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# The 'Socialism' of Léon Walras and His Economic Thinking

By RENATO CIRILLO \*

ABSTRACT. *Léon Walras* was one of the few outstanding 19th century economists who, though as a theoretician belonged to the mainstream of *orthodox economics*, expressed views which at one time were considered to be too radical. He advocated in particular the *nationalization of land* as the solution to the social problem. This would generate sufficient revenue to government to enable it to do away with *taxing income* derived from wages and salaries. As a result workers would be in a position to invest their untaxed income and thus acquire their rightful share in the national wealth. Contrary to what many have argued, such 'socialistic' policy was not incompatible with Walras' theoretical model of *perfect competition*. In the absence of *private ownership of land and natural resources*, there would be no place for *big enterprises* and *monopolies*. His great compromise was: allow *social reforms* in the realm of distribution, but promote *laissez-faire* in the production of goods and services. Walras was convinced that if, on top of a radical land reform, the State sought to secure the working of a *free competitive system*, then the economic system could function very closely to the theoretical model. Though there are flaws in his proposals, his ideas no longer appear as preposterous as they did in his own time.

## I

THOUGH LEON WALRAS' reputation as the architect of the theory of general equilibration has been well established for some time now, very few economists have taken the trouble to understand the relevance of his social ideas. This is regrettable for two reasons because, (i) as one writer has aptly remarked "his policy proposals had considerable merit for they were based upon disinterested human motives, rigorous analysis and a remarkably thorough knowledge of the economic system of his day" (1), and (ii) an adequate acquaintance with his social ideas could throw considerable light on Walras' own theoretical analysis.

Walras—widely regarded, with William Stanley Jevons and Karl Menger, as a founder of mathematical economics—was one of the few outstanding economists of the 19th century who, though unquestionably within the orthodox stream, manifested strong social con-

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cerns and even mild radical views. The only other comparable economist was John Stuart Mill. For this alone his views on society in general should command our interest and attention.

The reason for the neglect of his studies outside pure economic theory is not hard to find. Walras made the unforgivable mistake of calling the body of thought he was advancing, 'socialism,' and of calling himself a 'socialist.' This he did for lack of better words to describe his departure from economic liberalism in matters of distribution. As a matter of fact, he struggled to qualify his 'socialism' by adding such epithets to it as: 'liberal,' 'democratic,' 'synthetic.' At a time when socialism evoked memories of Proudhon, Louis Blanc and even Karl Marx it was unfortunate that he did not choose a more neutral term.

Another equally important reason for this neglect was his *idée fixe* of the nationalization of land as the solution to the social problem. This put him in the same class as Henry George and others who were definitely much more radical and 'socialist' than Walras ever was but who, in my opinion, never attained his scientific excellence. This partly explains why Walras' contemporaries as well as succeeding generations of economists never took his social reforms seriously.

It is no wonder then, as he himself admitted, that because of his ambiguous stand some regarded him as belonging to "that sect denounced by Proudhon as Malthusian and fatalist," while others, as "eminently suspect of socialism" (2).

I believe that G. Pirou, a respected authority on Walras, summed up better than anyone else the complex character of his philosophy. According to him Walras' theories do not fit nicely in the ordinary classifications of social doctrines because "his system is neither individualism nor socialism in the classical sense of these terms." One does not exclude, on the other hand, that a characteristic of his social economy is precisely his attempt "to synthesize these two tendencies which as a rule are considered to be contradictory. He proposes a sort of liberal socialism or social liberalism, a doctrine nevertheless tinted with a great optimism, a great idealism which L. Walras seems to have inherited from his father, Auguste Walras" (3).

## II

WALRAS LEAVES NO DOUBT as to the way he vacillates between the two doctrines. At one time he is very critical of liberalism for its denial of the existence of a "social problem or question." But in the same breath he also applauds the liberals for refusing to force on others the solution to this problem; in his own words, in matters of policy

it is liberalism which is right for "it is odious to impose against one's own wishes the solution to the social question, even if it were social truth itself" (4). So he clearly implies that correct and plausible solutions, even if inspired by 'socialism,' should be publicly aired and discussed, but never imposed upon a democratic society unless the people are convinced of their correctness and desirability.

Let us first briefly examine the kind of socialism he was excluding. Certainly he rejected collectivism. To him the socialisms of Saint Simon, Fourier or Louis Blanc were utopias, and he let everyone understand that whenever he referred to them he was not subscribing to their doctrines.

He was particularly critical of Karl Marx because he believed that Marxism as a philosophy was "an injurious error" since it rested on the "untenable assumption that labour was the source of all value and that differences in skill could be reduced to a common denominator. This error had been previously committed by Adam Smith who, however, did not persist in it." Karl Marx, on the contrary, "derived conclusions which are now discarded." The new economics has convincingly shown that value does not derive from labour, but rather from utility and scarcity, and that, moreover, no one factor was reducible to the other (5).

So what kind of a 'socialist' was he? Walras was basically a social reformer who thought that in a liberal world anyone who opted for social reforms should consider himself a 'socialist' of sorts, and there is no doubt that his social philosophy was closer than that of any other contemporary economist to the socialist thinking of his time.

There is also no doubt that to Walras the social question was a very serious matter and was foremost in his mind. His economics was not alien to his social preoccupations; on the contrary, he strived to reconcile economic theory with the basic principles of social justice. Did he succeed?

He did not manage to produce a general theory which could accommodate both his economic and social principles. He was fully aware of the fundamental problem since, following John Stuart Mill, he distinguished clearly between the laws of production and the laws of distribution. Economic laws could only properly be applied to the production of wealth, whilst distribution was conditioned by the principles of social ethics and justice. Hence, he had to distinguish clearly between pure economics and social economics by seemingly placing them into separate compartments. To the casual observer, it looks as

if these two compartments are not only separate but also independent of one another. This is not the case. They are essentially complementary to one another and together fit into one theory of society which corresponds to Walras' particular vision of society.

### III

I WOULD LIKE FIRST to emphasize that Walras sincerely believed that his ideal society was not an utopia, but a society that could really exist and function well, provided, of course, his proposals were adopted. Which were these policy proposals? Briefly, since land and its resources belonged to society as such, it should be nationalized. Thus the State on behalf of society would be the recipient of whatever accrues to the land and would enjoy any increase in its value as a result of economic progress. The State would lease all publicly-owned land and the rents it would receive would provide it with all the revenue it requires. When this stage is reached, the State would be in a position to abolish all income taxes on wages and salaries.

Two main consequences will result from this policy, according to Walras: (i) wage and salary earners on whom taxes weigh heavily, would be able to save and invest that portion of their incomes which previously went for taxes. Thus, all taxpayers would eventually become small capitalists; (ii) in the absence of private ownership in land, there would be not much chance for big monopolies to thrive. However, if some did, the State would take positive action to eliminate them. Thus, the economy that would emerge would be one consisting of a multitude of small capitalists and small-sized firms, which, with adequate guidance from the State, would guarantee the efficient working of a free competitive system.

This sequence in Walras' thought, I believe, is evident to all those who patiently delve not only into his *Eléments* but also the *Economie sociale* and his other works as well (6). After such careful examination, one might as well still consider his vision an utopia, but one would be unfair to accuse him of being inconsistent. On the contrary, the logical sequence of his ideas should become evident. In the rest of this study, I shall consider how he justified his proposals and the conditions under which he expected the system to work.

### IV

WALRAS ADVANCED his theory of land and land rents for the first time in a pamphlet published in 1861—13 years before the appearance of

*Elements d'Economie Politique Pure—De' l'impôt dans le canton de Vaud.* He then elaborated on the ideas expressed in the pamphlet in a study called “La théorie de la propriété” which together with other essays appeared in his *Etudes d'économie sociale, Théorie de la répartition de la richesse sociale* (1896).

In this study he enunciates this fundamental principle: “land is by natural right the property of the State.” The arguments that follow are derived from principles of social justice and public interest. Thus, he argues that “land belongs to all individuals, collectively considered, because all rational and free individuals have the same rights and duties in order to pursue their goals so as to fulfill their destiny, and for the same reason they are themselves responsible for such pursuit and accomplishment. Here one applies the principle of equality of opportunity according to which we all should be able to profit equally from the resources which nature offers us for the exercise of our activities” (7).

The emphasis is on *the principle of equality of opportunity* which he aired for the first time in his polemic against Proudhon in *L'économie politique et la justice* where he considered absolute equality of opportunity as the true remedy for injustice. Having re-established this principle, he goes on arguing that since an individual does not become a ‘moral entity’ except as a member of society, it is society which bestows equally on its members the same rights which they need in order to utilize the natural resources for the fulfillment of their destiny. Thus, the State on behalf of society can claim the exclusive ownership of land and its resources.

This principle is reiterated later on in a more forceful way: “In juridical terms humanity is the owner, and the present generation has the land in trust.” This is a principle which today one finds it hard to reject. As pressure on natural resources becomes heavier and particularly with the realization that these are fast becoming depleted, such statements are becoming more commonplace even if they do not always imply attempts at land nationalization. In other words, what sounded quite strange in his time, has become quite acceptable now.

This, of course, was not an original theory; Walras himself was well aware of similar stands taken by Collins, Rodbertus Jagetzow, Alfred R. Wallace and Henry George (8), but none of these possessed the unique authority of Léon Walras, nor did they blend this theory with other theories as he did. Thus, Walras’ remains a unique contribution.

## V

TO THIS THEORETICAL ARGUMENT he also adds practical ones. He believes that because of the taxes which workers have to pay out of their wages, there is no substantial difference between the state of the contemporary proletariat and the state of slavery and servitude which existed in other ages. The modern worker is equally reduced to a hopeless state which does not permit him to improve his condition.

The second argument is related to the state of ownership of agricultural land. Walras believed that agricultural production was inefficient because land ownership consisted either of large tracts largely used detrimentally to society's interests (with large areas used as private parks or reserved for hunting), or of small uneconomical plots.

It is the first argument that should concern us. In one of his more unambiguous statements, Walras declared:

I shall certainly be accused of exaggeration and socialism if I now compare the proletariat with slavery and servitude. But I shall accept the accusation. I call myself democratic socialist because I see in slavery, servitude and in the proletariat three empirical phases of one and the same question, namely that of property and taxation, or the distribution of social wealth among men in society (9).

He follows this statement by explaining extensively the reason why he holds such a "drastic" view. As noted above, the first reason and the primary one is the effect of taxes on labor income. Taxes take away from wages the only portion of the income which a worker could save. If only he could save it and invest it, then he would become "an owner or capitalist at the same time that he remains a worker" (10). Wage taxes, by depriving the worker of the only opportunity he has to gain some measure of economic freedom, condemn him to remain a proletarian forever.

So this is the major social benefit that Walras expected from land nationalization. As a strong believer in cooperativism, he concluded that the real solution to the social question was to turn everyone into a capitalist. And public ownership of land would make that possible.

Was such an ambitious scheme feasible? Yes, answers Walras, because the arguments in favor of personal taxes do not rest on principles of justice but rather on the expediency of public interest and therefore should not be considered sacrosanct. But will it work? Again, Walras does not hesitate to answer the question positively. Since the State will be the owner of the land, it will also have the right to collect revenue for its service in the form of land rents. It should

be able to subsist on such revenue without having to ask anything from the citizens either in the form of taxes or loans. Moreover, "it will be able to leave to future generations the capital not only as it is now, but increased and multiplied." Once more, Walras is aware that his ideas are not original; this time he owes them to the Physiocrats (11).

So far, his social reform is quite clear: nationalize land and eventually abolish all wage taxes; at the same time encourage wage and salary earners to use their saved incomes by investing them in the economy. In this way, the proletariat will rise above the subsistence level and workers will become investors and small property owners.

## VI

THERE REMAINS now one very important question to consider. How do all these social policy proposals fit into his economic theoretical work? Are they compatible with his economic ideas? I believe that if by some magic all these ideas and suggestions were acceptable and would work (and there is no doubt that Walras was convinced that they were all in the realm of possibility), then one cannot but conclude that they are not only compatible with his theoretical model but that their very existence would make it possible for the model to function in practice.

As is well known, Walras' theoretical structure is built on the model of perfect competition. But, unlike other economists who considered such models as being largely abstract, Walras believed that the economic system, given the right conditions and under the proper guidance of the State, could function very closely to the theoretical model. The proposals for land reform would provide most of these conditions. Without private ownership of land and natural resources, the possibility of 'bigness' within the industrial organization of the economy would be largely eliminated. Big firms, large corporations do not thrive without considerable resources. But if, for unspecified reasons, some monopolies continued to subsist, Walras suggested that the State take firm action to eliminate them.

He was the first major economist to require direct State action to assure the workability of free competition. He did not take it for granted, nor did he believe that "natural forces" would bring about the desired conditions. In this respect, nothing is clearer than this statement: "In a new society, as I conceive it, there will be the elimination of the true cause and the conditions of landed property and monopolies" (12). He called this new society a "rational society" implying that any other type of society would be undesirable.



This same discussion is followed by a very significant assertion: "but I leave to individual initiative all enterprises where free competition would operate without hindrance." This is the big compromise: social reforms in the realm of distribution, and *laissez-faire* in the production of wealth. But it is a *laissez-faire* in a world without monopolies and with the State supervising the working of free competition.

In a study on the significance of Walras' general equilibrium theory (13) I came to the conclusion that his theoretical model was meant to be a sort of a cornerstone of comparison to help the policy-maker understand the forces that were hindering the system from converging toward the ideal system of free competition which, to Walras' mind, was attainable in practice. This study I hope reinforces my previous belief. But it goes even farther because it does attest to his ability to reconcile the scientific laws of economics with the basic principles of social justice and ethics. We may, of course, question whether his proposals were practicable or not, or even whether some of his hypotheses were correct, but there is no doubt that in his mind the system he envisioned was logical and attainable.

## VII

THAT THERE ARE FLAWS in some of his proposals is unquestionable. It is hard, for example, to accept the claim that the modern State could not only survive but also function efficiently on land rents alone. We may have serious reservations as to his assumption (which historically has been proven wrong) that as a result of economic progress there is *always* a progressive upward trend in land values (14). Some might also consider as wild his suggestion that in the absence of monopolies enough private capital could accumulate from private savings—these consisting of the "excess of salaries over consumption" (15).

It would be an unforgivable mistake, however, to lose sight of the main structure of Walras' thought because of such pitfalls. There is still much merit in his thought. In the context of the contemporary preoccupations with scarcity of resources, his ideas do not appear as preposterous as in his time. Some of his fundamental proposals have featured prominently in the political credo of the democratic socialist movements of Europe. Land nationalization is still on their books while much nationalization has already taken place. There is also a growing reaction against monopolies in many Western countries, and the multi-national corporations have been under constant attack.

What I find particularly novel in Walras' thought is his insistence to allow free enterprise to operate unhindered in spite of the 'socialism' he advocated. He was as liberal as he was 'socialist'. His liberal instinct was, in fact, strong enough to make him even refuse to permit government agencies to administer land property after nationalization! This is what makes Walras' social thought unique.

As democratic governments in the West move closer and closer to more rigid forms of Welfare State and types of 'socialism' not incompatible with a modicum of free enterprise and capitalism, I wonder whether one day economists will not look at Walras, not unlike Malthus, as a mind misunderstood in his time, but *basically* correct all the time.

1. D. A. Walker, "Leon Walras in the Light of His Correspondence and Related Papers," *Journal of Political Economy*, 78 (July-Aug. 1970), p. 699.

2. *Les associations populaires de consommation, de production et de crédit*, pp. xiii-xiv.

3. G. Pirou, *Théories de l'équilibre économique* (Paris: Domat Montchretien, 1938), pp. 32-33.

4. *Etudes d'économie sociale* (Rome: Edizioni Bizzarri, 1969), p. 186, hereafter cited as *Economie Sociale*.

5. *Ibid.*, pp. 226-27.

6. I fully endorse Ben G. Seligman's remark that unfortunately most economists have been uninterested in these works, particularly *Etudes d'économie sociale* (1896) and *Etudes d'économie politique appliquée*. See Seligman's *Main Currents in Modern Economics* (New York: The Free Press, 1963), p. 369.

7. *Economie Sociale*, p. 218.

8. *Ibid.*, p. 267.

9. *Ibid.*, p. 144.

10. *Ibid.*, pp. 144-45.

11. "This is in general the idea of the Physiocrats, of Quesnay, Turgot, whose only fault was to give to their theory of a single tax on land a base too wide, since they considered all social wealth to derive from land. It is doubly flattering to come back, though for very serious reasons, to a doctrine professed by the men who founded political economy in France . . ." (*Economie Sociale*, p. 225).

12. *Op. cit.*, p. 237.

13. R. Cirillo, "The True Significance of Walras' General Equilibrium Theory," *Revue Européenne des sciences sociales et Cahiers Vilfredo Pareto*, Tome XIV, 1976, No. 37, pp. 11-12.

14. Although in the long run, because of population pressures, land values have gone up, in the short run this has not always been so. And the short runs have often been *too long* for a modern State to function efficiently on land rents alone. In modern times there have been long periods when the value of land was depressed, e.g. in the United States about 1932 at the bottom of the Great Depression, and even more about 1940 when all real estate values reached their lowest point since the first world war. The long run, in this case, approaches the secular trend, which might be characterized as the very long run.

15. To avoid misunderstanding, perhaps I should explain that my remark is contingent upon the statement, "in the absence of monopolies." I am not denying that capital accumulation comes preponderantly from private sources. But I doubt whether that would be true if the economy consisted only of small-sized firms. Much of capital accumulation comes from the undistributed profits of large enterprises rather than from the savings of *individual* consumers. Note that his scheme called for the abolition of "wage-taxes."