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LÉON WALRAS AND J.M. KEYNES

Two of the great names in the history of economic thought are undoubtedly those of Leon Walras and John Maynard Keynes. Both left an indelible stamp on economic theory because of their unique contributions and yet, both were misunderstood by their critics. But this is not the only reason for linking them up together, for even though no one can pretend that Walras exerted *directly* any special influence on Keynes, there are strong similarities in their thought and basically they share the same social concerns. So, I believe that even in the interest of continuity of thought in the history of economics, a comparative study of the ideas and theories of these two men is justified.

The points I would like to raise in this paper are the following:

1. Both economists held the same fundamental theoretical view of the economic system. Keynes' *General Theory* was, in fact, the first practical application of the Walrasian theory of general economic equilibrium.

2. They were also concerned with the problems regarding the distribution of wealth and income and the social imbalances arising out of an inequitable distribution. Both advocated social reforms though Keynes' proposals were less radical than Walras'.

3. Though both Keynes and Walras welcomed and defended a free market and a free enterprise system, they expected government to regulate the economy, to curb the powers of monopolies and correct imperfections in the market.

4. It is to the great merit of Walras that about forty years before Keynes publicly acknowledged the inherent weaknesses of the capitalist system and proposed remedies, Leon Walras was much more aware of Marx's criticism; he shared his worries even if he was unable to accept his remedies because these resulted from theories which to Walras' mind were unscientific. On the other hand, though Keynes was never exposed to Marx nor to Marxian economists, yet he devised a system not inconsistent with the Marxian even though his philosophy was radically anti-Marxist¹. In a way, then, we can look at

¹ Sidney S. Alexander in an article "Mr. Keynes and Mr. Marx", in the *Review of Economic Studies* (Feb. 1940, pp. 123-135) makes an interesting comparative study of Keynes and Marx. I believe, however, that he takes an extreme view of the Keynesian system when he concludes that it is not only "thoroughly consistent with the Marxian but also supplements it at certain points".

Marx, Walras and Keynes as three foremost economic thinkers with basically the same social concerns but the first glowing at the prospect of the inevitable collapse of capitalism, while the other two proposing remedies to make the system function more healthily and equitably. As ardent believers in personal, economic and political freedom they could not but reject the Marxian solution.

One cannot help admire the boldness of Leon Walras, the economist, if not of Walras, the social reformer. Armed with only a limited knowledge of mathematics he dared to do what the superior mathematician, Auguste Cournot, thought was impossible even to attempt. This is how Cournot viewed the task of presenting a model of general economic equilibrium:

For a complete and rigorous solution of the problems relative to some parts of the economic system, it is indispensable to take the entire system into consideration. But this would surpass the powers of mathematical analysis and of our practical methods of calculation even if the values of all the constants could be assigned to them numerically².

This formidable task did not deter Walras from constructing a mathematical system capable of reflecting the working of the economic system, a system composed of interrelated phenomena. His great ambition was to create a map reflecting the economic universe, and he expressed his delight at such achievement in poetic language:

Thus, the system of the economic universe reveals itself, at last, in all its grandeur and complexity; a system at once vast and simple, which, for sheer beauty, resembles the astronomic universe³.

Evidently Walras was not concerned primarily as to whether his system of equations was in practice workable or not. His sense of achievement was in producing a theoretical construct reflecting the real world, which for the first time was translated into a mathematical form capable of a solution. He was more elated about the "sheer beauty" of the system rather than its role as a practical tool. After all modern man admired the astronomic universe long before he managed to travel in space.

It took quite some time before economists started to take Walras seriously. The first great tribute he received was from J. Schumpeter who wrote that "so far as pure theory is concerned Walras is the greatest of all economists"⁴. It is no little tribute to this daring

² *Researches into the Mathematical Principles of the Theory of Wealth* (1838). Trans. by Nathaniel T. Bacon. New York, 1897, p. 127.

³ *Elements of Pure Economics*, transl. by William Jaffé. Homewood, Ill.: Richard Irwin, 1954, p. 374.

⁴ *History of Economic Analysis*, New York, 1957, p. 827.

economist that even today an economist of the calibre of Milton Friedman, who whilst rejecting Schumpeter's judgement "as somewhat extravagant", had this to say about his main work, the *Elements*:

... there can be no doubt that the *Elements* is a great work which marked an important step forward in the development of economics as a science, and which still plays an important role in economic thinking.

On the theory of general equilibrium he is even more specific:

It is Walras' great and living achievement to have constructed a mathematical system displaying in considerable detail precisely the interrelationships emphasized by Cournot ... Walras solved a different, though no less important problem. He emptied Cournot's problem of its empirical content and produced a "complete and rigorous" solution "in principle", making no pretence that it could be used directly in numerical calculations. His problem is the problem of form, not of content: of displaying an idealized picture of the economic system, not of constructing an engine for analyzing concrete problems⁵.

Though Friedman's assessment of Walras' contribution is basically correct, other economists, notably Leontieff with his input-output model, derived *practical* applications from his theory. None, however, enhanced the merit of Walras' achievement more than Keynes with his unique view of the economy. Admittedly Keynes was much influenced by Marshallian economics and therefore more sympathetic to the prevailing partial equilibrium analysis. Yet, we must not forget that Alfred Marshall himself was also concerned with the problem of the interdependence of economic phenomena. What made him opt for partial equilibrium analysis was because of methodological and practical reasons. According to Marshall, economics as an engine for analyzing concrete truths, proceeds slowly and painfully by simplifying phenomena and isolating variables.

In spite of the Cambridge tradition, when Keynes viewed the economy from a macro level, he had to be involved in a general equilibrium analysis for only then could he see how the whole was made up of parts acting and interacting on each other. Thus, to reach the critical conclusion of what determines the level of employment in the economy, Keynes had to analyze the interaction of demand and supply in *two* markets: one for goods (the consumption and investment goods market) and the money market.

On reflecting on Keynes' analysis, Don Patinkin remarked: "From this point of view *The General Theory* is the first practical applica-

⁵ "Leon Walras and his Economic System", *American Economic Review*, Dec. 1955, pp. 900-909.

tion of the Walrasian theory of general equilibrium — a manageable model; it integrated the real and monetary sectors of the economy. It is an analysis in the market for commodities first and then it reflects the influence of the money market (via the rate of interest) by appropriate shifts in investment.”⁶

It is interesting to note that Don Patinkin himself in his work, *Money Interest and Prices*, applies general equilibrium analysis by integrating Keynesian, classical monetary and macro theory. Thus, on the demand side he analyzes conditions prevailing in three markets: the consumption and investment goods market, the money market and the bond market. Following Walrasian analysis that in equilibrium excess demand should be zero, Don Patinkin concludes that the price, interest rate and income variables are connected such that equilibrium in any two markets presupposes equilibrium in the third market.

The similarities of views of these two economists are also evident in other areas. Thus, both Walras and Keynes were concerned about the “inequitable” distribution of income and wealth. In another study⁷ I have shown how Walras attempted to reconcile economic theory with the basic principles of social justice. He emphasized, as did John Stuart Mill before him, that economic laws could be applied to the production of wealth but not to its distribution. According to him, a theory of distribution was only useful to society if it was enlightened by the principles of social ethics and justice. It is precisely because of such concerns that Leon Walras was strongly in favour of land reform to the extent of advocating its nationalization.

What was Keynes’ position on the question of wealth distribution? The rather neglected chapter 24 of *The General Theory* gives us the answer. The opening paragraph is clear and unequivocal:

The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes⁸.

Moreover, Keynes looks at this ‘inequity’ as one of the destabilizing forces within the economy, so much so that it can affect adversely the propensity to consume. Hence, he strongly suggests that any “measure of the redistribution of incomes likely to raise the propensity to consume may prove positively favourable to the growth of capital”⁹.

⁶ “Keynes’ Monetary Thought”, *History of Political Economy*, Vol. 8, 1976.

⁷ “The Socialism of Leon Walras and His Economic Thinkong”, *The American Journal of Economics and Sociology*, July 1980, Vol. 39, pp. 296-303.

⁸ p. 372.

⁹ *Ibid.*, p. 373.

This strong economic argument reinforces the ethical argument in favour of a fairer distribution of wealth, but the ethical one receives a pre-eminence by both Keynes and Walras. Like the latter, Keynes does not make a case for equality of incomes or wealth; it is not practical nor desirable. His stand on this problem is made very pointedly: "there is social and psychological justification for significant inequalities of incomes and wealth, *but not for such large disparities as exist today*"¹⁰.

In his search for a solution to the problem of distribution, Keynes advances rather vague suggestions. In fact, on reading relevant sections in chapter 24, one is left with the impression that he would have devoted a whole new work for the social problem, had he been less busy solving international problems in the last years of his life. The same cannot be said about Walras. His solution is more concrete and more drastic, and, yet, all evidence in *The General Theory* indicates that Keynes would have been sympathetic to Walras' solution had he been familiar with it.

Let us deal first with Keynes' suggestions. He believed that government could use death duties in order to bring about a fairer distribution of wealth. He saw a perfect justification in such policy because though there are "certain justifications for inequality of incomes", the same do not apply to the inequality of inheritances.

Keynes shared Marx's beliefs about the inherent instability of the capitalist system and this is particularly evident in its inability to guarantee a level approaching full employment. Unemployment, particularly on a large scale, is certainly not conducive to a better distribution of income or wealth. So, Keynes advocated direct participation on the part of the State in the economy in order to secure high levels of employment. In *The General Theory* the policies he advocated were monetary and fiscal, this being considered to be more reliable and direct. In chapter 24 he suggested for the first time that in order to regulate the economy efficiently and achieve the desired goals, the State embark on "a somewhat comprehensive socialization of investment" (p. 378). This sounded too socialistic to his critics and Keynes later gave a watered-down interpretation of the concept. However, it seems that his original intent was as obvious as the concept would imply. The way he expressed his scepticism of the banking system does not leave much doubt that he expected the State to take control of investment activities. On page 378, for example, he stated clearly that it was not possible for the banking system to devise policies on the rate of interest which could turn it into an efficient tool capable of achieving an optimum rate of investment. The manner in which this could be done, the extent one could

¹⁰ *Ibid.*, p. 374 (my italics).

use a "comprehensive socialization of investment" are unfortunately not spelled out.

As I mentioned earlier, Leon Walras' scheme was more explicit. It followed a tradition laid down by his father, Auguste Walras, his many predecessors including Gossen, and, of course, Henry George. In my work to which I alluded earlier, I explained that he proposed the nationalization of land in order to reduce or eliminate taxes on wages and salaries. Taxes, according to him, take away from wages the only portion of the income which a worker could save. Society should enable the worker to save and invest a portion of his wage in order to help him become "an owner or capitalist at the same time he remains a worker". This to Walras appeared to be the best answer to the socialism of Karl Marx. Such ideas were not dissimilar from those of either his father or Henry George. What makes Walras' contribution unique is his insistence that any social reform of this magnitude should not be incompatible with a free market system. "I leave to individual initiative all enterprises where free competition would operate without hindrance", he concluded.

A great believer in free competition, Walras was convinced that radical land reforms would rule out the possible existence of big industrial enterprises. Without the possibility of ownership of natural resources, 'bigness' was not possible anymore. But in the event that big monopolies continued to exist, Walras urged the State to take firm action in order to eliminate them.

Keynes' views of land nationalization are not as explicit, though he was in favour of reforms regarding land ownership. Besides, he must have been aware of the serious consequences which death duties meant at lessening inequality could have on land ownership. Was he in favour of land nationalization? There is no explicit statement in his works which could justify a positive answer. Yet, in those instances in *The General Theory* when he could have raised his objections to such policy, he did not. I am referring particularly to his discussion of the works of Silvio Gesell (1862-1930), to which incidentally he gave a disproportionate importance¹¹. He describes briefly Gesell's main work on land nationalization and also alludes to Henry George's doctrine twice without expressing any adverse criticism. Referring to the movement of land reform formed by Gesell, Keynes recognized that "the part which derives from Henry George was doubtless an important source of the movement". Such a remark sounds neutral enough, but it gets a different meaning when one couples it with Keynes' stand on rents derived from land. In the section in which he criticizes strongly excessive and unreasonable high rates of interest, he also condemns strongly speculative ownership of capital. He opts for policies that could eliminate any

¹¹ Chapter 22, *Notes on Mercantilism*, etc.

incentive for such type of speculation. Such policies according to Keynes, would result in "the euthanasia of the rentier, and, consequently the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital. Interest today rewards no genuine sacrifice, *anymore than does the rent of land*"¹².

I believe the underlined part of the last sentence sums up Keynes' philosophy on land reform. But I also believe that one would expect too much of a Keynes living in Britain in the 1930's to go beyond such statements. Nevertheless, they contain a strong and clear indication of the man's feelings on social reform.

Keynes' indirect agreement with Walrasian thought goes even much farther. This is evident from the reason he expressed for showing admiration for Gesell. The latter, in the same breath that he advocated the nationalization of land, also rejected Marx and championed free competition. This is how Keynes expressed his feelings for Gesell:

The purpose of the book as a whole may be described as the establishment of an anti-Marxian socialism, a reaction against laissez-faire built on theoretical foundations totally unlike those of Marx in being based on a repudiation of an acceptance of the classical hypothesis, and an unfettering of competition instead of its abolition. I believe the future will learn more from the spirit of Gesell than from that of Marx¹³.

But this is precisely what Leon Walras pioneered and maintained since 1896 when he published *Etudes d'économie sociale* and that was twenty years before Gesell's book! Had Keynes been acquainted with all the major works of Walras I am sure he would have felt happier to pay such tribute to a serious economist with a scientific outlook on all matters that concerned him, rather than to Gesell who might have drawn his inspiration from Walras himself!

Walras rejected Marxism which he regarded as "an injurious error". As one of the pioneers of marginal theory, he rejected the labour theory of value (the basis of the 'classical hypothesis'). In fact, this was another reason why he repudiated Marxism. In his own words, it was mistaken because it rested on the "untenable assumption that labour was the source of all value and that differences in skill could be reduced to a common denominator". Besides, Walras' theoretical structure is built on the model of perfect competition, and unlike other economists who considered such structures as being largely abstract, Walras truly believed that, given the right conditions and with the proper guidance of the State, the economy could function very closely to the theoretical model.

¹² *Op. cit.*, p. 376 (my italics).

¹³ *Ibid.*, p. 355.

Finally, I strongly believe that Walras would have approved of his body of thought being called "anti-Marxian socialism". A peculiar epithet it may be, but certainly one that could have saved him from the confusion he created by qualifying his social thought, at times 'liberal', and at others, 'socialist', 'democratic' and 'synthetic'.

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