the so-called "*unproductive surplus*" factor. According to Hobson, the modern industrial system generates more than enough output to cover the costs of maintaining the various factors, but it is the bargaining process that dictates which factors should receive the unproductive surplus. The land receives it because of its natural scarcity, but capital will receive it because of its greater bargaining power and a sort of artificial scarcity created by monopolistic power. We must incentivise an income distribution that rewards workers' wages both in the interests of justice, increase productivity (Henry Ford would agree), and increase consumption by reducing savings to avoid crises and recessions due to under-consumption.

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