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Obituary
In memory of Paolo Sylos Labini (1920–2005)*

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Paolo Sylos Labini died on 7 December 2005. He was an extraordinary individual, full of ideas and passionate about life. Many Italian and non-Italian economists have been his friends, and many more have been influenced by his views; but he was also a public figure universally respected – and feared – for his moral rigour and the compellingly concrete contributions he made to the Italian political debate.

Hailing from Puglia, in Southern Italy (although he was born in Rome, on 30 October 1920), Sylos Labini graduated in law in Rome in July 1942 with a thesis on the economic consequences of innovations. In 1948 he went to the United States, first to Chicago and then to Cambridge (MA), to study with Schumpeter at Harvard University. Some years later he spent some time in Cambridge (UK), where he worked with Dennis Robertson. By then, Labini had already formed his own ideas looking to the major classical economists (especially Marx, Ricardo and Smith), and to a Schumpeter purged of all neoclassical vestiges. The love for debate and the openness to argument which always characterized him brought Labini into discussion with all those around him, entering into friendships that would prove life-long. Particularly evident was his intellectual affinity with Piero Sraffa, but he also maintained constant contact with Nicholas Kaldor, Richard Kahn and Joan Robinson in Cambridge, not to mention John Kenneth Galbraith, Franco Modigliani, Paul Sweezy, and many others in the United States. Particularly close, despite the difference in their theoretical positions, was his friendship with Modigliani, consolidated in recent years with Sylos Labini's contribution to the drafting of the 'Manifesto' promoted by Modigliani himself (Modigliani *et al.* 1998), and their common opposition to the centre-right alliance led by Berlusconi.

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His writings reflect his personality, in which intelligence and passion combine in a fascinating way.

As stressed by K. Bharadwaj, a major contribution of Sylos Labini was the comprehensive and inclusive view he took of the general process of economic growth in terms of the interactive dynamics of market forms, innovations and income distribution: 'He draws imaginative insights from the classical political economy writers like Smith, Ricardo and Marx as well as the modern macro-theorists, Keynes and Kalecki and from Schumpeter, the innovator himself, to blend together, in his analysis, theory and empirically observed reality' (Bharadwaj 1993: 11).

His main contribution came in 1956, with *Oligopolio e progresso tecnico* (English edition, *Oligopoly and Technical Progress*, 1962). The book was thus published more or less simultaneously with Joe Bain's *Barriers to New Competition* (1956); the two works were then grouped together in a widely read article by Franco Modigliani (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, Modigliani with his model brought Sylos Labini's oligopoly theory out of the original (classical) context by leaving aside the dynamical aspects which occupy the second part of the 1956 book (Sylos Labini 1999, 2005).

Indeed, Labini's notion of oligopoly was based on the classical economists' notion of competition, as freedom of entry into an economic sector of 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 limiting cases, quite rare in practice. Explaining the barriers to entry – their nature and size – thus becomes the central object of the theory of market forms. According to Labini, barriers to entry depend on the size of the market, on the optimal size 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), on the rate of growth of the market (which determines how long the fall in price will last). This latter element introduced a dynamic aspect into the theory, which was then (in the second part of the 1956 book) developed in order to take into account technical change, and the implications of oligopolistic market forms for the dynamics of the economy; mark-up pricing was also interpreted as a rule of thumb for price changes rather than as a way for determining equilibrium prices (Roncaglia 2006).

This line of research was further developed in *Sindacati, inflazione e produttività* (1972; English edition, *Trade Unions, Inflation and Productivity*, 1974). Wages and prices are not determined in fully competitive markets;

utilization 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 Labini's analysis is provided by *The Forces of Economic Growth and Decline* (1984), which remains the major reference point for studying his economic thought.

One topic addressed in his earliest writings but developed mainly in the 1980s and 1990s is the impact of technological progress on economic growth and its effects on productivity and employment (Sylos Labini 1981, 1983, 1984, 1993, 2005). The adoption of the classical point of view led Labini to consider technical change as an endogenous process affected by three economic conditions. First of all, it depends on the extent of the market, to use Adam Smith's expression, which represents the general condition of the increasing division of labour and, hence, of technical change. The expansion of the market brings into being new activities and promotes the introduction of both new 'capital' goods and new consumption goods. The product innovations often satisfy needs of a higher order and therefore presuppose an increase in the average per capita income (i.e. labour productivity). The process innovations improve the productive performance and bring about a further augmentation of output. From both sides – capital goods and consumption goods – economic growth appears as a self-perpetuating process.

If the expansion of the market represents the general condition of technical change, the increase of real wages and the growth of investment represent two other relevant factors. On the one hand, increases in productivity are both cause and effect of the long-run increase in money wages relative to prices. As cause, the increase in productivity induces workers to demand higher wages. As effect, firms may offset wage increases by saving labour, either increasing the division of labour or introducing machines. If we distinguish between industrial prices in general and the prices of machines, in the case of wages outpacing the prices of machines firms will find it more profitable to save labour by substituting machines for workers. On the other hand, investment is a source of productivity growth in so far as innovations are embodied in new plant and machinery. This implies the consideration of the determinants of the level of investment within the analysis of the process of technical change; if this should be primarily demand pressure, as expressed by the degree of utilized capacity and current profits as the source of self-financing, then in this case too the variables are mutually related. Investment stimulates the process of innovation and increases productivity and, in turn, an increase in

productivity brings an increase of profits and then influences the level of investment.

In support of his rejection of the neoclassical equilibrium approach in all its variants and in favour of the classical approach, characterized by the central importance of dynamic analysis and integration between economics and the other social sciences, Sylos Labini offered a number of contributions criticizing the traditional approach, and in particular the aggregate production function. Indeed, for the latter he proposed an original interpretation, stressing the roles of increasing returns to scale and of what is known as dynamic substitution (Sylos Labini 1988 and 1995). In commenting upon these findings W. Godley wrote:

> They are indigestible if not, in the end, lethal to the neoclassical paradigm . . . Yet when, having produced a destructive critique of the neoclassical production function, he asks 'When will economists finally accept their own logic?' I do believe he is not just sniping from the sidelines at the neoclassical paradigm, he is shaking at one of its foundation stones.
>
> (Godley 1993: 59)

Now, it is up to us to keep on shaking.

Note

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