

Introduction

This book is neither a biography nor a study of Vilfredo Pareto's economic theory as a whole. It focuses on Pareto's theory of choice by making a detailed analysis of his methodology. Studying Pareto's theory of choice, however, means exploring the origins of economic theory in the 1900s.

Vilfredo Pareto (1848–1923) is one of the most cited and studied economists of all times. There is hardly a book on microeconomics, welfare economics, public choice, the history of analysis or economic theory that does not make reference to him. Although he is one of the greatest economists of all times and an important sociologist, very little attention has been paid to Pareto's epistemology. This is quite surprising, since his writings are full of observations and insights regarding the scientific method and the status of social sciences in particular.

The thesis of this book is that in Pareto's work we can find significant, detailed analyses of problems which the philosophers of science have only recently rediscovered. Moreover, I believe that it is impossible to understand what Pareto wanted to accomplish in the field of social sciences if his methodological approach is not taken into account. Apart from the works of Tarascio (1968), devoted solely to Pareto's economic methodology and some recent works, up to now, his method has not been studied in a systematic way. References to the Paretian methodology are usually found together with other types of analyses of his work. Nevertheless, recently there has been renewed interest in Pareto's thinking, and especially his methodology.¹ This book moves along these lines and attempts to give a different and intrinsically consistent interpretation of the complex origins of modern microeconomics.

Neo-positivist historians say that modern consumer theory first began when Pareto showed how it was possible and worthwhile to formulate an economic theory without needing to take on a function of *cardinal* utility. In this way, he distanced himself from his *Cours d'Économie Politique* (1896–7 [1964]) and from the methodological framework used by the first generation of marginalist economists.

During his years at the London School of Economics, John Hicks (appointed in 1926), thanks to Dalton, discovered Pareto's *Manual* and his new theory of choice: 'Hugh Dalton ... said to me "you read Italian, you ought to read Pareto". So it was reading the *Manuale* which started me off on economic theory. I was deep into Pareto, before I got much out of Marshall'

(Hicks 1979, p. 260).² During this period, Roy Allen also discovered Pareto on his own.

At the beginning of the 1930s Pareto was the foreign economist who had the greatest impact on the new economic theory in England. He was seen as the father of both the new ordinalist and anti-utilitarian welfare economics and the new microeconomics. The first issues of both *Econometrica* and the *Review of Economic Studies* included papers entitled respectively 'Vilfredo Pareto', written by the Paretian Luigi Amoroso (1934), and 'Pareto and pure economics' by Umberto Ricci (1933). The first issue of the new series of *Economica* included the paper by Hicks and Allen (1934) which presented Pareto's new theory of choice.

In 1935, following the discovery of Pareto, F. Von Hayek included Barone's 'Il Ministro della Produzione' (1908) [1936] in the volume he edited on Collectivist Economic Planning. Barone's essay soon became a classic of this very central issue during the 1930s and 1940s.

After Hicks and Allen's 1934 paper, Paul Samuelson, in a series of articles, brought the ordinalist revolution to its extreme consequences with his theory of revealed preferences, and the mathematical economists finished the work during the 1940s and 1950s.

In a climate of behaviourism, operationalism and neo-positivism, Pareto was presented as the founder of a new economic science, based on facts, free from unobservable metaphysical categories such as pleasure and utility.³ Although this is a very well-known story, it is not the whole story. In fact, in this reading of Pareto the image that emerges is that of an *uncertain, confused* and almost *schizophrenic* author. He was regarded as a talented precursor, who, however, created a hybrid, something halfway between the old and the new. Hicks sums this up succinctly:

even after Pareto had established his great proposition, he continued to use concepts derived from the earlier set of ideas. The reason was, perhaps, that he did not take the trouble to rework his earlier conclusions in the light of a proposition, which he only reached at a rather late stage of his work in economics. However that may be, he missed an opportunity. (Hicks 1939 [1946], p. 19)

John Hicks's reading of Pareto was most influential in shaping the interpretation of modern choice theory. With Hicks, hedonism, as well as the inquiry on the nature of economic motives, definitely disappears: the problem of choice is expressed in terms of an observable map of preferences. According to the principle of Ockham's razor (*entia non multiplicanda sunt sine necessitate rationis*), it is better to do without the cardinal measurement of utility, but also, we might add, without any psychological hypothesis about people's motives. Hicks rediscovers Pareto as the protagonist of the transition from cardinalism to ordinalism, and as the author who expelled hedonism

and psychological introspection from economic science. Hicks and Allen immediately began speaking of an *incomplete* Paretian revolution, basing their argument on the many passages in which Pareto used concepts which were still based on psychological and utilitarian categories.

During the following decades, many historians and economists went back to the viewpoint of Hicks and Allen, and still continue to make the same assessments. After having demonstrated that Pareto systematically made use of a cardinal idea of utility (ophelimity), Oskar Lange asked himself: 'Was it inconsistent of Pareto to keep these definitions in spite of regarding utility as immeasurable?' (Lange 1934, p. 218), and after a lengthy and detailed analysis, he concludes that the answer was yes. The same evaluation can be found in Stigler and in Samuelson: 'Pareto was inconsistent' (Stigler 1950 [1965], p. 389; Samuelson 1974, p. 1256).⁴ Therefore, from the 1930s, Pareto's main achievements as regards the theory of utility, were accused of being inconsistent and confused.

In this book I shall try to prove that within the context of his philosophy of science, Pareto's theory of choice is not necessarily internally inconsistent but, rather, more complex and sophisticated than the interpretations of his work that have been attempted by neo-positivist scholars. My analysis of Pareto's intellectual evolution will focus on the years 1897-9, a period which also represents the pivotal point of the book. These years were fundamental in defining Pareto's methodology which was the basis for the works he wrote after 1900.

During those years Pareto wrote very little on theory, but began a close correspondence with the two most important Italian philosophers of his time, the neo-idealist Benedetto Croce and the logico-pragmatist Giovanni Vailati. These exchanges reached a peak in 1901, just after Pareto had re-established the basis of microeconomics. The coincidence of these two events is so significant that it prompts us to examine the role that these two philosophers had in the development of Paretian methodology.

The relationship between Pareto and Vailati - which is discussed in Chapter 2 - is almost totally unexplored.⁵ Instead, the exchanges with Croce (Ch. 3) is widely cited by historians of economic methodology in Italy (and not in Italy alone).

Because of the difficult questions raised by these philosophers, during those years Pareto was 'obliged' to delve into the problems opened and already present in his first theoretical analyses and to further clarify his own approach to economics and social sciences. This approach would subsequently become the basis for his work during the 1900s (Ch. 4).

Although this book aims to analyse a *particular aspect* of Pareto's thought, it hopes to create a more substantial interpretation of Pareto's scientific

project. In particular, I will try to demonstrate that in order to arrive at a fair interpretation of Pareto's disagreements and clashes with the leading economists of his time (Ch. 5), and of his theory of choice (Ch. 6), it is necessary to place these issues within the context of Pareto's methodology and philosophy of science.

Although the facts are presented in a chronological way, in some cases (in particular, the exchanges with Vailati and Croce), I have preferred to make a diachronic analysis of the subject and follow its developments over the years.

It is a Paretian journey in which I have discovered unknown territories, journeyed through others and glimpsed others from afar. But my journey is far from over.

NOTES

1. As regards Pareto's methodology, cf. in particular, Donzelli (1997), Marchionatti and Gambino (1997), Gross and Tarascio (1998), Guala (1998), Bruni and Guala (2001).
2. Cf. also Hicks (1981-3, vol. III, ch. XVII). It is interesting to note that knowing Italian was crucial to the spread of Pareto's theory in England: Edgeworth, Wicksteed, Hicks, all knew Italian and read Pareto. In his *Autobiography* Robbins recalls that 'the introduction of Walras and Pareto must be chiefly attributed to Hicks' (Robbins 1971, p. 129). Regarding the London School of Economics' 'Golden Age' see also Coase (1994, pp. 208-14).
3. The rediscovery of 'Pareto the sociologist' in the early 1930s, mainly due to the American Henderson is a different story: cf. Chazel (1997).
4. Recent papers which confirm this assessment are those by Lewin (1996, p. 1309), and Drakopoulos (1991, p. 110).
5. An important essay is Bobbio (1963).