Paolo Sylos Labini (1920-2005): a tribute

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Paolo Sylos Labini (1920-2005) was one of the greatest economists of the 20th century, and an extraordinary human being.

After graduating from the University of Rome with a dissertation on the economic consequences of inventions, he studied at Harvard University with Schumpeter and at Cambridge (UK) with Dennis Robertson. From the times he had been working on his dissertation Sylos was convinced that the traditional (marginalist) theory of value and distribution, based as it is on a static notion of equilibrium, has little to say on the really important phenomena of modern economies, i.e. development (as distinct from purely quantitative growth) and technical change. This is why he decided to study with Schumpeter; at the same time he also acquired first-hand knowledge of classical economists, particularly Smith, Ricardo and Marx.

Active in the Italian post-war economic debate, he contributed to the ‘Piano del lavoro’ proposed by the trade unions for the reconstruction of the Italian economy, and on topics such as the dualism between North and South (the ‘Mezzogiorno’, still today a central problem of the Italian economy, and a constant concern for him throughout his life: cf. Sylos Labini, Scritti sul Mezzogiorno, 2004). He also wrote a few theoretical papers, some of which concern an interpretation of the trade cycle along the lines of Marx and Schumpeter (the main paper, 1954, is reprinted in The forces of economic growth and decline, 1984); and was part (with the jurist Guarino) of a two-men enquiry team on the international petroleum industry which was to provide the basis for the Italian petroleum legislation.

His main contribution came in 1956, with Oligopolio e progresso tecnico (English edn., Oligopoly and technical progress, Harvard University Press 1962). The book was thus published more or less simultaneously with J. Bain’s Barriers to new competition (1956). The two works were then grouped together in a widely read article by Franco Modigliani, ‘New developments on the oligopoly front’ (JPE, 1958), and it is in Modigliani’s version that they came to be accepted as part of the mainstream theory of non-competitive market forms. However, with his model Modigliani (a lifetime friend of Sylos, since the late forties) deprived Sylos’ theory of its original Classical context, thus devising a ‘neoclassical synthesis’ analogous to the one he had provided for Keynesian theory with his 1944 and 1963 articles. In doing so he left aside its dynamic aspects which were worked out in the second part of the 1956 book.

Sylos Labini’s notion of oligopoly is based on the Classical economists’ notion of competition, as freedom of entry into a sector of economic activity. When there are barriers to entry, there is oligopoly. Thus oligopoly becomes the general case, while competition (absence of any difficulty of entry) and monopoly (insurmountable barriers) are but limit cases, quite rare in practice. Explaining the barriers to entry - their nature and size - thus becomes the central object of the

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theory of market forms. While Bain focused on 'differentiated oligopoly', where the product is perceived as different according to the firm producing it and investment in advertising generates a barrier to entry, Sylos Labini focused on 'concentrated oligopoly', where it is the large efficient scale of plants which represents barriers to entry for new producers. Even if existing producers obtain a profit rate higher than the competitive one, new producers will not enter the sector, since their production would constitute a relevant addition to supply, bringing prices down. The barrier to entry thus depends on the size of the market, on the efficient scale of new plants, on the elasticity of demand (which determines by how much the price should fall, following the increase in supply brought out by the new plant) as well as on the rate of growth of the market (which determines how long the fall in price will last). This latter element introduces a dynamic aspect into the theory, which is then (in the second part of the book) developed in order to keep into account technical change and the implications of oligopolistic market forms for the dynamics of the economy; mark-up pricing is interpreted as a rule of thumb for price changes rather than as a way for determining equilibrium prices.

An econometric model of the Italian economy, the first of this kind in Italy, was presented in 1967 (in BNL Quarterly Review). It considers a three-sector economy: agriculture, where competition prevails; manufactures, where oligopoly is the rule; and the services sector, characterised by monopolistic competition. Demand and the liquidity situation of the economy determine investments in manufacturing, the leading sector in the economy, hence the process of accumulation and growth of the whole economy, so that a variant of the Keynesian principle of effective demand determines employment, with an important role attributed to income distribution. Prices in the three sectors follow different dynamic rules, due to the different market forms. This model provides an interpretative scheme for analysing the problems of the Italian economy, as well as a reference point for further analytical enquiries (concerning for instance the link between mark-up pricing and income distribution, JPKE 1979), extended to empirical analyses of other economies as well.

This line of research is developed further in Sindacati, inflazione e produttività (1972; English edn., Trade unions, inflation and productivity, Saxon House 1974). Wages and prices are not determined in fully competitive markets; utilisation of mark-up pricing on the side of oligopolistic firms interacts with bargaining over money wages between trade unions and industrial confederations, affecting - together with technical change - the path of income distribution.

These themes reappear in many subsequent contributions; an idea of the width and depth of Sylos Labini’s analysis is provided by The forces of economic growth and decline (MIT Press, 1984), a carefully chosen and well organised selection of his papers.

The most widely known of Sylos Labini’s books, among the Italian public at large, is his best-seller, Saggio sulle classi sociali1 (1974, translated in many languages - as many of his writings - but not in English), at the boundaries between economics, politics and sociology. In it Sylos Labini criticises the Marxian dichotomy between capitalists and proletariat, and stresses the central role of the 'middle classes'. The book gave rise to a lively political debate, contributing to the dramatic change of attitude of the strongest party of the Italian left, the Communist Party.

The 'Smithian' view of economic development is apparent in Sylos Labini’s contributions to the underdevelopment issue, the object of some books and articles, among which the recent Underdevelopment: a strategy for reform (CUP 2001). Stressing the great variety of economic trajectories in developing countries, Sylos is led to propose a strategy of institutional reforms. For instance, for Africa he recommends organisational reforms, including a programme to eradicate

1Transl.: Essay on the social classes.
illiteracy and to promote rural and industrial districts.

Sylos Labini opposed to the 'arc' view of neoclassical economics (from scarce resources to the satisfaction of consumers' wants and desires) the 'spiral' of classical political economy (where the 'spiral' is akin to Sraffa's 'circular flow', but with stress laid on development and change), characterised by cumulative phenomena. From this view spring many of his writings on technical change - mainly in the 1980s - where he proposed a 'productivity function'. It embodies a 'dynamic substitution effect' where the relative price of machinery in terms of wages affects the pace of mechanisation and technical progress.

In all his works, Sylos Labini conceives the economy as inseparable from institutions, political vicissitudes and civic virtues. This complex vision of human societies provides the background to his interventions in Italian politics, in recent years in opposition to the Berlusconi government, fustigating the moral feebleness and lack of dignity and civic sentiments dominant in the political leadership and in the country at large. His newspaper articles and books have been favourably received by many, but certainly not by those in power, who feared his strong and always well-documented criticisms, in the tradition of his old mentors and friends, Gaetano Salvemini and Ernesto Rossi. He was also at the origin of a constant flow of practical proposals, the most recent of which was a scheme for supporting industrial districts.

His writings reflect his personality, in which intelligence and passion, culture and morality were combined in a unique and fascinating way. A real force of nature, Sylos Labini was a natural leader. He preferred research and teaching to a political career, but considered political involvement as a duty for every citizen. Many Italian and non-Italian economists have been his pupils, and many more have been influenced by his views; with his example, he set an extraordinarily high standard of seriousness and moral rigour in research, in teaching and in lifestyle, coupled with a warm interest in others. His humanity will be missed by all those who had the fortune of knowing him.

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