

## Paolo Sylos Labini: reflections on a classical economist

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Between December 2015 and June 2016, on the tenth anniversary of Paolo Sylos Labini's passing away, *Moneta e Credito* (the Italian sister of *PSL Quarterly Review*) published three issues reporting the proceedings of two conferences held in his memory in Rome: on 18 November 2015 at the Lincean Academy, and on 4 December 2015 at Sapienza University (D'Ippoliti, 2015).

Both conferences were inspired by the proceedings of a 1962 Italian Parliamentary Inquiry Commission on competition, whose task was to examine the Italian economic situation at the time, the impact of different market structures, and the prospects for reform. Sylos Labini's testimony in front of the Commission has been crucial to the subsequent approval of many important reforms in Italy.

Notable examples include, as reported in Libertini, 2015, the development of antitrust legislation, or, as underlined by Cavazzuti, 2015, the creation of Italy's stock exchange supervisory commission (the Consob), and the privatization of the Italian Institute for Industrial Reconstruction (IRI; see Ciocca, 2016). Sylos Labini also introduced many ideas that could inspire economic policy reforms today (see Malaguti, 2015, for a review of the evolution of the concepts of 'market' and 'competition' in EU law and practice, in particular concerning antitrust law and its future developments).

We wish to review here some of these contributions, in accordance with the decalogue of Sylos Labini's thinking put forward by Corsi, 2007.<sup>1</sup>

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<sup>1</sup> 1. Ethics and economics shall never be divorced. 2. Every economic model is historically determined. 3. Economics shall not be disjoined from other disciplines



## 1. “Every economic model is historically determined”: Sylos Labini and the barriers to entry

As highlighted by Bharadwaj, 1993, Sylos Labini’s major contribution has been the comprehensive view of the general process of economic growth in terms of a dynamic interaction of market forms, innovation, and income distribution, which succeeded in blending together “theory and empirically observed reality” (*ibid.*, p. 11). Salvati, 2015, in his review of the works of the 1962 Italian Parliamentary Inquiry Commission, underlines the main characteristics of Sylos Labini’s contribution: (i) it gives a balanced analysis of the complexity of each situation, and (ii) it provides a concrete evaluation of the pros and cons resulting from each policy decision, though heavily drawing from clearly defined theoretical models and concepts.

In his parliamentary hearing, Sylos Labini mainly reports a synthesis of the main concepts of his original theory of the barriers to entry, broadly explained in *Oligopolio e progresso tecnico* (Sylos Labini, 1956). This famous book circulated in a first edition few years before the Parliamentary inquiry.<sup>2</sup>

In Sylos Labini’s view, competition is based on the classical notion that implies the absence of any difficulty of entry into an economic sector of activity. Therefore, the nature of the barriers to entry in any market becomes the central subject of the theory of market forms. While perfect competition (no barriers) and monopoly (insurmountable barriers) are two extreme market forms, the general case is represented by oligopoly, in which a firm that wishes

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(sociology, law, politics, etc.), which integrate its analysis of society’s problems. 4. Economics and demography are complementary in the analysis of economic development. 5. Economic analysis must always be rigorous. 6. Mathematics shall be used ‘as needed’. 7. Economists shall study relevant subjects. 8. Economists shall offer opinions and defend them. 9. Teachers of economics shall consider the social implications of the propositions they put forth. 10. The goal of the economist shall be to promote civil development.

<sup>2</sup> The first Italian edition dates back to 1956, while the first English edition was in 1957.

to enter a certain market has to pay some extra-cost with respect to the incumbents. Sylos Labini develops a theory of barriers to entry in a market, mainly based on four elements: *(i)* the size of the market; *(ii)* the cost of initial investment in sectors characterized by a significant optimal size of new plant(s); *(iii)* the elasticity of demand (biased by customers' fidelity to a certain brand); and *(iv)* the rate of growth of the market (demand). He is thus able to demonstrate that obstacles to competition can also be created by other factors such as national legislation, institutions, and politics that can cause permanently higher prices than production costs.

High and persistent margins between costs and prices may imply a tendency to lower growth and unbalanced development, since under competitive conditions productivity improvements in a certain sector benefit all downstream sectors thanks to price reductions that implicitly imply lower input costs. By contrast, when entry in a market is difficult, productivity improvements mainly benefit the incumbent firms. In this case, it may not be beneficial to society when productivity improvements simply produce higher profits rather than greater investments in the single sector in which they take place. The consequence of weak competition, in this case, is structural inequality (*sperequazione strutturale*) that can also produce cumulative effects since the incumbent firm can then enter in other branches of production, create new cartels, and strengthen its leading position, further hampering the entry of new innovating firms.

In his Parliamentary testimony, Sylos Labini highlights three main reforms that a government caring for welfare, development and growth should initiate: *(i)* new corporate law, *(ii)* incisive antitrust legislation, *(iii)* the creation of special commissions with penetrating powers of investigation on corporations. As noted by Pedone, 2016, and Tonveronachi, 2016, Sylos Labini aims to change society through gradual advances in order to reduce inequalities and expand freedom.

Furthermore, it is essential to move from abstractions, both about market forms or technical progress, to analyse the specific reality, promoting the production of information and its interpretation, because individual problems are related to situations

that vary in space and time. In fact, the heterogeneity of the barriers to perfect competition imposes the adoption of a flexible antitrust policy that should adapt itself to the specific nature of the barriers to entry of each industry and/or sector. The antitrust authority should always calibrate its interventions to the nature of the problems encountered. There are no standard or fixed rules similar to those that may arise from the traditional neoclassical theory, e.g. concerning the number of firms in a market or the maximum level of each firm's market share or even the presence of collusion among firms. The neglect of these directions is among the main factors that led to failure or limited success of some of the reforms proposed or started during the 1960s in Italy.

## **2. “Ethics and economics shall never be divorced”: Sylos Labini as ethical economist**

The premises to reforms are that “the market is an essential institution but it cannot solve all the problems of an economy based on division of labour”; moreover, “morality, [and] public spirit are essential to the proper functioning of a market economy” (Sylos Labini, Roncaglia, 2002, our translation). Consequently, respect for the rules is an absolute requirement of a market economy. According to Sylos Labini, a market economy needs rules to prevent the community from the centralisation of power and it cannot function without a widespread moral sentiment of disapproval of those who breach the rules. This means that reforms should always connect economic issues to social and political problems.

As reported by Roncaglia, 2016, Sylos Labini sets an extraordinary high standard of seriousness and moral rigour in research, in teaching, and in his lifestyle, following the idea that “a useful economist is an ethically committed economist who pursues the common good”. Economics as a discipline should have both social content and social responsibility. Research and teaching thus constitute a moral commitment to achieve civil development. This is

particularly true in Italy, a country that Sylos Labini defined as “limited” in terms of moral, social, and civil environment (Sylos Labini, 2001). He always claimed that teachers of economics should help students understand the social implications of various theoretical hypotheses. Economists are necessarily influenced by their own personal judgement, which determines both their choice of problems to be studied and the outcome of their analyses. That is why it is vital for economists to be acutely conscious of their responsibility to study society for the sake of promoting economic, social, and civil development.

According to Sylos Labini, an economist should practice ethical fairness as well as openness to different points of view in research, politics, and in everyday life. From this point of view, there is only one “enemy to fight”: the belief that mainstream economic thought is the only real economy and is therefore entitled to suppress other/different opinions and theories.

### **3. “Economics shall not be disjoined from other discipline which integrate its analysis of society’s problem”: Sylos Labini as social scientist**

Sylos Labini’s research programme and methods are based on Schumpeter’s dictum, that good economics must encompass history, economic theory, and statistics. Sylos Labini welcomed cross-contamination with fields ranging from sociology to history, philosophy, law, statistics, and demography. Sylos Labini looked at the interaction among different social sciences, as

“concentric circles in which economics has one of the shorter radius. The radius of sociology is longer, because it encompasses economics. Then there is law, the study of institutional and contractual structures, legal studies in a broad sense, which supports all economic and social activity, both domestic and international” (Sylos Labini, 1989, p. 9, our translation).

Sylos Labini believes that economic research should always capture the essential characteristics of that part of reality under observation. Ciocca, 2006, describes Sylos Labini's method of economics research as "intersection of theory, history, method and interdisciplinary studies. [...] The relevance of the problems to be solved, more than familiarity with well-tested tools, was his criterion for the choice of the subject to be studied" (*ibid.*). Therefore, the employment of several social sciences in order to explain such complex phenomenon as social reality could be seen as the opposite of the 'Chicago School' method, which is based on the hypothesis of a uniform and narrow view of individual behaviour (the *homo oeconomicus*) as the foundation of any explanation of all aspects of social life.

Cavalli, 2016, identifies at least three elements that characterize Sylos Labini as a sociologist: *i*) the analysis of the transformation of the structure of social classes in Italy; *ii*) his methodological propensity for field analyses; and *iii*) his socio-economic approach to the issue of the Mezzogiorno, the underdeveloped South of Italy.

Concerning point *i*), Sylos Labini's *Saggio sulle classi sociali* (Essay on the social classes), sold more than 50,000 copies in the '70s, and gave rise to a rich and animated debate that contributed to the change of left-wing parties' strategy in Italy. In his book, Sylos Labini criticizes the Marxian dichotomy between capitalists and proletariat, focusing on the social and political centrality of the middle class. He describes the middle class as a complex and heterogeneous group, made up of people characterized by different interests and cultural backgrounds, but decisive for the conquest of power.

Concerning point *ii*) above, for Sylos Labini the method of analysis cannot be separated from the observation of reality, from talking directly to people involved in the processes analysed, listening to their stories, and "getting your hands dirty with reality" (Cavalli, 2016, p. 26, our translation). Sylos Labini believed in the two "R"s of economic research: *rigour* and *realism*. He never thought that pursuing one should mean giving up on the other. If a theoretical construct does not allow for the combination of rigour and realism,

then it is the theoretical construct that must be discarded, and not one of the two *Rs*.

Concerning the final point, *iii*), Sylos Labini follows the various stages of development in the Mezzogiorno, from the agrarian reform to infrastructural investments, the attempts to reproduce the industrial districts, and the incentive policies (De Benedictis, 2016). The *13th Annual Storep conference*, held at the University of Catania on 23-25 June 2016, dedicated a special session to the problems of economic development in the Italian Mezzogiorno, with particular attention to the Sicilian economy. The discussion was inspired by the works of Sylos Labini, and took into account his main reflections concerning the development of Sicily. As reported by Sylos Labini's colleagues and fellows (such as Marcella Corsi, Ester Fano, and Anna La Bruna), from the early '50s until his last years, Sylos Labini made many valuable contributions to the discussion of development in Southern Italy. During his time teaching at the University of Catania (1957-1960), he organized a group of researchers (including the sociologist Franco Leonardi and the economist Andrea Saba) to carry out in-depth analyses and to study the differences between urban and rural development in eastern and western Sicily, mainly through field surveys. The results of these surveys were published in 1966 in "Problemi dell'economia siciliana" (problems of the Sicilian economy). This work on Sicily is a perfect synthesis of Sylos Labini's research method, which oversteps the boundaries of economics, encouraging cross-fertilization with fields ranging from history, sociology, demography, and other disciplines.

#### **4. "The goal of the economist shall be to promote civil development": the interaction between economic development and civil development**

Sylos Labini stipulates that the goal of economic development is not to simply satisfy human needs, but to cater to civil development itself, in accordance with Adam Smith's fundamental lesson. For

example, if we consider the developmental issues of the Mezzogiorno, Sylos Labini highlights that the problems' nature is not solely economic, but rather they arise from unreasonable links between politics, economy, and society. Therefore, Sylos Labini provides not only economic and industrial policy suggestions (such as water supply projects, irrigation infrastructures, and investments for the creation of modern industries), but also identifies three priority areas of social policy: (i) measures to contrast the mafias, crime in public procurement, and corruption; (ii) reform of public administrations; and (iii) investments in education, universities, and research.

Economic development and civil development interact in a circular manner in the long run. Economic development can enhance civil development by decreasing poverty, increasing social infrastructure and enhancing the quality of work. Civil development can, in turn, contribute to economic development by influencing three key factors: culture, institutions (above all the market), and ethics. However, according to Sylos Labini's approach, this interaction is neither automatic nor continuous in time and space. Economic and civil development are historically determined; therefore, there could be moral, social, and environmental limits to their positive mutual influence. A modern interpretation of the interactions of economic and civil development is provided by Botti *et al.*, 2016. They analyse the different roles of social investments (such as education and health) and infrastructural investments in the process of strengthening the European social model and creating new jobs.

## 5. Final remarks

The aim of this note is to provide a brief summary of Sylos Labini's memories collected on occasion of the tenth anniversary of his passing away. A collection of Sylos Labini's works and a large number of articles in his memory are freely available in the Open



Archive, accessible at the URL <http://dspace.unitus.it/handle/2067/163>.

A full bibliography of Sylos Labini' work, edited by Marcella Corsi, is included in the recent volume *Paolo Sylos Labini economista e cittadino* (Paolo Sylos Labini, economist and citizen) edited by Francesco Sylos Labini, 2015.

It seems fit to conclude here with a quote from Sylos Labini, particularly inspiring in light of the current international situation, especially the refugees' crisis:

“The squalor of economic prospects is accompanied by squalor in our civil life. I think that we have to react by adopting a strategy in two, partly overlapping stages [...] addressing the economic crises of the industrialized countries and then aid to the hungry countries. In the second stage this strategy would imply the engagement of many people in remunerated and voluntary activities, and would offer ideals worth pursuing for the new generation in the place of the obsessive pursuit of money dominating and impoverishing social life in the advanced countries today: young people have, as it were, a biological need of ideals” (Sylos Labini, 2003, p. 198).

It is now up to us to awaken our “biological need” of ideals and reforms.

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