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PAOLO SYLOS-LABINI'S CONTRIBUTION TO AND AFFINITIES FOR INSTITUTIONAL ECONOMIC THOUGHT

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Abstract: The text proposes a study of Sylos-Labini's interdisciplinary orientation and how this relates to the institutional approach. Sylos-Labini's multi-disciplinary approach seems to stand between Old Institutional Economics and New Institutional Economics. He states that an interdisciplinary approach, in which economic theory is juxtaposed with history, sociology, anthropology, and empirical research, is realistic and does not entail any limitation on the production of scientific knowledge. Thus, Sylos-Labini seems to be more interested in the old institutionalist school and sociology than new institutional economics and the theory of firms and contracts. Therefore, this paper investigates whether Sylos-Labini's multidisciplinary approach to economics can represent a possible bridge between Old Institutional Economics and New Institutional Economics.

Keywords: Interdisciplinary Approach; Institutional Approach; Neoclassical Economics; Sylos-Labini

JEL codes: B15; B24; E13

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Introduction

Institutional economic thinking distances itself from orthodox neoclassical economic theory and moves closer to theoretical traditions from sociology, anthropology, psychology, and history (Rutherford, 2001). The contribution of the other social sciences is often overlooked in understanding economic phenomena, considering unorthodox schools of thought as something outside the perimeter of economic science (Morselli, 2018; 2023, p. 11).

Paolo Sylos-Labini, too, was convinced of the close relationship between economic science and the other social sciences, so much so that he moved away from the neoclassical school and towards the classical school in order to adopt an interdisciplinary methodological approach.

He was, in fact, opposed to the excessive use of mathematical formalism and rather oriented towards exploring disciplines adjacent to economics, such as sociology and history, which are capable of bringing together the formal rigour of economic mechanisms with the analysis of reality in its historical evolution (as demonstrated in his *Essay on Social Classes*, 1974a).

While one should certainly not underestimate the resistance of neoclassical theory, one cannot simultaneously accept it as fact that no progress can be made in economic thinking. In this regard, North (1994) began his work as an historian of economics with a neoclassical radicalism and the problem of efficiency based on the maximizing rationality of the individual; he then changed orientation and continued with his discovery of the importance of institutions. Thus, he gradually moved away from the neoclassical tradition and developed an original institutional theory in the nineties. North criticises neoclassical thinking because it disregards institutions and time, neglects transaction costs (Williamson, 1986; Todorova, 2016), and relies on unlimited rationality.

In this vein, Sylos-Labini (1985) proposes a vision close to the institutional analysis of economic processes, encompassing both contemporary economic science and sociology, i.e., a sensitivity towards institutions understood as organisational, cognitive, and normative structures that condition and regulate the complexity of economic life. Therefore, it is evident that the institutional approach and the approach developed by Sylos-Labini have points of similarity.

In his choice of topics and analysis techniques, Sylos-Labini was pluralistic, demonstrating that different tools for constructing economic models are reliable. What neoclassical economics imposes is only one of the possible ways. In a nutshell, Sylos-Labini's work confirms that an interdisciplinary approach, in which economic theory is juxtaposed with history, sociology, anthropology, and empirical research, is realistic and does not constitute a restriction on the ambition to produce scientific knowledge (Ambrosino & Storti, 2020, p. 299).

Hodgson (1991, p. 30) highlights the relevance of social institutions, and since economic actions are not entirely flexible and intentional but habitual within a given structure, then it is important to analyse social institutions in order to understand how current habits and procedures are formed. This allows the basis of habitual action to be analysed from the perspective of the system as a whole.

The relationship between social institutions and individual ideas was identified by

Veblen (1919), who thought of institutions as 'well-established habits of thought, common to most men'. In this context, a social institution can be defined as an organisation through which repetitive patterns of behaviour that persist over time are generated by tradition, custom, and legal constraints.

This paper will analyse Sylos-Labini's interdisciplinary orientation and whether this could represent a possible bridge between OIE and NIE.

1. Sylos-Labini and the neoclassical school

Neoclassical economists regard capital as an aggregate quantity that can be measured not by considering income distribution but with the interest rate as its price. For Sylos-Labini (2000, pp. 64–65), capital cannot be measured in such a way (per Harcourt, 1972), and the interest rate is the price of the loans needed by firms to purchase all factors of production (as argued in Schumpeter, 1911). Therefore, a change in interest is likely to vary the profitability of the use of different factors of production and thereby alter the composition of factor demand. But it is not possible to predict whether an increase in interest will cause a decrease in the demand for machines, relative to the demand for labour. *Instead, it is argued that the demand for machines will increase and the demand for labour in relative terms will decrease, if wages rise relative to the price of machines. This finds support in the analysis of Pasinetti (1966) and Garegnani (1966).*

The approach explaining income distribution developed by Sylos-Labini (1995) is very different from the interpretation derived from the Cobb–Douglas function used to interpret the development process.

According to Sylos-Labini (2000, pp. 77–80), neoclassical theory was static[1] and devoid of real time: it only provided techniques and used curves to express hypothetical variations. Therefore, the analysis of a development process was precluded, since the idea of analysing such a process by assuming shifts of these curves was not acceptable. The work of Romer (1987), Lucas (1988), and Rebelo (1991) paved the way for new theoretical developments. Sylos-Labini did not reject neoclassical theory, but he tried to move from a static to a dynamic approach and make the forces supporting growth 'endogenous'. However, he was not convinced that the efforts of these economists had been successful. Sylos-Labini goes on to say that the Cobb-Douglas function cannot be accepted, not only because it is based on

[1] Sylos-Labini (1990) thought that the great body of economic theory was still static, and he generally associated this characteristic with that of sterile formalism; this was precisely because our era is dominated by technological change and the process of economic development, phenomena often excluded from static analyses.

completely unrealistic assumptions, but because two such assumptions, namely that interest is the price of *financial* capital and that the quantity of capital can be taken as given independently of its return, are logically untenable.

To summarise, Sylos-Labini states that the central problem of neoclassical theory is to clarify the conditions of the optimal allocation of resources and, in particular, to identify the equilibrium points of the different phenomena examined by means of static curves; the fundamental aim of classical economists concerns the conditions that sustain the development of the wealth of nations. While the neoclassical approach can be adopted for some short-term analyses, for problems concerning economic development, it is necessary to refer to the approaches of classical economists.

2. Sylos-Labini's investigation of social classes in the interaction between economics and sociology

In his work *Saggio sulle classi sociali* (1974), Sylos-Labini goes beyond economic analysis, also considering aspects of societal characteristics from a sociological perspective. In this context, he broadens the scope of the study of economics to an interdisciplinary reality and disregards the principles of the marginalist school, according to which the investigation of economic phenomena must be detached from social variables in order to develop laws with a high level of abstraction.

Sylos-Labini's study of Italian social classes resembles that carried out by Weber (1961) and Marx (1951), who linked social classes to an analytical representation of society. He analyses the gears that connect the different dimensions of the economy, politics, and society. He focuses on a modern view close to the institutional analysis of economic processes that is present in both economic science and sociology.

Sylos-Labini states that in the course of history, established institutional and social structures take shape, which change incrementally; in this way, there are similarities with both Veblen's *Old Institutionalist school* and the sociological view known as the *New Institutional school*. These two currents of research differ principally in the decision-making process of agents: the former excludes a path of maximisation, since choices are indicated by institutions from time to time; whereas a path of maximisation is possible for the latter. Despite these theoretical differences, however, both currents of research show how politics and institutional structures define the rules of the economic environment by allocating resources on the basis of pressures, compromises, and conflicts. These sometimes result in good economic and social performance, while on other occasions they produce position rents that are difficult to change. These orientations, as opposed to neo-classical ones, are based on the study of institutional principles in social composition and economic systems, which mark both *Old Institutionalist Economics* and the more *sociological New Institutional Economics*.

Heterodox paths represent a fertile ground to nourish such a debate; specifically, the institutional current, highlighting the role of institutions in heterodox analysis, has studied the boundaries of this disciplinary context and outlined potential developments (Hodgson, 2014; Hodgson, Stoelhorst, 2014). Within the perimeter of this recent debate, the elements we have highlighted which are present in Sylos-Labini's research, namely interdisciplinarity and institutions, become key points. In the 2014 special issue of the *Journal of Institutional Economics* on the future of institutional economics, it is possible to delve into the state of the debate on the topics set out (Ménard, Shirley, 2014; Ménard, 2014; Winter, 2014; Witt, 2014; Stoelhorst, 2014).

In this regard, in contrast to neoclassical theory, the orientation of *New Institutional Economics* focuses on changing economic institutions and their relation to the functioning of social systems, considering the individual not as a maximising agent, but as an institutionalised actor within a defined institutional context. However, it is noted that *New Institutional Economics* dialogues with other social sciences and is not closed within the mainstream approach (Williamson & Donà, 1994). Indeed, it is an interdisciplinary interweaving of law, economics, and organisations; and organisations are analysed in the light of sociology, political science, and social psychology. As Matthews (1986) states, *New Institutional Economics* revolves around two propositions: 1) institutions matter; and 2) institutions can be subjected to analysis.

3. Sylos-Labini in proximity to Veblen's evolutionary institutionalism

In Sylos-Labini's work, we can find convergences with that part of Veblen's (1898) institutional economics called Old Institutional Economics, due to its methodological approach oriented towards interdisciplinarity. Old Institutional Economics rejects the concept of methodological individualism and that of the rational individual maximising his or her own utility, while emphasising the role of habits, behavioural rules, and social norms as the basis of individuals' actions. All this represents an alternative conception of economic behaviour that has its origins in institutions. Veblen points to the link between institutions and the evolutionist approach, which considers the process of economic change. Evolutionary science considers processes without origin or purpose to be based on cumulative causality: a conception taken up by Nobel Prize winner Myrdal (1957) through his theory of 'circular cumulative causation'.

According to Chavance (2010, pp. 19–20), the evolutionary economic school must have economic action as its object. The economic activity of the individual is a cumulative process of adaptation of means to ends that change cumulatively, so that both the agent and its environment are at all times the result of the last stage of the process. The idea that there can be a legitimate tendency towards a predetermined purpose (as asserted by classical and neoclassical economics) conflicts with evolutionary thinking.

Veblen's (1945) most heated criticism of neoclassical theory concerned the fact that it was inadequate for the achievement of more immediate goals. His interest was to examine the process of change in the modern economy and not to indicate the conditions of survival to which each innovation is subjected, assuming that the latter has already manifested itself. Veblen was looking for a theory that could explain why such innovations manifested themselves, not a theory that dwelt on the equilibrium conditions once a given technology had been determined. The fundamental issue was not how a static condition is achieved but how scenarios change continuously. Veblen goes on to state that the economic system is not a self-regulating mechanism but a cumulative process. Every economic institution is a complex of conventional habits and behaviour; given both the impetus of technological and social change in industrial society and new conceptions that clash with traditions which are abandoned upon every innovation in the techniques and organisation of production, the cumulative nature of economic development can lead to accidental crises rather than continuous progress.

The above can be traced in Sylos-Labini's thinking. He argues that individuals and institutions have a close link of mutual causation, as the former are able to activate processes of change at a social level that influence existing institutions, while the latter direct individual and social behaviour. Thus, Sylos-Labini shows the link between economics and sociology and his idea that economic and civic development have a circular interaction relationship (Guarini & Zacchia, 2020).

Major technological innovations have been driven and supported by institutional innovations, which are incorporated into laws (Sylos-Labini, 1974b).

Changes in institutions influence and are influenced by economic development, although the expansion of particular industries, such as the railways, has played a major role in fostering institutional transformations. In the case of certain industries which are important not only in terms of their size but also because of the consequences they can have on the whole of social life, such as electricity, their development is necessarily governed by laws that have to be modified over time. However, the most significant institutional changes affect the entire economy in a process of continuous change that is part of the overall cultural evolution in which institutional changes represent only one aspect (Sylos-Labini, 2000, pp. 17–18).

4. Institutionalism as an evolutionary science

As can be seen from the previous paragraph, Veblen made many efforts to counter the mechanistic neoclassical conception of general equilibrium. An alternative to the neoclassical paradigm comes from a scheme with an evolutionary perspective as its principle, as suggested by Nelson and Winter (1982).

For Winter (1964), the environment with which a consumer or entrepreneur is confronted is subject to changes, quite often rapid and sudden ones. Therefore, it is difficult to detect a linear (or Darwinian) path of gradual natural selection, and the survival of the maximising agent or enterprise is subject to an element of randomness.

By incorporating certain institutional components, such as habits and customary practices, it is possible to identify mechanisms in the evolutionary process that play a role similar to that of genes in the natural world. Although customs and customary practices are mouldable and do not change like biological genes, they possess characteristics of stability and tend to transmit them over time. They are also capable of passing on patterns of behaviour from one institution to another. One example to consider is that of the professional skills acquired by a worker in a given enterprise, which are incorporated into his or her habits. These skills survive even when the individual changes employers or if they are passed on to a colleague. Workers' habits play the role of carriers of information, knowledge and professional skills. It is emphasised that we are not in the presence of biological evolution, in the sense that the characteristics of one individual are transferred to another. Although it has been noted that individuals are involved in this process, the transmission is not biological but rather shifts from one institution to another and, in this way, to individuals (Nelson & Winter, 1977).

Unlike in a biological scenario, according to the Darwinian interpretation, economic evolution is not always gradual. Sudden changes occur when rapid transformations in social, economic, and technological culture lead to the rapid acquisition of new capabilities and new customary practices. Moreover, certain forms of customary behaviour may be abandoned as soon as confidence in their effectiveness wanes, resulting from changes in economic conditions and expectations. According to this perspective, economic evolution is explained by a succession of periods of stability and crisis, of apparent equilibrium and cumulative instability (Morselli, 2023, p. 50).

The above research framework considers economic theory an evolutionary science whose analysis is based upon the nature of change in economic institutions and their relationship to social systems, thinking of the individual as an institutionalised being rather than a maximising agent (Hodgson, 2019). From all this, an interdisciplinary field of research emerges that takes into consideration other scientific orientations such as sociology, psychology, anthropology, history, and empirical research.

This institutional approach finds many similarities with that adopted by Sylos-Labini; in fact, he too draws from other disciplines such as history and sociology to examine concrete reality in its historical evolution, as well as to understand whether reality confirms the formal rigour of theory. In this regard, Sylos-Labini is close to the orientation of Mitchell (2002), who argues that the researcher should be very cautious in producing prescriptive and normative indications from his analyses, as they are conditioned by time and social context.

Corsi (2006, p. 3) agrees with Sylos-Labini that economic research requires two 'Rs': namely, rigour, and realism; and he never felt that the pursuit of one should imply the renunciation of the other.

If a theoretical approach does not allow for rigour and realism to be reconciled, it is the theoretical approach that must be neglected, not either of the two 'Rs'. The different theories must be internally consistent, but they must also grasp the fundamental characteristics of the reality under study.

5. Differentiated paths of economic development, Southern Italy, and the *New Institutional Economy*

The study of development economics can be undertaken following different approaches, one of which is that of neo-institutionalism[2]. With this and comparative economic history in mind, our analysis shows us that contexts of underdevelopment are accompanied by high transaction costs and difficulties in transmitting information (Banfield, 1958). Therefore, in order to create a development scenario, the intervention of all the institutions that are able to reduce high transaction costs and facilitate the transmission of information is necessary (Libecap, 1998; Polanyi, 1962; Akerlof, 1970).

Looking at a fairly developed economy, for example, the United States of America, North (1984; 1990) highlighted the key role played by evolving institutions in reducing transaction costs and, therefore, in increasing both production and income.

While the study by Del Monte and Giannola (1997) highlights the fact that the dualistic development of the Italian economy can be represented as an emblematic

[2] Oliver Williamson (1973) was the first to introduce the expression 'new institutional economics', which, since the 1990s, has become the benchmark for different theoretical currents united by the thought that institutions 'matter' and their analysis can be carried out through the tools of standard economic theory, adjusting for the incompleteness it features. However, the origin of 'new institutional economics' can be traced back to Coase (1937).

case of the malfunctioning of institutions in the south of the country, compared to their functioning in the north-central part. This analysis shows that institutional obstacles have played a decisive role in the failure of Southern Italy's economy to develop, which for a long time remained immobile and in contact with a different structure.

With reference to Southern Italy, Marzano (2011, pp. 60–63) highlights institutions and norms as fundamental and interacting factors that orient and regulate the lives of individuals, communities, and nations. If we take a poorly developed country as a reference, the deficiencies of institutions and rules imply a series of negative consequences, ranging from increased uncertainty to high transaction costs, resulting in market malfunction. In addition to these, there are other critical issues, such as the absence (or almost absence) of specialised labour or venture capital, which hinder the creation of new businesses, leading to processes that are both reductive and decelerating.

In this regard, Coase (1998) argues that, assuming the dependence of productive economic systems on specialization and that it is not reflected in the absence of exchange, the lower the exchange costs are, the higher the economic system's productivity will be. He adds that market transactions generate costs, which are reflected in the search for appropriate prices and the negotiation of separate contracts. When transaction costs become excessively high, one can alternatively rely on a company which has presented itself as a centralised institution marked by hierarchical principles. Rather than selling his own products or services in the marketplace, an individual may choose to work for a company, voluntarily subjecting himself to the authority of an entrepreneur. These transactions are eliminated through the company, and the complex structure of market transactions is replaced by the entrepreneur, who is able to coordinate production. It is clear that in this specific case the company replaces the market, thereby reducing the costs of the pricing process.

Coase (1992) thinks that the performance of an economy is linked to what happens inside of enterprises, and entrepreneurs have to do everything possible to produce at a lower-than-market-rate purchasing cost. He explains that reality is different from the zero-negotiable costs represented by neoclassical theory. Coase (1960) thinks of a different economy from the one imagined by neoclassicists, both in terms of the importance given to the market, companies, and other organisations linked to the institutional environment and the importance given to transaction costs.

It is quite clear that the role of institutions in economic development is crucial within neo-institutionalism (Acemoglu, Johnson & Robinson, 2001)[3]. It is often a well-conceived institutional context that produces investment opportunities for economic agents and stimulates technological progress in order to determine the economic development of a nation.

Sylos-Labini (1989) also asks what caused the differences in development between the regions of Southern Italy and those of the central and northern parts of the country. He argues that the problem of Southern Italy has only been addressed from an economic, investment, and production growth point of view, whereas an interdisciplinary investigation into the fundamental aspects of institutions which influence civil development must be activated (Sylos-Labini, 2003, p. 320).

Furthermore, real-world context is needed in order to compare analytical categories with empirical analysis and avoid getting derailed on excessively abstract terrain. One must not stop at existing schemes or interpretations but rather go and see things directly, without prejudice or bias, even if the things one observes turn out to be at odds with the context one wished to see or had previously imagined (ibid., p. 340).

After the publication of Coase's *The Nature of the Firm* (1937), North (1990) developed a somewhat different definition of institutions than the one used by new institutionalists: institutions are the means by which uncertainty in economic relations is reduced. This definition is not at odds with that of *Old Institutional Economics*; indeed, it comes close to the latter when it states that institutions must be efficient. What brings North closer to *Old Institutional Economics* is the fact that he links economic theory and social relations with economic analysis (this same attitude is also shared by Sylos-Labini). This means that, following OIE, power groups can play a role in creating and changing rules. Furthermore, imperfect information, the limited rationality of agents and information asymmetries can cause transaction costs to rise. With the introduction of institutions, uncertainty is reduced, giving greater stability to economic relations.

6. Institutional innovations and industrial revolutions

The Industrial Revolution had positive effects on the entire English economic system. There were clear improvements in transport, metallurgy, and steam engines, but the most significant innovation was the mechanisation of weaving and the development of industrial fabric factories. These developments began with the institutional changes

[3] Moreover, Rodrik, Subramanian & Trebbi (2004) argue that quality institutions can influence income levels through three channels: reducing information asymmetries, enforcing property rights, and reducing politicians' actions.

resulting from the Glorious Revolution between 1688 and 1689, a period marked by institutional innovations. The change was also accelerated by the reorganisation of economic institutions that helped innovators and entrepreneurs, based on a more efficient system of property rights. Investments in canals and roads increased after 1688; and, as transport costs decreased, these investments laid the foundations for the subsequent Industrial Revolution (North & Thomas, 1971). At the core of the transport revolution and reorganisation of land in the 18th century, there were a series of Parliamentary Acts that transformed the nature of land ownership, allowing groups of individuals to petition to reform property rights (Acemoglu & Robinson, 2013, pp. 211–213).

In an institutional environment scenario, this represents a state of equilibrium when the cost of the exchange exceeds its possible benefits, thus creating imbalances that lead to institutional innovation. This passage from the feudal system to an economic system based on the division of labour and the accumulation of capital was marked by an economy of self-sufficiency. During the Industrial Revolution, three different forms of imbalances can be traced. First, long-term changes in the price of productive factors and products; second, an increase in the size of markets; and finally, structural changes in the criteria governing the state. The first change was due to the increased population, which, due to the reduction of available land, caused a decrease in the value of labour, resulting in the production of an independent workforce. The second change concerned the expansion of markets stimulating the process of institutional innovation, since transaction costs are influenced by economies of scale (North & Thomas, 1970).

The third change concerns the advent of socio-economic pluralism, which resulted in new political institutions capable of strengthening Parliament to the detriment of the Sovereign. The process of centralisation of the governmental fabric that the Tudors had followed was essential to prevent political change from taking place without systemic collapse. Huntington (1968, p. 162) argues that the centralisation of power was necessary to dismantle the old order, destroying feudal privileges and bonds in order to create new social groups and develop new economic activities. Another relevant factor was that the opposition to monarchic power came not from a monolithic elite, but from a coalition of social forces. This allowed the British institutions to assume a lasting plural attitude. The composition of social forces within a system has an impact on the nature of political regimes, and if the dominant economic elite is homogeneous, then the political institutions reflecting the power structure of the regime will not need to be pluralistic; presumably, there will be institutions able to favour the closure of the system and the perpetuation of the economic ruling class, which will bring support to the political elite in return. Thus, in

England, business and innovation were encouraged, property rights were protected, the law became more and more impersonal, and the discretion of royal action decreased. Here, too, the foundations were laid for the Industrial Revolution, which began in England thanks to the formation of an open political system attentive to the economic needs of society (Vercesi, 2015).

For Sylos-Labini (2000, p. 16), innovations represent the essence of modern civilisation and, more specifically, of economic development. He makes a distinction between technological and institutional innovations; referring to Schumpeter, he considers three industrial revolutions. The first, the English Industrial Revolution, took place roughly from 1770 to 1830 and was driven by the steam engine as it was applied to the textile industry and the first mechanical industry. The second, between 1830 and the end of the 19th century, was driven by the application of the steam engine to means of transport over land (railways) and sea (steamships). The third (1900–1950) was supported by chemistry, electricity, and the internal combustion engine applied to the automobile and the aeroplane. We could add a fourth industrial revolution, in which we now live, driven by new types of aeroplanes and above all by information technology.

Major technological innovations have been accompanied and supported by institutional innovations, which are incorporated into laws. Of these innovations, Sylos-Labini (ibid., p. 17) highlights three: the modern bank, which creates money in the sense that it transforms corporate debts into deposits that can be used as a means of payment; the stock exchange; and the modern joint-stock company. Banks which create money developed during the first stage of modern capitalism and then expanded rapidly, profoundly changing their characteristics. The second innovation, the stock exchange, appeared at the end of the 17th century but only expanded rapidly in the second half of the 19th century with the development of steamships and railways. At the same time as the stock exchange, the modern joint-stock company emerged. The origins of both innovations (stock exchange and joint-stock company) demonstrate activities requiring significant financial means which, therefore, require the intervention of a large number of savers and rapid investment and disinvestment decisions. These developments were accelerated by large mergers and then by the growth of multinational companies.

It should be noted, however, that the most important institutional changes affect not only a particular industry, but the entire economy, i.e., it is a continuous change that is framed within an overall cultural evolution of which institutional changes are only one aspect.

7. Different economic institutions: extractive or inclusive

Nations differ in their capacity for economic development due to their different institutions, the rules that influence the functioning of the economy, and the incentives that motivate individuals. Acemoglu and Robinson (2013, pp. 85–86) take as an example the situation of teenagers in North and South Korea and what they expect from life. Those in the North grow up in an environment of poverty, where entrepreneurship and creativity are not present. Much of their schooling consists of pure propaganda, aimed at protecting the legitimacy of the regime. Upon leaving school, everyone is obliged to serve in the armed forces for ten years. These teenagers are aware that they will not be allowed to own property, start businesses, or become rich; they will not have any kind of legal access to a market where they can use their skills or savings to buy the goods they need or want. Teenagers in the South get a good education and have incentives that encourage them to strive and excel in their chosen field. South Korea has a market economy, built on private property. Young people are aware that if they succeed as entrepreneurs or workers, they can enjoy the fruits of their investments and efforts; they can improve their standard of living and use their money to buy cars and houses or secure health care.

Inclusive economic institutions (Besley & Coate, 1988), like those in South Korea, enable and encourage the participation of the majority of people in economic activities that make better use of their talents and abilities, allowing individuals to make the choices they want. Inclusive economic institutions must guarantee respect for private property, an impartial legal system, and a quantity of services that provide equal access to the trade and bargaining system for all.

The contrast between South and North Korea highlights a general principle: inclusive economic institutions foster economic activity, productivity growth, and material prosperity. In this sense, securing property rights is a key element, since only those who see these rights protected will be willing to invest and increase productivity. Securing property rights, legislation, public services, and freedom of trade and contracting are all conditions that depend on the state – the institution that holds the coercive power necessary to impose order, prevent theft and fraud, and enforce agreements signed by private individuals. These inclusive institutions – present in South Korea—are non-existent in North Korea, where institutions termed extractive are present, as they are used by certain social groups to appropriate the income and wealth produced by others (Acemoglu & Robinson, 2013, pp. 86–88).

In his *Essay on Social Classes* (1974a), Sylos-Labini speaks of unproductive jobs and the presence in Italy of exchanges between institutions and citizens that generate benefits for a minority of citizens. These exchanges cause a consolidation of extractive institutions, i.e., those used by social groups to grab income and wealth produced by others.

Sylos-Labini (ibid., p. 50) speaks of 'mice in cheese', i.e., parasitic components made up of ravenous, servile, and culturally uncouth individuals. Mice that consume cheese without contributing to reproducing it exhibit behaviour which entails social effects; in fact, it restricts social fluidity and paths of upward mobility, and it generates situation rents wherein merits are transformed into intergenerational transmissions and privileges (Ambrosino & Storti, 2020, p. 292).

8. Conclusions

Sylos-Labini's contribution is not limited to a critique of mainstream economics, but it also concerns the analysis of the close relationship between economic science and other social sciences, suggesting the adoption of an interdisciplinary methodological approach. Being opposed to the excessive use of mathematical formalism, he resorts to the exploration of disciplines close to economics, such as sociology and history, which are able to combine the formal rigour of economic mechanisms with the analysis of reality in its historical evolution. On this path, Sylos-Labini (1985) proposes a vision close to the institutional analysis of economic processes, encompassing both contemporary economic science and sociology – i.e., a sensitivity towards institutions understood as organisational, cognitive and normative structures that regulate the complexity of economic life. He argues that what neoclassical economics prescribes is only one possible way forward. *In particular, in a nutshell, Sylos-Labini's work confirms that an interdisciplinary approach, in which economic theory is juxtaposed with history, sociology, anthropology, and empirical research, is realistic and does not constitute a limitation on the ambition to produce scientific knowledge.*

Sylos-Labini states that the central problem of neoclassical theory is to explain the conditions of the optimal allocation of resources and, in particular, to identify the equilibrium points of the different phenomena examined by means of static curves; the aim of classical economists concerns the conditions that sustain the development of the wealth of nations. The neoclassical approach can be adopted for some short-term analyses; but for problems concerning economic development, it is necessary to refer to the approaches of classical economists.

In Sylos-Labini, we observed convergences with Veblen's (1898) institutional economics, called *Old Institutional Economics* because of its methodological approach oriented towards interdisciplinarity. Veblen points to the link between institutions and the evolutionist approach, which considers the process of economic change. Evolutionary science considers processes without an origin or purpose based on cumulative causality, which can be traced in Sylos-Labini's thinking. In fact, he argues that individuals and institutions have a close link of mutual causation, as the former are able to activate processes of change at a social level that influence existing institutions, while the latter direct individual and social behaviour.

In his *Essay on Social Classes* (1974a), Sylos-Labini criticises what he sees as unproductive jobs and exchanges between institutions and citizens that generate benefits for a minority of citizens. These exchanges produce a consolidation of extractive institutions, i.e., institutions used by social groups to grab income and wealth produced by others. All this produces parasitic components with social ill-effects, generating situation rents wherein merits are transformed into intergenerational transmissions and privileges.

Sylos-Labini's multidisciplinary approach seems to lay the foundations for the construction of a bridge between *Old Institutional Economics* and *New Institutional Economics* through deepening the connection between institutions and economic science and by considering other social sciences such as sociology.

Conflicts of interest

The author declares no conflicts of interest.

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