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Source: *The American Journal of Economics and Sociology*, Jan., 1984, Vol. 43, No. 1 (Jan., 1984), pp. 53-60

Published by: American Journal of Economics and Sociology, Inc.

Stable URL: <https://www.jstor.org/stable/3486394>

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Léon Walras and Social Justice

By RENATO CIRILLO*

ABSTRACT. *Léon Walras* strongly believed that without an equitable *distribution of wealth* there could be no *social justice*. Though he defended the *right of private property*, he considered that *land* was a special case and that it belonged to all the *community*. His *social reform* involved the *nationalization of land*, the abolition of *taxation on wages*, the curbing of *monopoly power*, and the promotion of a strong *cooperative movement*. He insisted that the only way the *working class* could regain their *freedom* was by becoming *property owners*. The influence of *Henry George* on Walras' thinking is obvious. They both shared the same humanitarian ideals, and both believed in a *capitalist system* working side by side with the social reforms they advocated.

I

Mill, Gossen and George

LEON WALRAS, THE GREAT ARCHITECT of general economic equilibrium, was also a serious social reformer. Following in the footsteps of John Stuart Mill, he sought to find a compromise between the orthodox *laissez-faire* doctrine and a radical social reform which he advocated with great passion. Both economists were much influenced by their fathers, but in the case of Walras two other economists also shaped to a varying degree his social philosophy, Hermann-Henri Gossen and Henry George.

There is no doubt that Léon Walras believed that without a sound economic theory there could be no scientific solution to the social problem. Economics to him was a means to an end, and economic theory was only useful in so far as it was capable of enlightening social policy. The way he looked at political and social economy is indicative of his approach to social matters. In his work on social economy, *Études d'économie sociale* (Paris, 1896), he divided the study of the economy into three parts: (a) the study of "the natural law of value in exchange"—this he called *pure political economy*; (b) the theory of production of wealth to which he assigned the name of *applied political economy* and, (c) the study of property and taxation, or in his words, "*the theory of the distribution of wealth*." This study falls within the boundary of social economy.¹

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American Journal of Economics and Sociology, Vol. 43, No. 1 (January, 1984).
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He was so concerned with the problem of wealth distribution that he reserved some of his strongest criticisms for those economists who did not show enough interest in this problem.

II

Social Justice and Wealth Distribution

IN DEVELOPING his theory of distribution Léon Walras assigned a starring role to social justice. All reforms had to derive their inspiration from some sort of universal social justice. Walras never defined social justice; he considered it as a most logical concept of which everybody understood the nature and whatever it implies. Only the conditions for its attainment had to be defined.

The social justice he was championing was neither the one favored by individualism, nor the one advocated by communism. In a passage in which he clearly distinguished between commutative and distributive justice, Léon Walras rejected both individualism and "absolute communism," for both resulted in "the mutilation of human nature."² Only a compromise between the two systems could bring about a solution to the social problem. In his own words, "you will resolve this unique problem only by reconciling communism with individualism for in this way alone you will be harmonizing private interests with the requirements of justice."³ Thus, he opted not for the levelling of either incomes or wealth, but for an equitable distribution of wealth. Similarly he condemned monopolies, but favored an orderly free competitive market.

He sought the attainment of social justice following (a) a fundamental reform in land ownership, (b) the abolishing of all forms of monopolies and, (c) the promotion of producers' and consumers' cooperatives. All these reforms followed from his own particular notion of private property.

III

Private Property, the Right and Freedom

WALRAS WAS AT A LOSS to understand why economists failed to place the problem of property within the general theory of distribution when a thorough knowledge of its nature is essential in order to appreciate the merits and the weaknesses of the system.⁴ Such a remark sounds very contemporary; one has only to go through the literature of the last couple of decades to appreciate the criticisms of the theory of distribution precisely because of the deficiencies of which Walras was aware some half a century earlier. This tells a lot about his foresight. By ignoring the problem of poverty, economists managed to take a neutral stand in matters of distribution of wealth. Because of such

attitudes the theory of distribution remains the most defective theory within the corpus of modern economics. Only the efforts of some valiant economists, particularly those in the institutionalist tradition, could salvage it.

Because of the stand of economists in the liberal tradition on matters of property, Walras felt that he was closer to the socialist position on this matter. But he was always at pains to define his own brand of socialism. Certainly he was not even close to the Marxists since he not only upheld the right of private property, but was also highly critical of the philosophy of materialism. His views of materialism do in fact shed light on his beliefs about property. His rejection of materialism was absolute and as far as individualism was materialistic he was equally critical of it. His uncompromising attitude is clearly expressed in the following passage:

This philosophy, which makes use only of the senses, does not see in man other than an organized body; it sums up all human destiny in the pursuit of material well-being and in the creation of wealth, and does not recognize any social principle other than self-interest and utility.⁵

He fought materialism with all his might. He urged intellectuals that the time was close for them to halt the advances of purely materialistic activities.⁶

Walras' view of property is of great interest particularly because of his advocacy of the nationalization of land and natural resources. He defended strongly the right of private property and even wrote a book, *L'économie et la justice* (first published in Paris in 1860), in which he attacked vehemently Proudhon's theory of property. He defended property on the ground that it is a natural right and the basis of man's freedom. He wrote that "to say man is free is therefore, to say that he can be a property-owner."⁷ His contention was that the right as such predates the State because its origin dates "before any social contract." Property, whenever it is legitimately owned, is "a moral power." It derives from man's own nature so much that man can never be free without it. When later he proposed his cherished scheme of land reform whereby he expected all workers to become property owners, his main argument in favor of it was that only in that way could they claim to have advanced from a state of slavery to a state of truly free men.

IV

Léon Walras and Henry George

OTHER ASPECTS of Walrasian thought on social reform show unmistakably not only his father's influence which he acknowledged repeatedly, but also that of Henry George. I believe that though he gives credit to George and others for upholding "the right of society to the land,"⁸ he owes more to Henry George than he cared to admit. On the question of monopolies, for

example, Walras seems to be repeating George's own stand against them. Let us recall that Henry George believed that the monopoly of land and all natural resources was "the mother of all monopolies" and that monopoly was responsible for the business crises. But though George was strongly against monopoly capitalism, he was equally in favor of competitive capitalism.⁹ This is precisely the stand that Walras took on monopolies. He even castigated all those economists who in one way or another defended monopolies. He accused them of making political economy retrograde instead of helping it to remain progressive.¹⁰ At the same time he singled out for praise all "true" economists who fight monopolies without respite. "Their emblem is freedom," he remarked.

Once he established the principle of social justice, the legitimacy of the right of private property and the nefarious consequences of monopoly power, Léon Walras advanced the most important social reform without which, according to him, justice would be meaningless: the nationalization of land and the abolition of taxation on wages and salaries. But before we examine his scheme in some detail, it would be useful to summarize the logical sequence of his ideas.

First he looked at the plight of the working class in his time, and for once he was not embarrassed to designate it with a cherished Marxian designation: the proletariat. He even used Marx' own accusation, namely, that modern proletarians are not unlike the slaves of old times or the serfs of medieval times. He stated his position on this question thus:

I will be accused certainly of exaggeration and of socialism if I compare the proletariat to slavery and servitude. But I will accept the accusation for I call myself a democratic socialist precisely because I see in slavery, in servitude and the proletariat three empirical phases of the same unique question, that of property and taxation or the problem of the distribution of wealth among the members of society.¹¹

The redemption of the proletariat would come in two ways, first, through making education available to all workers and their children; secondly, by making it possible for the workers to become property owners. In *L'économie politique et la justice* he refers to a lecture by M. Baudrillart who singled out as a major cause of poverty the lack of education, both elementary and technical, for the working classes. Walras' indignation was expressed in this way:

It is evident that this remedy is not in their hands; their petty wages bar them from any form of education and consequently misery from mother to daughter condemns them to misery.¹²

V

Walras' Theory of Land Nationalization

ONCE THE BATTLE of universal education was won, Walras was convinced that as long as the wages of the workers continued to be taxed they could

never break through from the vicious circle of poverty. This took him back to the pet theory of his father, Auguste Walras, regarding the nationalization of land. Walras not only accepted it wholeheartedly but also developed it further. He first established the principle that land as against other forms of property was by natural right the property of the State. This was his justification for the State ownership of land:

In other words, land belongs in common to all persons because all persons who are reasonable and free have the same right and the same duty to attain by themselves their goals and to achieve their destiny, and by the same reasoning they are also responsible for their goals and destiny.¹⁴

Once this principle is accepted and the State becomes the owner of the land and its resources, it should be able to subsist on the revenue derived from it without the need of exacting from individuals either taxes or loans. Meanwhile it should also be able to leave to future generations a capital which by its very nature will continue to increase in value.

This was Walras' solution and he was definitely proud of it:

I do not know of any socialist who held this opinion which I received from my father and I made public twenty years ago in a memoir entitled: *De l'impôt dans le canton de Vaud* (in which I mentioned) that there are two types of capital and productive revenues: *personal faculties and work* which should be the object of individual ownership while the salaries form the revenue of individuals; *land and rent* should be the object of *collective property* and the revenues from land should become the revenue of the State.¹⁴

The reader will undoubtedly notice two departures from Henry George. The first is that while Walras opted for land nationalization, Henry George on the contrary believed that if the State captured all economic rents and suppressed all other forms of taxation "the arrangement would have the full advantages sought by the socialists and the communists in their land nationalization schemes."¹⁵ So one cannot find in Henry George's work a hint which could remotely involve nationalization or the confiscation of private holdings. Yet, one might wonder whether he did not go that far because such proposals in America would have generated a hostile response since they were utterly foreign to its traditions and the American way of life. Certainly Walras, the French economist, who was living in the midst of socialists, did not suffer from such inhibitions.

The other departure is in the way these two great social reformers looked at the working of their schemes in practice. Walras truly believed that the revenue derived from land rents would be adequate to satisfy the needs of the State. We must remember that in Walras' day this may have been true; since then government expenditures everywhere have rocketed. Yet this was, of course, a mistaken belief since land values and rents have not historically moved consistently upwards, as public expenditures have. Henry George, on

the other hand, saw the possibility of this happening and agreed that an income tax could legitimately be used in order to compensate for the lack of sufficient revenue to meet government costs.¹⁶ George's approach can then be regarded as being more realistic.

VI

The Working of the Scheme in Practice

WALRAS QUOTED EXTENSIVELY from James Mill who proposed the same kind of land reform. But Walras seemed to be indebted more to Gossen who in 1854 expressed the same opinion as Walras on the success of the whole scheme. "The State," wrote Gossen, "could buy private lands at a low price so that later it could recover their buying price by means of (rising) rents."¹⁷

Walras went into some detail as to how his pet scheme would work in practice:

The State will take the land from the owners at the current prices—it will lease it to entrepreneurs engaged in agriculture, industry and commerce. For a certain time the rents will not cover the total interest on the obligations incurred by the State, and so the debt of the State will increase by this difference. At one point, thanks to the increase in the rate of surplus value, the revenue will be adequate to cover the interest payments.¹⁸

In practice, then, the whole operation is similar to the one Gossen proposed; but one cannot help observing that for a considerable time the State would not be able to survive merely on economic rents! This is because of Walras' insistence that the State pay due remuneration to the land and resource owners. On this point he was adamant. "The State," he wrote, "must not restore justice by committing an injustice."

Once the scheme succeeded, the curse of taxation would be lifted. Walras was in favor of a direct and simple tax on capital, but with some hesitation, for in his opinion, taxation whatever its form "is not only outside justice, it is against justice and for this reason it is destructive of all social equilibrium."¹⁹

VII

The Role of Cooperative Societies

IT IS FOR THIS REASON that he perceived his great scheme capable of liberating the working class from a state of slavery. Without an income tax on their wages and salaries he believed that they would be able to save that amount which otherwise would have gone to the State. Such savings could easily be invested in industry, and, thus, the worker for the first time would be able to become a property owner. In securing a claim to the wealth of the nation, workers would rightly gain their freedom.

An integral part of his plan for social reform was the formation of strong cooperative societies capable of helping the workers share in the wealth of society by appropriating the profits which normally would go to monopolies.²⁰ Walras expected them to play a major role in the economic system. They would develop outside the system of the distribution of wealth, since this did not follow the normal economic laws but only the tenets of justice. Cooperatives, on the other hand, were to be concerned mainly with the *production* of wealth.²¹

In order to attain their productive goals, cooperatives had to operate in absolute independence from the State for their success depended on their individual initiative. The only role he assigned to the State with respect to the cooperative movement was to enact adequate legislation in order to ensure the freedom of association as well as freedom of competition so that they could operate efficiently. Thus, with the help of strong cooperatives, the worker would be able to share in the profits of these societies so that he himself could then "become a capitalist, use and enjoy capital and be able to borrow from resources belonging to himself."²²

IX

Conclusion

IT IS OBVIOUS, then, that Léon Walras was confident that this great scheme could turn the worker into a small property owner for two reasons, (a) because, once freed of the burden of taxation, he would be able to save and invest; (b) at the same time, by sharing in the profits of cooperatives, he could keep on adding to his small capital. All these reforms together would inevitably herald the dawn of a brave new world, in which land and its resources belong to the community, monopolies lose their power and the proletariat is turned into a mass of small property owners.

Preston Bradley, in an article, "Biblical Morality and Economic Ethics," wrote that Henry George believed in capitalism, but also in humanity.²³ Will Lissner called George "a libertarian philosopher." I sincerely believe that to a great extent the same statements could be made about Léon Walras.

As I have attempted to demonstrate in an earlier article, Walras managed to prove how the economic system could work in a free competitive market side by side with the social set-up he was proposing.²⁴ He refused to sacrifice the one for the other. He was not against the capitalist system.²⁵ On the contrary, he insisted that it never be destroyed nor reformed entirely, and that it simply be modified according to the exigencies of history, political economy and all the other social sciences.²⁶

Walras was against all interference on the part of the State. In an obvious criticism of Rousseau's theory of the social contract, he stressed that "society has no constitutional origin, but a natural origin."²⁷ So, the State must fashion its actions and policies only to satisfy the needs of society. Any other interference is illegitimate. Hence, in the production of wealth, he held, the only principle that should prevail is *laissez-faire*.

In Walras' universe man is at its center. Not only the State on behalf of society should be at the service of man, but also economic theory. A theory which is not capable of enlightening social policy must be rejected, for it has no place in this universe. For the goal of economics is to help produce a better place for the human race to live in.

Notes

1. *Op. cit.*, p. 30.
2. *Ibid.*, p. 169.
3. *Ibid.*, p. 45.
4. *Ibid.*, p. 43.
5. *Op. cit.*, 3rd Lesson, "Critique of Materialism," p. 86.
6. *L'économie et la justice*, (1860) (New York: Burt Franklin, 1970), p. LXIV.
7. *Etudes*, p. 133.
8. *Ibid.*, see p. 27 fn.
9. This point is well underlined in an article by Will Lissner on Henry George, "On the Centenary of *Progress and Poverty*," *American Journal of Economics and Sociology*, Vol. 38, No. 1 (January, 1979), p. 3.
10. *Etudes*, p. 48.
11. *Ibid.*, pp. 144, 146.
12. *L'économie politique et la justice*, p. III.
13. *Etudes*, p. 218.
14. *Ibid.*, p. 267.
15. Cf. Lissner, *op. cit.*, p. 10.
16. *Ibid.*, p. 6.
17. *Entwicklung der Gesetze*, etc., p. 272.
18. *Théorie mathématique du prix des terres*, p. 447.
19. *Etudes*, p. 437.
20. Henry George was also a believer in all manner of associative experiments.
21. *Les associations populaires* (Paris: Librairie Dentu, 1865), p. 20.
22. *Ibid.*, p. 61.
23. *American Journal of Economics and Sociology*, Vol. 39, No. 3 (July, 1980), p. 212.
24. Walras, *Les associations populaires*, p. 7.
25. R. Cirillo, "The 'Socialism' of Léon Walras and His Economic Thinking," *American Journal of Economics and Sociology*, Vol. 39, No. 3 (July, 1980), p. 294ff.
26. *L'économie politique et la justice*, p. 62.
27. *Ibid.*, p. IV.