

# To which kind of welfare did Léon Walras refer? The Theorems and the State \*

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## 1. Introduction

The first purpose of this contribution is to question the kind of welfare which is generally associated to the name of Léon Walras and concerns what is called the “welfare theorems”. Its second purpose is to investigate the relation this economist tried to set up between individuals, society and the State and to show why this relation can be interpreted as a specific type of what is called the “welfare state”. In our paper we will refer to the complete set of Walras’s works and not only to pure economics as it is too often the case.

Our starting-point is a critical discussion of the usual belief that Léon Walras was one of the fathers of the first social welfare theorems and therefore a forerunner of Pareto optimality (sections 1 and 2). Its main purpose is to discuss this belief and to argue that it is contradictory with the basic foundations of Walras’s economic and social philosophy and especially with his conception of society (section 3) and of individuals (section 4). If we take seriously into account Walras’s distinction between “general social conditions” (“conditions sociales générales”) and “specific personal positions” (“positions personnelles particulières”), an alternative interpretation can be developed as regards welfare (section 5), leading to a different view of the Walrasian concept of state (section 6) and of its activities and economic and social policy (section 7). Section 8 provides the conclusion of our contribution.

Modern Theory of General Economic Equilibrium (GEE) has always considered the contribution of Léon Walras as one of its main sources of inspiration. This view is expressed, for instance, by Kenneth Arrow and Frank Hahn at the very beginning of their book, *General Competitive Analysis*. Characterizing their own kind of approach, they wrote that their book belonged to

“a long and fairly imposing line of economists from Adam Smith to the present who have sought to show that a *decentralized economy motivated by self-interest and guided by price signals* would be compatible with a coherent disposition of economic resources that could be regarded, in a well-defined sense, as superior to a large class of possible alternative dispositions”

(Arrow and Hahn, 1971: vi)

They also added that their book and therefore this “line of economists” were

“concerned with the analysis of an idealized, decentralized economy. In particular, it is supposed, in the main, that there is perfect competition and that the choices of economic agents can be deduced from certain *axioms of rationality*.”

(ibid: v)

In 1995, Roger Guesnerie also added:

« It is useless to come back to what I consider to be an exemplary effort and a success of contemporary mathematization: namely the studies of competitive analysis in the formalized tradition of the Lausanne School. The requiring rigour completed by the investigation of logical validity and scope of its proposals transformed the Walrasian model in the Arrow-Debreu model building an intellectual construction unprecedented in the realm of social sciences.(...) In my opinion, the results of this work belong to the heritage of our discipline. In a more essential way, refining and clarifying the message of the Lausanne School models, contemporary *formalization* has more clearly highlighted its central place in the software of the economist”

(Guesnerie, 1995: 97-98)

Obviously, these quotations can only be understood if Walras’s work is strictly limited to its *pure economics*, therefore ignoring the fields of *applied* and *social economics*. In these quotations, Léon Walras is not only praised for his use of *rational choice*, of *mathematical formalization* and for his representation of *decentralized market economies*. He is also credited for having developed his theory of *maximization of social satisfaction* which is very often interpreted to-day as one of the first formulations of the *first theorem of welfare economics*, assumed to point out that a competitive GEE was also a Pareto optimal or efficient state (see for instance, Rebeyrol, 1999: 74). This usual interpretation is far from being obvious and was already criticized by Jaffé (1977/983). It is worth however to discuss it again, in order to draw its consequences in connection with recent works which also reconsidered Walras’s global contribution to economics and social science and especially its conception of welfare.

## **2. The limits of the usual interpretation of Walras’s maximization of social satisfaction**

Jaffé (1977/1983) and more recently Steiner (1994) and Béraud (2011) reconsidered the critiques addressed by Pareto (see Steiner, 1994), Launhardt (1885), Bortkiewicz (1889),

Edgeworth (1889), Wicksell (1899), Samuelson (1947) and Baumol (1952) to Walras's approach of the maximization of social satisfaction.

In the first edition of the *Elements*, Walras indeed considered the problem of social satisfaction maximization in a production economy while in the second edition (see his correspondence – Walras, 1965, volume 2 – with Bortkiewicz and Edgeworth in 1889) the results were extended to the theory of capitalization (see again Béraud, 2011). In both cases, he tried to show that free competition yields a higher social maximum of satisfaction for the agents of the economy. Most of Walras's critical commentators (from Wicksell to Samuelson and Baumol; see Béraud, 2011) denied this result. Some of them were not convinced by the apparent logical consistency of Walras's demonstration and they were right: more than one hundred years after, in spite of some differences of interpretation, Van Daal and Jolink (1993) and above all Mouchot (1994) confirmed and agreed that a solution to the problem raised by Walras's theorem of maximal satisfaction (at least in the case of the theory of capitalization in the second and subsequent editions of the *Elements*) was impossible. Other commentators pointed out non-competitive systems which provide to agents a superior maximal satisfaction. Some of them however considered that in spite of its insufficiencies, Walras's demonstration of the existence of a social satisfaction maximum was an essential first step towards the elaboration of the first social welfare theorem (Baumol, 1952 for instance).

The problem is that most of all these commentators underestimated the importance of two specific assumptions made by Walras in this context, namely the zero profit and the price uniformity ones. Now, the consideration of these assumptions deeply changes the real meaning of Walras's attempt and paves the way to a rather different conception of social welfare. As Jaffé perfectly stressed,

“Uniformity of competitively determined price represented for Walras not only an analytical ideal, but an ethical ideal as well, constituting an indispensable pillar of social justice. In the “*Théorie de la propriété*”, Walras defined justice in exchange (or “commutative justice”) in terms of two conditions: first, the complete freedom of every trader to pursue his own advantage in the market; and second, the complete elimination from the market of any chance for a trader to profit by exchange at the expense of his counterpart or anyone else. The first condition is satisfied by the assumed perfection of the market mechanism, and the second by the stipulated universality of the budget restraint from which no trader is exempt in the Walrasian general equilibrium schema”

(Jaffé, 1977/1983: 330)

Béraud (2011: 366, 367) also recently emphasized the importance of these two conditions and Jaffé's, Béraud's and Rebeyrol's contributions certainly help to highlight the meaning of the following remark of Léon Walras:

“Production in a market ruled by free competition is an operation by which services can be combined and converted into products of such a nature and in such quantities as will give the greatest possible satisfaction of wants within the limits of the double condition: [1] that each service and each product have only one price in the market, namely the price at which the quantity supplied equals the quantity demanded and [2] that the selling price of the products be equal to the cost of the services employed in making them”

(Walras quoted and translated in English by Jaffé (1977/1983; 331))

Now, condition (1) expresses the principle of *commutative justice*, which excludes the possibility of distributional effects or redistributive backwash from exchange, while condition (2) is related to *distributional justice* which excludes injustices of the existing distribution of property. If we accept this interpretation first advanced by Jaffé, it is clear that we cannot consider Walras's maximization of social satisfaction as a first formulation of the first welfare theorem but as a specific analysis of the conditions which allow to match justice, pure competition and social efficiency in a market economy. As Jaffé, Dockès, Rebeyrol and Béraud also stressed Walras's discussion and comparison of two types of barter he attributed to Gossen and Jevons (Jaffé, 1977/1983: 333; Dockès, 1996: 119; Rebeyrol, 1999: 75 and Béraud, 2011: 366) confirm the idea that his main contribution was not to build a pre-Paretian theory of welfare but to study if a market economy could conciliate economic efficiency and social justice: the first of these types allowed a better optimum but was not compatible with social justice, while if the second was not the best optimum, it permitted however to realize the ideal of justice. This is the reason why Pareto considered that Walras's demonstration of the existence of the maximum of social satisfaction was logically circular (Steiner, 1994: 66). He never thought that Walras's *Economie Sociale* could be considered as a serious scientific contribution and this is why he did not even perceive the social/ethical meaning of the assumptions of uniform prices and zero profit. This interpretation of Walras's work is clearly distorting since it ignores

the importance attributed to the concept of justice by our author when he proposed a logical but also a political setting out of justice and exchange.

### **3. From social satisfaction maximization to welfare: Walras's specific conception of society**

Walras considered that his contribution to the social satisfaction maximum only concerned *private* and not *public* goods: according to him, the “principle of free trade” could not be applied to goods related to *public* and not to *private* interest. The reasons of this point of view are not to be found in a neo-classical/Paretian conception where collective utility or social preferences have to be the result of some form of *social aggregation*.

They are related to Walras's specific *conception of the society*. According to this conception, individual members of a given society are not mainly rational agents, namely agents behaving according to the sole rules or *rational choice theory*. Let us start from the *Cours d'Economie Sociale*. In these lectures Walras defended the idea that social states are also and before all *natural states*. Why? Because, for Léon Walras, « l'homme se caractérise par l'*aptitude à la division du travail* et par la *personnalité morale*» (Walras, 1886/1996: 94). Now both these human features allow human beings to be different from and superior to animals.

Thus, *division of labour* is not the result of a learning process as it is for instance in Alfred Marshall's *Principles* (see Arena, 2002). It is a genuine human feature. Referring to it, Walras wrote:

« C'est assurément *un fait naturel* en ce sens qu'il ne dépend pas plus de nous [stressed by us –RA] diviser le travail que de ne le point diviser qu'il ne dépend de nous d'être bipèdes ou quadrupèdes, bimanés ou quadrumanés »  
(Walras, 1886/1996:119)

Division of labour is not therefore the result of individual rational choices or of agent optimizing processes; it is a characteristic and 'natural' feature of human beings which they cannot escape to:

«La division du travail est un fait naturel et non point libre »

(Walras , 1886/1996: 120)

Why is division of labour a "natural fact" too? Walras's answer is straightforward:

« Non seulement la spécialité des occupations n'est point pour l'homme un procédé conventionnel et une ressource facultative mais encore c'est pour lui la condition première et inéluctable de son existence et de sa subsistance »

(Walras, 1886/1996: 120)

The concept of moral personality ("personnalité morale") also contributes to distinguish human beings from animals. Far from being defined as the bearers of some form of *free will*, individual agents or rather "moral persons" are the result of psychology and sociology:

« La personne morale est donc une plante au développement de laquelle deux éléments sont nécessaires : un germe qui est l'homme psychologique, c'est-à-dire l'âme humaine avec ses facultés, et un terrain qui est la société avec ses institutions et ses traditions »

(Walras, 1886/1996: 143)

Here again, economic rational choice does not play any role in the explanation of the fact that such and such individual agents are associated to such and such behavior. Now, one of the reasons which - by contrast - explains why moral personality as well as division of labour provide the foundations of the distinction between animals and men derives from the fact that men's will is «conscious and free», while animals' one is «instinctive and fatal » (Walras, 1896/1990: 101). In other words, nature and not free will or free choices explains both division of labour and moral personality. Only a second stage can allow to set apart "humanitarian" from natural facts: division of labour is independent from human will but the existence of their moral personality paves the way to free and reasonable will, even if it is not sufficient to explain it fully:

« L'homme, dit-on est un être raisonnable et libre, c'est-à-dire une personne morale par opposition à tous les autres êtres qui n'étant ni raisonnables, ni libres, ne sont que des *choses* »

(Walras, *ibid*: 34)

Thus, division of labour and moral personality

«sont encore deux faits naturels, mais ils sont en même temps le double principe de tous les faits humanitaires »

(Walras, *ibid*: 91)

#### 4. From social satisfaction maximization to welfare: Walras's specific conception of individuals

At this stage of our contribution, it is now time to investigate more thoroughly the determinants of individual behavior in Walras's economics. We noted that in relation with their moral personalities, Walrasian agents were "reasonable and free". This does not mean however that Walras accepted what he called the approach of "spiritualism":

« Pour le spiritualisme, l'homme délibère, se résout et agit exclusivement en raison de sa volonté libre, ses actes lui sont personnellement imputables, et il en est personnellement responsable. A ce point de vue, la destinée morale de l'homme est absolument individuelle, et en même temps toutes les destinées humaines sont indépendantes les unes des autres; l'individu est le seul théâtre des faits moraux qui sont tous des faits individuels, et il est en même temps le seul type social »

(Walras, 1896/1990: 82)

Walras indeed rejected this approach which attributes and *only* attributes to single individuals the explanation of the emergence and the working of the social and the economic system. To this « spiritualist » approach, Walras indeed opposed his own "rationalist" conception:

« Pour le rationalisme, au contraire, l'homme délibère, se résout et agit, pour une part seulement, en raison de sa volonté propre, et dans une liberté absolue, et, pour une autre part, en raison des *conditions sociales* dans lesquelles sa volonté s'exerce, et sous l'empire d'une nécessité inévitable; ses actes lui sont, en partie, imputables personnellement, mais ils sont aussi, en partie, *imputables à la communauté ou à la collectivité sociale dont il est membre*; il en est, en partie responsable personnellement, mais il en est aussi, en partie, *responsable en commun ou collectivement* [stressed by us – RA]»

(Walras, 1896/1990: 82)

Within this approach therefore,

«il ne faut pas dire que l'individu est la base et la fin de toute société sans ajouter immédiatement que l'état social est aussi la base et le milieu de toute individualité»

(Walras, *ibid*: 82).

These quotations are essential. They indeed introduce a social factor which cannot be cancelled if we wish to understand individual behavior. Moreover, “general social conditions” do not reflect individual aggregate behavior but the existence of a so-called “community” or “social collectivity”.

It is however necessary to go further if we wish to understand how agent individual will and social conditions of life are combined by Walras to generate *economic* behavior. Walras first clearly rejects what he calls “l’individualisme absolu, soit matérialiste, soit spiritualiste” (Walras, 1896/1990: 82). His “rationalism” again implies a conception of the society and the economy where it is impossible to consider the “ocean” as the mere “sum of the life of the water drops which it includes” (Walras, 1896/1990:83):

« Il faut appeler *individu* l’homme considéré abstraction faite de la société à laquelle il appartient, ou chaque personne morale envisagée comme accomplissant une destinée indépendante de toutes les autres.

Et il faut appeler *conditions sociales générales* la société considérée abstraction faite des hommes dont elle est formée, autrement dit, le milieu social de l’activité individuelle. Mais il est aisé de reconnaître que ces deux premiers termes en appellent deux autres.

En effet, il faut appeler *Etat* l’agent naturel et nécessaire de l’institution des conditions sociales générales. Ainsi défini, l’Etat représentera l’ensemble de toutes les personnes morales envisagées comme accomplissant des destinées solidaires les unes des autres.

Et enfin, il faut appeler *positions personnelles particulières* le résultat naturel et nécessaire de l’activité de l’individu s’exerçant dans le milieu des conditions sociales générales »

(Walras, 1896/1990: 134)

This quotation from Walras’s *Etudes d’Economie Sociale* needs to be clarified. We first find again here the notion of moral personality. Let us come back once more to Walras’s methodological foundations in his *Cours d’Economie Sociale*. If we do not restrict our approach to “pure economics”, we must consider the division of labour and the existence of a moral personality as two “natural facts” “which provide simultaneously the dual foundation of all the humanitarian facts.” (Walras, 1870/1996: 118).

Division of labour defines what Walras called “l’homme physiologique” (ibid. 121):

“Il ne suffit pas d’énoncer que la division du travail est un fait naturel, et non point libre, il faut ajouter autre chose. Non seulement ce n’est pas *volontairement*, et pour mettre ses facultés au-dessus de ses besoins, mais encore c’est *nécessairement* [stressed by us – RA] et pour ne pas laisser ses besoins au-dessus de ses facultés que l’homme se livre à des occupations spéciales. Non seulement la spécialité des occupations n’est point pour l’homme un procédé conventionnel et une ressource facultative, mais encore c’est pour lui la condition première et inéluctable de son existence et de sa subsistance »

(ibid.120)

Division of labour is thus only a pure natural necessity and not the result of some form of individual choice. How can we then characterize the notion of moral personality?

« L’on voit éclater le fait de la personnalité morale de l’homme, lequel consiste en ce que [l’homme est un être de qui] les trois facultés psychologiques, sensibilité, intelligence et volonté, ont chacune un couronnement supérieur qui est *l’amour sympathique et esthétique* pour la sensibilité, *l’entendement* avec la *raison* pour l’intelligence, et la *liberté* pour la volonté »

(ibid. 123)

Let us insist here on *reason* and *freedom*. For our author, freedom is not a philosophical but a scientific concept:

“Nous ne nous plaçons pas ici au point de vue métaphysique mais au point de vue scientifique c’est-à-dire celui de l’observation et de l’expérience. Nous parlerons de *liberté* comme le chimiste parle d’*atomes* et de *molécules* sans plus affirmer pour cela la valeur métaphysique de l’esprit que l’on affirmera la valeur métaphysique de la matière »

(Walras, ibid: 142)

Now, observation and experience show that two elements explain the contents of human freedom. The first was already stressed: in relation with their moral personalities, Walrasian agents were “reasonable and free”; and this reasonable and free will is related to what Walras called the “positions personnelles particulières”. The second is related to social education and learning and to the influence of the social context, namely to what is called the “conditions sociales générales” by Walras. Therefore:

« La terre décrit dans l’espace un mouvement complexe résultant de deux mouvements simples dont l’un est en mouvement de rotation diurne circulaire autour de son axe, et dont l’autre est un mouvement de translation annuelle

elliptique autour du soleil. De cette combinaison résulte pour chaque point du globe une sorte de mouvement cycloïdal. C'est ainsi que l'homme déploie en société une activité complexe résultant de deux activités simples dont l'une est une activité individuelle et l'autre une activité collective.

Et quant à nous enfin qui rapportons l'activité de l'homme pour une part à son activité individuelle et pour une part à son activité collective, nous ne faisons point autre chose que ce que fait l'astronome qui rapporte le mouvement de la terre pour une part à son mouvement diurne et pour une part à son mouvement annuel.»

(Walras, *ibid*: 222-223)

This characterization of human behaviour is somewhat surprising since it explicitly refers to two different causes which are entirely cut off and not to one which could be identified as a pure individual and rational choice. This clearly means that Walras rejected pure methodological individualism. To better understand the reasons of this rejection, let us consider successively both these causes.

## **5. “General social conditions”, “specific personal positions” and general economic equilibrium**

The existence and influence of these “general social conditions” allows Walras to show that society and/or the economic system does exist and influence individual agent behavior:

“L'homme, libre et responsable est une personne morale. Tous les hommes sont également des personnes morales. D'où la nécessité pour les destinées humaines de se coordonner les unes avec les autres, et le fait de la société morale.

Ainsi s'explique tout entier le fait de la société par la seule considération de la personnalité de l'homme ; et il s'explique de même, et aussi complètement, par la seule considération de la division du travail.

Qu'un animal, en effet, poursuive une proie quand il a faim, cherche un ruisseau quand il a soif, s'enquière d'un antre ou se creuse un terrier quand il souffre des intempéries de l'air, l'accomplissement de sa destinée peut rester aussi indépendant qu'il est instinctif, aveugle et fatal. Mais alors qu'un homme fait des souliers quand il veut manger et quand il veut boire, et quand il veut s'abriter, n'est-il pas clair que l'accomplissement libre de sa destinée est solidaire de l'accomplissement libre de la destinée de tous les autres hommes qui font les uns du pain, les autres du vin, etc ? Cette solidarité des destinées de tous les hommes adonnés à la division du travail et à la spécialité des occupations,

cette solidarité matérielle capable de constituer à elle seule l'idée de société, est d'une évidence telle qu'il est, j'y crois, inutile d'y insister davantage »  
(Walras, *ibid* : 190)

Thus, the so-called “general social conditions” provide a *purely social* factor which influences any individual behaviour and implies for agents the necessity of social or inter-individual behavior coordination.

Walras located the degree of freedom which remains to individual agents within what he called the “specific personal positions”. Therefore, there exists a space for agent free will but this space is *strictly limited* by human physiology and psychology and constrained by the social context. We have however still to explain if this limited and constrained free will generates rational choice in Walras's *pure economics*.

We must now come back to Walras's well-known interpretation of exchange as a “natural fact” (Walras, 1900/1976: 26-27). We know that, using their free wills, agents can influence it but only to some extent. Fundamentally and to repeat what Walras wrote concerning this “fact” in his *Elements*, in any case, “nous ne pouvons changer son caractère et ses lois” (*ibid.*). The analysis of the fact of exchange implies the necessity to cope with two main problems. The first is not surprising; it is the problem of market general economic equilibrium:

“Il faut d'abord qu'au sein de la division du travail, comme cela aurait lieu en dehors de la division du travail, la production industrielle de la richesse sociale soit non seulement *abondante*, mais bien *proportionnée*. Il ne faut pas que certaines choses rares soient multipliées en quantité excessive pendant que d'autres ne seraient multipliées qu'insuffisamment dans leur quantité »  
(Walras, 1900/1976: 34)

The second problem is more original since it is related to *social justice*:

“Il faut ensuite qu'au sein de la division du travail, comme en dehors, la répartition de la richesse sociale entre les hommes en société soit *équitable* »  
(*ibid.*)

In other terms, the natural fact of exchange has to be compatible with both the requirements of *market clearing* and *equity*. Now, how is this compatibility achieved? It is achieved with the help of the natural foundations related to the division of labour

and the existence of 'moral persons'. But we noted that these natural foundations also provided a framework for humanitarian facts:

“ Les conditions naturelles de l'appropriation une fois remplies, il dépend de nous que cette appropriation se fasse de telle ou telle manière et non de telle ou telle autre. Cela dépend, bien entendu, non pas de chacun de nous en particulier, mais de nous tous en général. C'est un fait humanitaire qui a son origine non dans la volonté individuelle de chaque homme, mais dans l'activité collective de la société tout entière. »

(Walras, 1900/1976: 36)

Walras therefore drew the conclusion that market clearing or equity *could not be obtained with the mere help of a simple aggregation of individual free wills*. Something more was needed: a mechanism of coordination of these free wills. Now, within this context, Walras only mentioned the conditions of both these analytical requirements but did not try to build *a priori* micro-foundations of general economic equilibrium and welfare. In other words, Walras tried to show how the mathematical solutions provided by general equilibrium prices were compatible with the respect of *both individual interests and social justice*, but not directly how individual rational choices could help to reach these prices. This is exactly what we found reminding Walras's attempt to find a maximum of social satisfaction. Thus, in the conclusion of the first section of the *Eléments d'Economie Pure*, he wrote:

“ La théorie de la propriété fixe et détermine les rapports des hommes comme personnes morales entre eux à propos de l'appropriation de la richesse sociale, ou les conditions d'une répartition équitable de la richesse sociale, ou les conditions d'une répartition équitable de la richesse sociale entre les hommes en société. La théorie de l'industrie fixe et détermine les rapports des hommes considérés comme travailleurs adonnés à des occupations spéciales avec les choses en vue de la multiplication et de la transformation de la richesse sociale, ou les conditions d'une production abondante de la richesse sociale entre les hommes en société. Les premières conditions sont des conditions morales qui seront déduites au point de vue de la justice. Les autres sont des conditions économiques qui seront déduites au point de vue de l'intérêt. Mais les unes et les autres sont également des conditions sociales, des indications en vue de l'organisation de la société. »

(Walras, 1900/1976: 39-40)

This quotation shows that for Walras the respect of interest and justice is equivalent to the respect of social norms which are part of the very foundations of the organization

of society. The necessary respect of individual self-interests is not interpreted as the result a contractual compromise between rational agents but as the realization of one of these organizational foundations. Moreover, these interests only appear on standard markets, namely within the activities of the State which concern *private* and not *public* goods.

## **6. Individual agents and the State: a different conception of social welfare?**

Contrary to what the *Eléments* could suggest if we had ignored *applied* and *social economics*, individual behavior is not sufficient to understand the working of the economic system and the society. The reason of this statement is obviously related to the influence played by the existence of general social conditions shared by various agents. According to Walras, it is therefore impossible to understand individual behavior without taking into account the effects social conditions exert on him:

«Les conditions de la société économique, conditions agricoles, industrielles, commerciales sont un terrain sur lequel l'individu s'avance. Les conditions de la société morale, conditions de la propriété et de l'impôt, de la famille, du gouvernement, sont une atmosphère au milieu de laquelle l'individu vit et respire  
».

(Walras, 1896/1990: 83)

These conditions do not depend on contracts or social interactions but on *social rules* or *institutions* which pre-exist to agents and must be respected by them. A large part of them are protected by Law and therefore by the State. According to Walras, the State is not “the pure and simple set of individuals” (ibid: 136) but much more than this set:

“L'Etat a une existence qui lui est propre et qui dépasse même la somme des existences de tous les individus qui en font partie.(...) Je soutiens, pour ma part, que quand l'Etat fait des lois et les applique, quand il perce des routes et creuse des canaux, quand il ouvre des bibliothèques et des musées, il agit *dans l'intérêt de tous les membres d'une société desquels les uns sont vivants, mais desquels un plus grand nombre d'autres ne sont point encore de ce monde, et, par suite, en vertu d'un droit qu'il tient non point du tout des individus dont il se compose, mais de sa nature même* [stressed by me – RA]. C'est ainsi, Messieurs, qu'il résulte de ce que la société est un fait naturel et nécessaire, et non point conventionnel et libre, que l'individu et l'Etat sont deux types sociaux

équivalents, et que, dans toutes les catégories sociales, le droit naturel de l'Etat vaut le droit naturel de l'individu. »

(ibid: 137)

This conception of the relation between individuals and the State has important economic consequences.

First, the rationality of the State is not based at all on *standard individual rationality* but on *public interest*. The State is therefore considered as a form of organization guided by a collective or public form of interest and by the preoccupation of social justice. Secondly, public interest is defined by the State and not as social welfare by some type of agent preferences aggregation.

Thirdly, the State has his own ends but also its own incomes (land rent essentially) and, among its main objectives, it must include the implementation of the conditions of social justice through the equality of individual initial positions.

Fourthly, public and individual morals have to be clearly distinguished, the first one being dedicated to the achievement of what Walras called the “Idéal Social”. Walras therefore introduced in his picture of pure, social and applied economics a conception of the State which strongly contrasts with modern views on standard public economics. Moreover, it is clear that for Walras, the process of equalization of raretés or ratios of marginal utilities – which provides the unique foundation of the use of rational choice theory in Walras’s economic analysis – is not always possible; it requires the use of the context of “a perfectly organized market from the standpoint of competition” (Walras, 1900/1976: 45). Therefore, rational choice as such, namely marginal utility maximization can only be used as a norm in order to show which are the conditions of achievement of what Walras called the “Idéal Social”. But the State has to play its role in this context and help to the practical realization of this norm.

As Jaffé stressed it, “uniformity of competitively determined price represented for Walras not only an analytical ideal, but an ethical ideal as well, constituting an indispensable pillar of social justice” (Jaffé, 1983: 330). This uniformity implied “two conditions: “first, the complete freedom of every trader to pursue his own advantage in the market; and second, the complete elimination from the market of any chance for a trader to profit by exchange at the expense of his counterpart or anyone else” (Jaffé,

1983: 330-331). We find again the real meaning of Walras's attempt of finding a maximum of social satisfaction. We will not revisit here the old debate on the normative contents of Walras's *économie pure*, even if we share the major part of Jaffé's interpretation of the Walrasian message. There is only one issue to consider here: if Walras's view of welfare is not only based on an individualistic approach, we must consider more thoroughly Walras's view of the State.

This view might be related to a national tradition which we could call for convenience Colbertism and considers the State as both a supervisor and a mediator and strongly depends on the French historical and social context. But it also foreshadows some of the features of the usual conception of the Welfare State of the XXth century, especially, the principles of equality of opportunity and of equitable distribution of wealth which are explicitly and deeply investigated by Walras through the difference between *commutative* and *distributive justice*. It strongly contrasts with the Utilitarian and the Paretian conceptions of the State (Dockès, 1996: chapter II).

First, social justice is the main foundation of society far before utility. For instance, even if slavery could increase the social satisfaction (of free individuals!!) it still had to be blamed and forbidden because it is contrary to the principle of social justice.

Secondly, according to Walras's conception, there is nothing analogous to a classification of societies according to their types of social optimum or their aggregated utility function: as we already noted, society is autonomous and different from individuals. According to Dockès

“Léon Walras is at the Antipodes of the construction of a collective utility function based on individual utilities as well as of the Pareto optimum. It is useless to still regret that he missed such a definition! He used to reject it explicitly even before it might have been formulated!”

Dockès (1996: 82)

Dockès characterized this autonomous State and its role of supervisor and mediator using the concept of “State rationality” (Dockès, 1996: 226), namely of public interest.

Thirdly, in Walras, the State is first a supervisor since it determines the rules of market economies, secures and controls their application, provided that these rules are not contrary to justice and interest. It is a supervisor because no other “collective person” (distinct from “individual persons”) or organization has the abilities and the means of supervision. The State does not only corrects market failures; it has its own area of intervention in favor of a public interest because it disposes of the maximal scientific knowledge and the maximal clear-sightedness (“clairvoyance”) to avoid short-termism and take the best decisions for long-run and social (general social conditions) purposes.

Finally, the State is also a mediator because it is not submitted to specific individual own interests. It expresses the real social needs (“moral” as well as “utilitarian”). This is why it also disposes of its own means and resources. This explains the kind of economic policy defended by Walras in his *Economie Appliquée* and based on social justice. We will now consider it.

## **7. Individual agents and welfare: a different conception of state activities and economic policy?**

Obviously, we will not enter here too much into the details of the various aspects of the economic policy and the state activities which have been systematically investigated in many recent contributions (see Dockès, 1996; Baranzini, 2005; Potier, 2006; Béraud, 2011). We will rather show how Walras’s approach allows to characterize a conception of the state which implies some view of welfare totally differing from the context provided by the so-called welfare theorems.

The first dimension of Walras’s approach is related to the distinction between private goods which concern individual agents within markets and public goods which concern them as members of the community or the state itself. Concerning the former goods, the issue which might emerge is a distortion of free competition called “economic monopoly”. Concerning the latter ones, the possible prevailing situation is what Walras called “moral

monopoly” related to the fact that the only consumer of these goods is the state (see Béraud, 2011: 4). Moreover, among public goods, Walras stressed cases (railways or transportation services) in which agents do not act as independent individuals but as connected members of a community or citizens of a given State. This dimension of Walras’s approach shows that according to his view, the state plays the role of a regulator, namely leads a real competition or industrial policy, which provides the first characteristic of his welfare state.

A second dimension of Walras’s approach concerns taxation as well as nationalization of land since both issues are related, allowing state financing. Concerning land, according to Walras, property rights should be given to the state and not to landowners. If we indeed take *Social Economics* into account, the principle of commutative justice implies that all agents must be able to consume natural resources; these resources must therefore be attributed to the state which represents society and not a limited group of agents. It does not imply however an equal distribution of lands since the state does not only represent living agents but also future generations; therefore, it provides the only possible solution compatible with social justice. Walras also uses practical arguments in favour of nationalization and against redistribution that to-day we could interpret as being pre-ecological:

“Si c’est la grande propriété qu’on favorise, on verra des portions du territoire demeurer, sous l’influence d’une vanité irréfléchie, à l’état de parcs ou de réserves de chasse ; si c’est la petite, on en verra rester livrées, par l’effet de l’ignorance et de la routine, à la culture la plus arriérée »

(Walras, 1896:194)

Obviously, in his *Applied Economics*, Walras tried to elaborate a financial solution to compensate the amount of wealth held by landowners when their lands will be nationalized. Walras clearly also rejected *any* type of direct taxation since he considered it as a real injustice:

“Ni l’impôt proportionnel ni l’impôt progressif ne sont [...] en état de mettre hors de contestation le principe de justice sur lequel ils pourraient reposer »

(Walras, 1896: 401)

For Walras, a state intervention in the field of taxation would in any case reduce the incomes that agents have obtained in relation with their productivity but be also contradictory with the prevalence of social justice. It can therefore be interpreted as a real theft, especially in the case of an unfair intervention of the state. This dimension shows another characteristic of Walras's welfare state which substantially differs from the usual one. Fiscal policy is indeed clearly excluded by Walras while it is an essential tool in the usual conceptions of the welfare state and land nationalization provides a substitute to finance the state while it is excluded by usual welfare economic policies.

The third dimension we will consider is related to Walras's monetary policy. Our space is too limited here to introduce a detailed analysis of it. Moreover, authors as Baranzini (2005) or Béraud (2011: 20-21) dedicated different developments to this issue. As far as we are here concerned however, it is only important to stress that Walras considered that monetary policy should be governed by the state and not by private individual banks as it will be the case in the free banking approach supported by Hayek for instance:

« Il convient que l'État émette la *monnaie*, qu'il règle, s'il le faut, la production des métaux précieux sur les besoins de la société, qu'il interdise ou réglemente l'émission des *billets de banque* et l'usage de la *monnaie de compte* »  
(Walras, 1898 : 427)

The role which is here attributed to the monetary policy of the state is anti-inflationary. We may again find a role accepted by some of the modern versions of the welfare state.

Many other dimensions of Walras's economic and social policy might be mentioned as the social issue or the necessity of free education but they will only confirm that there is nothing in Walras which could be interpreted as a pre-Paretian conception of welfare based on the aggregation of individual utilities. The only notion of welfare is related to society and the state independently from individual preferences and choices.

## **8. Concluding remarks**

Our conclusion is rather simple. There are two ways of considering the Walrasian conception of welfare. The first derives from the kind of interpretation Pareto and Schumpeter gave of Walras's contribution to economics in their days: pure economics *has to be entirely* disconnected from social and applied economics; it is the only field in Walras's works which deserves to be considered as a major source of future advances, in spite of Walras's errors and hesitations. This is the route which paved the way to the usual interpretation of Walras's *theorem* of social satisfaction maximization. A second possibility was opened by William Jaffé and consists in trying to understand the consistency and unity of Walras's global economic and social message. In this context, pure economics *cannot be disconnected* from social and applied economics; this necessary connection is the only way to really understand the methodological, philosophical and analytical foundations of pure economics. If this route is privileged, then there is little to be found in Walras concerning welfare theorems. Paradoxically however, we may find in Walras some of the first characteristics of the welfare state in a period, in a country and in a kind of political economy which were entirely dominated by the French Liberal School of the time (Breton and Lutfalla, eds, 1991).

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