

# VILFREDO PARETO AND THE GOVERNMENT OF ENTREPRENEURS

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## 1. INTRODUCTION

There is a tendency to believe that Vilfredo Pareto does not put forward a genuine economic analysis of the entrepreneur. From the point of view of pure economics — that is from that of a branch of knowledge which, by limiting the object and method of the economic science, distinguishes itself from other disciplines (sociology, political science, history, etc.) — Pareto's reflection on entrepreneurs has been judged to be laconic. More recently, it has been highlighted how Pareto, leaving aside his brevity on the subject, oscillates between the approach taken by Walras, which presents entrepreneurs as organisers of factors of production, and that of Schumpeter, which tends to see them as the cornerstone of innovation and profit (Bini 2013).

Regardless of Pareto's brevity, the purpose of this contribution is to recall that Pareto brings to light an important trait of entrepreneurialism, namely its irresistible and inevitable propensity to seek the support of the political sphere in order to avoid the challenge of free competition. This characteristic is fundamental because it opens up the possibility of an organic interaction between economics and other scientific disciplines, in line with a methodology which, according to intentions that are made explicit by the author, seeks to reconstruct, following the suggestions of Herbert Spencer, "the mutual dependence of social phenomena" (Pareto 1943, vol. II, pp. 9–10), that is, in the final analysis, the complexity of the real phenomenon.

In the *Cours d'Économie Politique*, Pareto states that:

Entrepreneurs resent profoundly the pressure of free competition. In order to escape it they call on the government to offer every kind of protection: protection from foreign competition; protection from workers (strikes, workers' associations, etc.); protection by manipulation of money; protection from savers, with the government providing loans at lower rates than those determined freely by the market; protection for transportation on land and water; premiums, etc., etc. Every government that agrees to offer such protections stops 'entrepreneurs' from carrying out their social function. It operates like a

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socialist government, which, after having instructed officials to determine the manufacturing coefficients that offer the greatest possible ophelimity, then does not allow these officials to do anything with them, or, far worse, allows them to determine manufacturing coefficients in a way that favours certain partisan interests. Entrepreneurs who fulfil their social function are useful beings, but those who do not are, at the least, parasites that threaten extreme harm (Pareto 1943, § 725, p. 105).

Before addressing the observations put forward by Pareto in this passage, it is necessary to emphasise that he proposed these in the context of his main work of economic theory. Although Pareto's approach to economics has pervaded textbooks from the post-war period to this day, there is no doubt that this type of reflection has completely disappeared from any text inspired by him. It is not difficult to solve the mystery of this historical and doctrinal filtration: any link between pure theory and other disciplines has implicitly been delegated to precisely these other disciplines. Nevertheless, it should not be forgotten that Pareto's theoretical writings contain a precise set of methodological instructions, which he develops through well-known research pathways: a substantial proportion of such works is dedicated to issues that fall beyond the remit of economics, straying into political science, into society, into the relationship between pure economics and applied economics, into questions of economic policy and even politics in the strictest sense, as well as into statistics and the biological sciences. Pareto, in other words, sets himself the task of interpreting not only different and autonomous scientific fields (economics, political science, sociology, history, etc.) but also of offering clear suggestions regarding their interaction, in order to identify the nature of social equilibria and their way of changing.

On the other hand, it must be made clear that this complex openness to different methodologies, which is born out of his analysis of the role and characteristics of entrepreneurs, has a very clear starting point that Pareto identifies with precision but is completely absent from today's manuals. The need to define and use other scientific disciplines to understand one of the fundamental characteristics of entrepreneurs, namely their tendency to resort to politics in defence of their market position, is in fact made clear by pure economics. It is the sport of free competition, in other words the set of market rules decipherable by pure economy that drives entrepreneurs to find an escape and seek the support of the political sphere and its various forms of protection. In a nutshell, it can be said that Pareto's work is aimed at demonstrating and analyzing how pervasive the phenomenon of what we can define economic-political rent is in concrete historical reality.

## **2. BEYOND PURE ECONOMICS**

It is worth considering briefly the disciplinary apertures closely connected to the analysis of the role of the entrepreneur that Pareto proposes. Doing so inevitably involves taking in the entirety of the economist's intellectual pathway, a fact which confirms the centrality of the subject matter.

First, the inventory of the types of protection that entrepreneurs seek from the government relates to all the observations and critiques of political economy which Pareto sets out in both his scientific and journalistic texts, and which have been the subject of numerous historical reconstructions, particularly as regards Italy (Cardini 1981). Second, this work of observation and critique leads him to considerations of a more strictly political

nature. It should not be forgotten that the most important Italian journal of pure economics, *Il Giornale degli economisti*, contained a 'Cronaca politica' to which Pareto was one of the most authoritative contributors. The end of the nineteenth century famously brought to an end the brief dalliance between the economist and the forces of Italian democracy, the so-called "extremes" which, also including the socialists, attempted to transform Italy into a genuine liberal democracy (Michelini 1997). Third, the disciplinary field to which his research on the nature of entrepreneurs turns is that of political science. What the actions of the entrepreneurs demonstrate is a subcategory of a much more generalised phenomenon: within the social body, that is within the social classes, there is a parallel number of elites whose main purpose is to win political power, that is to seize the power of the state. Fourth, this interaction between economics and political science reveals a specific nature of the state, which becomes the essential instrument with which to obtain the various forms of "protection" and to discharge the satisfaction of the needs of elite power onto the collective or onto specific social groups. Fifth, showing and analyzing how pervading the phenomenon of economic-political rent is, the methodological indication is born of discovering and analyzing as many "economic systems" that achieve particular and historically determined social balances between social classes, that is, between economy, politics and society. This perspective leads to the at once scientific and historical-political comparison between different social and political regimes. The first of the economic systems that Pareto sets out to analyse is that of socialism, although he wastes little time before offering contributions on what he describes as "demagogic plutocracy" and on other social regimes of importance to different national realities. The instrument of pure economics proves itself unable to offer, on its own, a yardstick with which to evaluate and compare economic systems. This leads to the use of the discipline of statistics to understand the outcomes of policies whose purpose is the redistribution of wealth, something fully justified on the level of pure economics (Maccabelli 2001). Sixth, the analysis of the birth and evolution of the elites and of social stratification (the distribution of wealth), opens the way to an interaction with the biological sciences and with evolutionism and social Darwinism. This proves useful when Pareto sets out to investigate the psychological characteristics of social classes, for instance the entrepreneurs, who are particularly endowed with what he defines as "the combining instinct." Seventh, Pareto demonstrates how this is a question of economic systems that are not only different, but also engaged in a mutual battle for international hegemony, and thus attempts to offer an explanation of the phenomena that would lead to the First World War and its geopolitical consequences (Maccabelli 2016). Eighth, the analysis of the different forms that the economic-political rent takes opens the way to the study and critique of ideologies, which according to Pareto are one of the principal instruments used by the elites to seize political power. This is an argument that Pareto explores further during the Great War in particular.

This brief review of the disciplinary tools that Pareto uses to reconstruct real historical change, tools that have been the subject of an extensive bibliography that we cannot outline in its entirety, marks out the purpose of sociology. This sees entrepreneurs, the social class that at a certain point in his intellectual development Pareto defines as "speculators," as one of the social figures of greatest importance.

### 3. FREE TRADE AND PROTECTIONISM

The thematisation of the relationship between entrepreneurship and politics in Pareto's economic works takes place, as is well-known, within two distinct periods.

The first culminates in the *Cours d'Économie Politique* and continues through to the publication of *Manuale di economia politica*. This is a period marked by Pareto's explicit and repeated support for free trade, and one in which he argues incessantly against the assault perpetrated by entrepreneurs seeking to obtain advantages that ultimately destroy wealth. Since the state is by nature inefficient and parasitically reliant on wealth produced by others, its roles must be restricted to the bare minimum. Pareto's liberal-liberalist argument is directed as much towards the "bourgeois regimes" (including those of Italy), which make various forms of protectionism into their *raison d'être*, as it is towards the new-born "socialist systems" to which he dedicated two entire volumes in 1901 and 1902. These are economic systems that belong to the same genus, that of protectionism, even if the social hierarchies and economic-political balances that they identify are different. This is the reason why for a certain period Pareto sides with the so-called extremes, of which the Italian socialists are the main political axis: in the circumstances of the particular moment he analyses, these appear to him to constitute a possible source of impetus for the progress of the country and the renewal of its political class.

The second period begins with the *Manuale* and culminates with the *Trattato di sociologia*, Pareto's critique of demagogic plutocracy and of the nationalist and then fascist periods, and it continues up to his death. While protectionism destroys wealth, on the level of economic growth it is possible that it generates more than it destroys. This calculation invites a deeper analysis, and thus once more a definition, of different social regimes: the plutocratic-demagogic regime, which ultimately fails and is unable to survive the rise of the proletarian and social elite, and the nationalist regime still in progress during his lifetime, which instead proves itself to have learned Machiavelli's lesson (Susca 2015) and to have the potential to rebuild the bourgeois order on new foundations (Michelini 2020a).

Once again there is no theoretical rationale with which to decide which of the social variants of the two economic regimes, the socialist or the bourgeois, is most effective, as only historical and sociological analysis can determine this. The Great War brings a specific change to Pareto's thought, leading him to view the potentially unstoppable advance of the proletarian elite with increasing concern, and to see bourgeois regimes as incapable — "soft" according to the definition he uses from the time of his collaboration with Enrico Corradini's *Regno* — of standing in this new elite's way. In other words, demagogic plutocracy risks being overwhelmed by the proletariat because it is by nature incapable of arousing the sentiments, ideologies and political organisation that might be able to re-establish the bourgeois order. These are reflections which Pareto, having already expressed them in brief terms at the end of the nineteenth century, develops systematically in his *Trasformazione della democrazia*.

At this juncture the key point of interest to underline is that Pareto's scientific focus rests firmly on the entrepreneurial bourgeoisie. The entrepreneur who controls the state, in other words, is no longer necessarily "a parasite" whose social function is inevitably negative, as it is in the *Cours*. If protectionism destroys wealth, it must be determined whether the wealth produced by an economic system driven by speculators is able, over time, to compensate or

more than compensate for this loss. On the issue of protection, in the *Treatise* Pareto observes that “after interests have, thanks to protection, brought into the governing class individuals richly endowed with Class I residues, those individuals in their turn influence interests and stimulate the whole country in the direction of economic pursuits and industrialism” (Pareto 1916, § 2215, p. 1549). As a result, Pareto’s turn towards the speculative bourgeoisie becomes a social, economic and political one. In other words, his rapprochement with nationalism first and fascism later is neither coincidental (Susca 2010), nor transitory, nor in the process of being jettisoned in the period immediately before his death in August 1923 (Somaini 2017). Moreover, it also cannot be dismissed by those wishing to defend Pareto’s work, as if his decision to take the side of reaction is a sort of unspeakable sin that should not be analysed scientifically.

The issue, however, is not just political. In fact, on the level of economic analysis, with Pareto’s new appreciation for protectionism the economic-political relationship might correspond, even if it does not do so naturally or necessarily, to a new, Schumpeterian type of entrepreneur, albeit one that goes well beyond Schumpeter’s model precisely because it is an ideal type that is at once economic and political. Naturally, Pareto’s view of this new economic system founded on speculators, which in Italy appears to be embodied first in nationalism and then in fascism, is never definitive. For example, at the start of the 1920s Pareto looked favourably on the political and economic potential of a form of socialism founded on self-management. On the other hand, only history could show whether fascism would be capable of building a new economic system or would instead turn back, albeit in a new way, to the key elements of demagogic plutocracy. Moreover, nationalism, like fascism, contains a theoretical and cultural dialectic between those who, like the Paretians, invoke a fascism of the Manchester type and point out and criticise the possible signs of degeneration in this social experiment, and those who instead invoke the birth of a regime in which the state or even forms of social democracy acquire a fundamental role (Michelini 2020a).

## CONCLUSION

We share the point of view of those who have had the opportunity to point out how Pareto’s ideas have in recent times taken on a heuristic value, particularly in Italy, which has once again fostered economic systems destined to be adopted around the world. The Italian example is in fact difficult to place within Hobsbawm’s general description (1994) of a post-war period characterised, to some degree everywhere, by mixed economies and by states with decidedly active roles. In contrast to this picture, the collapse of the so-called First Republic led to the birth of what I have defined the entrepreneur-state, which has supplanted the state-entrepreneur typical of the Italian economic structure which asserted itself as early as the liberal period and strengthened itself first through fascism, following the crisis of 1929, and then in the course of the First Republic (Michelini 2020). Pareto, however, while ultimately retaining an idea of politics as *techne* and therefore also a specialised “profession,” had not yet imagined and perhaps could not imagine that the power elite of the speculators could manage to send one of its own directly into government. However, this is precisely what happened in Italy, where there has been a substantive fusion between politics (in government and parliament) and economics (the so-called “business-firm party”) which has attracted the attention and alarm of scholars operating mainly in the disciplines of history and political

science (Ginsborg 2004; Sartori 2010; Viroli 2011) but which seems to have gone almost unnoticed by economic theorists and historians of economics. This is the case even if the question was and still is one of investigating transformations or reformulations of the idea of entrepreneurship and the figure of the entrepreneur that is objects that are at least *also* of economic interest.

On the other hand, Pareto's reasoning should lead to a very different approach towards socialist economic systems (past, present and future) than the one that has in fact prevailed in part because of Pareto's own anti-socialism. This is because it demonstrates how entrepreneurship is in fact an essentially historical endeavour, even if, at least according to Pareto, it relies on a natural instinct for combinations. In other words, the social and economic balances of socialist systems, their characteristics, and the capabilities they demonstrate on a geopolitical level, do not in any way depend on phantom failures of one or another kind of economy, but depend instead on the particular historical form adopted by the social equilibrium.

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