

**THE MARGINALIST AND THE SPECIAL STATUS OF LAND AS A FACTOR
OF PRODUCTION: HERMAN-HEINRICH GOSSEN, FRIEDRICH VON
WIESER, LEÓN WALRAS AND VILFREDO PARETO**

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I. INTRODUCTION

There is no doubt that what is known as 'the marginalist revolution' occupies a prominent place in the development of economic science and economic thought. Nevertheless, its assessment and the judgement it deserves varies substantially in accordance to the different approaches to the theory and its main figures: from total rejection by traditional Marxism, explaining that 'by replacing the relations of production by the relations between men and things, the economists of the Austrian School present all the categories of capitalism as natural and eternal, resulting from the relation of men with the surrounding nature'¹, which is to say, accusing them of ignoring real society and the class struggle which is characteristic to it, as well as the relations of domination and unfair distribution of wealth which belong to its essence; up to total acceptation –not without controversies- of its postulates by the neo-classic economists, although not always the alleged principles were really put forward by the marginalist or if they were in very different contexts and with very different connotations to those mentioned by the modern followers.

One of the subjects that Marxist always ignore and that the posterior neo-classics prefer not to mention is the very special status that land –and natural factors in general- has in the thought of some of the most distinguished members of what has been called –in a very general way- 'marginalism'.

¹ N. Kataraiiev - M. Rindina : 'Historia de las Doctrinas Económicas' –Editorial Cartago, Buenos Aires 1965. Pags. 569-575

As an example, in between the senior neo-classic liberals, Ludwig Von Mises –although very critical of the mathematical economy so dear to certain marginalists, accused by him of diverting with a notion which should be only of assistance, but not useful to interpret a complex reality-finally concludes pointing out that ‘modern theory of value and prices does not need to classify land, capital and labour as economic factors. It limits itself basically to distinguish between goods of superior order and goods of inferior order, that is to say between production goods and consumption goods... according to the same and identical law lays down the process of all factors of production, whatever its condition is, and adds: ‘The classic economist were mistaken in giving to land a peculiar and unusual position in their theoretical scheme. Land, in the economic sense, is only one more of the factors of production. Its prices are established according to the same law that establishes the prices of all other factors of production. It has been plainly noted, once they have been duly analysed, that all peculiarities observed in this matter were due to specific and peculiar factual circumstances coming together in the corresponding case’.²

In a very quick way deals von Mises with the thesis of the classics, from the physiocrats –including the grand Turgot- passing by Adam Smith and David Ricardo, the two Mill, father and son, to mention only the most notorious. Without mentioning him he gets rid not only of Marx –which dedicates a substantial part of the III Volume of the ‘Capital’ to a very precise study of the rent of land and who considers the private property of the ‘planet’ the base of capitalist exploitation-, but also –indirectly- he excludes an important part of neo-classic original thinking, from its predecessors as Arsene Dupuit and Hermann-Heinrich Gossen, passing by figures as that of the Austrian Friedrich von Wieser, until the exceptional works of the French Leon Walras, mathematic culmination of the marginalist revolution.

All them looked at land –and natural resources in general- as a distinctive factor of production, different to the others and not only due to a language confusion as von Mises seems to indicate, but based on a precise observation of reality, and in the Walras case by a solid economic-mathematical analysis. As Mason Gaffney has said the classics knew very well what they were saying when maintaining that landed property

² Ludwig von Mises: ‘La Acción Humana’. Unión Editorial S.A. Madrid 1986, Pags. 925-929

was a monopoly. Marx also knew it when he proposed in the Manifesto as point no. 1 of his Program for a Communist government the nationalization of land. Also knew it the neo-classic that we shall study here, although some of them, as Pareto, not with absolute clarity.

Truly, they could not ignore what any normal citizen knows based on his own experience without need of economic knowledge: that land –and with this word we mean all nature external to man- is different. It has not been ‘produced’; it has been created –at least for believers- and pre-existent to mankind for the agnostic ones. It has no ‘cost of production’, as it has a machine or a tool and it is so abundant –even in the most densely populated countries-, that if it was for the restriction implied in private property- besides those usual imposed artificially by governments to prevent the incorporation of new land to the market-, its cost –the rent to be paid to be allowed to use it- would be really accessible.

The price of land is not dependent on a ‘cost of production’ –it has none- or on what the actual owner has paid for it or invested on it (the latter would be valued as an ‘improvement’). It depends exclusively on the expectation of future rents that ‘ministerio legis’ the owner is entitled to claim of granting its use. The price of land –in a broad and general approach- is formed by its future rent capitalised at the current interest rate.

It is true as Henry George points out –George is not even mentioned by von Mises- that land in strategic locations, in the centre of large cities, has a special value: ‘Land as land, or land generally -the natural element necessary to human life and production- has no more value than air as air. But land in special, that is land of a particular kind or in a particular locality, may have a value such as that which may attach to a particular wine-glass or a particular picture or statue; a value which unchecked by the possibility of production has no limit except the strength of the desire to possess it’, and he adds: ‘Where land is monopolised and the resort of population to unmonopolised land is shut out either by legal restriction or social conditions, then the desire to use particular land may be based upon the desire to use land generally, or land the natural element; and its strength, measured in the only way in which we can measure the strength of a desire, the willingness to undergo toil and trouble for its gratification, may become when pushed to

full expression, nothing less than the strength of the desire for life itself, for land is the indispensable prerequisite to life, and <<all that a man has will give for his life>>'.³

Hence, it was not a mistake of the classics and, in this sense, neither a mistake of Marx or of the neo-classics that we shall refer in this paper. It is von Mises' mistake. We live under a system –the western capitalism- in which, with differences and exceptions, land is monopolized and hence those 'peculiarities' that according to von Mises were due to specific circumstances, are not the exception but the rule. And we may see this in all our countries.

The access to land is prevented and speculation enhanced and as a consequence –and although it is rather clear that the mechanism in virtue of which the price of land is established in the market, is similar to the one in virtue of which the price of capital goods is fixed- there is nevertheless a substantial difference: the offer of capital goods may be increased indefinitely. That is not the case for land. As a consequence, in a progressive society, as Leon Walras pointed out, the increase in population increases demand of land, facing an always restricted supply. The outcome is that marginal utility of land increases: 'The intensity of the final desires satisfied or the "rarity" (this is the name Walras gives to marginal utility, in French "rareté") of the consumed rents directly keep growing in a society step by step in parallel with the increase of population. Parks and gardens diminish their extension, houses are higher, the apartments, the corridors, the stairs grow narrower. In this way the value of rent grows in a progressive society: so it should be and so it is. In this case as in many others it is enough to substitute the consideration of the 'rarity' which is an absolute element for the consideration of the value which is a relative element, to clear any doubt".⁴

Further on we shall study the solution proposed by Walras to this problem which he considers central in contemporary society.

Undoubtedly von Mises knew the works of Leon Walras, but maybe –as many others, including French economic historians that consider him as one of the greatest

³ Henry George: 'The Science of Political Economy'. Robert Schalkenbach Foundation, New York 1981. Pages 255-256

⁴ Leon Walras: 'Études d'Économie Sociale'. Auguste et Leon Walras –'Oeuvres économiques complètes', Volume IV pages 323-324

economists of all times- prefer to ignore or not to give importance to this part of his books –the one dealing with land- in spite of the fact that Walras gave to it an extraordinary importance.⁵

Before entering into the study –certainly very brief- of the economists we have chosen, we deem convenient some previous clarifications.

In the first place, in relation to the concept of marginal utility, we deem important to clarify this essential category of marginalist thinking.

We shall do it with an example from Eugen Böhm-Bawerk (1851-1914), an Austrian economist, a marginalist of course, which gained fame for his theory on interest and also for his precise critic to the algorithm which Marx forwards for the construction of production prices.⁶

⁵ Jean Boncoeur and Herbé Thouement en su 'Histoire des idées économiques'- Nathan-Paris-2000, Volume II page 8 say textually: 'Although Walras gave great importance to his works of applied economic and social economic (where he problems of social justice and advocates the nationalization of land) it is essentially his contribution to pure economics –which he considered a natural science or even more a branch of mathematics – which granted him his fame for posterity; besides a theory of value similar to those of Jevons and Menger but worked out independently from those authors, which means a first contribution to general equilibrium –considered today as one of the greatest economists of all times, Walras was widely ignored during a long time, specially in his own country.

⁶ Maybe Marx would not have published- had he been alive- the 3rd volume of 'The Capital' as it was published by Engels. The algorithm of transformation presented by Marx for the construction of production prices contains a logical mistake that he recognized but without giving any importance to it. As Jean Boncoeur and Hervé Thouement point out in the 'Histoire des Idées Économiques' (Nathan, Paris, 2000, Volume I, pag.190/192), it is "problable that the author (Marx) was not entirely satisfied with the analysis contained in his manuscript".

In fact, the development of the process of production that he presents in this way:

$$P = (C_i + V_i) \cdot (1+R) \quad i = (1, \dots, n)$$

is, according to the above mentioned authors, « logically inconsistent ».

In this formula P are the prices of production, C_i and V_i respectively the 'constant capital' and the 'variable capital' (name that Marx gave to labour engage in production) used for the production of a certain good i representing $(1+R)$ the general (or medium) rate of profit. The fact is that the member in the left of the equality is a price of production, but the elements of the material cost and labour cost that appear in the right are, as such, expressed in values. Now then if companies sell their products at a price of production, they cannot buy the means of production for their value. The coherent expression of the system requires that both the output and the input of each activity are expressed in terms of prices of production.

It is interesting to follow Marx reasoning to reach this rejected formula: consider an economy in which 'n' goods are produced. To simplify let's assume there is no fixed capital (which allows to consider anticipated capital as consumed capital). We choose as unit to measure physically each good, the global quantity produced in the economy in one year. If we call C_i and V_i to the constant and variable capital advanced for the production of i and PL_i the plusvalue extracted from this production, the value of the good would be

$$C_i + V_i + PL_i, \quad i = (1, \dots, n)$$

The total value of the advanced capital and the total value of the plusvalue extracted in the economy, would be respectively

Lets suppose –explains Böhm-Bawerk- that a farmer, with a hut built in the middle of the woods, distant from any road, has just harvest in his land five bags of wheat, with which he has to survive until the next harvest. Not to die of hunger he needs one bag of wheat. With a second one he improves his diet as to keep in good health and strength. The third bag he uses to feed his poultry. The fourth he uses to distil liquor. With this all his modest needs are covered and hence the fifth bag he uses to feed his parrot. As it is natural- Böhm-Bawerk adds- not all the goals that we have first enumerated have the same importance for our farmer. As it is natural, he will give the greatest degree of utility to the preservation of his life. Hence –and somehow with arbitrariness- Böhm-

at all, even if they are useful. In between those goods we should mention the air. Hence, for the economists of the Austrian School the value of objects does not depend on their utility, but also on their available quantity or on their scarcity. Besides, the larger the quantity, the lower shall be the subjective value of the last unit. In the use of the five wheat bags, the value of the last unit equals 1. However for the farmer the five bags will have the same subjective value, because if he would loose any of them he would not be able to satisfy the minor necessity, that is to feed the parrot.”⁸

We think nevertheless that this is not a totally correct description of Böhm-Bawerk’s idea. What really happens is that ‘in the market’, 1 would be the value of any wheat bag, because the existing quantity allows all other necessities to be satisfied, independently of the subjective value for the farmer of the first bags.

What the marginalists discovered is that what gives value to each unit of a whole is the value of the last consumed unity, that is its ‘MARGINAL VALUE’ which depends on its ‘MARGINAL UTILITY’. The first one to analyse the concept of ‘marginal utility’ was not an Austrian, but a French: Arsene Jules Etienne Juvenal DUPUIT (1804-1866), although the first to use the name was the Austrian Friedrich von WIESER (1851-1926). Others used the denomination ‘utility on the limit’. Leon WALRAS (1834-1910) prefers the word ‘RARETÉ’ and Vilfredo PARETO (1848-1923) uses the word ‘OPHELIMITÉ’.

The notion of ‘marginal utility’ is the base on which afterwards were built the ‘great marginals’: The margin of production, the marginal labour, etc. as generators of values of different type of things in a complex society.

In spite of the fact that some marginalists are far from being clear, we do not think that Henry George’s critic –he mentions Jevons, Marshall, Böhm-Bawerk, von Wieser, Menger and the Austrians in general- in the sense that they did not distinguish between value in exchange and value in use, is correct. Of course they distinguish one from the other, but they make the value in exchange dependent on the ‘marginal utility’, that is on the value in use ‘on the limit’.

⁸ N. Katariev. M. Rindina. Op. quoted pag. 574

Really they found the confluence between value in use and value in exchange and they explain concepts that maintained the economists perplex, as the usual example of water, that having a high degree of utility has, in general, very low exchange value.

It is true that most marginalist tend to confound land and capital, contributing in this way to blur the differential character of land as an economic factor and that all the artillery of the American neo-classic school of thought was addressed –based on these arguments- against the theories of Henry George, who in the final decades of the 19th century was seen as the most dangerous challenge to the power of the ruling classes (and not against Marxism to which in those days very little importance was given).

In this sense Henry George's critic –who obviously did not know the writings of Gossen and Walras - is addressed more to the misleading intention, which was the one which in the end prevailed, rather than to the economic formulation.

This take us nevertheless to a clarification which we deem essential. Marginalism –and the microeconomic analysis in which is based- which is in the origin of all neo-classic thought in economy, was the outcome of a slow process developed during the 19th century simultaneously in different countries and by thinkers which many times did not know each other and not even belonged to the academic world. The predecessors were French (Cournot, Dupuit) and German (Gossen). The school had a high degree of development in Austria and from there the denomination of 'Austrians', which is usually used. However, Jevons was British; Leon Walras was French and Vilfredo Pareto was Italian. All of them, jointly with the Austrians Menger, von Wieser and Böhm-Bawerk, were all significant names in this peculiar way of economic thinking. Also, of course, all the American neo-classics: Clark, Wicksteed, Seligman, Walker and others as well as the also British Marshall and Pigou. As a consequence to speak about 'the Austrians' is misleading and does not help to understand the extension and internal differences within the marginalist revolution.

We shall now continue with the study of the four authors we have chosen, beginning with Herman-Heinrich Gossen.

II. HERMAN-HEINRICH GOSSEN (1810-1858). AN ORIGINAL THINKER.

The German Herman-Henrich Gossen was the first author to develop a comprehensive theory of consumption based on the marginal principle. He was tax adviser for the Prussian Government, position from which he was already retired when he writes and publishes his fundamental book 'Exposition of the Laws of Interchange and of the Rules of Industry deduced from them'. The book was published in Brunswick in 1854 in a volume of 277 pages, organized in two parts, the first dedicated to 'pure theory' and the second to 'applied theory'. It remained unknown for years until in 1879 was rediscovered by W. Stanley Jevons. Gossen, sick with tuberculosis, died in 1858, extremely disappointed and certain that his ideas –that he considered and undoubtedly were of high value- would never give fame to his name.

As Robert Ekelund and Robert F. Hébert point out⁹, his pure theory 'attracted attention due to its early formulation of the laws that have been named as 'laws of Gossen'. The first one enunciating the principle of diminishing marginal utility giving to it a graphic expression; the second law described the condition for maximizing utility: to maximize utility, a given quantity of a good should be distributed in its different uses in such a way that marginal utilities are the same in every use'.

In the second part of his book he puts forward a theory that possibly explains the 'oblivion' in which the book was left for years¹⁰ and that is not usually mentioned by scholars, always ready to jump over the thorny subject of land ownership. It is not only the 'great conspiracy' mentioned by Fred Harrison¹⁰, but part of the betrayal of economic thought as a social science –as pointed out by Mason Gaffney and Fred

⁹ Robert B. Ekelund- Robert F. Hébert: 'Historia de la Teoría Económica y de su Método', McGraw Hill Interamericana en España S.A. Madrid 1992, pag 338/339

¹⁰ Fred Harrison said: 'The mistake made by the founding fathers of the Industrial Revolution in the 1780's ... was to accept and institutionalise land monopoly. The British people, from the Clyde in Scotland to the Thames in the south-eastern corner of England, brought together human skills and material resources in a unique combination, and built a new economic edifice on a corrupt foundation... We do, here, identify a grand conspiracy, in the belief that the evidence is forthcoming to substantiate the charges. The specific allegations are that land monopolists since the Industrial Revolution have systematically prevented the public from undertaking those inventories that would lift the veil of secrecy that surrounds the land market, that this has been the greatest antisocial conspiracy in modern history...', F. Harrison: "The Power in the Land". Shephard-Walwyn (Publishers) Ltd. London 1983- pags. 11 y 33

Harrison in 'The Corruption of Economics'- as a necessary step in the confrontation of the American neo-classics with Henry George.¹¹

Gossen states that 'it would be convenient that the ownership of land would belong entirely to the community and that the community would grant the exploitation of each plot to whom offered to pay the highest rent' –commenting his ideas Leon Walras says: 'a pure utilitarian as J. Stuart Mill 'he backs this proposition in reasons of interest more than in reasons of justice. He based this idea mainly on this principle, that he tried to establish mathematically in his theory of economic equilibrium: that the highest rent corresponds to the most useful use- the State, holding all lands in its hands, will rent them out to the postulants in certain conditions that he mentions and that according to him are justified... I shall only mention one which is essential to consider here because it gives us the tool to perform the ideal. The rent to be paid by the tenant to the State shall increase year by year in a percentage to be indicated by experience". The method –comments Walras- would be the following: "If a is the rent in a given moment, z the annual rate of increase, a_n the rent after a certain number of years, would be

$$a_n = a(1+z)^n$$

Based in this annual plus value that he estimated for Prussia in 1%, Gossen considers possible to pass all lands to the hands of the State. This plan –proceeds Leon Walras- so careful drafted and thought, reveals in spite of the vacuums that we indicate and that without any doubt could not be avoided in the first study of such a complex matter, not only an erudite with a deep knowledge of economic laws, but also an expert business manager". Gossen criticises the violent methods proposed by socialists and communists and denies the right for the State to expropriate land. The State should acquire them from the owners with respect also for the right to the plus value, as they had it in mind when they bought it. He maintains that the acquisition by the State is perfectly feasible,

¹¹ Mason Gaffney says: 'to most readers, probably George seems to minor a figure to have warranted such an extreme reaction. This impression is a measure of the neo-classicals success: it is what they sought to make of him. It took a generation, but by 1930 they had succeeded in reducing him in the public mind. In the process of succeeding, however they weakened the discipline, impoverished economic thought, muddled the minds of countless students, rationalized free-riding by land owners, took dignity from labour, rationalized chronic unemployment, hobbled us with today's counterproductive tax tangle, marginalized the obvious alternative system of public finance, shattered our sense of community, subverted a rising economic democracy for the benefit of rent takers, and led us into becoming an increasingly nasty and dangerous divided plutocracy'. Mason Gaffney: 'Neo-classical Economics as an Stratagem against Henry Georte' in 'The Corruption of Economics', Gaffney, M. and Harrison, F. Shepherd Walwyn in association with Centre for Incentive Taxation – London 1994, page 30.

as it is in a much advantageous position than the individuals based in condition that Walras summarises as follows:

- “1) The State may take loans in better conditions than the individuals and, as a consequence, it can pay a higher price for the purchase.
- 2) It has a much longer life and, as consequence, an amount to be cashed in the long run has for the State more value than for the individuals.
- 3) Based in the same reason, the State may enter into long-lease contracts and as a consequence, with better return”.¹²

According to Gossen the outcome of those three conditions are that ‘the State may purchase land from the individuals at a sufficiently low price as to find in the increase of the economic rent the means to pay back the price of the purchase’¹³

Gossen, which was undoubtedly a pioneer, suffered a bitter deception for the way in which his book was ignored. He had a high esteem for his theories, totally shared by Leon Walras –he compared himself to Copernico- but maybe he was ingenuous enough to ignore the powerful interests affected by his proposition of land nationalisation and we believe it was this proposal and not the ‘laws of Gossen’ that caused his book to be set aside.

When it was re-discovered, was to praise its mathematic part not his proposals for the purchase of lands by the State (exception made, of course, of Walras who shared his ideas in connection with land).

As Leon Walras said: ‘it seems that a fatality burdens this great problem’ and that this would be the reason for such ‘a very advanced mathematic theory of social wealth and such a remarkable theory concerning the leases to the State’ and one of the most beautiful books in political economy ever written, to be still completely ignored even in Germany’.¹⁴

¹² Leon Walras: ‘Études d’économie sociale’, Economica-Paris 1990. Page 229

¹³ Leon Walras: Ibid: 258-260

¹⁴ Leon Walras – Ibid: 231-232

We can now see that it is not a 'fatality' that burdens this 'great problem', but the powerful interests affected which defended themselves in the past as they defend themselves today whenever the subject of land property is even touched.

Walras, although it may seem the contrary, did not ignore this. In a noteworthy paragraph he said: 'If in the second or third century of our era a stoic philosopher had given the exact and precise formula of a social condition without slavery, with ways and methods to emancipate the slaves¹⁵, people with short vision and with good reasons to be satisfied with the existing order, would find easy to demonstrate that his plan was in contradiction with the entire organisation of Roman society and maintain that in any case such formula would be never taken into practice, notwithstanding this philosopher would have for him the truth and the future. So it happens with Gossen theory on the repurchase of lands by the State with the redemption of the purchase price by means of the land leases. And so, to the glory of Copernicus that he claims and that is due to him for his conception the mathematic equilibrium of the economic world, Gossen adds, according to my opinion something of Newton for the solution of the social problem. Having said this I do not have one word to add to express my opinion on his merits'¹⁶

As we shall see further on, Walras, although being aware of the difficulties his own theories had to face –and that he suffered directly- was greatly disappointed when the Peace Nobel Prize (the Economy one did not then exist) was not granted to him, in spite of his nomination for it.

We must now leave Gossen –due to the necessary shortness of his study that renders really a poor homage to his work and his ideas- not without inclining ourselves respectfully before the figure of this lonely thinker, undoubtedly the first organic marginalist in the history of economic science and whose ideas about the differential character of land ownership were not only ignored by many neo-classics, but deformed by others taking into consideration certain parts of his theories and putting aside other ones, those which could put forward problems for the ruling classes.

¹⁵ Walras refers undoubtedly to Lucio Anneo SÉNECA (4 b.C – 65 a. C) the stoic Roman philosopher born in Cordoba whose struggle against slavery was rejected in his times. He was teacher and minister of Neron who, as a consequence of political plots, ordered him to commit suicide. According to history Séneca opened his veins in absolute calm

¹⁶ Leon Walras: Ibid: 326

III. FRIEDRICH VON WIESER (1851-1926). A REALISTIC AND PROGRESSIVE THINKER

Born in Vienna from aristocratic parents, he was Minister of Commerce of the Austro-Hungarian Empire in 1917. He studied economy at the Universities of Heidelberg, Jena and Leipzig.

The object of the present paper is not to analyse exhaustively the ideas of each of the economist we have chosen, but to analyse the role they think land (in the widest sense of the expression) has –according to them- as an economic factor of different nature.

In von Wieser's case –an economist of extraordinary broadmindedness and exceptional importance- this necessary shortness avoid us to enter into some essential aspects of his ideas, omission for which we kindly request the clemency of the reader. It would suffice to indicate that he gave substantial contributions to the Austrian theory of value, starting from the base prepared by Menger. He was the first one to use the words 'marginal utility' in economic theory.

In spite of his aristocratic origin and his relations with the Imperial Government he was one of the economists who paid more attention to the real economy –in front of pure theory- and to the great differences in the purchasing power of different individuals, based precisely in private property.

In anticipation to the ideas of the American Thorstein Veblen he points out that in a real economy, instead of the things that would be more useful, the things that are produced are those that are better paid. The larger the differences in wealth, the loud are the anomalies in production. Luxury is provided to the capricious and the gluttonous, while there is deafness for those in misery and poverty. Hence is distribution of wealth that decides what is going to be produced and induces anti-economic consumption: a consumption that squanders in guilty and unnecessary enjoyment what would have cured the wounds of poverty' (Natural Value p. 58)¹⁷

¹⁷ R. Ekelund and F. Hebert. Ibid: 351

To demonstrate his theory, Wieser prepared a model of value such as it would exist in a communist country in which goods are valued simply according to the relation between the existing quantity and the marginal utility. As Ekelund and Hébert –whose study on Wieser we follow in this paper- pointed out: ‘Although Wieser model has a high degree of abstraction, based on the same he reached a very important practical conclusion, the conclusion which with excessive slowness has been reached by the communist countries. Which is that the price of factors and goods play a fundamental role in the decisions about allocation of scarce resources.’¹⁸

In our opinion the most interesting thing in Wieser’s thought, is precisely the changes he introduces to the Austrian theory of value and bring him near in a remarkable way to the ideas of Henry George or Leon Walras. As George he was a great defender of free trade as the way to press prices downwards.

When competence would not prevail, Wieser supported the intervention of the Government to re-establish it. It is important his conception of the relative value of marginal utility for fixing the exchange value. He said: ‘In an ideal and independent economy, the value in use depends on the utility and goods are produced according to the order of their value. The value of exchange would be in this case the measure of personal acquisition. In a real economy the value of exchange depends not only on the utility but also on the purchasing power. The value of exchange in the real world does not necessary follows the value in use or utility. In this kind of world, production is not fixed only by “simple necessity”, but also by the superior means of a part of the population... In other words, the prices in the real world do not reflect normally the valuations of the marginal utility that would exist if the marginal utility of the purchasing power was the same for all the individual claimants.’¹⁹

It is worth to mention what he said about the rent of land: ‘The rent of land is probably the formation of value which more often is attacked in today’s economy. However, I think I shall demonstrate that even in a communist State, there must be rent of land. This type of State –in certain circumstances- must calculate the output of land and must calculate in certain products of land a larger output than in other ones: the circumstances

¹⁸ R. Ekelund and F. Hébert. Ibid: 351-352

¹⁹ R. Ekelund and F. Hébert. Ibid 351

on which such calculation is dependent are essentially the same that fix the magnitude and existence of the rent. The only difference is that in the actual circumstances, rent goes to the private owner of the land whilst in a communist State would go to the whole community ('Natural Value 62-63')²⁰

The latter is really what Karl Marx proposes as point n° 1 in the program he forwards in the Manifesto, although many Marxists –some of them very poor readers of Marx- often have said that in a communist State, the rent of land would disappear.

What Wieser does not say –although it is obvious- is that for the rent of land to go to the community, totally or partially, is not necessary the existence of a communist state. This is what was proposed by James Mill, Henry George, Hermann-Heinrich Gossen and, as we shall see, also Leon Walras. None of them was thinking in a communist State and all of them –in one way or another- gave in their systems the rent to the community, ones by taxation others by rationalization followed by leasing it to the best bidder.

As Ekelund and Hébert point out: 'To summarize, Wieser's analysis of value showed that the formation of value is a neutral phenomena. An understanding of natural value did no give any evidence in favour or against a socialist organization for society...The natural value was the basis of value in all societies, in spite of the fact that natural value could be concealed by other factors (as controls, authorisations, great differences in purchasing power and monopolies). Wieser was the first economist to point out the generality of valuation based in utility and in a very clear way, the usefulness of the market system whatever the social organization.'²¹

As a matter of fact, these ideas of von Wieser provoked the critic of those that –as Ludwig von Mises- thought impossible any accurate economic calculation in a communist system²²:

The historic reality of communist countries seems to have given the reason to von Mises'.

²⁰ R. Ekelund and F. Hébert. Ibid: 352

²¹ R. Ekelund and F. Hébert. Ibid: 352

²² L. Von Mises 'La Acción Humana'. Unión Editorial Mond 1986 - 319

Although Wieser as the Austrians in general underlined the role of marginal utility of final goods as the main factor determining the value, that is to say, as the source of value, he introduced in his analysis and with the variations that we have aforesaid, a social theory that for many is similar to a "Welfare State". He not only defended the Trade Unions as a tool to avoid the exploitation of the workers, but also supported the constant State intervention to protect the weaker sectors. "Specially –as the afore mentioned authors indicated- Wieser was in favour of a strong regulation and control by the State of the companies in which competition was not perfect and always that the benefits of big capital were unearned, that is to say, obtained without the efforts of a true and clever leadership. Wieser offered examples of unearned benefit. He mentions urban rents increased by the increase in population and rents of rural land in big farms, besides the abuses in the companies by shares and the speculation in the stock exchange.²³

We really think that von Wieser did not do a deep analysis because if he would have done so he would have realised that the plusvalue of land excluding buildings and constructions is not a possible case as the abuses in companies by shares or the speculation in the stock exchange, but an historic constant –exception made of occasional recessions- and that those plusvalues are always unearned increment which owe nothing to the effort of the owner. In one way or another they are due to the progress an increase in population. They are a création of the community.

Wieser reached important conclusions related to the influence of the exercise of power on welfare –and this is something which makes him near to Marxism. For Wieser, the existence of monopolies in the markets of resources and products –and the stratification which is the outcome of utilities, prices and rents –should be condemned. Nevertheless he concentrated on the compensating power of labour negotiation, anti-trust legislation and free trade. "The authentic originality of Wieser radicates in the combination of the Austrian theory of utility, a realistic observation and at the same time evolutive, not estatic, of society. His thought practical and with his feet on earth, should be

²³ R. Ekelund – F. Hebert. Ibid: 358

distinguished undoubtedly as an honest and progressive approximation in the search of a solution to social problems, distant in any case from any radical formulation.

We should now leave this peculiar thinker to enter in the mathematic and idealistic universe of the great Leon Walras.

IV. LEON WALRAS (1834-1910). THE MATHEMATIC AND IDEALISTIC THINKER

Leon Walras was born in Normandie, France in 1834. He always kept his French nationality, although he spent most of his life in Switzerland. Born son of the also economist Auguste Walras, he not only inherited from his father the basis of his economic knowledge but he also continued his ideals during all his life, specially referring to land property.

He was not a brilliant student or a young genius: he obtained two degrees in high school respectively in letters and sciences, but he failed in his intention to become a student in the *École Polytechnique*, one of the famous schools of French civil engineers. Finally he entered a school of inferior category. He was also a failed literary writer: in 1858 he published what seems to have been a very bad novel. One thing is certain: this literary failures are to be noticed in his writings which are far from the high style of those for example of Adam Smith or Henry George, although they don't lack strength and passion. Finally he decided to dedicate himself entirely to economy but he couldn't find any academic position in France, basically as he himself points out indirectly when he mentions the sufferings of Gossen, due to his ideas about nationalization of land. Finally in 1860 he obtained, not without the opposition of three of the seven members of the Nomination Committee, a teaching post as professor in the School of Law in which was later going to be the University Lausanne, in Switzerland. Between 1874 and 1877 he published the two parts of his "Elements of Pure Political Economy" and in later years he published "The Mathematic Theory of Bimetallism" the "Mathematical Theory of Social Wealth" and the "Theory of Money". In 1882 he abandons teaching and in 1886 he publishes his "Studies of Social Economy" and in 1898 "Studies of

Applied Political Economy” which are the two books –not really very systematic as they are a compilation of different works- that we have followed for this study.

He died in 1910. He was then a contemporary of Henry George and although he mentions George very briefly²⁴ as far as we know George didn’t know him.

According to historians, he was a man of lonely and strong character, firmly attached to his ideas and dedicated to divulge them, but –and this was a difference with George- only in the academic world through his very large correspondence with most of the economists known in his time.

He had no faith in democracy and he could have well subscribed that phrase of the Argentinean writer Jorge Luis Borges, “Let me say that I disbelieve in democracy that strange abuse of statistics”. He also had no respect for the French ruling classes that according to him had confiscated the Revolution for their benefit and for the economic ruin and reduction of Estate and “has founded its fortune on the acquisition at low price of national property, that has grown fatter with the charcoal companies, the railways and other monopolies granted always without care for the public interest, with the protective industries at the consumers cost and that has not permitted the normal and regular teaching of economic social science.”²⁵

As we can see, he was an authentic iconoclast but in no way an “apologetic economist” (in the sense used by Carl Marx). He never resigned his ideas, which was not the case of many others.

But at the same time that we must recognise this strong and incorruptible ideology we must also stress that sometimes the study of his thought is rather difficult, specially in the philosophical part. More than to follow it textually, what we shall do is to try to

²⁴ He mentioned George in his “Mathematical Theory on the Price of Land and its Repurchase by the State”, jointly with the names of Collins, Rodbertus-Jagetow and Alfred R. Wallace “as one of the many socialists I can mention who supported the right of the community over land”. Leon Walras: “Études d’économie sociale”. Auguste and Leon Walras: Oeuvres Économiques complètes –Economica. Paris 1990. book IX Page 229.

²⁵ Leon Walras: Études d’économie sociale. Ibid: 420

summarize his ideas, focusing on the subject in which we are interested: the property of land. We would need to mention, although briefly, his ideas on the subject that he calls "Pure or Mathematical Economy", his ideas on general equilibrium and the law of Walras, as we deem them well known by the specialised audience and have earned the respect of the economists and a deeper study would take us far from our subject.

To understand the Walrasian thought in its complexity we have to start from his philosophical basis and these are not always expressed in a precise language. We shall try to summarise them: following the ideas of an American sociologist, Franklin H. Giddings, he takes the notion that the physical and moral science results both from the application to the concrete and inductive sciences: chemistry, astronomy, geology, biology, psychology, sociology of the abstract and deductive sciences: mathematics, physic, economy, ethics, politics. For Walras there seems to be an abstract and rational science which following Giddings he calls "Cinonique generale" and that comprehends pure ethics and pure economy. Unfortunately it is not very clear what Walras intended to say. Instead, he is very precise when stating that "economy if not the mechanic itself applied to the equilibrium and movement of social wealth, in the same way as the hydraulic is the mechanic itself applied to the equilibrium and movement of liquid, it is at least a science similar to the mechanic."²⁶

Finally –and perhaps summarising too much- facing "the experimental fact of the illusion of human freedom as a fact of unique importance"²⁷, Walras considers that there is a Pure Science which consists in the study of all the facts for which the world is the theatre and to the corresponding laws and that we may call Pure Natural Science or Pure Moral Science according to its object being the facts of nature or the facts that rise from the exercise of human will. Once more unfortunately the examples given by Walras are not very clear: "Pure Natural Science will result of the application of Mathematics to Physic, to Chemistry, to Vegetal and Animal Physiology; the Pure Moral Science will

²⁶ . Leon Walras: Etudes d'economie politique appliquee. Auguste and Leon Walras: Ibid: Book X page 406.

²⁷ . Leon Walras. Ibid: page 408

result from the application of the canonique, of the economic to psychology, history, sociology, geography or statistics.²⁸

It is really difficult to understand clearly what Walras is willing to say. What is certain is that he considers that there is an "Applied Science" which he divides in Moral and Natural according to the enunciation of the principles of the relations of the persons with other persons or of the persons with things. The first one would be done from the point of view of justice. The second one, from the point of view of utility; the first one would be rational; the second one, rational and experimental.

Applied economy would be the science studying the relations between men not like moral persons but like workers who see their work or according to their relations with things and that enunciates the utility rules.

Nevertheless, I must honestly admit that sometimes I do not understand what Walras means to say, in other instances I am afraid that more than facing obscurity of expression, what I face is expression of obscurity. What is certain is that, contrary to Henry George, for whom moral and economy could not be separated, for Walras there seems to be an applied economy –the "natural" one- independent of moral and exclusively based on utility and an applied economy –the "moral" one- which would be based or should be based on justice, but, and we must call the attention to this, the fact that a separated does not mean that we can do without any of them. Moreover, in a way Walras seems to believe that the consequence of not entering into a moral applied economy would have devastating effects for society.

For Walras, the man of social science, pure or applied, should be differentiated from the statesman or the practical man. "The man of applied social science –he says- deduces from pure science an ideal of organisation of society... The role of the statesman is to conduct society towards that ideal indicated by the man of science. He should put himself in a relativistic point of view between the demands of science and the circumstances in which he happens to be. "Any serious and lasting social reform –he

²⁸ Leon Walras. Ibid: page 408-411.

says- is a transaction between the conditions of a starting point and those of a goal to which we wish to arrive".²⁹

The two necessary disciplines would be "a pure mathematic economy" acting as the inspiration of a general and rational 'cannonique' and with which the distribution and production of social wealth should be constructed.

I do think that I may have extended myself too much in this considerations and not really succeeding in clarifying Walras' comprehensive thought. Specifically, what is certain, what is specific, is that Walras applies mathematics to the economy and builds his theory of general equilibrium and the law of Walras basing himself always in the concept of marginal utility and, in respect of the social question, he enunciates a formula of distribution of social wealth based on the nationalisation of land and the suppression of the existing taxation system, formula to which he gives the character -as a man of science- of an ideal for which we should fight for, independently of the fact if we can achieve it or not.

In contradiction with Marx he considers that the different stages of social economic systems in history follow up one after another not substituting themselves but adjusting themselves one to the others, and he also considers that the social conditions of the State at the end of the 19th century were not only unfair but with a very bad future, and that the ideal he enunciates should be the light guiding politicians for the necessary reforms, although he points out that "we never can reach the ideal, what is essential is to know it and tend to it".

But, which is this ideal? To understand it, we need to see something of his "pure applied economy", that is to say, of the mathematic part of his theories. We cannot, and it's not our intention, to go deep into them, because this would take us a very extended analysis which in any case can be found in any history of economic thought.

It should suffice to indicate that his fundamental contribution was the expression in mathematic form of the general equilibrium of the market. Really the concepts he uses

²⁹ Leon Walras. Ibid: 410

in his system of general equilibrium are the same used by Menger and Jevons, and also Dupuit and others for the development of the theories of utility and demand. But, as R. Ekelund and R. Hébert point out: "As long as these pioneers treated the functions of utility and demand for only one good, Walras presented systematically a model for the maximization of the utility of an individual considering all the goods he consumes and a budget restriction. As from these choices, the individual functions of demand and offer could be deducted".³⁰ What is certain is that the contribution for which Walras gained a place in the history of economics was precisely his mathematic formulation of a general system of equilibrium based in the criteria of utility, that is to say, in the whole taste or preferences related to the different possible collections of good constituting what is called a "function of utility".

Within his system, a fundamental concept was that of "final utility" that he calls "rareté" and that denoted the variation in the total utility of the individual as a consequence as consuming one unit –more or less- of any good. The "rareté" is for Walras a decreasing function of the quantity consumed. To larger quantity less marginality, less "rareté". Another concept very useful in the Walrasian universe is that of the quotient between the "raretés" of two any goods in the hands of a person. This quotient is called marginal rate of substitution and it is simply the internal valuation done by such person of any good in terms of another one that makes equal his level of final utility or satisfaction. As the author often mentions: "Of course, modern economy is interested in maximizing behaviours. That's is, it supposes that an individual will maximize his well-being considering the circumstances he has to face and the resources that he has. If the resources are limited, it is obvious that the individual cannot reach all the satisfaction he would like. As the economists say, he is under a budget restriction, and to allocate resources in a way that maximises the utility is identified by the economists as a rational behaviour".³¹

One essential part in the Walrasian general system of equilibrium consists in what has been called the Law of Walras, and that is related to the concept of excess of demand. Posed in simple words, the Law states that the excess of demand of any good depends on the addition of the excesses of demand of the other goods. As R. Ekelund and R.

³⁰ R. Ekelund – R. Hébert: Ibid page 456.

³¹ R. Ekelund –R. Hébert: Ibid page 459.

Hébert said, "Fundamentally the Law of Walras is a way of expressing basic interrelations in the economic behaviour of the individuals. It is a valuable taquigraphic instrument which expresses the conclusion that considering the tastes of individual and the restriction of the rent, the excesses of demand and offer of all the goods must be equal to zero. In other words, the demand and offer of goods in real terms are not independent... The Walrasian theory describes the necessary interconnections between the market of factors and products in a competitive idealised economy. The Law of Walras in consumption and in production... is a shortened expression to describe this interesting and fundamental interconnections"³² and they add: "the model of system is precise, but Walras did not undertake the comprehensive statistical investigation necessary to give solutions to each one of the equations of the system. As a matter of fact, formidable problems are posed when the time comes to specify the relevant equations in precise terms and to put together the information in such a big scale. It should not be interpreted that recognising such problems diminishes the importance of the contribution of Walras. Although he was a rather poor mathematician, Walras nevertheless demonstrated the power of mathematics to solve complex theoretical problems."³³

With this certainly brief summary we must now leave the mathematic world of Walras (or at least the surroundings of his mathematical world as we really never went deeply into it) to go into his "ideal world", in the organisations he proposed for society, in what he would call the result of his moral applied science deducted from the philosophical premises of the pure rational science that he calls "pure science of social wealth".

There is nevertheless a point of confluence that explains our brief incursion into his mathematical universe: this point of conjunction, from which both his theories are departing, the applied based in utility and the applied based in justice, is precisely the concept of "rareté", of final utility.

Some definitions and concept precisions are important. For Walras, "the social wealth is the group of things that are bound to have a price, or a value of exchange relationship between them. It is composed by capitals or durable goods (things that can be used

³² R. Ekelund – R. Hebert. Ibid page 463-466

³³ R. Ekelund – R. Hebert. Ibid page 468

more than once) and the rent or perishable goods (things that cannot be used more than once). The capitals comprehend the LANDS, the PERSONAL FACULTIES (would be labour), THE ARTIFICIAL OR MOVABLE CAPITALS or, as he says, PROPERLY CAPITALS (for the latter ones). The rents would comprehend at first sight the consumption objects and the raw materials which are the most usual of material things; but they also comprehends under the name of SERVICES the successive uses of capitals which are the most usual within material things. The services of the capitals that have a direct utility should be reunited with the object of consumption under the name CONSUMABLE SERVICES, those that only have an indirect utility must be reunited with the raw materials under the name PRODUCTIVE SERVICES.³⁴

As one may appreciate, Walras' definition could origin a mayor confusion, even if his basic ideas are clear. To start with, he includes land in "the capitals" only to say afterwards that the movables are the "properly called capitals". He also includes labour which he calls "personal faculties" in the capitals. As we may see, very far from the clearness of the classics or of Henry George. Further on, when he proceeds to characterise each of the factors he does it with absolute correctness, but really his terminology –maybe due to a wish of innovation- does not help to understand things. He differentiates between a market of services and a market of products, and "on each market we may observe a rise in case of excess of demand over the offer and a decrease in case of excess of the offer over the demand. The estate of equilibrium to which the real markets tend but never reach, would be that in which the offer and the demand of each service or product would be equal and where the price of cost and of sale of each product would be equal. That is the mechanism of free concurrence. His theory is that Pure Economic is a psychic-mathematical science. Only the mathematics may demonstrate that "WE REACH CURRENT PRICES OF EQUILIBRIUM CORRESPONDING TO THE EQUALITY OF THE OFFER AND THE DEMAND MAKING THE RISE OF THE PRICES OF SERVICES AND PRODUCTS WHEN THE DEMAND EXCEEDS THE OFFER AND MAKING THE DECREASE OF THOSE PRICES WHEN THE OFFER EXCEEDS THE DEMAND AND THAT WOULD REACH THE EQUALITY OF COST PRICE AND SALES PRICE OF THE PRODUCTS BY INCREASING THE QUANTITY OF PRODUCTS WHEN THE

³⁴ Leon Walras, "Études d'économie politique appliquée". Auguste and Leon Walras, Oeuvres économiques complètes. Economica – Paris 1999 pag. 416

PRICE OF SALE EXCEEDS THE PRICE OF COST AND DECREASING THE QUANTITY OF THOSE PRODUCTS WHEN THE PRICE OF COST EXCEEDS THE PRICE OF SALE".³⁵

According to Walras, only mathematics may demonstrate that: "the condition of maximum of utility for the consumers is that the intensity of the final satisfied wishes or rarities, after the exchange, are proportional to the prices" from where we can follow that "in the estate of equilibrium the prices are proportional to the intensity of the last satisfied needs or the rarities in all the consumers; and that "the price of a thing increases if its utility increases or the quantity diminishes and the price diminishes if the utility diminishes and the quantity increases".³⁶

In short words, the value is an increasing function of the utility and a decreasing function of the quantity. Maybe as Ludwig von Mises pointed out, there is in Walras an overvaluation of the role of mathematics in economy. Pure logic –non necessarily mathematic- is sufficient to see as obvious many of his propositions.

We should leave this to the judgement of the reader. What it is interesting for us to point out is an essential point in Walrasian thought: in the same way as for him only the mathematics may demonstrate than in a progressive society salary does not necessarily vary, an interest necessarily tends to decrease, also they demonstrate THAT THE LEASINGS NECESSARILY INCREASE. For Walras, even though the rent "is established in the market of productive services in reason of the offer of the land owners and the demand of the entrepreneurs that wish to use it to fabricate products or that of the consumers willing to use it directly, necessarily "the intensity of the last needs satisfied or the rarities of the consumed rents keep growing in a society step by step with the increasing population and he adds: the fact of the plusvalue of the land rent in a progressive society is a fact well proof by experience and well explained by reasoning, from where it results that to leave lands to individuals instead of keeping them for the State means to allow a parasitical class to take advantage of the enrichment that should satisfy the always growing demands of public services".³⁷

³⁵ Leon Walras, Ibid. page 417

³⁶ Leon Walras, Ibid. page. 417-18

³⁷ Leon Walras, "Etudes d'economie sociale" Ibid. 324

This is the central point of Walrasian social theory. If the value of land comes from social work, from the growth of society, why should not we leave the benefit to be for the whole society? He considers that it is very difficult to cure the wrongs already caused but that we can improve the future. From there he forwards his mathematical theory for the repurchase of lands by the state –based in Gossing’s theory- and in which he proposes to use the plus-values of land –that should be immediately leased by the State- for the payment of the services of the purchase to the owners until they will be completely paid and the state would then use the rent as source of income. In this way, “we would have not only saved the future but repaired the past”. Although he sometimes uses the word “expropriation”, it is quite clear that his proposal is the repurchase of the land by the state. He proposes this because the owners had in mind the plus-values when they bought their lands and that due to this in some way the plus-values belong to them.

Of course we know that in reality the person who purchases land is ALWAYS BUYING FUTURE RENTS AND PLUS-VALUES and that is the system itself which is perverse and extremely difficult to modify. That the solution proposed by Walras has had the same scarce fortune that those proposed by Gossen or Henry George makes evident that although they are quite different solutions to a similar problem, the rejection from the establishment is the same for any of them.

Let’s now see some of the things that Walras said: “Why we should leave that in one side the landowners get richer and in the other side the proletarians get poorer by the sole fact that society develops? There is no right against right, and there is no time limitation status in favour of a inequity which is always persistent”... “The collective property of lands in itself, 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 his living room, if we have failed to purchase it; she is to society what health is to men, a thing that if it lacks condemn society to obscurity and misery”... Hence, if we have lost it and to recover it a regime, a treatment, an operation would be necessary, it is

necessary to undergo it. Only one question we must pose in this case: is to know if the sick person has the strength to support it.³⁸

In respect of what we have said about the rejection of these ideas by the establishment and speaking about the “official economy” and of certain economists of the “system” (which Marx calls “apologetic”) Walras says: “Dare you to apart yourselves from the existing ideas and all the academies, all the societies, all the magazines, all the newspapers will close the doors before you. On the contrary, if you give evidence of submission in the contests that are open before you in the age in which the desire for fame and the need of success are more acute your luck is completely secured.”³⁹

We have pointed out before his absolute lack of confidence that the reform that he proposes could be carried out under a democratic system: “I do not believe –he said- truly that the democratic and parliamentary state we enjoy it’s at the stage of undertaking such an operation, but the value of a social and economic theory does not depend necessarily on the possibilities it has to be taken immediately into effect.”⁴⁰

As we have aforesaid, he proposes an “ideal” and it will be the task of practical politicians to try to take it into practice.

But it is true that Walras is contradictory. On one side he affirms the injustice of the appropriation of land rent. But on the other side he affirms in his theory of property –without distinctions- “that the owner of a thing is owner of the services of such thing” and as who may do the most can also do the least “the one who has the immediate right on one thing, has also the right to consume it in the long run, that is to say, to consume only its services” and also “that the owner of a thing is owner of the services of this thing”.⁴¹

Walras does not say that this is only applicable to what he called the proper capital (the movables), but also includes land. This explains why he proposes the repurchase of land. He is very clear at this respect: “the owner of a capital immovable, personal, or movable is owner of the rent, the work or the benefit of this capital, and owner of the

³⁸ Leon Walras “Etudes d’economie sociale” Ibid 416 / 417

³⁹ Leon Walras “Etudes d’economie sociale” Ibid pag. 424

⁴⁰ Leon Walras. Ibid pag. 326

⁴¹ Leon Walras. Ibid pag. 177-178

products he receives as lease, salary or interest in exchange of the service of this capital". And he adds: "... as a consequence it is sufficient for the theory of ownership to make the distribution of lands and personal faculties between men and society: all the social wealth will be distributed in this way ... There are two ways of social wealth to distribute: lands and personal faculties, and there are two social types in between which this wealth should be distributed: the State and the individual. According to the principle of inequality of positions, the personal faculties should be attributed to the individual, and according to the principle of equality of conditions, lands should be attributed to the State. To say more than this is useless."

He says that both conservative and socialist economists have disregarded the central topic (either because of lack of interest or lack of knowledge) which is THE PLUS-VALUE OF LAND RENT RESULTING FROM THE INCREASE OF THE "RARETÉ" IN A PROGRESSIVE SOCIETY... THIS IS THE THEORY OF DISTRIBUTION OF WEALTH BASED IN JUSTICE.⁴²

He also says that in the existing system the farmer and the landowner are usually two different persons, and that as a consequence a transformation of territorial individual property in collective property separating the roles of the farmer and the landowner – that would be the State- would not only be harmful but very favourable for production: "to the contrary to what is said everyday that private individual property has made nations to come out of barbaric states and that collective property of land would make them return to it, the true is that nationalisation of soil is endlessly desirable from the point of view of transformation of agriculture. From other side, social interest that demands collective property of land, demands as much as that, individual plain and entire property of personal faculties and the suppression of taxes."⁴³

For him, his theory of property goes together with a theory of taxation. The State owning the land should live on the income of the land using one part in his current expenses for public services and using the rest to form capitals of public interest. Instead, the theory of taxation based in individualism has no way out: "after having left all the social wealth fall in private property it is in vain that we made efforts to

⁴² Leon Walras, "Etudes d'economie politique appliquée" Ibid: 421-423

⁴³ Leon Walras, "Etudes d'economie politique appliquée" Ibid 422.

constitute the incomes of the State because in the same way that the individual has no right to live on the rent of land and the leasing, the State has no right on the personal faculties, the work and the salary. It has no right over the capitals, the earnings, and the interest coming from labour; it has no right but to what he himself has created by means of the rent. I have maintained this thesis since the beginning of my career.

He points out that although there is not a pre-established equality between the territorial rent and the financial needs of the state, there is a harmony in the fact that “the total value of territorial rent increases or decreases with population and capital and as a consequence of the financial needs of the State. Some authors as James Mill think that the incomes of land would exceed the needs of the government, other ones as Charles Gide think that the public expenses are much higher than the income we can expect from leases. The position of Walras is that the incomes of the State are variable and an adaptation is possible.

He makes a comparison with the individuals and States, that “nature has given the land to everyone and our personal faculties to each one. In the name of moral principles that can be deducted rationally from moral definitions I say that we should consume the leasings in common and our salaries individually. If we take the problem from the side of what is right to the side of necessity we shall tend to make unfit, parasitical, waister individuals live at the expense of individuals who are fit, economic and hard-workers or to make the first ones to live at expense of the State and the State at the expense of the second ones.⁴⁴

Passing to practice, he says that the first step would be to establish and administer the land tax as a co-property of the land by the State in a way to assure to the State his part not only in the rent but also in the plus-value of the rent.

In this system that he explains in his “Mathematical Theory of the Price of Land and its Repurchase by the State” he proposes that the state without changing basically the land tax “gives to it the shape of a co-property on land and in this way he would already have a part and would repurchase the territorial owners their part and pay them with bonds.

⁴⁴ Ibid. 424

The State finally would lease the lands that then would belong to him to the rent consumers either to farmers, industrials or merchants. The amount of the interest to be paid for the bonds could exceed in the beginning the amount of the leases that he would receive from the tenants: but as the lease increases in each renewal and in the public auctions and the payments to the owners diminish by the redemption of titles, the surplus would be produced.

Finally in the end the state owning the land will live thanks to the leasing of the same and the taxes would be suppressed. The Modern World would have cured its social wound, thing that the Ancient World could not do.⁴⁵

According to Walras by recovering lands for the State we would have faced a first social problem, which is to distribute wealth between men in society, stopping the land-owners from benefiting of a social plus value. The second social problem would be to stop certain entrepreneurs from making extraordinary benefits in breach of rules of free concurrence. The State should intervene to secure free concurrence and when it can not do it, it should undertake itself directly the activities in the most convenient way. This idea is explained by him in his applied political economy lectures, as a theory based in utility.

'The trend of landowners, workers and capitalists is to constitute a monopoly of services; the trend of entrepreneurs is to constitute a monopoly of products. If the monopoly would contradict public interest, the State should prevent it every time that is not based in natural law'.⁴⁶

Although Walras differs from Henry George in the subject of compensation to owners – Walras thinks that the owners should receive the full market price- and also differs from George in his philosophical basis, in other things there are coincidences. We have already said –and it is obvious- that George did not know the ideas of the Walras, father and son, in respect to land. Both Auguste and Leon Walras had identical ideas in relation to this subject, as Leon Walras repeatedly insists that he took from his father his view of the problem and the proposed solution.

⁴⁵ Ibid 424-426

⁴⁶ Leon Walras: 'Études d'economie politique appliqué'. Ibid 424-426

We can only guess that should have George be acquainted with Walras thought, maybe his opinion about marginalism would have been different.

What is remarkable in Leon Walras is that he does not focus only in land to solve the social question. He makes –as George does- of free trade and free concurrence one of the basis for his system and he does it in words in which he pays homage to the physiocrats.

For him free concurrence is the general and superior rule for wealth production.

He said: 'It will be the honour of the first economists (the physiocrats) to have recognised and it will be our merit, of the mathematical economists, to have demonstrated that free concurrence is, within certain limits an automotor and self-regulation mechanism for the production of wealth by men in society, if we deem those men capable of knowing and pursue their interest, that is to say that they are reasonable and free persons. With this condition which is founded and legitimate, we shall demonstrate, as we have already seen, that under the system of free concurrence, things themselves tend to an equilibrium corresponding to a maximum of effective utility and in coincidence with the proportionality of the values of the services and products with their 'rarities'...

'If the quantity possessed of a product diminishes, the marginal utility increases, the 'rarity' increases, the price rises and there is a benefit for the entrepreneur producing the product, and the quantity is then increased. If the possessed quantity of the product increases, the utility diminishes, the 'rarity' drops and the price comes down. There is a loss for the entrepreneur who will limit production and the quantity will diminish –and everything with view to the maximum of utility'... No applied science will know how to offer a general and superior rule with better proof than this one of the free concurrence. And, nevertheless, we should repeat here that to institute and maintain free economic concurrence in a society is a legislation task, a complicate legislation task that should be in the hands of the State'.⁴⁷

⁴⁷ Leon Walras. Ibid: 426-425

For Walras it is a condition of the free concurrence that the appreciation of utility is possible for individuals and that the multiplication of companies would be possible without limit: the first is not possible in public services and the second is not possible in natural monopolies, that should be 'organised by the State'. He foresees companies run by the State or under its supervision.

In connection with protectionism he said: 'Is regarding commerce that the great question of international free trade or protection is put forward. An applied economy based in pure economy will show that free trade, which is the essence of the industrial and commercial regime, has nothing more than advantages and no inconveniences under the condition that the social issue of nationalization of land and the suppression of taxes is solved'.⁴⁸

As we may see he is not only a supporter of free trade but –as George does- he relates its effectiveness to the socialization of land rent and the consequent suppression of taxes.

We do hope to have given in this brief and by no means complete study a general vision of the ideas of this important thinker. Ideas many of which are not mentioned with detail –or even ignored- by economic historians, either totally or partially.

That such an important thought as that of Walras could be hijacked in such a way, demonstrates up to which point the monopolistic power of land ownership drives information in our society.

V. VILFREDO PARETO (1848-1923). THE REACTIONARY, EFFICIENT AND PESIMISTIC THINKER

Italian economist and sociologist, it may be said that in connection with general equilibrium and application of mathematics to the economy he was a disciple and continuer of Walras, who proposed Pareto to replace him in the Catedra of Political Economy of the University of Laussane, Switzerland, for which he was appointed in

⁴⁸ Leon Walras. Ibid: 426-425

1893. He does not follow Walras ideas in respect of land nationalization, being more inclined to solutions based on taxation, although always in a rather diffuse and tangent way.

He was an engineer, as Walras, graduated at the Polytechnic University of Turin. His 'Manual of Political Economy', which was published in 1906 contains his major contributions to economic science: his theory of ORDINAL UTILITY, his analysis of tastes and obstacles in the determination of value and his theory about the MAXIMUM OF 'OPHELIMITE' (name he takes from Greek and with which he refers to the 'marginal utility') and also a statistical theory about distribution of income known as PARETO INCOME CURVES or LAW OF PARETO.

It is remarkable also his theory about the CIRCULATION OF ELITES, according to which every society is governed by an 'elite' that must renovate itself perpetually, taking the best from the common people and expelling the 'degenerate' elements. A confessed enemy of universal vote, he blame it for 'a general increase in the morbid piety known as 'humanitarianism' and 'an increase in the indulgency and approval towards the bad habits of women'.⁴⁹

As we may see he was a perfect reactionary only tempered by his honesty related to economic efficiency, as we shall see.

Towards the end of his life, he supported Mussolini, although he rejected the offer of a post as Senator of the Kingdom, that the dictator offered him.

In connection with his famous 'PARETO INCOME CURVES', he said: 'Experience reveals to us a singular fact: that the curve of distribution of income has little variation in average, either in space or in time for civilized peoples of which we have statistical information'.⁵⁰

According to him there is something in human nature –which he did not identify- that causes an unequal distribution of wealth. Whichever is the system we adopt the curve will tend to return to the original position: from there, the only hope for special

⁴⁹ Jean Boncoeur- Hervé Thouement: 'Histoire des Idées Economiques'. Nathan- Paris 2000, Page 53

⁵⁰ Vilfredo Pareto: 'Cours d'Economie Politique', Librairie Droz, Geneve- 1964- pag. 408

improvement would come from economic growths... 'to increase the minimum income or to diminish the inequality of incomes, it is necessary that wealth would grow faster than population. Here we may see that the problem of improving the conditions of the poorer classes is mainly a problem of wealth production.'⁵¹

It is really the theoretical basis of the modern theory of growth which, without touching the distribution of income –leaving all the inequalities as they are- it centres the efforts to fight against poverty in economic growth. It is the official ideology of capitalism in the 21st century.

Differing from the English tradition (Marshall, Pigou), based in a frame of partial equilibrium, Pareto built his theory of economic growth on the Walrasian general equilibrium, although he pointed out some contradictions in Walras thoughts, specially concerning the fixing of prices or value in exchange, that for Pareto 'is fix at the same time with economic equilibrium and is born from the opposition between tastes and obstacles'. 'He who does look only to one side and considers only the tastes, will believe that only they exclusively determine the price and shall find the cause for value in the utility (that, as we said, he calls 'ophelimité'). He who looks to the other side and considers only the obstacles will believe them to determine exclusively the price and shall find the cause of value in the cost of production and if in between the obstacles he considers only labour, he will find only in labour the cause of value'.⁵²

'The oblivion of the relations of production with the rest of the economic phenomenon –he says- conveys to serious mistakes. So it is that often it is reasoned as if a cost of production would exist independent form the cost of products and other conditions of economy. Once this proposition is admitted, either explicit or implicit, we are tempted to deduct that the cost of production determines the sales price... We cannot make abstraction of the other circumstances of economic equilibrium and separately determine the cost of production. The cost of production is not the cause that determines the price of sale, as it is not the price of sale that determines the cost of production. This figures are simply related in between them by certain conditions which if we add all other conditions of economic equilibrium will determine the incognito figures of the problem.

⁵¹ Vilfredo Pareto. Ibid: 408

⁵² V. Pareto: 'Manual d'Economie Politique', - Geneve – Droz. 1966- cap. 3

Notwithstanding he also says that 'we should never forget that the conditions we have established for economic equilibrium, define an ideal phenomenon, that could be considered a first approach to the concrete phenomenon'.⁵³

If we compare his analysis with the one made by Henry George in 'The Science of Political Economy' (chapters XII, XIII and XIV) we may observe that George's analysis comprehends and surpasses that of Pareto. George says: 'It is not the toil and trouble which a thing has cost that gives it value. It may have cost much and yet be worth nothing. It may have cost nothing and yet be worth much. It is the toil and trouble that others are now willing, directly or indirectly, to relieve the owner of, in exchange for the thing, by giving him the advantage of the results of exertion, while dispensing him of the toil and trouble that are the necessary accompaniments of exertion' ... 'That which may be had without the toil and trouble of exertion has no value'... and he adds: '... Now, while the resistance to movement is inertia... so the resistance to the gratification of desire is the toil and trouble of exertion. It is this that is expressed and measured in values'... 'The value of a thing in any given time and place is the largest amount of exertion that anyone will render in exchange for it. But as men always seek to gratify their desires with the least exertion, this is the lowest amount for which a similar thing can otherwise be obtained... 'It is never the amount of labour that has been exerted in bringing a thing into being that determines its value, but always the amount of labour that will be rendered in exchange for it. Nevertheless, we properly speak of the value of certain things as being determined by the cost of production. But the cost of production that we thus refer to is not the expenditure of labour that has taken place in producing the identical thing, but the expenditure of labour that would now be required to produce a similar thing –not what the thing itself has cost, but what such a thing would now cost... 'Thus the point of equation between desire and satisfaction, or as we usually say, between demand and supply, tends in the case of things that can be produced by labour to the cost of production- that is to say, not what the production of the thing has cost, but the present cost of a similar thing. Desire remaining, whatever increases the amount of labour that must be expended to obtain similar things by making them will thus tend to increase the value of existing things;

⁵³ Vilfredo Pareto: 'Cours d'Economie Politique'- Librerie Droz-Geneve 1964, pag. 74, 694 and 645 of the Volume II contained in the same book. Also page 15 paragraph 596.

and whatever tends to decrease the cost of obtaining similar things by making them will tend to decrease the value of existing things... 'Cheapness or low value is the result of abundance; dearness or high value the result of scarcity. The one means that the satisfaction of desire may be obtained with little effort, the other that they can be obtained only with much effort. Thus there may be general increase or decrease of value as clearly and truly as there may be general scarcity or general abundance...

'Whatever increases the obstacles, natural or artificial, to the gratification of desire on the part of the ultimate users or consumers of things, thus compelling them to expend more exertion or undergo more toil and trouble to obtain those things, increases their value, whatever lessens the exertion that must be expended or the toil and trouble that must be undergone, decreases value'.⁵⁴

If we turn now to Pareto's analysis, we may see that George by focusing his conception of value in the exertion avoided or saved by the possession of a certain thing, comprehends really all the different view points mentioned by Pareto: the 'marginal utility', expression of the desire necessary to induce exertion; the obstacles, that is the cost of production –although the actual cost of production of a similar thing not the cost of production of the thing itself- and there is labour, but not abstract labour, but –as Marx would say- the social necessary labour to produce now a similar thing.

But George's analysis goes further, by distinguishing between values from production – those that being the product of labour permit to the one who purchases the thing to save exertion and toil and values from obligation, corresponding to those things which are not the product of labour –as land- but allow the owner to impose toil and exertion to other willing to use it. He surpasses the limits of Paretian analysis and closes the circuit of the correct definition of value. This concept of 'value from obligation' is unknown to Pareto who cannot find other solution to the problem posed by things that –as land- having no production cost, have a value, than to say simply that is not the 'cost of production' that determines value but the 'whole of the factors of economic equilibrium', that always remain in a certain way undefined.

⁵⁴ Henry George: 'The Science of Political Economy'. Robert Schalkenbach Foundation. New York 1981- pages 226-268

Also is alien to Pareto –although he makes of the hedonistic principle the basis of his analysis- the ‘actual’ character of the toil, exertion and handship that determines value, the remarkable concept unveiled by Henry George. Pareto seems to argue always as if the factors of economic equilibrium were pre-existent to the determination of value – that concept explained so clearly by George- was not in Pareto’s mind.

For him this ‘vague and undetermined thing that the literary economists call value in some relation with prices’, ‘we may affirm that depends on all the circumstances, with no exceptions, that influence on the determination of economic equilibrium’. Then, for Pareto there is not one cause for value and it is a waste of time to try to find it. For him there are many causes, pre-existent to its determination.

‘It is good to note –he adds- that the strength of the opinion according to which there must be one cause for value is so big that even Leon Walras could not be prevented from it... He expresses (Walras) contradictory notions. On one side he says that ‘all the incognitos of the economic problem depends on all the equations of economic equilibrium’, which is a good theory and on the other side he says that ‘is true that rarity (rareté) is the cause of the value of exchange’, and this is a reminiscence of past theories that do not correspond with reality, but nevertheless in his texts he points out that the merchandise is ‘rare’ for the desires to be satisfied as a consequence of the obstacles that should be faced to obtain it. In this context, that is to say having in mind the obstacles, the notion that rarity is the cause of the value of exchange’ is less inaccurate.⁵⁵

To summarize, according to J. Boncoeur and H. Thouément, Pareto criticizes Walras for giving an explanation of value in contradiction with the logic of his own system. ‘For Pareto, Walras disregards the equations of production that are part of general equilibrium since we abandon the narrow picture of theory of interchange. The solution consisting in assigning to the first equations the role of determining the prices of productive services is not correct because the two groups of equations are inter-dependents: technical progress modifying production indexes, affects not only the price

⁵⁵ From ‘Manual d’économie politique’, Geneve, Droz, 1966 extracted from chapter 3 by Jean Boncoeur and Hervé Thouément ‘Histoire des idées économiques – de Walras aux contemporaines’ – Nathan- Paris 2000. Page 51

of productive services, but also the price of products. Notwithstanding Walras is conscious of this inter-dependence when in his polemic with Ricardo he admits that the price of productive services may have repercussions on the price of the products. This late concession contradicts the thesis of a step by step determination of product and productive services prices: in reality it is the whole of the equations of the system that determines simultaneously the whole of the incognitos and in this sense Pareto proposes a lecture of Walrasian general equilibrium more adequate than Walras himself.⁵⁶

In reality, as much for George as for the marginalists in general –and also for Pareto– value is basically an affection of human spirit for things, something that belongs to the individual self and ‘a feeling so long as remains merely a feeling can be known only to and can be measured only by him who feels it. It must come out in some way into the objective through action before anyone else can appreciate or in any way measure it... Thus it is that there is no measure of value among men save competition or the haggling of the market, a matter that might be worth the consideration of those amiable reformers who so lightly propose to abolish competition.’⁵⁷

Although George fulminates the ‘Austrians’ with his critic, it seems to us that –if not all the Austrians- at least many of the important marginalists shared his view on this point. George is attributing to the marginalists something that they don’t really say: they do not try to measure subjective feelings. On the contrary, marginal utility originating value in the margin is the expression in the market of the subjective feelings. George, who was acquainted with the works of Jevons, Wieser, Böhm-Bawerk and Marshall, seems not to have understood –or to overpass- the many coincidences they had with his own ideas.

George’s idea seems clear to us, although sometimes he includes in only one word ‘labour’, both the exertion and the obstacles to overpass; that is the necessary cost (machinery, raw materials, etc). For George what determines value is the whole of the factors operating here and now. Is not only marginal utility –expression of desire- but also the cost of productive services, that is the whole of the equations of the system (using Pareto’s terminology) what determines value, which sole manifestation –at least for George- can be found in the market.

⁵⁶ Jean Boncoeur – Hervé Thouement. Ibid page 52

⁵⁷ Henry George. Ibid pages 252-253

With this brief vision of the basic ideas of Pareto we may now enter into what we would call the theoretical basis -to say philosophical would may be too much- of the Paretian thoughts specially in the theory that gave fame to his name: 'the optimum of Pareto'.

In respect of the foundations, as Walras, Pareto considers there are two types of economics, the pure and the applied. The pure is a first approach from phenomena and conditions of economic equilibrium.

Pure economics -Pareto says- 'is similar to physic-mathematical sciences: it may deal only with the notions of essential economic equilibrium and inter-dependence... Applied economics, on the contrary, should take in account other social sciences, in particular history and sociology'.⁵⁸

He constructs his socio-economic analysis upon what he calls the 'maximum of ophelimity', better known as 'Paretos optimum'. He starts from the basis that is impossible to measure intrapersonal utility, which would be impossible to express with numbers. Economic free-trade is based as from Adam Smith, on the idea that the toil and work of individuals pursuing their own interest and personal benefit, under the pressure of free concurrence, will result in the general welfare of society. It was the famous 'invisible hand' spoken by Adam Smith and that the English philosopher Bentham- founder of utilitarianism -defines as the addition of the utilities of all the members of society. The neo-classics deemed impossible to compare different persons satisfactions, as it was impossible to add different things.⁵⁹

That is to say they deemed impossible the criterion of the utilitarian economists of adding individual utilities to obtain the measure of collective welfare. Such an addition is based on the idea that it is possible to give numeric values of the same type for the utility of diverse consumers.

Pareto maintains that is impossible to do intrapersonal comparisons of utility, because each one is the only judge of his satisfaction that depends on personal parameters.

⁵⁸ Baslé, Chavance and others: 'Histoire des Pensées Economiques'. Dalloz. France 1993, page 187

⁵⁹ Baslé, Chavance and others. Ibid page 189

For Pareto the 'ophelimité' (marginal utility) expresses a relation of convenience between a person and a thing, not abstract total utility, but a concrete one, expressed in the action of consuming such thing. As he says in his 'Cours d'économie politique': 'reduced to the unity of a very small quantity of an economic good added to the quantity we have already enjoyed, shall be named 'elemental ophelimité', corresponding to that quantity... It is the 'final degree of utility' of Jevons; the 'marginal utility' of English authors, the 'rareté' of Walras; the 'grenznutzen' of the German authors, the 'value of the last atom' of Gossen'. Adding the elemental 'ophelimité' of the first portion to that of the second one and so on we shall have the 'total ophelimité'.⁶⁰

The intrapersonal measure of utility to obtain 'total ophelimité' will never be a complete one, because the consumption of a certain good depends and it is related to others consumption.

Pareto forwards a different solution based in the 'curves of indifference' of the consumer proposed by F. I. Edgeworth in 1881. He sets up in this way the theory of 'ordinal utility', which would be based in the assumption that the consumer is capable of classifying in a coherent way different baskets of goods in an order according to preference. A 'curve of indifference' shall not represent a determined amount of utility, but just a whole of baskets occupying the same place in the preferences of the consumer. The height of the hill of pleasure 'is hence not to be measured. When the consumer passes from one curve to a higher curve he may say he increases his satisfaction but not how much. In this way the difficulties inherent to the cardinal measure of utility are avoided, but the effectiveness of the system ceases when we try to project comparisons of intrapersonal utilities to judge a certain economic stage. 'It is not possible to build by adding elemental functions of collective utility because we are using on ordinal and not a cardinal approach.'⁶¹

Pareto situates himself on the level of pure economics and in this level he considers possible to deduct that in a system of perfect free concurrence, the prices shall be fixed in a way to procure to each person coming to the market the maximum of 'ophelimité'.

⁶⁰ Baslé, Chavance and others. Ibid page 189

⁶¹ Baslé, Chavance and others. Ibid page 189

But this maximum is impossible to measure under the system of cardinal addition because is based in subjective feelings, instead in his 'ordinal' system based in the curves of indifference, although we cannot measure total 'ophelimité' we can establish what he calls the 'maximum of ophelimité' (Pareto's optimum that consist in reaching such an economic situation in which is not possible to improve the position of someone, without worsen that of another one. Whilst we have not reached this situation, Pareto's Optimum has not been accomplished.

What is remarkable in the Paretian system is that this optimum is a criterion of mere effectiveness, not of distributive justice.

A criterion of efficiency in the sense that if we have not reached the 'optimum' there is a relative 'inefficiency' and the existing possibilities to improve the situation of some, without worsen the situation of others have not been used. Besides for Pareto, this criterion of efficiency –in pure economics- is independent of the political-economic system: it may be used in a capitalist or in a collectivist system. Pareto points out that in the case of a collectivist economy, for the system to be 'efficient' it would require an omniscient planner –which would be an improbable possibility- but he also points out that in a capitalist system, perfect concurrence is something very rarely achieved.

The Paretian criterion is hence a technical and cold one to judge the efficiency of an economic system. It can tell us nothing about social justice, that Pareto leaves for the level of 'applied economics', to politic and sociology.

As Jean Boncoeur and Hervé Thouement ⁶² pointed out: 'Many efficient states are far away of a social optimum: a situation in which 9 of 10 persons can barely live, whilst the tenth lives in opulence well may represent a maximum of 'ophelimité', without being precisely a model of welfare for society'... 'The theory of the maximum of ophelimité allows only to say that in certain conditions, perfect concurrence permits the economy to function in an efficient way. The equilibrium to be obtained depends on the initial distribution of the factors of production: if the same is unequal, it will also

⁶² Jean Boncoeur and Hervé Thouement. Ibid page 55

probably be so the distribution of the coming income. The Paretian criterion has nothing to say about the justice or injustice of an economic system'.

For Pareto, as a consequence, the role of economists is to be professionals trained to obtain criterions of efficiency. The function of obtaining a greater social welfare corresponds to politics and to politicians. They are the ones to which correspond to 'redistribute', that is overpassing Pareto's optimum, giving to ones and taking from others.

Notwithstanding Pareto criticises severely any type of monopoly, because the incomes based in them are obtained in prejudice of others. It is maybe his only incursion in the grounds of justice, but at the same time necessary to maintain criterions of economic efficiency.

When he goes into 'Applied Economics' and he enters into history and sociology his vision is pessimistic. According to him is useless to try to modify the curves of income on the society as a whole, because they will come back to the initial condition. According to the expression of Raymond Aron 'he does not light any brightness of hope', and he adds 'I should be allowed to say that bare facts have very often after half a century gave the reason to Pareto'.⁶³

Nevertheless Pareto's optimum theory was taken by the theorists of the Welfare State, the first one Pigou, based precisely in criterions of efficiency that permit to improve the situation of society without damaging a sector, an ideal very difficult to achieve under a capitalist system and impossible in communism.

For Pareto the 'Welfare State' seems a goal difficult to reach. According to him is only possible to improve the standard of living of the working classes via the economic growth, that is to say –in his own words- 'it is necessary that wealth grows faster than population'.⁶⁴

⁶³ Mentioned by Baslé and Chavance. Ibid. Page 196

⁶⁴ Vilfredo Pareto: 'Cours d'économie politique'. Libraire Droz-Geneve. 1964. Pages 408-409

Only in this way the close circuit in the distribution of wealth –in which his pessimism is based- could be broken. As we have explained, for him the ‘curves of income’ had in average very little variation, either in space or time, for civilized countries.

He deduces from this fact, for which he finds evidence, that this distribution of income –that will reappear whatever reforms are introduced- is not a consequence of chance but of human nature and that the only way to fight against it is by economic growth, that creates more wealth for everyone without interfering –which for Pareto in any case would be useless- in the process of distribution.⁶⁵

Pareto –and in this he differentiates from many actual theorists of ‘economic growth’- is totally honest: the distribution of income in society and as a consequence that of wealth is unjust. Furthermore following his thought, we could say that it is deeply unjust. He recognises this fact, but declares that we are unable to modify it due to insurmountable failures in human nature (which he does not specify) and forwards economic growth as the only way out. Many modern theorists also propose ‘growth’ as the only medicine but hide –when they not ignore it- that it is an instrument used precisely not to touch the unfair distribution of wealth. It is also obvious that this is not part of the teachings in universities.

Pareto is aware of the class struggle in capitalist societies and points out that in relation to it attention should be given to the works of Karl Marx and Aquiles Loria –the latter so unfairly criticized by Frederick Engels. Nevertheless as in so many other aspects Pareto is ambivalent in relation to the confrontation of classes. On one hand he points out that if the struggle is done through free concurrence it will produce the ‘maximum of ophelimity’, that is the highest social utility. ‘Each class –he says-, as each individual, everyone looking for the satisfaction of their personal interest, are indirectly useful to all the others’. Even more, ‘this concurrence does not destroy, but by the

⁶⁵ Analysing the similarity of the curves of income in different countries, he points out: ‘This results are to be noticed. It is absolutely impossible to admit that they are due only to chance. There is certainly a cause that produces the tendency of incomes to draw a certain curve. The shape of this curve has only a weak dependence on the different economic conditions of the countries considered, because the effects are approximately the same for countries where the economic conditions are so different as England, Ireland, Germany... the Italian cities and even Peru (Vilfredo Pareto. Ibid page 312).

production of wealth, contributes indirectly to improve the level of minimum income and to diminish the inequality of incomes'.⁶⁶

We find here a first ambiguity because as we have already pointed out Pareto believes that whatever reforms are introduced, incomes would return to the original curve, which means that the improvement would be only temporal. Anyhow, he gives no clarification.

In any case there is also a bigger one, because on the other hand he adds that there is another type of class struggle: 'that one in which each class tries to seize the government to turn it into a machine of exploitation. The struggle of certain individuals to take possession of the wealth dominates the entire history of humanity. It hides and disappears under the most diverse pretexts that have often mislead historians... The dominant class does wrong not only to the classes that are dispossessed: she makes wrong to the whole nation, because as exploitation generally goes together with the destruction of wealth, often a very considerable one, pushes down the minimum income and then increases the inequality in the distribution of those incomes'.⁶⁷

For Pareto is not really important how this domination is expressed, either by way of an oligarchy, a plutarchy or a democracy. He limits himself to point out that the more numerous the beneficiaries of the system, the evils shall be more intense, because a large number of privileged people consumes more than a few of them.

For this 'second' type of class struggle, Pareto uses a language similar to the one of Marx, the difference being that for Marx this one is the only type of class struggle, whilst for Pareto apparently there is a 'benign' struggle that benefits society. Although he does not give concrete examples, we can guess that he thinks in something similar to our modern 'market' democracies, even as we may see in them that class dominance is always there, specially by means of the legal and taxation system, although with more barriers than in other systems that go without the market... and without the public opinion. There is nevertheless another difference with Marxist thought that may be deduced of the aforesaid.

⁶⁶ Vilfredo Pareto. Ibid. Page 386

⁶⁷ Vilfredo Pareto. Ibid. 386-387

Pareto in no way believes that in a society of 'popular socialism' –as he calls them' things would be better. On the contrary, he thinks that exploitation would be even more terrible and if we look to the mirror of what happened in the communist countries his vision –in 1896- was far reaching.⁶⁸

With this summary of the complex and many times ambiguous Paretian thought, we may now analyse and maybe understand his ideas in respect of territorial property, its importance for society and the solutions he proposes, always leaving doors open for different hypothesis which is one of the characteristics of his peculiar way of reasoning.

We shall now enter into the subject of what Pareto calls 'territorial capitals', that is land and natural resources.

We should point out that following Walras ideas, Pareto differentiates between 'territorial capitals', 'mobile capitals' and 'personal capitals', that is to say in classical words, land, capital and labour, but using a terminology akin to the marginalist and the mathematic school in general, which certainly does not contribute to the clarification of concepts. It is about an attempt, frustrated from the start as we shall see in Pareto's case, to classify land as another form of capital.

He begins the chapter dedicated to 'territorial capitals' in his 'Applied political economy', pointing out that economic theory should take territorial capitals in 'the condition they are', that is to say, without differentiating the improvements made in the past and that are incorporated to the soil: fertilizers, channels, drainage of swamps, etc and which value would be difficult to distinguish from that of the land free of improvement, criterion this forwarded also by Henry George and that in any case matches a pragmatic version.

⁶⁸ 'Inequality in the distribution of income seems to depend more from the human nature itself rather than from the economic organisation of society. Deep modifications of this organization could have but little influence to modify the law of income distribution. Furthermore if mobile and territorial capitals are collective property, the new society will show still a curve of incomes which will be similar –at least in part- to the one we actually observe (Vilfredo Pareto. Ibid. page 363)

He then enters in a thesis which is apparently basic for him: 'The price of the services of existing territorial capitals is established, at least in a first approach, in the same way as the price of the services of all the other capitals, that is to say finding the price that equals offers and demand.'⁶⁹

He proceeds however to point out that when it comes to the investment of savings in new capitals, there are substantial differences. While savings can be transformed easily in mobile capitals (he mentions steam engines, ships and new houses –in the latter case if one is in possession of the land) and also in personal capitals (he refers to human labour), instead 'there are other capitals in which savings can be transformed only with great difficulty: those capitals for which the quantity is maintained constant in a close market. Those are the territorial capitals, certain mines, etc.'⁷⁰

He indicates, as a consequence, that the possessors of the latter ones are in better conditions than the other ones to secure extraordinary benefits in the case of increasing demand; whilst the other capitals –in the same case of increase of demand for their services- can only secure benefits for more or less short periods, because attracted by the high incomes, new capitals will come and the concurrence will turn to reduce the benefits. Instead, the holders of territorial capitals 'enjoy a more concrete monopoly which in certain cases can be absolute one. They shall be able to obtain substantial gains.'⁷¹

Although he denotes that the possibility of concurrence of other territorial capitals should be considered, he indicates that due to the fix and untransferable character of the soil, this is a relative possibility and can only be done through the services or the products acquired with those services, including the concurrence of foreign 'territorial capitals' in open markets.

Which is to say that the first observation of Pareto in the sense that the price of the services of territorial capitals (the rent) is fixed in the same way as the prices of the

⁶⁹ Vilfredo Pareto. Ibid page 391

⁷⁰ Vilfredo Pareto. Ibid page 392

⁷¹ Vilfredo Pareto. Ibid page 392

services of all the other capitals –criterion he indicates only as approximate- may now be seen in all its limitations.

The rent of land would be fixed in the same way as the retribution of other capitals only in respect of the method –that is supply and demand- but the essence is different because ‘territorial capitals’ are different.

As Pareto himself points out land is fixed, intransferable and of restricted supply. As a consequence –in this sense- rent shall be in general a monopoly price, whilst in mobile capitals its retribution –the interest- shall in general result of a highly competitive supply. What for land is the rule –the monopoly- for mobile capitals is the exception.

We may see here the error and confusions derived of using the denomination of ‘territorial capitals’ for something that is not capital, but that on which labour and capital are applied to: land and natural resources.

In addition Pareto says: ‘that the economic importance of territorial capitals has been exaggerated up to the point of pretending that the principal cause of misery is the fact that all lands are occupied.’⁷² If they were not, if there was free land, the capitalist would not be able to appropriate a plus value because the worker instead of employing himself for the capitalist ‘could establish himself on a plot on free land’.

Pareto criticises this theory, indicating that there is a lack of capitals and not of land, although further on he clarifies that it is not so in old countries where there is lack of land and not of capitals. Besides he indicates that even if there may be free land in new countries, the person willing a certain site, for example in Paris, shall not accept a plot in the Pampa. And he adds another mistake that he attributes to the theory ‘consisting in thinking that any man could be a farmer’.

Pareto’s reasoning stops here, leaving everything in twilight. In developed countries there is no free land, in the ‘new’ countries there is, but is not always and for everyone interesting and although is quite clear that not everyone can be a farmer, what Pareto

⁷² Vilfredo Pareto. Ibid: 394

does not say is that no supporter of the objected theory –Henry George, specially-pretends such a thing. Simply free land –or at low prices- would increase the marginal retribution of labour.

After this rather confuse reasoning, Pareto reaches a conclusion even more surprising ‘But if the economic importance of territorial property has been exaggerated, its social importance remains intact. In our societies, as from ancient times until nowadays, political power has belonged, exception made of rare exceptions, to the owners of the soil... and there must be some reason to explain the privileges which the possessors of territorial capitals enjoy’.⁷³

We could question ourselves how it is possible that something with ‘no economic importance’ has such a great social importance and be the base of so much political power. Clearly, it makes no sense. It is obvious that that one thing is related to the other. It is the economic importance what generates the special importance and the political power!

In spite of the evidence of facts, Pareto already in an ocean of confusions and contradictions⁷⁴ deems necessary to investigate ‘if those privileges are or not separable of the possession of territorial capitals’. ‘If we may separate them –he continues- we may consider territorial capitals exclusively from the economic point of view and the maximum of ‘ophelimité’ shall be obtained by free concurrence...’ If on the contrary we are able to demonstrate that ownership of territorial property is at least in our societies, totally linked with the faculty of extracting contributions from the rest of the population, the problem would change completely and we could not then separate the economic from the social part.’⁷⁵

If the latter ‘would be’ true –Pareto seems never to define himself- he comments different solutions which he mentions one by one for at the end opt for no one. Besides the solutions are for a problem whose existence is not clear for him.

⁷³ Vilfredo Pareto. Ibid: 396-397

⁷⁴ He criticises Aquiles Loria stating that in spite of the fact that he has brought light into these problems, he commits according to Pareto ‘the mistake of confounding the use of territorial capitals with the abuse that may come together with them’, a very peculiar critic coming from an economist like Pareto that makes of individual egoism one of the basis of his economic construction.

⁷⁵ Vilfredo Pareto. Ibid 397

The first solution is really 'pirriral': to accept the privileged situation that territorial property gives to certain citizens which would retribute society with certain judiciary, administrative or military services.

For Pareto there is nothing in that contrary to general utility. A second 'solution' would be to extend property rights to almost every citizen, in which case –he says- it would cease to be a privilege. This was also the solution preconized by the Catholic Church and the one that has been implanted in most developed countries. We may see not only that is not a solution, but also makes difficult to meet the real one. Pareto forgets the new generations, the constant increase in population –either by birth or immigration- that creates always new dispossessed ones. In any case Pareto does not really like this solution because 'nations in which a large part of the population are small owners do not have relevant moral and political qualities'. Besides –he says- small property reconciles itself with difficulty with large industry (he seems to refer to agriculture) and hence he comes to the third solution, the socialist one that 'giving to the State the property of territorial capitals and moreover, generally, also the property of mobile capitals, confers to it at the same time the indirect advantages that are joined to these properties'.⁷⁶

He does not analyse, until further on the possibility of nationalizing only land and when he does is more as an option for new countries.

He carefully pays attention to reject the socialist solution, considering that there is no guarantee that the destruction of wealth would be less in such a system, although the accepts that if all capitals would be transformed in collective property the RENT would benefit the entire society instead of enriching some individuals.

He equals collective property of all capitals with the theory that proposes that each worker would be the owner of the territorial and mobile capitals he uses, which he considers of impossible practical achievement.

⁷⁶ Vilfredo Pareto. Ibid: 397

The idea that a “new class” could be born in communist countries –the one Milovan Djilas stigmatised –really benefiting not only of the rent, but of everything, is not foreseen by him.

Besides he enters into a rather confuse disquisition about the Socialist State which, further to collect rents –all of them- should also collect taxes as to create new capitals, thing that we know is one of the few mistakes that communism did not commit. Really it was not necessary. By fixing prices and salaries he kept the lion part.

In respect of compensating the owner in case of expropriation of land he is –as so many times- ambiguous, stating that there are no reasons to be in favour or against it as it will depend on the time and country, due to the fact that –according to him- it is impossible to know in advance if it will benefit the state due to the variations in soil prices, “although the general movement is upwards”.⁷⁷

He does not even mention the solid proposals of Gossen and Walras, which mathematically demonstrate the benefit that nationalization would give to the state, even paying compensation to the owners.

Regarding new countries, he leaves open the option to lease land for long periods (100 years) or to sell it, being for the government to decide which is more convenient. The possibility of leasing the land for shorter or even longer periods but with a periodically actualised canon⁷⁸, is not even discussed by him, which makes obvious the lack of accuracy with which he looked to the problem of the rent.

Really, Pareto is not inclined to any of the described solutions, exception made perhaps of the georgist one, although he does not granted to George, but in partial error to John Stuart Mill and in total error to Leon Walras who supported nationalization of land.

⁷⁷ Vilfredo Pareto. Ibid: 400

⁷⁸ The first Argentinean president, Bernardino Rivadavia, passed in 1826 a “Law of Emphiteusis” in virtue of which land was leased for periods of 20 years with an annual canon or rent of 8% of the value for the first 10 years in land dedicated to cattle breeding and of 4% in land dedicated to agriculture. Land values would be determined by a Jury of neighbours and every 10 years land values should be re-assessed and the rent updated. The law was repeal by the Argentinean parliament in 1857 and general Bartolome Miere- a national hero- said it was a “communist law”. We all know what happened afterwards in Argentina

Further on when he deals with the ricardian concept of rent the states "J.S. Mill saw in the increase of the rent for natural reasons a taxable object. This would be, in any case, a better solution than the one we first examined (the socialist one) within an exclusively theoretical goal – Walras also deals with this questions."⁷⁹

We know that John Stuart Mill proposal was to tax the unearned increments on land values –something similar to our capital gains tax but referred only to the value of land– but he did not put forward a general system of land taxation and as to Leon Walras is not that he "also deals with this questions", but dedicate to them a substantial part of his works and he does not propose a tax but the repurchase of land from the owners as the way to make land rent the main source of revenue for the State, suppressing all the other taxes.

In spite of his permanent lack of definition and general pessimism, Pareto seems to have seen in taxation of rent a possible solution, at least theoretically.

The essential is his relativism and his pessimism. Relativism, because he thinks that types of property and of the exploitation of the soil may vary according to the country, the historical moment of its development and the economic conditions. Not always have been as they are now and for sure they will change in the future, and regarding which is the best system "we have unfortunately –very little light on the matter. We only know for certain that types of property and of soil exploitation must vary according to the circumstances."⁸⁰ It is possible that there is not only one evolution of territorial property, but many, that may differ according to peoples and places. We should study them separately without pre-conceptions, observing the facts of the present and obtaining historical documents for the past".⁸¹

Pessimism, because based in the already quoted permanence of income distribution curves, he affirms: "if men do not become better the shape of the social regime may change, but not its substance".⁸²

⁷⁹ Vilfredo Pareto. Ibid. Note in page 127 of Volume II contained in the same book. It is the note to paragraph 783.

⁸⁰ Vilfredo Pareto. Ibid: 410

⁸¹ Vilfredo Pareto. Ibid: 416

⁸² Vilfredo Pareto. Ibid: 394

Nevertheless within his pessimism it seems clear that Pareto is finally inclined for a system of free concurrence, with private ownership of capitals –which would be the system securing a maximum of social utility –as long as some how, maybe through taxation- the problem of the gravitation of land rent is tackled and permanent fight is carried out against the structures save-guarding monopolies, basically protectionism and state intervention in favour of certain capitals, mainly the territorial ones. He points out that when the rent of land is the consequence of “acts of government”, it would be sufficient to impede those acts for it to disappear. With this statements he is showing to us that the effect of social progress on rent –which consist always to increase it- is something he did not really understood. Following the logic of his thoughts all acts of good government should be stopped, because almost every action of good government tends to increase the rent!

Really to understand the failures, doubts and contradictions in the paretian analysis of “territorial capitals” we must analyse what we deem to be also his failures and ambiguities in this analysis of the rent of land. He starts by criticizing the definition of rent given by Ricardo: “rent –Ricardo says- is that part of the product of land paid to the owner for the right to exploit the natural and imperishable faculties of the soil”. According to Pareto this definition has no meaning at all, because every time that a person acquires a service, he acquires the right to exploit “natural faculties”. In the breeding of rabbits –for example- the faculty of reproduction that nature gives to rabbits or when we pay the visit of a doctor we acquire –at least partly- the use of the natural faculties of his brain. “There is –he says- a part which is radically false in Ricardo’s theory, and is based on the wrong principle that value is the product of labour. As it happens that after having formulated the principle we must face cases in which goods have value without any relation with human labour, he thought he could overpass this obstacle by imagining that we are paying “the work of natural agents” and hence the name of “ increment” given to the rent, to indicate that it has not been earned by the labour of the owner.⁸³

⁸³ Vilfredo Pareto. *Ibid.* Volume II. Pag. 113, paragraph 758

Really, the error is from Pareto. It is correct that Ricardo gave the definition, but is enough to read all what he says after that in Chapter II of his "Principles", to understand that –in his conception- the origin of the rent are not the "natural agents" –that he recognizes as existing also in industry- but the limited character of land and its different qualities.

If there would be abundance of free land, affirms Ricardo, "following the common principles of supply and demand, no rent would be paid for that land, for the same reasons that nothing is paid for air and water or for any of the gifts of nature which exist in unlimited quantity. With a given quantity of materials and with the assistance of atmospheric pressure and steam elasticity, the machines may do its job and abbreviate greatly human labour, but no charge is demand for the use of this natural aids, because they are inexhaustible and at the disposal of any person... It is only then because land is not unlimited in quantity and uniform in quality and that due to progress in population, land of inferior quality or less well located is called to culture, that a rent is paid for its use"⁸⁴

Hence, are not only the "natural faculties", but the monopolic character they have in connection with land, which origins rent. That is why there is always rent, even under a socialist regime. Private property of land what does is to permit its appropriation by the land owner.

Regarding value as the product of labour what Ricardo said –quoting Adam Smith- is that the true price of everything, what really costs to the person willing to acquire it is the "toil and difficulties to obtain it".

What everything really worth for the man who has acquired it and now wishes to dispose of it or exchange if for another thing, is the toil and difficulties he may save and impose to other persons"⁸⁵.

⁸⁴ David Ricardo: "The Principles of Political Economy and Taxation"- The Guernsly Press Co. Ltd. London 1992, pages 34/35

⁸⁵ David Ricardo. Ibid. Page 6

This definition given by Smith which is improved by Henry George when he states that is not the toil and trouble that a thing has costs that gives it value, but the toil and trouble that a similar thing would cost now in the market, contains as we have already pointed out all the elements of Pareto's economic equilibrium. Of course, neither Ricardo, or Adam Smith or Henry George incur in the error that maybe could be attributed to the physiocrats and that Pareto blames on Ricardo.

In spite of this and after the attack, Pareto ends by saying that the results obtained by Ricardo are acceptable at least partly: further on –now in full contradiction- he affirms that the sum paid for the use of land “does not differ at all to the paid for the use of any other capital, for example, a machine”, adding that what makes the difference between land and the machine is that savings can be easily transformed in new machines, whilst generally is not possible to transform them in new lands, or that at least this transformation could only take place at prices which render it economically impossible”.⁸⁶

Contradictions are so obvious that it does not worth commenting.

Pareto criticizes also, without solid basis, the Ricardian concept that rent is not a part of the production cost, but a deduction on the price of the product. Although we believe that a certain type of rent –the “absolute rent” mentioned by Marx –could be considered as a part of the cost, Pareto analyses the subject in an assystematic way, sometimes from the point of view of an economist observing the facts and for whom the rent is not a part of the cost and other times from the position of the individual for whom rent is undoubtedly a part of “his” cost.

Pareto continues putting forward some questions to be answered:

1. Rent exist for all territorial capitals or only for some of them?
2. Is rent something special referring only to territorial capitals?
3. Which is the origin of rent?
4. Is rent useful for mankind or for a particular society?

⁸⁶ Vilfredo Pareto. Ibid. Volume II. Page 114, paragraph 759

5. Are there means to remedy the evils caused by rent without producing even greater evils?

The answer to the first question is, of course, that rent exists almost for all territorial capitals, although it is variable. In respect of the second one the answer is negative. For him rent is not exclusive of territorial capitals as other capitals in specific circumstances may produce rents, although in a close market is for this capitals (the territorial ones) for which seems to be the most important.⁸⁷

With reference to the origin of the rent he says that “it is due to the cause of all values, that is to say to the “ophelimité” (marginal utility) of the services of the capital. In particular –he adds- we may say that it is due to the differences in between the capitals, related to the fluency with which we may obtain them by saving.⁸⁸ Really a circumlocution to say what in simple words we may express as price of a monopoly.

In respect of the “usefulness of the rent for mankind or for a particular society” his answer is negative: economically RENT diminishes the ophelimité enjoyed by society, because it creates obstacles to the equality of the net rates of interest, which is a condition for the maximum of ophelimité”.⁸⁹

The latter, an extraordinary and precise observation, totally in coincidence with the opinion of Walras and George: rent is the price of a monopoly affecting the whole society and creating –when private appropriation is aloud- a sector of privileged people and causing economic distortions.

Pareto is clear about the fact that the rent is a tax paid by the rest of society to territorial owners, however he deem the methods to abolish this appropriation of rent could be even more harmful for society.

He accepts the validity of Henry George critics to “territorial property in the United State”, introducing in this way a limit which really does not match with George ideas, as

⁸⁷ Vilfredo Pareto. Ibid: 124

⁸⁸ Vilfredo Pareto. Ibid: 124

⁸⁹ Vilfredo Pareto. Ibid: 128

we know his ideas do not refer to one country, but to private appropriation of rent in general.

In connection with the remedies, he is rather obscure. He seems to believe that in a right of property always punctually respected "the advantages for society would surpass the inconveniences that it may produce",⁹⁰ although it is difficult to understand what he really means. Or there is private appropriation of rent or there is not. If there is, evils are unavoidable, they are inherent to the system, they do not depend on the goodness or evilness of the landowners.

Nationalization of land seems to him a remedy worst than the sickness, although he points out that the main problem in connection with rent resides in the fact that is not uniform in space and time and hence is difficult to reach a satisfactory general solutions.

However his position is clear in the sense of fighting against speculation and against government policies that tend to increase rent artificially.

Although he is far from being clear he seems inclined, as we have explained, for solutions based on taxation, at least for plus values.

Although we may blame Pareto for being in this subject ambiguous and sometimes contradictory, it is true that from his economic work, we may deduce –even over his affirmations- the distinctive character of land as an economic factor.

We have to conclude here our short and necessarily superficial revision of these marginalist authors.

With this paper we expect to contribute, at least partially to widen the vision on the ideas of these four marginalists and to have proved that, with twilights and great differences in grade, the subject of land and natural resources was very specially considered, having in certain cases –as that of Walras- a central and unmoveable place in his proposals.

⁹⁰ Vilfredo Pareto. Ibid: 128

Much has been written on Henry George and the marginalists. About their coincidences –remarcable some times- and about the differences that set them apart. In this sense the essay of Leland B. Yeager seems excellent to us.⁹¹

Doubtless, George had much more things in common with the marginalist that he thought he had and viceversa. Is not the intention of this paper to analyse them, but we should point out that, in general, when both schools of thought –the geogist and the marginalist- are under scrutiny, the analysis is not focused on the land subject, although there have been exceptions.⁹²

Many scholars have for granted that for the marginalist land was simply a form of capital. We think we have shown that for some of the most distinguished it was not so. For this ones –Gossen, Walras even Pareto –there could be a coincidence in the way the value was determined, but not in the essence of the OBJECT of valuation.

Regarding the derogatory attitude of George toward the marginalists, we believe it may have a simple explanations: George had seen a great truth. He was not the first to see it, but was the first one to express it with pristine clarity and impeccable logic to the public. For the thinker that has before his eyes a truth of this kind, the supposed experts that do not see ti, do not deserve to be respected. Had he known the works of Gossen and Walras, maybe he would have changed his attitude.

Finally, some thoughts about Pareto's "pessimism". We believe Georgists should pay attention to his words. Is not an unbased idea: the curves of distribution of income are there.

We have pointed out in another book⁹³ that the hedonistic principle moulds human conduct and social institutions. Is not only the central principle of economic analysis, it is also for human behaviour. If the hedonist principle is not controlled if we are not

⁹¹ Leland B, Yeager: "Henry George and Austrian Economics in "George and the Scholars". Robert Schalkenbach Foundation. New York 1991. Pages 191/208

⁹² In this sense, is interesting the study of Renato Cirillo: 'Economists and Social Reformers on Land Ownership and Economic Rent' in 'George and the Scholars'. Ibid. Pags. 209-224.

⁹³ Fernando Scornik Gerstein: "The Future of Taxation". The Blakesley Press en asociación con el Centre for Land Policy Studies. London 1999. Part IV-23- "The Hedonistic Principle".

vigilant about its effects in the social order, it will be as difficult to put an end to private appropriation of rent, as it was to finish with slavery.

Both are institutions at the service of human egoism and based in the law of “the maximum benefit with the less exertion”, and as such extremely difficult to combat.

Maybe the observation of Pareto with the sense that if human nature is not changed no social reform will last, is not to be disregarded.

However, we must persevere. As Victor Hugo said: “there is nothing in the world more powerful than an idea for which the time has come”. Sooner or later, the time will come for those who believe that land –the physical space in which we live- is the common heritage of humanity.

Madrid, May 2004