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# The Modern Georgism of Respected Economists Part 3/3: Leon Walras

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# The Modern Georgism of Respected Economists Part 3/3: Leon Walras

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Alongside Carl Menger and William Stanley Jevons, the French economist **Marie-Esprit-Léon Walras** was a founding father of the Marginalist Revolution. The late 19th century development of marginalism by these three economists marked the transition from classical economics to modern, neoclassical economics. Among them, Walras is perhaps the most appreciated in the modern day. As the historian of economic thought Mark Blaug puts it: *“whereas Jevons and Menger are now regarded as historical landmarks, rarely read purely for their own sake, posthumous appreciation of Walras's monumental achievement has grown so markedly since the 1930s that he may now be the most widely-read nineteenth-century economist after Ricardo and Marx”*. In a review of Walras' *Elements of Pure Economics* for example, Milton Friedman wrote:

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*‘Though I regard as somewhat extravagant Schumpeter's judgment that, “so far as pure theory is concerned, Walras is . . . the greatest of all economists,” there can be no doubt that the Elements is a great work which marked an important step forward in the development of economics as a science, and which still plays an important role in economic thinking<sup>1</sup>...A person is not likely to be a good economist who does not have a firm command of Walrasian economics; equally, he is not likely to be a good economist if he knows nothing else.<sup>2</sup>’*

The economist Donald A. Walker has written a glowing overview of Walras and his contributions in volume four of *The New Palgrave: A Dictionary of Economics*. He describes how the major criticisms that exist of Walras *“cannot obscure the greatness of Walras's contribution”*. Walras changed the deficient state of his discipline, *“transforming economics and propelling it*

*forward in a gigantic intellectual leap". Firstly, his "eight major original contributions to economic theory...were the core of neoclassical microeconomic theory and thus constituted much of the structure of knowledge that was the starting place for 20th-century economics." Secondly, he pioneered general equilibrium theory, "thus accomplishing by the mid-1870s far more than any other economist had done in regard to building a model of the economic system as a whole, and more single-handedly in that regard than any other economist in the history of the discipline."*

Unsurprisingly then, Walras' work influenced many eminent economists (such as the famous polymath Vilfredo Pareto). Walker details how:

*"Maffeo Pantaleoni (1889), Enrico Barone ([1895], 1983, p. 186; 1896), and Vilfredo Pareto (Pareto to Walras, 15 October 1892, L 1077) contributed greatly toward giving Walras's work a secure place in Continental economics **and thus ultimately in economics everywhere**. In 1895 Pareto's appointment as Walras's successor to the chair of economics at Lausanne assured Walras that his doctrines would be perpetuated and developed, and the accessible literary presentations of Walras's ideas in Pareto's books (1896/7, 1906/9) began their widespread dissemination. Pareto borrowed most of the ideas of Walras that have been mentioned in this essay, using them as the basis for his contributions to the theories of general equilibrium, the monopolistic entrepreneur, capital, and production. Wilhelm Lexis, Ladislaus von Bortkiewicz and Eugen von Böhm-Bawerk gave Walras's theories serious attention. Knut Wicksell based his theory of price determination squarely upon Walras's work (J.G.K. Wicksell to Walras, 6 November 1893, L 1168), as did Karl Gustav Cassel (1903, 1918). Walras was given recognition in the United States: in 1892 he was made an honorary member of the American Economic Association, Irving Fisher praised his work (Fisher, 1892, p. 45; 1896), and H.L. Moore became his avowed disciple and explicator (Moore to Walras, 19 May 1909, enclosure to L 1747; Moore, 1929).*

...

*“A strong indication of what the future would hold for his theories was given by the celebration of his jubilee in 1909 by the University of Lausanne, in the course of which he was honoured as the first economist to establish the conditions of general equilibrium, thus founding the School of Lausanne (Jaffé, 1965, L 1696, n. 5). His achievements were praised in a statement signed by 15 leading French scholars, including Charles Gide, Charles Rist, Georges Renard, Alfred Bonnet, A. Aupetit and François Simiand (enclosure to L 1747), and in communications from many others (Pareto to the Dean of the Faculty of Law of the University of Lausanne, 6 June 1909, L 1755; Schumpeter to Walras, 7 June 1909, L 1756). It is now clearly apparent that his prediction of great success was accurate, because his theory of general equilibrium, as improved by his contemporaries, has been given a great deal of attention and further development in the 20th century by writers such as Henry Schultz, John von Neumann, Abraham Wald, John R. Hicks, Oscar Lange, Paul A. Samuelson, Lionel McKenzie, Gerard Debreu, Don Patinkin, Kenneth Arrow, Frank Hahn and Michio Morishima (see Weintraub, 1983, 1986), and **the filiations of Walras’s ideas have become so numerous and dense as to be an integral and central part of the mainstream of modern economics**. Thus his twofold achievement of developing particular theories and binding them together in a model of an entire economic system has given his work **an influence on economic theory that has been durable and immense. For sheer genius and intuitive power** in penetrating the veil of the chaos of immediately perceived experience and divining the underlying structure of fundamental economic relationships and their extensive interdependencies and consequences, **Walras has been surpassed by no one.**”*

Of the three economists in this article series, Leon Walras was by far the most radical in his Georgism. Ironically, he was also the least familiar with Henry George himself.<sup>3</sup> Walras only gives George a fleeting mention in one of his works as “one of the many socialists I can mention who supported the right of the community over land”.<sup>4</sup> Instead it was Leons father Auguste Walras who served as his singular Georgist influence. Like a fair few people before and after him, Leon Walras came to Georgism independently. He was a “non-Georgist Georgist” (or “Geoist”). This is plainly apparent when his relevant work is examined.

We can begin with a comparison to Henry George's magnum opus. *Progress and Poverty* centered around the idea that private landownership was a fundamental cause of increasing economic inequality over time. This was because land rent increased as society progressed, allowing landowners to extract more and more from the landless. The Georgist solution was that the state could use this revenue on societies behalf instead, allowing it to eliminate other taxes. Walras understood all this perfectly. Consider the following quotes:

*"the fact of the appreciation of the land rent in a progressive society is a fact well proved by experience and well explained by reasoning, from which one concludes that to leave lands to individuals, instead of reserving them for the state, implies allowing a parasitical class taking advantage of the enrichment that should instead satisfy the always growing demand for public services"*<sup>5</sup>

*"Why we should allow that on one side landowners get ever richer, while on the other side, the "proletarians" (low-skill workers) get [relatively] poorer by the sole fact that society develops? There is no right against right, and there is no time limitation status in favour of an inequity which is always persistent"*<sup>6</sup>

*"The collective property of land, and the lack of taxes, which would be its consequence, are not only two acts of justice, **they are acts of essential interest for a nation that wishes to live.** Justice is not a luxury, as we would say of a painting that one is deprived of hanging in one's living room, if we have failed to purchase it; it is to society what health is to a human being, **a thing the lack of which condemns society to obscurity and misery"***<sup>7</sup>

Walras' theory of taxation was part of a Georgist *property ethic*. The elimination of taxes on labor and capital was one implication of "*plain and complete rights to individual property*".<sup>8</sup> He left no room for ambiguity when he wrote: "*Just as the individual has **no right** to the rent of land, the state has **no right** to an individual's labour, wage, or products. It has **no right** to the capital, earnings or interest coming from labour. It has **no right** to any property other than the rent of land. **I have maintained this thesis since the beginning of my career.**"*<sup>9</sup>

Walras' method for the implementation of this in practice differed from George's in two ways. Firstly, Walras believed justice required partial compensation for landowners. Secondly, he wanted land value tax to be a step towards full state ownership. The process he laid out was as follows<sup>10</sup> :

1. LVT is levied.
2. The state "purchases" land from existing landowners, compensating them with bonds worth the remaining value.
3. The state leases out the land, paying off the bonds with the appreciation of its leasehold values.
4. As this process reaches its final stage, the states rental surplus allows taxes to be abolished.

This was the radical end goal of the orthodox Single Tax: to have the state subsist purely off land rent while untaxing labor and capital altogether.

Like other Georgists, Walras also tied his property ethic to vigorous support for free trade and competitive markets: *"free exchange, the essence of industrial and commercial activity, has only advantages and no harm, but only if the socialization of land and the suppression of taxes is also resolved"*.<sup>11</sup>

Walras' support for socializing land was just one example of how instituting and maintaining *"a competitive free market is a legislative task, one of complicated legislation, a task that necessarily pertains to the state"*.<sup>12</sup> Again like other Georgists, he opposed monopolistic privilege as a violation of market freedom. His position that *"If the monopoly is contrary to the public interest, the state should impede these in every case that is not based on natural rights"*<sup>13</sup> aligned with Henry George. For example, both believed in socializing business' where free competition was either inherently inefficient or wasn't naturally possible (e.g. railroads).<sup>14</sup> A true free market required a *synthesis* of individualism and socialism. As Henry George put it:

*"Individualism and socialism are in truth not antagonistic but correlative. Where the domain of the one principle ends that of the other begins. And although the motto Laissez faire has been taken as the watch word of an individualism that tends to anarchism, and so-called free traders have made "the law of supply and demand" a stench in the nostrils of men alive to social injustice, there is in free trade nothing that conflicts with a rational*



*socialism. On the contrary, we have but to carry out the free trade principle to its logical conclusions to see that it brings us to such socialism.”<sup>15</sup>*

This is precisely Walras’ theory of “*synthetic socialism*”. He believed that he had succeeded in synthesizing socialism with liberalism and individualism with communism.<sup>16</sup> This was the harmonization of efficiency with equality:

*‘According to Walras, in scientific terms, socialism, not liberalism is correct in affirming the importance of the social question and attempting to find solutions. However, it is incorrect regarding the political (that is, authoritarian) solutions it proposes. In politics, liberalism, not socialism is correct in defending freedom against authoritarian solutions. However, in science, it is incorrect to deny the existence, or underestimate the importance, of the social question.*

*Walras extends the argument by adding that, “we will reconcile communism and individualism by introducing the distinction between social conditions and positions.” (Walras 1868b, 154) Each human being possesses his own natural wealth, or individual faculties (that is, his human capital). In respect of the “inequality of positions”—that is, the inequality of personal situations—these individual faculties along with the wages and the products of the labor resulting from them belong to the individual by natural law. However, natural resources must belong to all human beings equally through the intermediary of the State. In compliance with the “equality of conditions,” that is, the equal opportunity shared by individuals as well as by natural right, all of humanity owns the land, its products, and the income resulting from the land and its occupants. All individuals ought to profit equally from the resources provided by this natural capital. Indeed, “The land does not belong to all the men of one generation; it belongs to humanity, that is, to all generations of men [... .]. In legal terms, humanity is the landowner, and the current generation is the usufructuary of the land.” (Walras 1896a, 189) Thus the legitimate representative for humanity can only be the State.<sup>17</sup>*

What Walras wanted was equality of *opportunity*, not equality of *outcome*. Through Georgism, everyone would be placed on a level playing field with

regards to natural opportunities. As Jérôme Lallement describes, *“individuals are then free to reach a position according to aptitude, taste, and effort”*.<sup>18</sup> Walras rejected both *“orthodox economists’ unintelligible and ill-founded applications of free competition”*<sup>19</sup> and collectivist attempts to replace competition with the state. Individualism and communism by themselves only resulted in *“the mutilation of human nature”*.<sup>20</sup> Only Georgism could provide a higher synthesis.

All of this culminated in Walras’ vision of a truly free economy. Like other Georgists, he saw *“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”*.<sup>21</sup> Workers under the status quo were wage-slaves trapped in poverty. On one hand the owners of land and monopolistic businesses grew rich by extracting their wealth.<sup>22</sup> On the other hand, taxes on work deprived them of the only income they had to save and invest with. Georgist reforms would solve both of these issues and thereby reshape the economy.

Firstly, the abolition of taxes on production would allow workers to achieve social mobility through saving and investing. In Walras’ vision, the proletariat would become *“an owner or capitalist at the same time that he remains a worker”*.<sup>23</sup> He paints a picture of a society where *“the mass of capital that does not belong to the State as being in the hands of the workers, in small fractions, in the form of shares, bonds of various companies, and especially cooperative enterprise bonds, adding to the well-being of the present, ensuring future security, preparing the remaining future”*.<sup>24</sup>

Secondly, *“In a rational society, without land ownership and monopolies, the capital of individuals generally results from individual savings only, that is to say, from an excess of wages relative to consumption; it does not result from exploitation by entrepreneurs of product buyers or owners of productive services, since the likelihood of profits and the risk of loss for these entrepreneurs are correlative, and, apart from inventions and improvements, are balanced in the end”*.<sup>25</sup>

Walras aimed for genuinely fair competition and generalized social mobility. He wanted to see widespread property ownership and prosperity. At its core, he advocated for an economy centering *contribution* instead of *exploitation*.



It's undeniable that Leon Walras was a deeply Georgist man with a deeply Georgist vision of society. From the start of his career till his death, he was one of us.

## Conclusion

With part 3 completed, this series comes to an end. Joseph Stiglitz, Harry Gunnison Brown, and Leon Walras advocated Georgist ideas from the modern mainstream, not the fringe. To call them cranks would render that insult completely meaningless. Each went beyond the standard praise for LVT, finding in Georgism a robust and valuable lens for societal problems. Anyone who examines the ideology with an open mind and reserved judgement might find the same.<sup>26</sup>

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- 1 Milton Friedman, *Leon Walras and His Economic System*, p.900
  - 2 *Ibid*, p.909
  - 3 This despite being a contemporary for George's entire life!
  - 4 Fernando Scornik Gerstein and Fred E. Foldvary, *The Marginalists and the Special Status of Land as a Factor of Production*, p.17
  - 5 *Ibid*, p.24
  - 6 *Ibid*, p.25
  - 7 *Ibid*
  - 8 *Ibid*, p.27
  - 9 *Ibid*
  - 10 *Ibid*, p.28
  - 11 *Ibid*, p.30
  - 12 *Ibid*
  - 13 *Ibid*, p.29

- 14 For Henry George see page 218 of *Protection or Free Trade*. For Leon Walras see paragraphs 20 and 21 of *The Socialism of Léon Walras*.
- 15 Henry George, *Protection or Free Trade*, p.218
- 16 Jean-Pierre Potier, *The Socialism of Léon Walras*, par.1
- 17 *Ibid*, par.4-5
- 18 Jérôme Lallement, *Economists and the Poor: From Smith to Walras*, par.40
- 19 Jean-Pierre Potier, *The Socialism of Léon Walras*, par.14
- 20 Renato Cirillo, *Léon Walras and Social Justice*, p.54
- 21 Renato Cirillo, *The 'Socialism' of Leon Walras and His Economic Thinking*, p.300
- 22 “In addition to the private ownership of land, Walras points to monopolies as the cause of injustice because they allow entrepreneurs to fix the quantities to be produced at a price above average cost. He adds that the source of American multimillionaire fortunes at that time was speculation on the increase of land value and the operation of businesses without competition” (*The Concept of Labor Market in Léon Walras' Pure, Social, and Applied Economics*, par.55)
- 23 Renato Cirillo, *The 'Socialism' of Leon Walras and His Economic Thinking*, p.300
- 24 Kayoko Misaki, *The Concept of Labor Market in Léon Walras' Pure, Social, and Applied Economics*, par.58
- 25 *Ibid*, par.56
- 26 Particularly with empirical investigations by Georgists overturning certain long-held assumptions.

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