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## Growth and Institutions in Paolo Sylos Labini's Thought\*

### Abstract

According to Paolo Sylos Labini (1920-2005), it is vital for an economist to be acutely conscious of the responsibility to study society for the sake of promoting progress—the economic, social and civil progress of society—and not for personal interest. In his last book, *Ahi serva Italia* (2006), Sylos Labini spoke as a civic-minded economist to all those Italians who refuse to understand that respect for the rules is an absolute requirement for a market economy, and, in particular, that a market economy needs rules to defend the community against the unbridled expansion of positions of power. Within this analytical framework, our paper aims to discuss the role of institutions along different lines: the role of the market in the process of economic growth, public intervention in the economy and the process of institutional innovations.

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## 1. INTRODUCTION

Among the fundamental ingredients for civil advancement, “sound institutions” are an essential element for economic development. The *Lectures on Jurisprudence*, together with the *Wealth of Nations* and the *Theory of Moral Sentiments* constitute the “Smithian triptych” upon which Sylos Labini based his analysis. Smith’s work on jurisprudence fits in perfectly with the other two, closely linking the economic and legal systems in such a way that the economic development of a nation is to be interpreted together with its institutional evolution. The economist cannot be isolated from the law, and cannot elude the imperative to collaborate with the jurist for truly searching analysis of economic realities which imply a wealth of significant juridical aspects. If we grant a decisive role to the institutions that generate crucial rules for the profitable organisation of the economic system, then the jurists need to be duly aware of their particular role and attentive to realities, without reducing their activity to a sterile formalism<sup>1</sup>. According to Sylos Labini’s definition the institutions “comprise the organisational forms and juridical order of society in the spheres of both public and private law”<sup>2</sup>. Sylos Labini divides the institutes of the capitalistic system into two typologies: the “strictly capitalistic”, having to do with economic freedoms, the various forms of organisation that firms take on and ownership systems, and the “not strictly capitalistic”, directly associated with educational, training and research structures, and non-profit institutions.<sup>3</sup>

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<sup>1</sup> “I urge economists to impress on jurists that they should not remain isolated in their juridical formalisms, in their formal guarantees, but rather strive also to see the close connections with economic and social development. In Italy there is a formalistic tradition in law that is very strong; one can count on the fingers of one hand the non-formalist jurists, who certainly do not underrate matters of method but pay great attention to the underlying issues and realities” (Sylos Labini 1994a, p. 161)

<sup>2</sup> Cf. Sylos Labini 1994b, p.15.

<sup>3</sup> “Among the institutes constituting the capitalist system we find private ownership of the means of production and the freedom to launch new enterprises, but also a wide range of organisational patterns for productive activities – from autonomous workers to the large limited companies – a system of contracts and company structures geared to development and a bankruptcy law. Among the institutions that are not precisely capitalistic but nevertheless crucially affect the functioning of capitalism, we have the educational system, including the universities and research organisations, and various kinds of non-profit institutions”. (Sylos Labini 2000, p. 171)

In the following pages we will pinpoint certain general themes that lie at the heart of Sylos Labini's thought, concerning the favourable or harmful role played by the institutions in processes of economic development. In particular, we focus on the concept of market, the relationship between innovation and institutions, public interventions and institutional innovations.

## 2. THE MARKET

The principal institution for economic development is the market. Behind the very nature of the market is a legal system: according to Sylos Labini the market economy is not to be based on the celebrated motto *laissez faire* but rather on the motto *le marché c'est la loi*<sup>4</sup>:

The truth is that the market is not an empty space and there is no sense in the policy of *laissez faire*, if taken literally. «Le marché c'est la loi» is, rather, what we should be saying: it is the law that creates the embankments between which the water of the economy flows; without such embankments the water turns to marsh or causes floods. (Sylos Labini 2000, p.XIV).

The market is an institution in turn generated by institutions that produce norms able to define limits and potentialities for economic action. The *laissez faire* perspective – a condition of absolute freedom of action left to economic agents – entails negative effects not only for social equity, but also – indeed, primarily – for any lasting development process.<sup>5</sup> He does not see the

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<sup>4</sup> “But it is simply not true that the market is a natural phenomenon: it is the product of the evolution of centuries and has gone through profound changes in the course of time. Before taking on the form of an economic phenomenon, the market appeared as a legal structure” (Sylos Labini 2000, p.XIV). “In a note drawn up for a conference in Kiev, which I had to forego, I had pointed out that the market is discussed today as if it essentially consisted in an absence of constraints and rules, while the market is a historical product, complicated and delicate, and an essentially juridical product which takes concrete form in the institutions and whose mechanisms are essential for development” (Sylos Labini 1994a, p. 162).

<sup>5</sup> Public interventions must take place not through discretionary administrative actions – highly dangerous, since they open the way to abuse, waste and corruption – but through laws, able to channel the water of the economy in the direction of economic development – certain laws promote development, others obstruct it. And they must create or modify the juridical embankments between which the water of the economy flows, and without which the water gives rise to flooding and marshes. Beyond the juridical embankments, which incorporate rules of an ethical nature, there are the moral embankments, which are still higher” (Sylos Labini 2003, p.17).

market as a natural institution, but rather as a historically determined institution that undergoes more or less significant changes over time. Indeed, a major criticism which he brings against mainstream theory lies in the fact that, with its axiomatic application of the tool of mathematics in an all-inclusive representation of reality, it fails to capture the real nature of the market, which is of an institutional kind, not existing as a uniform, abstract entity but manifested in different forms over time and across space, since the different periods of history and diverse nations show dissimilar legal systems which directly or indirectly affect the market. As Sylos Labini writes: “The market itself, which has been seen as the predominant characteristic of capitalism, is not stable, since it does not function in a vacuum but rests on an institutional structure that changes over time”. (Sylos Labini 2000, p.4)

### **3. INSTITUTIONS AND INNOVATION**

Following along the path traced out by Smith, Sylos Labini gave labour productivity growth a central place in his analysis, seen as the very heart of economic development. Fundamental in this respect is a view of the labour productivity function in which the growth rate of this variable depends mainly on market size (Smith effect) and dynamic substitution between labour and machinery (Ricardo effect).<sup>6</sup> But, he points out, it is not only economic stimuli that can affect innovation processes, for the presence or absence of certain institutes can influence the productivity trend over time. A significant example is to be seen in agrarian contracts. Referring back to Smith, Sylos Labini observes that contracts granting farmers guarantees for appropriation of part of the fruits of improvements can enhance the productivity of labour and the soil alike. What counts, therefore, is not ownership of land in itself, but the certainty of being able to enjoy the results achieved with one’s own labour and innovative activity. Which is why both contracts

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<sup>6</sup> For an updated analysis of Sylos Labini’s labour productivity function cf. Corsi - Guarini 2007.

guaranteeing lifelong rights for farmers and their heirs and contracts that attribute the farmers no rights are equally inadvisable.<sup>7</sup>

Another significant example, again in the line of Smith's teaching, is the role of land ownership systems in the American colonies. In the America of the North colonised by the British Puritans land was essentially free, and the fact that anyone might take over a plot to cultivate on his own represented an incentive for landowners to treat the peasants well, with much higher wages than in Europe, and the peasants were encouraged to be more productive. Thus a virtuous circle formed between wages and productivity, powered by the legal status of land. By contrast, in South America the Spanish and Portuguese simply reproduced the Europe feudal system of centuries gone by, characterised by great landed estates and exploitation of the slave-workers, resulting in productivity incomparably below that of the North. One geographical exception – but further confirmation of the theory – is offered by Costa Rica which, despite its name (as Sylos Labini pointed out with his unfailing sense of irony), is poor in cultivable land; the Spanish colonists consequently showed no interest in controlling the agriculture, which in time saw the emergence of small local landowners reaping positive results that in any case excelled the results

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<sup>7</sup>“Smith points out that the insecure agrarian contracts, of brief duration, offering no guarantees to those who work the land to benefit from improvements are counterproductive for agrarian development, which is of great importance in the backward countries; as in indeed it is also important in the countries of the former Soviet Union. The contracts which provide the certainty of reaping fruits, even if those working the land do not own it, favour development” (Sylos Labini 1994a, p. 162). “All in all, to favour development it is not ownership itself that counts, but the guarantee that together with farmers can enjoy the fruits. This is one of the lessons we can learn from two very different sources. In the first place, the China of today, in which, together with recognition of the market, ample application is made in agriculture to those forms of land use concession. The other source is Adam Smith, who considers agrarian contracts in relation to the development of agriculture. According to Smith the least apt for development are the contracts that offer farmers no certainty of duration, like insecure tenancies, which can be terminated without notice; at the opposite pole are life or long-term tenancies, with the right for farmers and their heirs to benefit from the improvements they bring about. Smith deals with agrarian contracts in his work on economic, but he addresses the subject more systematically together with other sets of norms in the volume of Lectures on Jurisprudence, which belongs to the great triptych regarding man, always seen as a social – or in other words historical – animal, and never as an individual to consider in isolation. The triptych includes the Wealth of Nations, the Lectures on Jurisprudence and the Theory of Moral Sentiments, which concerns ethics: for Smith, economic development can become rapid and give rise to civil development only if it is based on ethical values”. (Sylos Labini 1998c, p.13)

obtained in the other Latin American countries.<sup>8</sup> From all this we can infer that institutes are not important in themselves, but as forming part of the right sort of environment<sup>9</sup>. Public institutions can also play important roles in favouring technical progress directly or indirectly. Examples of the former case are to be seen in public research institutions, beginning with the universities. In the latter case, policy choices may be made that condition productivity dynamics without having that precise objective. During the New Deal, Roosevelt decided to support agricultural prices guaranteeing the purchase of produce at remunerative prices with the constraint of limitation to the dimensions of cultivable lands. With the incentive of the government guarantee of advantageous prices, the farmers took readily to technical and organisational innovations to exploit the lands at their disposal as best as they could. Thus the productivity of both land and labour grew impressively: “this is a telling instance of the great range of forces that can boost productivity, and of the efficacy political action can have in the most diverse ways”.<sup>10</sup> Lastly, the institutions can also favour innovations by reducing the negative effects of losses. An illuminating example is offered by the juridical institution of bankruptcy. With the norms therein contained firms can cut their losses, which in turn reduces the risks involved in innovation

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<sup>8</sup> “Thus forms a virtuous circle by dint of which growing wages stimulate increase in productivity, and with this increase entrepreneurs are in turn able to pay increasing wages. To begin with, this process is triggered by the availability of unoccupied land” (Sylos Labini 2000, p.23). “In the Spanish and Portuguese American colonies the virtuous circle described above was prevented, not by physical want of good land – in reality there was more good land available than in the British colonies of North America – but by institutional limitations in the broad sense, including certain legal and fiscal rules, such as the possibility to take over uncultivated land, birthright, and heavy taxation”(Sylos Labini 2000, p.24). “In Latin America, however, we do find a sort of exception: Costa Rica. This country had in common with the United States the fact that no large landed estates appeared at the beginning of the colonial period.” (Sylos Labini 2000, p.26). See also Sylos Labini 1989, p.687.

<sup>9</sup> “For Smith, therefore, the right to ownership of land was not important in itself, but in the specific forms it took on in the various contracts based on that right. Paradoxically, even the lack of private ownership of land – a sheer impossibility in countries where there prevailed the rule «nulle terre sans seigneur» – can favour the development of agriculture if duration of possession of the land is in some way guaranteed. Such was the case of the free lands in what Smith called «our American colonies»” (Sylos Labini 2000, pp.20-21).

<sup>10</sup> “In the years preceding the Second World War, with the New Deal Roosevelt introduced a system to support agricultural prices, which had plunged to low levels during the Great Depression: the government guaranteed purchase at remunerative prices, but on condition that the farmers accepted not to work more than certain limited areas: the idea was to limit production by restricting the cultivated areas, the paradoxical result was that the farmers, with the incentive of the guaranteed prices, resorted to every sort of improvement – rotation, seeds, fertilisers, all sorts of machinery – to increase productivity per unit of surface area, and thus indirectly also per worker, in order to boost production while respecting the area limits. During the war the price support policy proved providential. In consideration of the interests involved, that policy has survived and is still in force, albeit with certain radical modifications. This case shows just how many forces can give rise to increases in productivity, and how effective political action may prove in all sorts of ways” (Sylos Labini 2004, pp.67-68).

processes. Thus indirectly this form of juridical protection fosters greater risk propensity, and with it an innovative entrepreneurial spirit. (...) In a planned economy agents could neither gain nor risk, and “so it is no paradox to state that capitalism won in the first place because its productive units could fail”<sup>11</sup>.

#### 4. PUBLIC INTERVENTIONS

The public institutions play an important role in economic development. According to Sylos Labini public interventions can be divided into military, social and firmwise, in the latter case being further divided into antagonistic and cooperative. Antagonistic interventions “force firms to behave as they would not otherwise”, while cooperative interventions “support the firms in their actions and directly or indirectly help them”,<sup>12</sup> at either the financial, organisational or structural level.

Sylos Labini follows Luigi Einaudi in subdividing interventions into two types: “administrative”, depending on the discretionary action of the public administration, and “juridical”, as prescribed by law. Like Einaudi, he held it important to minimise the former, which could lead to abuse and corruption, while favouring the latter, which should be characterised by transparency, simplicity, efficiency and automatism. However, Sylos Labini adds, a happy balance should be sought between the two types of intervention since the former are more flexible and can foster economic freedom if used correctly while the latter could with improper use stifle any such freedom<sup>13</sup>.

According to Sylos Labini, public investments have not only the *Keynesian effect* of boosting demand, but also a *Harrodian effect*, enhancing the productive capacity of the private sector stimulating private investments. In fact, the two types of investments are not substitutive but

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<sup>11</sup> Cf. Sylos Labini 2000, p.172.

<sup>12</sup> Cf. Sylos Labini 2004, p.83.

<sup>13</sup> Cf. Sylos Labini 1994a, p.27.



complementary: public investments favour private investments, which prove more than proportional.<sup>14</sup> For this nexus to prove fruitful it is an indispensable condition that the public investments be productive. Only if the interventions launched by the State are efficient and efficacious can they take on a decisive role for economic development. Thus the issue to be addressed by politicians and economists is not a general critique of State interventionism, but research as to the best tools to render the role active and fruitful. For this reason, too, the relationship between State and market should not be one of conflict: “the state-market contraposition is misleading: what ultimately counts is the efficiency of the system”<sup>15</sup>. And, again, Sylos Labini writes: “The State-market alternative appears increasingly antiquated and primitive. There are a growing number of activities in which State and market cooperate with mutual benefit.”<sup>16</sup>.

Moreover, “productive” public spending can give rise to a fiscal virtuous circle: higher public spending – higher income – higher fiscal revenue – higher public spending. In this way even public deficit spending does not necessarily call for a tax hike since higher revenues can be generated by higher income. Unfortunately, in reality the State often fails to intervene efficaciously, as is exemplified all too well by the policies designed to relaunch Southern Italy, the Mezzogiorno. Thus for close evaluation of the results of public investments and public interventions in general the need is to keep civil and political watch so that the “algebraic sum for waste and misappropriation and growth in production and productivity”<sup>17</sup> does not become

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<sup>14</sup> “Such [public] investments not only have the immediate Keynesian effect of increasing demand, but also the – we might say – Harroddian effect of increasing the productive base, above stimulating growth in private investments, so that between the two categories of investments we do not observe contraposition, but rather complementarity; and indeed, given that the infrastructures have a wide variety of lasting uses, it can be argued that the growth of private investments proves more than proportional to the public investments that favoured them.” (Sylos Labini 1999*b* p.1). See also (1999*a* p.1)

<sup>15</sup> Cf. Sylos Labini 1994*b*, p.27.

<sup>16</sup> Cf. Sylos Labini 2003, pp.125.

<sup>17</sup> Cf. Sylos Labini 1994*b*, p.28.

negative, as occurred on a scandalously vast scale with “tangentopoli” – the generalised corruption uncovered by Italian magistrates in 1992.

Among the major ills jeopardising success in public action are corruption, political party interests, conflict between public structures, shortcomings in planning and, in general, overgrown bureaucracy. Sylos Labini affirmed the importance of coordinating Community policies along four major lines: relaunching investments, creating a flexible labour market, introducing incentives through credit and tax concessions, and transformation of subsidies into production incentives where possible, as he asserted in the “manifesto against unemployment”, promoted by Franco Modigliani and signed by thirty-two economists including himself.<sup>18</sup> The main objective of these policies is to increase employment, an issue that Sylos Labini was much concerned with, in 1998 drawing up what he termed a *hexagonal programme for employment*, in which he gave concrete expression to the idea of an active role for the institutions to trigger processes bringing about economic development. In fact, the leading roles in this programme are held by six ministries, each with its own specific task: for the Ministry of Labour, to provide incentives for young entrepreneurs and support migration; for the Ministry of Industry, to reform and promote the industrial districts and support technological transfer in collaboration with research institutions, and in particular universities; for the Ministry of Public Works, to generate the infrastructures serving the industrial districts; for the Ministry of Scientific Research and Technology, to drive innovation linking the world of research with the business world; for the Ministry of Finance, to devise innovation-linked tax concessions for small firms; for the Treasury, to create a structure for technical consultation and planning for local entities, made up of various specialised companies.<sup>19</sup>

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<sup>18</sup> Cf. Modigliani *et al.*, 1998.

<sup>19</sup> Cf. Sylos Labini 1998a, p.1.

## 5. REGULATIONS

Regulation is a particularly important activity for the State. According to Sylos Labini, action must be taken avoiding the two extremes, namely lack and excess of rules, striving towards the optimal degree of regulation for economic development. However, the degree cannot be deduced at the abstract level with mathematical models, valid in all circumstances, but can only be inferred case by case, guided by reason and realism. The complexity of the problem is attested by two “paradoxes” produced in the course of history: a regulated market which de facto favours monopolistic firms (the case of America), and a deregulated market devoid of valid juridical bases implying something rather worse than a planned economy (the case of Russia)<sup>20</sup>. These two emblematic cases suffice to show how Sylos Labini approached this field, too, not from an ideological point of view but as historically conditioned by the real needs for economic development.

According to Sylos Labini the typology of applicable rules depends on the degree of competition at work in the market to which they are to be applied. In a competitive market that produces standardised goods it will suffice to apply “general juridical rules that find a place in the system of contracts or organisational forms of the firms, and which are reasonably stable over time”<sup>21</sup>. When, however, the markets are oligopolistic the need is for “particular rules that, if efficiency is being pursued, can imitate the mechanisms of the competitive markets – for example, the procedures for auctions or competitive tenders offer examples of such rules”<sup>22</sup>. Let us look at two concrete examples of regulation analysed by Sylos Labini in which he takes no ideological

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<sup>20</sup>“Ill-conceived rules can increase the monopolistic power of certain firms instead of reducing it: this is the first paradox that emerges from experience in America. On the other hand, extreme deregulation, neglecting security for the sake of competition, can have even more negative effects: this is the second paradox. Then we have the Russian paradox: unbridled liberalisation neglecting systematic reform of the juridical foundations on which the market rests generate an economy that functions even worse than a centralised economy. In short, rules are useful, and in some cases cease to be so, but they must be well conceived and take the form of juridical interventions, objective and equal for all, and not of administrative interventions by their very nature discretionary”. (Sylos Labini 1998b p.1)

<sup>21</sup> Cf. Sylos Labini 1994b p.28.

<sup>22</sup> *Ibidem*.

positions but describes the various elements in play that have to be taken into consideration for an efficacious policy in rules.

The first case we consider is that of liberalisations in the energy sector. In the 1960s, together with Ernesto Rossi he took part in the movement for nationalisation of the Italian electricity network, seeing public unification as an efficacious way to achieve economies of scale such as could make inter-regional distribution efficient and minimise the abuses deriving from local monopolies<sup>23</sup>. More recently, however, he came out in favour of privatisation, observing that the advantages there were to be gained from nationalisation had been reaped and that progress in economic analysis rendered tariff policy more efficacious. However, Sylos Labini stressed the crucial importance of the point that the State should not simply hand over control to private concerns, but should strive to create such conditions as ensure that the interests of households and firms be safeguarded. Moreover, the electrical infrastructure must in any case be able to cope with the problems involving the environment and European interconnections.

The second case to consider has to do with labour flexibility. The basic idea is that the goal to pursue is not maximum flexibility, but rather optimal flexibility matching the need to boost productivity for the sake of economic progress and social progress in terms of increasing employment: the two extremes – total freedom to fire and thorough rigidity – are both measures to avoid. In periods when demand is high excessive flexibility would encourage firms to organise labour-intensive productive processes, leading to a considerable rise in employment but poor growth in productivity since on the one hand firms would acquire relatively little machinery while, on the other hand, the workers' productivity would be low in the absence of any meaningful connection with the firm. At the same time, excessively low flexibility would

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<sup>23</sup> Cf. Rossi 1962.

represent an incentive for firms to hire as few workers as possible, preferring to invest in machinery, with the result of boosting productivity at the expense of employment.

The need is to find the right juridical rules to reconcile both requirements, which is why Sylos Labini in 1985, at a time of marked labour market rigidity and low growth, wrote (in the daily newspaper “Repubblica”, in a “dangerous” article for a period fraught with terrorism<sup>24</sup>) that the justified reasons for firing should be extended, while more recently he opposed the intransigent position of industrialists demanding unconditional freedom to fire. In fact, he deemed it necessary for them to concentrate on process and product innovation to be more competitive on the international markets, since, among other things, as he pointed out, “we are really lagging; the fault is of the State, but even more of the industrialists, who prefer to invest in footballers”<sup>25</sup>.

## **6. INSTITUTIONAL INNOVATIONS**

Alongside technological innovations, institutional innovations help to speed up economic development. In this respect, Sylos Labini distinguishes certain crucial aspects. The first is that the institutions must be in a state of continuous innovation to adjust to the ceaseless changes in production. Moreover, since institutional changes are of a general nature they must be guided by a precise strategy, especially in the countries whose economic systems are in the early stages of development. Innovations should emerge from close collaboration between jurists, economists, political scientists and sociologists, together seeking the ideally apt instruments for economic development.<sup>26</sup> Finally, every institutional reform constitutes an important moment in civil life

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<sup>24</sup> Cf. Sylos Labini 1985, p.1.

<sup>25</sup> Cf. Sylos Labini 2001, p.17.

<sup>26</sup> “[...] changes of this type [institutional innovations] must occur relatively often, since the structures in which productive units they operate change over time, even in the short period. Changes in the legal framework are particularly important given their general influence: it is one thing to bring them in little by little, under the pressure of particular problems, and quite another to introduce them according to a thoroughgoing strategy. This is especially true in the case of the underdeveloped countries seeking to launch or speed up development processes, without doubt, the formulation of institutional and organisational reforms is the task of experts in public and private law. But the economists must work in close contact with the jurists to give advice on the measures able to stimulate

since it also has to do with “the cultural values and the economic and non-economic interests of the classes and social categories”<sup>27</sup>. In the various stages in the evolution of capitalism distinguished by Sylos Labini, such as the age of “commercial capitalism” (17<sup>th</sup> century – mid-18<sup>th</sup> century), “industrial or competitive capitalism” (late 18<sup>th</sup> – early 19<sup>th</sup> century), “oligopolistic capitalism” (late 19<sup>th</sup> – 20<sup>th</sup> century) and the “capitalism of the revival of small firms” (present stage)<sup>28</sup>, technological and institutional innovations alternated. The first stage saw the abolition of feudal structures, the recognition of private property, the rise of the modern bank and the first stock exchanges; the second was marked by the development of the stock exchanges and of public limited companies; the third stage witnessed the large-scale company amalgamations and the birth and development of the multinational enterprises<sup>29</sup>.

One important institutional innovation proposed by Sylos Labini is the *Smithian reform of the bureaucracy* vis-à-vis the industrial districts. Here his theoretical starting point is actualisation of Smith’s idea that, once the Roman Empire was dissolved, the cities that organised themselves for collective payment of taxes for the sovereign gained, on the one hand, greater freedom and autonomy for the citizens and, on the other hand, guaranteed payment to the sovereign avoiding the possible abuses of his officers. By analogy, the proposal is that since the bureaucracy represents a serious obstacle for the competitiveness of firms, the Chambers of Commerce could collectivise the districts’ bureaucratic and fiscal procedures. In particular, centralisation should be achieved with regard to “performance on behalf of the firms of all the administrative procedures necessary for setting up and running firms, supplying services in the fields of information and legal, technical, financial and fiscal advice”<sup>30</sup>. The reform of the districts

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development. The advice of political scientists and sociologists is also needed. It is a matter of direct advice, or indirect advice offered by intellectuals...”(Sylos Labini 2000, p.VI).

<sup>27</sup> Cf. Sylos Labini 2000, p.VII.

<sup>28</sup> *Idem*, pp. 4-13.

<sup>29</sup> *Idem*, pp. 16-18.

<sup>30</sup> Cf. Sylos Labini 2005, p.5.

devised by Sylos Labini also implies the coordination of other important activities, such as: “offering advice and promotion services regarding innovations deriving from the public research system; promoting relations with the European Union, collaborating on innovative projects of particular importance; collaborating with the central and regional government structures to favour outlets for local products on both the home and foreign markets”<sup>31</sup>.

Thus it is a reform of the districts that would have positive direct and indirect effects. An initial direct effect would be to reduce the responsibilities and costs of administrative duties weighing heavily on productive activity, so as to leave the firms free to compete on the national and, above all, international markets. A subsequent direct effect lie in the incentive for virtuous behaviour given to individual firms, since cases of tax evasion would damage the entire district, making the flow of revenues more certain. This form of organisation would also have two indirect effects in particular: it would streamline liaison with public structures, and thus with research structures, too, and it would encourage the formation of new industrial districts and the entry of firms into those already reformed.

An institutional reform that found favour with Sylos Labini came with enactment by the United States Congress of the July 2002 law on the various, dangerous conflicts of interest that characterised the American economic system. Auditing firms, merchant banks and public company managers legally performed various activities in which they had interests of their own at the same times as both controllers and controlled. An emblematic example is offered by the auditing firms that supplied services paid for by the companies whose balance sheets they verified and certified. Such a situation was untenable for the economy and for society, but, as Sylos Labini points out, the institutions were able to react, generating the antibodies that could

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<sup>31</sup> *Ibidem.*

get the system back into good working order, with the due severity of administrative and penal sanctions. However, institutional reforms can also have negative repercussions on the economy, and the example that Sylos Labini cited with impassioned insistence concerned the two laws enacted in Italy by the Berlusconi government, on international rogatories and the decriminalisation of false accounting. The net effect of these laws was to reduce the transparency and moral probity of the economic system with detrimental effects for civil development. Other reforms deemed important address contracting out, the aim being to limit corrupt tangential-type practices as far as possible. It “would be an institutional reform that could clean things up considerably”<sup>32</sup> since “it [contracting out] has offered a channel for violent corruption in which public and private have combined in the worst of ways to form a mighty sewer”<sup>33</sup>.

Another reform considered important has to do with the set of measures that can offer support to young entrepreneurs and in general the birth of new enterprises. The measures should apply to both the unemployed and employees who wish to become small entrepreneurs, thereby generating a “production of firms by means of firms”<sup>34</sup>. In the latter case at times “it is the mother firms themselves that favour this process since they find it advantageous to lighten the wage-worker burden, going on to enter into contracts with the new small firms for the purchase of goods or services”<sup>35</sup>. However, in the absence of such advantages, institutional and organisational instruments are needed to render the transition rewarding: they could take the form of tax or credit incentives, technical and organisational support, reform of the Cassa Integrazione Guadagni (the Italian redundancy payment system) “to transform it, at least in part, into a fund to finance employees who branch out on their own”<sup>36</sup>. In certain cases Sylos Labini argues that policies in support of the creation of new firms could remedy the inefficiency of

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<sup>32</sup> Cf. Sylos Labini 1994a, p.164.

<sup>33</sup> *Idem*, pp.163-164.

<sup>34</sup> Cf. Sylos Labini 1993, p. 8.

<sup>35</sup> *Ibidem*.

<sup>36</sup> *Ibidem*.



activities run by public companies in the agricultural sector: “Certain public companies are owners of farmlands: would it not be better to assign them to workmen on redundancy pay prepared to cultivate them rather than continue to waste resources keeping alive activities in irreversible crisis?”<sup>37</sup>. Such a reform would benefit not only economic development but above all civil development, seeing that: “In the Mezzogiorno it is hard to find a job without the help of some prominent politician or mafia man, and in some cases the two roles coincide. All this fuels political patronage, bowing to the powerful, to the boss who can provide a job”<sup>38</sup>. This reform would thus imply a “civil advantage because it cuts the queues forming in the offices of the men who wield power, and many of whom are now under investigation; conversely, it would increase the numbers of those who throw off shackles of various kinds by branching out on their own”<sup>39</sup>. Other institutional innovations indicated by Sylos Labini concern limited companies, to reform the capitalist system from within. In any case, it is still a matter of real importance that institutional innovations be as widely subscribed to as possible since, as Smith maintained, and Sylos Labini repeated, “skill in directing people and persuasion have always been the most efficacious and soundest instruments of government, just as force and violence are the worst and most dangerous”<sup>40</sup>.

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<sup>37</sup> Cf. Sylos Labini 1984, p.6.

<sup>38</sup> Cf. Sylos Labini 1994a, p.165. Another quotation “Favouring the creation of new firms means favouring the capacity of individuals to face the risks; it means cutting the queues in the lobbies of the local political powers and filling out the ranks of free, independent people; in a word, it means contributing to the civil development of the South. As a southerner, I have long argued that the problem of the Mezzogiorno is not economic backwardness: it is civil backwardness” (Sylos Labini 1993, p. 8).

<sup>39</sup> Cf. Sylos Labini 1994a, p.166.

<sup>40</sup> Cf. Sylos Labini 1999c, p.14

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