



Alberto Banterle

THE SIGNIFICANCE  
OF “POWER” IN EXCHANGES

“Orizzonti”

59



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## FOREWORD

The short essay that follows *does not claim to be a rigorous academic work*. It questions concepts such as “power”, “motivation” and “welfare functions” behind which there is a vast literature in sociology, psychology and economics, which is largely unexplored by the author.

Nevertheless, in the hope of providing some meaningful suggestions, a formal elaboration of the mechanism that governs exchanges in simple situations that involve only two individuals is proposed below.

The market has been theorized to overcome the direct exchange between two people, but many of these exchanges are not realized through the market, but just between two subjects.

Attention is focused on cases in which there is an “*imbalance of power*” between the contracting parties. There are many such cases, particularly in those situations where authority prevails in its violent forms: blackmail and corruption.

A meaningful example is the assignment of a contract by a public body to a private company, without resorting – by necessity or political opportunity – to tenders or auctions to choose the best offer, or by distorting the

mechanism to choose *ex post* the criteria that identify the desired *ex ante* supplier. In this case the two representatives of the public body and of the private company find themselves negotiating in a situation of potential abuse of power due to the absence of those constraints which, in a call for tenders, guarantee the identification of the most convenient choice for the public body.

The aim is to arrive at determining *objective* economic parameters (such as the price at the end of a negotiation) taking into account *subjective* perceptions concerning especially the imbalances of power between the parties involved.

Since exchange is the basic mechanism, present at all levels, which influences the way a society operates, it is hoped that this paper may contribute to the construction of models that might, for example, simulate the economic mechanisms of a society in which, for structural reasons or otherwise, power imbalances are widespread.

The work develops as follows: initially two determinants of the initial conditions for an exchange are identified and represented. These determinants are those assumed as exogenously given by the traditional economic analysis and they consist of the *motivational element*, i.e. the identification of the force of the reciprocal motivation to exchange, and the *element of power*, which is the imbalance of strength between the two parties (paragraphs 1 and 2). Every initial unequal distribution in the motivation, and in the power, results in an alteration of the reserve prices, that is of the maximum will-



ingness to pay and minimum to receive, even before the negotiation begins. In paragraph 3 a model is proposed for the representation of the negotiation process, which leads to the reaching of an agreement that is still affected by the imbalances of motivation and power. In paragraph 4 the model is extended from the isolated case to the long chains of exchanges that can be implemented across the planet. It is argued that the price set by the subject who enters the market is the result of the presence of imbalances stemming from the various stages in the supply chain.

Next (paragraph 5), the same motivational and power imbalances are represented and analyzed with reference to *non-market exchanges*, i.e. exchanges whose outcome is not conditioned by the fixing of a price. In paragraph 6 the emphasis shifts to the *weak subjects* to identify the possible strategies with which they can defend themselves from the strong subjects. In paragraph 7 a reflection is made on the possibility of constructing models, passing from the micro to the macro, to represent the economic system within authoritarian and corrupt societies, where at all levels there are types of exchanges characterized by imbalances of motivation and power between the “strong” “and the “weak”.