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**The *Studies In Social Economics* of
Léon Walras and his Far-Reaching
Critique of *Laissez Faire*+**

Preliminary Version

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Introduction

In economics, as in other social sciences, a reappraisal of the most important authors can lead to very unexpected results.

It is the case of Léon Walras, one of the most relevant economist of XIX century, who is mostly renown for his theory of general equilibrium.

Such theory, based on the well-known equations which put in relations the notions of “marginal cost”, “marginal utility” and “prices of equilibrium” of different markets, constitutes one of the cornerstone of neoclassical economics. In this theory, perfect competition is considered as a mechanism able to maximize, through the “prices of equilibrium”, the utility of consumers by minimizing, through an efficient allocation of resources, the costs and the prices of the products.

This being the case, the objective of political economy should be one of *laissez faire*: namely, to reduce as much as possible public intervention in order not to hinder the efficient working of market economy.

However, a comprehensive appraisal of Walras’s work will allow us to discover that he elaborated a much more articulated social theory than a simple *laissez faire* in economics—a theory in which public intervention and the ethical objective of social justice play a central role.

This emerges in particular from an important, but rather overlooked, contribution¹, the *Studies in Social Economics*, which constitutes² the theoretical and methodological basis of his much more renown formulations of the general equilibrium model.

¹ In our work we refer to the book *Studies in Social Economics* (SSE) edited by J.V.Daal and D.A.Walker, London and New York, Routledge, 2010. We also consider the *Esquisse d’une doctrine économique et social* (*Esquisse*), which constitutes the last section of the *Etudes d’économie politique appliquée* (EEAP), Lausanne, Rouge; Paris, Pichon, 1898.

² It is important to note that the relation of both the SSE and the EEAP with the *Elements d’Économie Politique Pure* (EEP) is a bit tangled (for more details see Daal and Walker, quoted). In fact, the plan and the theoretical conception of the three parts were conceived as early as in 1860s, when Walras laid out the project and the core concepts in a series of articles. Then, the EEP, which contains the well-known theory of general equilibrium, was published in 1874, whereas the SSE and EEAP appeared in 1896 and 1898. However, limited mention is made in the EEP of the issues of applied and social economics. More in general, in the EEP Walras’s focus was much more on the benefits of free competition than on the role of public action in overcoming market imperfections. This aspect can partly explain why the EEP have become the cornerstone of *laissez faire* in economics. This situation has changed markedly with the EEAP and SSE. In these works — and despite the circumstance that, owing to Walras’s feeble health, these books are not very well organized — is expounded an articulated conception of economics in relation with philosophy and ethics. Here the system of perfect competition is put in the background, as a kind of ideal type applicable only to a limited field of economic activity. It is then brought to foreground, as we try to show in our work, a detailed theory of the exceptions to the free competition and of the role of public policies in regulating these situations and in ensuring free competition also where this system seems more realistic. One can wonder about the reasons of this shift of focus. Probably, the following related factors have played a role: (i) the fact that when the EEP appeared Walras was relatively young and so had not enough time to fully develop the applied and social aspects of the theory; (ii) his enthusiasm about the mathematical aspects of the General Equilibrium Model (GEM), together with the goal of gaining for it an unreserved acceptance, may have led Walras

In this work are addressed, in an interdisciplinary perspective, the relations between philosophy, ethics and economics, with particular attention to their implications for the spheres of action of the person and of the State, and for the notions of ownership, freedom and social justice.

Within this approach, the proposals³ of complete nationalization of land, of regulation of situations of monopoly and imperfect competition, and his sympathy with cooperative movements, place Walras's perspective far apart from the more "extreme" versions of liberalism, and much closer to its "milder" versions — such as ordoliberalism and various versions of market socialism — and to various heterodox theories that stress the relevance of the legal and institutional framework for economic and social progress.

In this perspective, his general equilibrium model can find application only to the sectors more approaching the notion of perfect competition. However, from a more heterodox perspective, we do not follow Walras on these grounds. As a matter of fact, we believe that, while acknowledging the importance of analysing the interdependencies between the various economic actors, the underlying hypotheses of his theory of general equilibrium are too positivistic, static and simplistic to provide an adequate account of the real economies. For these reasons, in order to grasp the complexity of human motivations and of firms' structure, a more encompassing approach of the manifold nature of these phenomena is highly needed

In our work, in the first part, we outline the main concepts developed in the Studies, also in their relations with the context of his time.

to underline very little the applied and social aspects of the theory; (iii) this early enthusiasm may have later on subsided in favour of a better awareness of the complexity of economic systems and of the role of public action in ensuring the efficient working of the markets.

³ The complexity of Walras's theory has been acknowledged by several authors. Within this ambit, an important attempt to bring to the fore the importance of the distinction between normative and positive aspects of his theory was made by William Jaffé, who devoted most of his efforts to the study of Walras's contributions.

In Jaffé's view, Walras was aware that his general equilibrium model was only a kind of "realistic utopia" that needed a normative dimension to be put into practice. For space reasons, we cannot go at the length with this interesting discussion. We can only note that, while fully agreeing with Jaffé's emphasis on the importance of normative dimension in Walras's economics, we think that he (Walras) did more than this because, in particular in his later work, he set out precise theoretical criteria for identifying the spheres of action of the individual and of the State. In his vision, the GEM is but a special case of much more complex economic systems that require many instances of public intervention — running from the nationalization of land to the regulation of monopoly and all the cases of imperfect competition — in order to bridge efficiency and social justice. For this reason, GEM can find application, with its "maximizing properties" — which are, in our view, too simplistic even in these cases — only in very simple productive sectors, like the market for *bricolage*, where market imperfections are presumably less relevant.

For more details refer to the volume edited by Donald A. Walker, *William Jaffé's Essays on Walras*. Interesting contributions on these aspects can also be found in V. Mosini, *Reassessing the Paradigm of Economics*, London and New York, Routledge, 2011, and A. Jolink *The Evolutionist Economics of Leon Walras*, London and New York, Routledge, 1996.

In the second part, we analyse the relevance of this perspective for the major economic and social problems of our time, with particular attention to policy implications.

THE MAIN CONCEPTS OF THE “STUDIES”

Moral Sciences, Natural Sciences and Economic Science

The first chapter of the work sets out an ambitious attempt of philosophic and logical classification of scientific knowledge.

It shows a singular combination of aspects typical of positivism — the conception of economics as a science based on mathematics, whose aim is to identify the maximizing conditions in the market — together with aspects more interdisciplinary and holistic.

In this perspective, the conception of *homo oeconomicus*, even if it is based on a rather simple principle of maximization, becomes more complex by considering the structural interrelations with *homo ethicus* within his social context.

Walras then identifies an applied moral science and an applied natural science.

The first concerns the relations between persons and follows the principle of justice, whereas the second regards the relations between persons and nature and follows the principle of utility.

He then makes interesting remarks on the unitary character of science and its relations with economics, by identifying the following categories,

“1. The study of the natural laws of *value in exchange* and of *exchange*, or the *theory of social wealth*; I call this *pure economics* [*economic theory*];

2. The study of the most favourable conditions for *agriculture, industry, commerce* and *credit*, or the *theory of the production of the wealth*; I also call this *applied economics*.

3. The study of the best conditions for *ownership* and *taxation*, or the *theory of the distribution of wealth*. This is also what I call specifically *social economics*.”, (Walras, SSE, 2010: 22).

Then he goes on by illustrating the relations intervening between these dimensions,

“Now, once the natural laws of social wealth are known, it seems incontestable that there are grounds to deduce from them diverse rules concerning the agricultural, industrial, commercial, and financial production of this social wealth. We pass then from pure economics to applied economics, just as we pass from rational mechanics to the construction of machines....Finally, I think it is not of much use that social wealth should be abundant if it is not fairly distributed among all the members of that society. Now, here we have a third, well-delineated operation, and a third, very special point of view, that is not that of truth or utility, but of equity.”, (*ibidem*: 23).

He notes that these branches of economics, and in particular the first and the third (pure theory and theory of fair distribution) are not fully fledged. This contributes to a sharp division of economics into two schools, the absolute individualism and the absolute collectivism.

In underlining the importance of basing policy action on an articulated theoretical analysis, he makes in the *Esquisse* interesting remarks on the role of the scholar and of the politician.

These roles, even if they can sometimes be performed by the same person, are profoundly different and should not be confused.

In fact, whereas the scholar, when he deals with politics, tries to introduce — most often unsuccessfully owing to the lack of consent — principles not yet generally accepted, the politician tries to transform in theory the existing reality.

Hence, policy action should attain an effective compromise between theory and reality, but this rarely happens.

The Philosophical Vision and the Characteristics of Economic Theory

Walras's philosophical conception is quite innovative as it establishes a systematic interaction with economics and ethics. He notes that the existing social theories are inadequate to explain the complexity of social phenomena as they rest, in his words, “either on absolute communism, tending to see everywhere only general interests, only equality, striving constantly to incorporate the individual into the State; and absolute individualism, tending to see everywhere only private and particular interest, only inequality, striving constantly for the destruction of the State to the advantage of the individual.”, (Walras, SSE: 277).

From this basis, four social categories are identified: the beauty, the truth, the useful and the right, which correspond to the spheres of the arts, the science, the productive activities and the ethical and cultural norms.

These categories are independent but profoundly interrelated. It is from their harmony that a balanced social progress follows.

The Individual and the State

But what are the characteristics of the economic theory? He starts to analyse the concepts of the individual and of the state, which can be regarded as two abstract but necessary ideal-types for social enquiry.

In this way, two questions are identified: **(i)** a problem of order, namely, when do persons have the right to act freely as individuals? And when do persons have the duty to act collectively on behalf of the State? And **(ii)** a problem of justice, what are the things that persons can enjoy individually, and then in an unequal way? And what are the things they must use collectively, and then in an equal way?

Hence, the fundamental relations that define the social framework are freedom of the person/authority of the state, to which corresponds equality of the conditions/ inequality of positions.

Let's see now what are the specific contents of these relations.

The terms of the first relation — individual action and inequality of positions — are clearly related and are expounded in the famous theory of general equilibrium. In this system the markets for goods and for capital are interdependent, and find their maximizing equilibrium through the prices, which reflect the relations between marginal utilities and marginal costs.

The basic assumptions of this theory are: **(i)** the “perfection of markets”, characterized by the absence of informational asymmetries, “atomistic” competition, freedom of entry and exit; **(ii)** the acceptance of the so-called Say's law, according to which effective supply creates its own demand; **(iii)** the “neutrality” of money, whose role should only be that of unit of account and of intermediation between savings and investments.

As made evident by numerous studies, these hypotheses are oversimplified and hence are unfit to describe the complexity of economic reality.

The aspects of the second relation — action of the State/equality of conditions — bring to the fore the nature and role of the State. Here Walras puts forward a very interesting theory of the origin of the State, which has far-reaching implications for policy action.

He begins by noting that the widespread idea of many social thinkers that society is something artificial or optional in respect to the “natural state of man” is utterly groundless. This idea rests on a kind of “absolute empiricism” and “absolute individualism” that consider the individual as the sole agent of society. According to this view, individuals pre-existed society and formed it only by a voluntary contract, with the goal of pursuing better their individual aims (or, in the terminology of utilitarianism, in order to maximize their utility function).

However, notes Walras, as persons live in a collective setting, in order to better fulfil their needs and orientations, society should be appraised as an expression of the natural tendencies of persons. Hence, society has co-evolved with the development of the persons. In his words,

“Saying that society has been instituted on a certain day, or saying that it is maintained every day by the consent of a certain number of moral persons, is like saying that art or science were created on some day and are perpetuated every day by the agreement of a certain numbers of artists and scholars; or it is like saying that the forests were created on some day and are maintained every day by planting every day a certain number of trees in the earth. I wonder whether these trees could have grown up rather than in the earth itself. I wonder where these artists and scholars would have been educated if there had not been art and science before them. I wonder, finally, how these moral persons exist if not in mores and because of them.”, (*ibid*: 99).

In this context, the State constitutes the natural and indispensable agent for the functioning of society. Hence, the “natural laws of the State and the natural laws of individual are equally valid.”, (*ibid*: 102).

By this reasoning follows that the categories of liberty and inequality pertains to the rights of persons, where those of order and equality to the sphere of the State.

This being the case, a fundamental conclusion ensues: the persons and the state have equal dignity and are entitled to an autonomous existence, which also implies (relatively) independent sources of income.

But how can the State have an autonomous source of income, independent of the income of citizens? The two extreme solutions, complete collectivism and complete individualism, are considered unfit and unrealistic, as they overlook the right of the persons and of the State, respectively.

The solution proposed by Walras to this dilemma is ingenious, and is found in the separation between property and taxation. In this light, taking the income of the State from taxation is the worst solution, both for the individual and the State. For the individual, because taxation constitutes a disincentive to his activities, and for the State, because, by making its income depend on individual incomes, does not recognize its equal right to be entitled to such income. Hence, in order to ensure an equal standing for the citizens and the state, and also remembering the principles of equality of conditions/inequality of positions discussed before, the more equitable and effective way of ensuring these principles is simple and radical: **(i)** the complete abolition of taxation, which is a direct consequence of recognizing the full right of the persons to use their faculties; **(ii)** the complete nationalization of land, which is a direct application of the principle of the ownership of common resources (in the next paragraphs we will analyse more in detail this proposal).

In this way, both the danger of an excessive individualism, which entails an extension of the individual functions in the sphere of the State, and of an excessive statalism, which engenders an excessive interference of the State in the sphere of the person, can be avoided. Hence, "The right of individuals is to act freely and to obtain different (unequal) positions. The right of the State is to act with authority and establish equality of conditions.", (*ibid*: 105).

The Critique of *Laissez Faire* and the Role of Public Intervention

It can be interesting to analyse what are the relations between public and private action. A first important aspect that also emerges from our previous discussion is that public and private action are considered not as antithetic but as complementary factors of economic development.

The consideration of these aspects appears relevant because the prevailing interpretation of Walras tends to be focussed only on his more neo-liberalistic and neoclassic aspects.

He elaborated (in particular in the *Esquisse*) a detailed critique of *laissez faire*, by remarking that free competition is by no means synonymous with absence of public intervention. As a matter of fact, market system requires an articulated public intervention for its effective working, because the "natural tendency" of entrepreneurs is to constitute monopolistic positions in order to maximize (or stabilise) profits.

He then carries on by identifying the "exceptions" to free competition, which are the following: **(i)** The case of public goods, when there is no price mechanism through

which persons can express their preferences. Hence, it is necessary that the State produces these goods. **(ii)** The case of a number of private goods, for which the consumers are unable to assess the quality (a pioneering theory of informational asymmetries). In this case it is necessary that the production of these goods follows precise rules established by the State. **(iii)** Another condition is that of “natural monopoly”, which does not allow for indefinite multiplication of firms. Therefore, it is necessary a public regulation in order to ensure the equality between costs and prices, as it should happen in the case of perfect competition.

For these reasons, notes Walras, the political economy of the industry cannot be reduced to the slogan *laissez faire, laissez passer*, as it entails a careful study about the allocation of functions between the State and the person.

The classification of the forms of public intervention is completed with the analysis of economic action in the marketplace. Here, his ideas significantly depart from a simplistic identification of market economy with private sector. He provides an articulated framework of economic action, where the following categories are singled out: **(i)** individual firms; **(ii)** firms with corporate profile; **(iii)** cooperative of production; **(iv)** cooperative of consumption.

As can be seen, it is an analysis largely heterodox oriented, which places Walras not only between the founders of market economics but also between the founders of public economics.

The Nationalization of Land

It is along these lines that originates his perhaps most “revolutionary” proposal of complete nationalization of land, which includes mineral water and mines. This proposal, however, constitutes a logical implication of the previous analysis, according to which there are two kinds of social wealth — the land and the personal faculties — which need to be distributed among the State and the persons. This implies, as we have seen, the inequalities of positions and the equality of conditions.

As for the land, the State should gradually expropriate the land and pay a compensation to the owners in treasury bonds. Then, the State would lease the parcels of land to the entrepreneurs and, with the sums so obtained, would finance public spending (including the interest payments on treasury bonds).

This process should be accompanied by the gradual but complete elimination of all taxes⁴ on income and transactions. As already noted, his theory of nationalization of land is at the same time a theory of taxation according to which, as we have seen, all taxes should be abolished. As a matter of fact, the ordinary concept of taxation is ill-grounded, because it first includes all social wealth in the individual property, and then tries to deduct a quote for financing public spending. However, this does not consider that the State is entitled to an autonomous existence as the “owner” of social wealth. Hence, as the person should have no right on the income stemming from the ownership of land, so the State should have no right on the income coming from the use of personal faculties.

For Walras, the benefits of land nationalization would be remarkable: the system of land leasing will constitute a good incentive for the entrepreneurs to rationalize and innovate the modes of production, while the elimination of taxes will play as an incentive for both workers and entrepreneurs to improve their activities.

In this way, it would be possible, on the one side, to get high quality agricultural produce at cheaper price and, on the other, a more balanced equilibrium between rural and urban population, with more people being attracted by agricultural jobs.

Another related effect would be a more diversified production, no longer centred only on corn, but allowing a growing share for fruits, vegetables, pastures, eggs, milk, butter and other dairy products.

But what are the effects of this reform on the State’s budget? In particular, will the State’s income coming from land leasing be sufficient to cover its expenses? The answer is largely positive. There will be, in fact, on the one side, a growing surplus value from land leasing, which mirrors the increased profitability of agriculture; and, on the other, there will be a diminution of the rate of profit, which will also bring about a diminution of the real interest rate on the treasury bonds. Hence, there will be a structural tendency for the State’s income to increase.

Money and Credit

On the issue of money and credit (in particular in the *Esquisse*), Walras’s vision is far more orthodox. According to him, money should have a precise reference to a given quantity of gold or silver and should perform only the function of unit of account and of intermediation between savings and investments.

⁴ In a footnote Walras remarks that this idea had been already expressed by Spinoza in the *Tractatus Politicus*.

For this reason, he appraises negatively all the process of credit creation not based on existing income and production.

In fact, he adopts a strict “quantitative theory”, according to which the level of prices is proportional to the quantity of money put in circulation.

Hence, any credit creation exceeding the level of savings is likely to engender a variation of prices and a general perturbation of economic activity.

This idea is a direct consequence of his acceptance of the so-called “Say’s law”, according to which aggregate supply always creates a corresponding level of aggregate demand.

In his view, then, the only task of monetary policy should be the stabilization of the prices. This goal should be realized also at international level, by introducing a kind of silver money that should act as a compensatory instrument for reducing the effects on prices of a surplus/scarcity of gold money at world level. Interestingly enough, he foresaw that this system will gain acceptance in the XXI century.

Needless to say, this kind of analysis appears utterly unrealistic. In fact, “a variation of prices and a general perturbation of economic activity” are precisely the ways in which capitalistic economies have grown over time.

This has occurred because, as analyzed by Keynesian economics, the process of credit creation stems from the largest part not from the conversion of savings into investments but from the creation, through the so-called credit multiplier, of new purchasing power by the banks.

For this reason, the process of credit creation constitutes a paramount means for creating new effective demand and then pushing the growth of economic systems. Furthermore, the process of credit creation is necessary also for financing public spending, especially in the case of “deficit spending”. As shown more detailed in another work, public spending and credit creation have played a central and irreplaceable role in sustaining effective demand, and it is in this aspect that lies the real reason of their continual growth over time across the major OECD Countries.

As can easily be seen, the system of commodity money is totally unfit for attaining the demand of full employment (however defined) in a capitalistic system. In this respect, the history of money in the past centuries can be appraised as a progressive detachment of money from its commodity content. Now, as we know, money constitutes the legal tender for economic transactions. Hence, the supply of money rests in the banking system (from central banks to commercial banks) through the mechanism of deposits creation. Since the cost of deposits creation is negligible, the

banking system enjoys a high level of discretionary power in their management. Within the positive aspects of this arrangement, we can mention the economic development made possible by this system. This has come about through a steady expansion over time of private debt and public spending, which have in this way played a paramount and irreplaceable role⁵ in sustaining effective demand.

Within the negative aspects we can mention the remarkable imbalances of capitalistic development: in particular, growing disparities in income and opportunities, growing difficulty of effective demand to attain the level of full employment, the rise of financial speculation. These aspects are closely intertwined. For instance, it is true that financial speculation constitutes an important cause of the recent economic crisis. But the reverse is no less true, namely, that the tendency of effective demand to lag behind the supply of full employment and the consequent diminution of the prospective returns on investments would divert the available resources towards financial speculation. And, in turn, these negative effects interact with and are reinforced by the enormous disparities of income and wealth.

On these matters, Walras's account, owing to a basically static approach, has not been able to identify the real problems at the stake. In fact, his acceptance of the Say's law prevented him from acknowledging the fundamental role of public spending and credit creation in sustaining effective demand. However, even with these limitations, his proposal of a supranational governance of monetary policies — based, of course, not on a regulated bimetallism but on a kind of fiduciary supranational currency — was very ahead of his time and could be considered as an important goal for ensuring more stable and peaceful relations among Countries.

Wages, Free Trade, Colonial Question, International Relations

In these issues (which are dealt in particular in the *Esquisse*) Walras follows the same approach, which can be defined as one of subsidiarity: namely, promoting both individual and collective action up to the point they are beneficial to the development of the system.

⁵ In this sense, as addressed with more details in our work *The Systemic Nature of the Economic Crisis: The Perspectives of Heterodox Economics and Psychoanalysis*, London and New York, Routledge, April 2015), the neoclassical hypothesis of crowding out of private spending by public spending is, for a number of reasons, utterly unrealistic. It is for this motive that the so-called austerity policies do not work. In fact, what generally happens is that the cut in public spending has a depressive effect on the economy, because it does not entail a corresponding increase of private investment.

In the case of wages settlement, he, for one side, adheres to a typical neoclassical approach by claiming that it is useless for workers to ask a pay rise in the declining sectors and that the only solution for them is to move, through an improvement of the competitive mechanism, towards the emerging sectors.

However, this rather simplistic prescription is complemented by his vision of the role of the State in the economic domain. In this regard, he notes that the determination of wages by means of strikes and lock-outs — which, he notes, often ends up in an exchange of stones against rifle-shots — it is a brutal and ineffectual method of settling labour conflicts.

What he advocates is a public intervention aimed at instituting an effective system of industrial relations.

In relation to this issue, he clarifies that “I call myself a democratic socialist since I see in slavery, serfdom, and proletarianism three empirical phases of a single, unique issue: that of property and taxation, or the distribution of social wealth among the people in society....[and then he remarks that]....Overwhelmed by hard labour, partly robbed of the fruits of his efforts, not having the time or the means to improve science and art, the proletarian does not reach all his moral or economic value. And while certain people who produce abundantly, consume insufficiently, others who consume excessively, produce insufficiently. The delicacy of moral personality is strained and shattered in the former case, and in the latter, it seems weakened and unnerved by lack of work.”, (SSE: 94, 95).

The same type of reasoning is applied to commercial relations, for which the system of free trade is proposed. The interesting aspect of this analysis does not lie in the proposal *per se*, but in linking it with other relevant aspects of his theory. He notes that the nationalization of land is necessary for free trade and that this, in turn, would lead to peaceful international relations.

This discourse is accompanied by a substantial criticism of colonial policies. He remarks that colonization is the obsession of myopic economists and of mediocre politicians trying to counteract the abundance of labour supply due to lack of innovation, especially in agriculture.

He then remarks that, “Quand la vraie science et la vraie politique seront à l’oeuvre, on fera encore de la colonisation, mais en vue d’initier le peuplades arriérées à la civilisation, et non en les exterminant pour leur ravir leurs terres par des procédés qui

sont la honte de l'humanité et qui feraient douter que l'homme soit autre chose que la plus féroces des bêtes féroces.", (Walras, *The Esquisse*, 1898: 483).

In treating these issues, a strong aspiration to improve the destiny of humanity permeates his writings. We can see this in the "Politique française. La prière du libre-penseur", which constitutes the concluding chapter of the *Esquisse*. We quote a number of passages informed by an intense moral pathos, which illustrate the overall vision of Walras on the role of ethical and scientific action for realising the ideal of social justice,

"Quand les anarchistes, socialistes ou economists, nous parlent avec mépris de l'Etat, de son incapacité, de sa corruption, de son impuissance, nous sommes d'accord avec eux s'il s'agit de l'Etat présent, mais non plus s'il s'agit de l'Etat future.... [in this regard, he complains that the 1789 revolution has not fully abolished the old privileges]....la Révolution, pleine d'entrain pour détruire, manque d'assurance pour réédifier; elle choppe à tous les grand problèmes: celui des rapports de l'Etat avec l'Eglise, celui de la propriété, et de là, en somme, son avortment. La vente des biens nationaux, en particulier, est une faute dont, a l'heure qu'il est, nous subissons encore les conséquences. Elle crée une classe privilégiée, partant conservatrice....trois fois, depuis lors, le peuple de Paris essaye de reprendre et de continuer le mouvement de 89, toujours sans preparation suffisant....et trois fois cette classe intervient pour l'en empêcher....nous ne souffrons, je persiste à le croire, que du défaut de la science morale, pure et appliquée, qui ne nous permet pas d'entrer dans le régime industriel et commercial....[he then concludes the book in this way]....dans les belles soirées d'automne, quand la nuit le surprend au retour de sa promenade, le libre-penseur adore et prie suivant un rite que se reproduit et dans des terms qui se précisent d'année en année....l'être réel absolu est-il parfait? Non, certes; mais il est mieux que cela; il est en voie de se perfectionner lui-même....quel trait de lumière! L'être réel absolu arrive à se constituer être moi ou esprit dans l'humanité; par l'Art et par la Science, il s'aime et se connaît et comme nature et comme humanité; par la Famille, par le Gouvernement, par la Propriété, il se moralise comme humanité; par l'Industrie, il s'utilise comme nature. Beauté, Verité, Justice, Bien-être, voilà le divin, la «catégorie de l'idéal»; leur réalisation, c'est le règne de Dieu. *Adveniat!*....sur quoi, le libre-penseur, apercevant, au bout de l'avenue, les fenêtres éclairées de son chalet, se hâte

vers le petit salon où sa place l'attend, à côté de la lampe de famille, devant le premier feu de la saison. “, (Walras, *The Esquisse*, 1898: 487, 488, 489, 491, 495).

Conclusions: The Relevance of the *Studies in Social Economics* for the Problems of Today

As emerges from the foregoing account, Walras's analysis is inspired by an ideal of social justice, which aims to overcome both the limitations of “the pleased conservatives and their official science” and that of “the impatient progressives lacking adequate theoretical foundations for their action”. The content of this alternative is synthesized in an ideal of scientific, liberal and humanitarian socialism.

However, as noted before, Walras's social economics has been largely overlooked both in economics and in the debate on the various forms of public and private action.

In this way, his theory of general equilibrium, as laid down in *The Elements of Pure Economics*, has become, more or less explicitly, the cornerstone of the neoclassical models and the policy prescriptions based on *laissez-faire*.

However, as we have seen, his general equilibrium model constitutes, notwithstanding its neoclassical orientation, but a part of a much more complex and “heterodox” theoretical account of economy and society. An account that, in sharply criticizing the doctrine of *laissez faire*, considers it necessary an articulated set of public interventions for realizing the objectives of economic development and social justice.

We can see the potential of social change implied in his contribution by recalling the principal aspects of his proposals:

(i) Complete nationalization of land (that includes mineral waters and mines), which is conceived by Walras also as a way to attain a better balance between urban and rural areas.

(ii) Complete elimination of taxation, and financing the expense of public sector from the revenue of the parcels of land leased by the State to the entrepreneurs.

(iii) The ownership and /or regulation of strategic sectors and natural monopolies.

(iv) Public intervention aimed at ensuring competition in the markets of “ordinary” goods and services.

(v) The possible existence of cooperative of production and of cooperative of consumption.

(vi) An efficient system of industrial relations.

(vii) A monetary policy stressing the importance — despite the limitations discussed before — of an international *governance* of money supply and credit creation.

Despite their innovativeness, these proposals have not only remained unapplied but have also been heavily overlooked in scientific and political debate.

This mirrors the historical difficulty to overcome both a rigid statalism and a rigid neo-liberalism through the construction of a participative and solidaristic economy.

For this reason, the Studies in Social Economics can usefully interact with significant theories of heterodox economics. Examples of these contributions are, in addition to various theories of socialism and social justice, Veblen's dichotomy between pecuniary motive and serviceability motive, Commons's analysis of the institutional nature of the market and of the role of social valuing, Karl Polanyi's analysis of the "great transformation" of capitalistic economies, J.K.Galbraith's account of the "affluent societies".

Moreover, all the theories dealing with the issues of microeconomic imperfections, the role of public and private action, and the various forms of economic organization, can benefit by a more systematic interaction⁶ with Walras's social economics.

⁶ As already noted, this does not imply that it becomes necessary or advisable to follow the more neoclassical and positivistic aspects of his analysis. In fact, as made evident by numerous contributions, neoclassical theory, by being based on too simplistic and static hypotheses, tends to overlook the intrinsic and growing complexity of economic phenomena.

In this regard, we believe that a more heterodox oriented microeconomic analysis can cast a better light on the issues addressed by Walras's Social Economics.

For instance, as regards the system of firms, it may seem reasonable to assume that the entrepreneurs push the production as long as marginal income is higher than marginal cost.

However, in the absence of other information on the firm and its context, this rule is likely to become very vague and, for this reason, it is rarely followed by the real entrepreneurs.

In this regard, if we consider that (i) both fixed investments and the competencies of workers are highly specialized; and that (ii) also market structures tend to be highly complex and specialized, it becomes evident that the perfect flexibility of the "production functions", on the one side, and of market structures, on the other, have little to do with real economies. And even more so with the complex productions of our days where "market imperfections" are the rule rather than the exception.

In this context, it is highly unrealistic, as underscored by many contributions, to think that the objective of firms is limited to make a continuous adjustment of marginal cost to marginal income in order to maximize short-term profit.

Conversely, what firms tend to do is to identify one strategy (among various options) which, in the view of its managers, is more able to strengthen its position vis-à-vis its competitors. In this sense, "dynamic efficiency" can be more strategic than "static efficiency".

This interaction can unfold in the following dimensions: on the one side, **(i)** the criteria proposed by Walras for identifying the spheres of public and private action can constitute an useful guidance for attaining a better social value process, and hence a more effective policy action, on many issues comprised under the headings “social policies”, “public goods”, “competition policies”, “regulatory policies”, “agricultural policies”. And, on the other side, **(ii)** a better social value process can help identify more precisely how the criteria expounded by Walras should work in concrete situations. As a matter of fact, the criteria “equality of positions and role of the State” and “inequality of conditions and role of the person”, which imply a well defined market arrangement, do not occur in a *vacuum* — as it is implied in the more “orthodox” interpretation of Walras’s theory — but within a given legal and institutional framework. **(iii)** A significant consequence of this interpretation is that the market should no longer be appraised as an “exogenous and magnificent mechanism” leading to the utility maximization of the economic agents, but as an institution created and maintained by public intervention and whose outcomes depend on the characteristic of economic and social relations⁷ embedded therein. Since these outcomes can be interpreted differently by persons and groups according to their theories, values and interests,

In this choice many factors — beyond and besides the short-term maximization of profit — are likely to play a role. For instance, what are the long-term objectives of the firms? Does it wish to grow or to remain stable, in what markets does it want to specialize, what kind of labour relations does it wish to build, and what kind of financial strategy does it aim to establish?

For these reasons, it is difficult to assess what should be the firm’s best strategy”.

The same reasoning can be applied to consumers’ behaviour. We need not spend many words for remarking that, owing to a number of factors pertaining to imperfect information and complexity of human motivations, the hypothesis of utility maximization is utterly unrealistic.

⁷ We have addressed more extensively these aspects in “The Institutional Analysis of the Market”, *International Journal of Green Economics*, Vol.2, N.4, pp.379–391, 2008, and Hermann 2015, quoted. One significant implication of this analysis relates to the concept of “equilibrium”. We can see this by looking, for instance, at a set of prices in our neighbourhood. As in most cases these prices are stable over a certain period, can we also deduce that they are “maximizing” the utility and the efficiency of the system? In Walras’s theory of general equilibrium, this should (at least approximately) be the case. And, according to the most common (but, as we have seen, not true) interpretation of his theory, a widespread *laissez-faire* attitude would be the best way to attain such bounty. This vision conceives of the market as an “exogenous mechanism” obeying to “inexorable laws”, which no human action can hope or dare to change. In this perspective, even when the market entails very alienating and unsatisfactory conditions for the workers, little role is left to the possibility of social change. The only thing we should do is to comply with “the needs of the market” without any further enquiry on the adequacy of such conditions to respond to the profound exigencies of economy and society. In another work we have underlined the role of the *super-ego* and the feeling of guilt associated with it in shaping this perception.

Conversely, we can see how different is the “endogenous” conception of the market which is a part of, and interacts with, the social and institutional structure. In this case, we can note that the “prices of equilibrium” are “optimal” — if we feel compelled to use a too simplistic conception of social adequacy — only so long as are “optimal” the social and institutional arrangements underlying such prices. This would require, on the one side, a satisfying organization of the production chain in relation to firms’ management, workers’ realization, environment protection, and, on the other (and interrelated) side, a satisfying organization of consumers’ chain as regards the level of information and their real independence in the marketplace.

In the analysis of so manifold issues, all the aspects related to economic and social arrangements are fully brought into the picture as elements that depend on, and hence can be modified by, policy action. What is required is a thorough process of social valuing (see the next footnote) for rendering more effective such policies.

there arises the problem of finding an agreement over complex and continually evolving issues. This aspect brings to the fore the relevance of social valuing⁸ for effectively comparing these aspects. This process, by clarifying relevant elements of the issues at the stake, can help devise policies more tailored to the real needs of the persons.

In conclusion, Walras's theory of social economics, by helping identify, for each particular problem, the better balance between freedom of persons/authority of the State and inequality of positions/equality of conditions, can contribute to realize a more equitable and rewarding society.

⁸ The theory of social value has a long tradition in the history of economic theory, and stresses that the system of social and individual values plays, more or less explicitly, a crucial role in policy action. Significant contributions were provided by J.R.Commons's notion of "Reasonable Value", in particular in the II volume of *Institutional Economics: Its Place in Political Economy*, and by John Dewey, in particular in *Social Valuation, Freedom and Culture*, and "The Meaning of Truth".

The following passage by Marc Tool effectively expresses this concept, "To conceive of a problem requires the perception of a difference between 'what is going on' and 'what ought to go on'. Social value theory is logically and inescapably required to distinguish what ought to be from what is; indeed, it is implicit in modern methodology.", (in G.Hodgson, W.Samuels and M.Tool *The Elgar Companion to Institutional and Evolutionary Economics*, Aldershot, Elgar, 1994, vol. I, p.406).