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# Economists and the Poor: From Smith to Walras

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**I**N THE EIGHTEENTH CENTURY, ANALYSES OF POVERTY AND INEQUALITIES intermix arguments that fall indiscriminately into the fields of ethics, political philosophy, public order, or charity; in other words, poverty was not primarily a question of economics.<sup>[4]</sup> Authors such as Bernard Mandeville (*The Fable of the Bees*, 1714), Jean-Jacques Rousseau (*Discourse on the Origin and Basis of Inequality among Men*, 1755), and in general, all those partaking in the dispute over luxury borrowed their arguments from different fields, without exclusion.

Political economy, this young economic science that emerged at the end of the eighteenth century, could not avoid this issue. It radically changed the depiction of poverty to become an economic question open for scientific analysis. From this point forward, economics would provide part of the theoretical analysis regarding the cause of poverty, thereby also proposing solutions.

Adam Smith (1723–1790) introduced a break with classical depictions of poverty and paved the way for a political economy takeover. At the beginning of the twentieth century, a more or less symmetrical break occurred, following Léon Walras (1834–1910).

**[4]** An expanded version of this text is forthcoming in *Inequalities and Poverty in Rich Countries*, under the direction of Arnaud Diemer (Editions Peter Lang, 2013).



Thereafter, poverty was no longer considered a priority for economic science.

After presenting Smith's analyses of poverty, this paper compares the positions of three nineteenth-century economists on issues of inequality, David Ricardo, Karl Marx, and Léon Walras. Each represents a common theoretical approach: liberalism (Ricardo), revolution (Marx), and reformism (Walras). Despite their theoretical differences, all three acknowledge the same analytical framework which makes political economy a legitimate discourse on poverty with possible remedies.

### Adam Smith: From Morality to Economy

Adam Smith's position on poverty changed between *The Theory of Moral Sentiments* (1759) and *The Wealth of Nations* ([1776] 1982). In *The Theory of Moral Sentiments*, Smith resumes analyses already developed by many authors, for example Mandeville, who, in *The Fable of the Bees*, justifies the taste for luxury and extravagance by emphasizing that the expenditures of the rich give work to the poor. In other words, Mandeville finds a social justification for certain individual vices. The argument presupposed two conditions. First, it is necessary from the viewpoint where it emerges, an appreciation of individual behavior in society. It is not a question of an individual conforming to moral requirements of good behavior; it is a question of an individual acting after evaluating the consequences of his actions on the collective. Second, the consequences must benefit society in terms of material prosperity. Thus an individual vice can become a benefit for society, determined by economic criteria and society's collective sense of satisfaction. This dialectic, which turns individual indulgences into public benefits, does not apply to all morally reprehensible acts, just to those that have collective economic consequences: the taste for luxury, prideful vanity, extravagance. That is, anything that stimulates economic activity. This justifies inequality of possessions, since the lavish spending of the rich provides employment for the poor,<sup>[2]</sup> which, Mandeville argued, is better than having equality of wealth that imposes fragility on the whole society.

[2] "The surest wealth consists in a multitude of laborious poor."

The lesson of *The Fable* is clear. Inequality is the condition of prosperity, and if inequalities disappear, society is depleted or destroyed. This analysis leaves each person free to consider whether to approve of these inequalities. The only definite



conclusion, for Mandeville, is that the collective good, equated with material abundance, presupposes inequalities that are otherwise deemed morally shocking. Society is condemned to choose between either individual honesty with frugality for all, or collective prosperity with private vices.

In *Moral Sentiments*, Smith takes up Mandeville's thesis again; that the wealth of some creates work for others, and extends the argument to say that inequality of wealth is morally acceptable.

*The capacity of [the landlord's] stomach bears no proportion to the immensity of his desires, and will receive no more than that of the meanest peasant. The rest he is obliged to distribute [among those who work for him]; all of whom thus derive from his luxury and caprice, that share of the necessities of life, which they would in vain have expected from his humanity or his justice [...] [The rich] consume little more than the poor, and... they divide with the poor the produce of all their improvements.* (211–212)

Smith went far beyond the observation of Mandeville, who finds only an economic justification to an inequality that is fundamentally shocking and unjust. Smith found moral justifications to this system. Following the statement quoted above, he adds: "They are led by an invisible hand to make nearly the same distribution of the necessities of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, advance the interest of the society, and afford means to the multiplication of the species" (212).

Smith is not explicit regarding the process whereby this "invisible hand" redistributes the revenues equally, but he argues that the result of the hand's action is "just" because the distribution is identical to that which "would have been made, had the earth been divided into equal proportions among all its inhabitants." Given the clear falsehood of his assertion, Smith then insidiously shifts the argument from the realm of economics to the realm of ethics; he goes from economic inequalities to a moral assessment of what constitutes the "real" happiness of an individual, and concludes with an argument unrelated to economics:



[3] The same argument on the liberty and peace of mind of the poor appears in Chapter 1, part four of *The Theory of Moral Sentiments*: Smith speaks of an upstart who, late in his life, “begins at last to find that wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body and tranquility of mind than the tweezer cases of the lover of toys” (208).

[4] We adopt here Dumont's (1976) thesis in *Homo Aequalis*, describing the emergence in the eighteenth century of an autonomous economic discipline that separates itself from ethics and politics.

[5] Cupidity for Mandeville is not an end in itself. It only enables the funding of luxury expenses that flatter the vanity and pride of the rich; the extravagance implies cupidity. Smith reverses the analysis: cupidity, renamed desire of enrichment, becomes an end in itself.

[6] Keynes takes up this argument again, in part in the *General Theory* (1936, ch. 24), when he sees a usefulness to the inequality of wealth in the nineteenth century, insofar as only the richest could save and thus contribute to capital accumulation.

*When Providence divided the earth among a few lordly masters, it neither forgot nor abandoned those who seemed to have been left out in the partition. These last too enjoy their share of all that it produces. In what constitutes the real happiness of human life, they are in no respect inferior to those who would seem so much above them. In ease of body and peace of mind, all the different ranks of life are nearly upon a level, and the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for. (ibid)<sup>[3]</sup>*

We may remain skeptical over this spin, which seems to put on an equal footing the material want of some and the spiritual disquiet of others. The definition of happiness as peace of mind cannot be valid as a justification of material inequalities.

Whereas Smith's line of reasoning is acceptable in a book on moral philosophy, it is not acceptable for political economy, which endeavors to base its conclusions precisely on an analysis that is independent of morality.<sup>[4]</sup> *The Wealth of Nations* recapitulates the question of unequal wealth and provides a new answer, this time falling within the realm of economics and departing from issues of ethics. Smith sets out the problem in the introduction: how can a poor person in a rich country be richer than a savage in a primitive society, where there is neither landowner nor capitalist to collect a portion of the labor product of the poor?

In part, the explanation formulated in Smith's book pertains to the division of labor, which we know increases the production of wealth. With regard to inequalities, however, we are interested in the other part of Smith's response. He introduces the concept of capital in his analysis to bring to light the mechanics of unlimited enrichment.<sup>[5]</sup> His argument can be summarized as follows: growth of wealth production is achieved through capital accumulation. Capital presupposes savings, not expenditure; abstinence, not consumption; and parsimony, not extravagance. But only the rich can accumulate, the poor have no means of saving.<sup>[6]</sup> The more rich people there are, the higher the savings and the more significant capital accumulation there is. As capital grows, employment grows, bringing more benefits to the poor, who sell their labor in order to subsist. This explains the paradox observed above: in advanced countries, where accumulated capital is significant, the poor are richer than the poor in primitive societies, that is, in a prevailing situation without land

appropriation and capital accumulation. One finds here the central argument of economic liberalism: that inequality of wealth also benefits the poor, who are better off than if they were to live in a more egalitarian society, like a primitive society.

Smith was defending two different positions on poverty and inequality in these two books, *The Theory of Moral Sentiments* and *The Wealth of Nations*, and did not attempt a synthesis when they were republished. On the one hand, he justifies morally material inequalities by their spiritual counterbalance (peace of mind). On the other hand, he justifies inequalities by their economic effectiveness. To conclude on Smith, we note that his definition of the poor remained implicit: the poor are the people who cannot support themselves because they do not possess the means of implementing their production capacity, and who must, as a result, sell their labor to a boss. This definition was formulated within the context of a holist society, where social class is the determinant. For Smith, the advanced state of society (as opposed to the primitive state that precedes land appropriation and capital accumulation) was characterized by the coexistence of three social classes: landowners, capitalists, and wage earners. The landowners and capitalists have the means of giving work to the poor; at the same time, belonging to the wage earner class necessarily means selling one's labor to a boss. Class membership is a given, as natural as inequality between these classes. The modern conception of equality between individuals is not applicable to Smith's thought.

### Ricardo and Intangible Natural Laws

David Ricardo (1772–1823) is the founder of liberal theory on poverty. His line of reasoning is strictly limited to economics and ignores any moral questioning (such as, “are behaviors virtuous?”) and any evaluation in terms of justice (such as, “is the system just or unjust?”). Thus, he ensures the hegemonic position of economics for discussing poverty in the nineteenth century.

### Ricardo's Liberalism

From the beginning of the seventeenth century, England had legislation, the Poor Laws, that imposed on parishes a duty to help the needy. Periodically, the question would arise as to whether the Poor Laws should be retained, amended, or removed. Ricardo advocated removing them, justifying this radical position with



[7] As Ricardo writes in a January 27, 1817, letter to Trower: “By engaging to feed all who may require food, you in some measure create an unlimited demand... the population and the rates [taxes] would go on increasing in a regular progression till the rich were reduced to poverty, and till there would no longer be any distinction of ranks” (Sraffa 1952, 125).

[8] The argument has been clearly expressed by Karl Polanyi in *The Great Transformation* (1944).

[9] Smith, in *The Wealth of Nations* (216), expressed an unfavorable opinion on the Poor Laws by explaining that these laws hindered the proper functioning of the labor market. He denounced in particular the rule of the domicile, which prevented the mobility of workers. Similarly, Malthus and Bentham, with the same arguments as Ricardo's, were opposed to the Poor Laws because they took away the incentive to work.

two arguments. The first was demographic: these laws, which provided the poor with subsidies proportionate to the number of their children, encouraged childbearing. Indeed, given Malthus's laws of population, if obstacles to subsistence are removed by providing aid to all the poor, the population of the poor will increase without limit, and aid to the poor will eventually absorb all revenue.<sup>[7]</sup> The second argument was based on analysis showing these laws to be obstacles to the proper functioning of the labor market:<sup>[8]</sup> If aid to the poor serves as additional income to bring insufficiently paid employees to minimum levels of subsistence, then wages no longer serve a regulatory function in the labor market by adjusting supply and demand. Because wage earners then have access to more income, capitalists are induced to underpay, and the poor are not encouraged to limit the number of their children. The conclusion is quite clear: “No scheme for the amendment of the poor laws merits the least attention, which has not their abolition for its ultimate object” (Ricardo 1817, 127).<sup>[9]</sup>

Ricardo provides a canonical presentation of the classic liberal position. The capitalist system is based on a fundamental inequality between the social classes, but inequality is justified by the fact that it ultimately benefits everyone. Ricardo's conclusion may seem to follow closely what Smith says on social order, but this similarity is the result of a very different analytical process. Ricardo does not consider whether the economic system is good or bad; he abandons any questioning as to the justice or injustice of the final result. For him, there is no more obscurity on the process leading to the final distribution of income, no more invisible hand acting mysteriously to redistribute the wealth to the most destitute. Ricardo's exposition draws its strength from the inevitability of his conclusions so rigorously established by economic logic, stemming from the natural laws that govern economic life.

It is these natural laws that determine what is feasible, what can be done without contradicting economic logic. But what is feasible also defines the unfeasible, that is, all the measures that are of little use, ineffective because they attempt to contravene the principle of economic laws. This, in Ricardo's view, was the case with regard to the Poor Laws system, an ineffective measure that ought to be ended to avoid an outcome worse than the situation it sought to improve.

It should not be concluded from this that Ricardo was insensitive to the human miseries of his time. His analysis leads to two situations of poverty: the destitute and the wage earners. Wage earners are the first victims of the Poor Laws, a system that, instead of eradicating poverty, created it by turning insufficiently paid wage earners into indigents, unable to provide subsistence and support for their families. Further, guaranteeing a minimum income defined according to family size encouraged capitalists to pay the labor force below the natural wage, or “that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution” (Ricardo 1821, 114), a wage sufficient to support the worker and his wife, and to raise to adulthood two children who will replace their parents at work without increasing the population.<sup>[10]</sup> The Poor Laws allowed capitalists to pay low wages without fear of losing the labor force. This runs counter to the labor market’s longstanding logic whereby the labor supply dries up when workers are underpaid. Because these laws, in Ricardo’s view, promoted rather than eradicated poverty, they had to be abolished to force capitalists to offer higher wages, as part of the remedy for poverty that included employment in a properly functioning labor market.

Admittedly, the destitute will remain, unsuited for the labor market, and for them

*Ricardo sees no solution. Residual poverty is economically insurmountable: “there are miseries in the social state which legislation cannot relieve” (ibid., 126). But these poor constituted a minority compared to the huge population of wage earners who, with the suppression of the Poor Laws, would have a standard of living corresponding to the natural wage. Indeed, if the labor market operates unhindered by laws employees will be paid the natural wage, an income that ensures them “moderate comforts” (ibid., 116).*

Ricardo recognized that wage earners were in a very inferior situation to that of capitalists or landowners. The laws of distribution that he exposed are formal: there is an inverse relationship between wages and profit. Any rise in wages implies a fall in profit, which for Ricardo is absolutely unthinkable in the long term because of Malthus’s laws of population.<sup>[11]</sup> The living standards of workers can improve in the long term with the fall in the

**[10]** Called “subsistence wage,” this natural wage is not a vital minimum but a historical norm (thus variable) that corresponds to a living standard related to the society’s state of economic development at a given time.

**[11]** The rise of wages of wage earners would encourage having more children who, when they reach adulthood, would not be able to find work.



value of manufactured goods; but the antagonism between wage earners and capitalists remains insurmountable.

### Economics Take Power

In seeking to distinguish between science and norms, purpose and desire, the true and the just (Zouboulakis 1993), Ricardo formulated a discourse independent of any particular opinion, which was accepted simply because it is true. Ricardo's success is to have shown that economic life is governed by laws expressing the necessary (natural) relations between phenomena. Human intervention can disrupt fulfillment of these laws (Poor Laws preventing a natural wage; Corn Laws, the free trade of grains; etc.), but this does not change the objectivity of the mechanisms of a competitive market. If political economy is legitimate for discussing poverty, it is precisely because it states the necessary laws.

Ricardo inaugurated a new intellectual system wherein, personal feeling or political opinion notwithstanding, the way the question of poverty is resolved can only be the logical consequence of economic theory.<sup>[12]</sup> The result of the game played by the laws of economics may appear unjust, even inhuman, but this cannot prevent their natural presence. Moving forward from this premise, the leeway of the economist is narrow. We can, like Ricardo, predict the fall in the profit rate and the end of accumulation, show the dynamics of capitalism that lead toward the stationary state, and indicate the remedies (abolition of the laws on wheat and mechanization) that may delay but will not prevent the evolution of a system in accordance with the economic principles formulated by political economy. This, for Ricardo as for Malthus, is unavoidable, which for Gide and Rist (1909, 130) makes both men "pessimists" for having openly shown the logic of the functioning of capitalism and its results, however cruel.

In associating economic theory and poverty, remedies a way of thinking about social questions characterizes the nineteenth century. Then, no one was able to ignore that economic theory must be used to analyze social questions before solutions could be proposed, (if these solutions are not satisfactory, look to their theoretical justification.) The first question is not how can we improve the fate of the poor, but what does economic analysis have to say about the causes of poverty?

[12] Stendhal ([1825] 1990, 14) illustrates this system very well when, in his satirical tract *A New Conspiracy against Industrialists*, he uses economic science as an authoritative argument: "I also have read Mill, McCulloch, Malthus, and Ricardo, who are pushing back the limits of political economy" (also see Lallement, 2010).



While the theory of economics is first a science, it becomes a political issue as it commits to policy that is directly (logically) deduced from theory.<sup>[13]</sup> This is why liberals and interventionists, protectionists and free-traders, supporters of the competitive market and apostles of collectivism, philanthropists, and conservatives confront one another over the content of economic science. But we should keep in mind that debate on theory often conceals doctrinal differences on economic policy and on the hotly debated social question. The issue is basing economic policies on indisputable economic theory: if we accept the theory (which has the strength of truth), then we must accept the logical consequences drawn from it, namely economic policy measures.

In the nineteenth century, Ricardo's canon framed the debate on poverty. Inequalities, poverty, or what will be called in the second half of the century, the social question, become economic questions. Poverty is unprecedented as omnipresent in social representations, literature, painting, philosophy, etc. Among all these portrayals of human misery, those of the economists occupy a central place, because, beyond the charitable or political discourse, the young discipline of political economy is framing a legitimate discourse on poverty. Economists are the only ones able to provide a scientific analysis of poverty and its causes. It is up to them alone to propose solutions for eliminating it. Thus all the romantic positions are discredited, *ipso facto*.

## Marx and the Historicity of Economic Laws

Ricardo's classical formulation immediately attracted critics. The opponents of both Ricardo and Malthus set out to show the limits or errors of classical political economy. Jean Simonde de Sismondi is the first, followed by the Count de Saint-Simon, Robert Owen, Charles Fourier, Pierre-Joseph Proudhon, and all the theorists who are today called heterodox economists and socialists. If liberal economic policy follows from classical political economy, then the critique of this economic policy should begin with a critique of classical political economy. Further, the most radical critique of liberalism will come from Marx, because he works, like Ricardo, in the field of political economy, and his aim is to remain scientific by formulating the theory of the capitalist system. It is in this sense that Marx introduces a new form of socialism, scientific socialism, based on scientific theory. It is in contrast to the romantic position, taken by those who are moved by poverty without providing a rigorous explanation of

[13] A paradox insofar as political economy precisely intends to base its superiority on its scientific nature.



its causes, hence without proposing the relevant means for its elimination. The choice of science enables us to compare the positions of Ricardo and Marx on poverty, insofar as both of them refer to economic laws governing men. However, it is evident that their positions are not identical. Marx begins his line of reasoning with a twofold critique of Ricardo's position.

The first aspect falls within political economy, that is, within the realm of science. In constructing the anatomy of capitalist production, Marx ends up with laws of capitalism that are not very different from those stated by Ricardo. Marx very clearly highlights exploitation and alienation (what others call misery and poverty) as the very essence of capitalism. This explains why they cannot be eliminated, as Ricardo has well understood. Marx therefore shares Ricardo's idea that inherent laws exist which govern humanity despite other influences. However, Marx is not satisfied with this conclusion and does not agree that this misery is unavoidable, because, as Rubel (1968, LVII) points out in his introduction to Marx's economic works, there is in Marx a "hatred of morals in the guise of science to justify the scandal of the poverty of the masses and of human degeneration." In other words, whereas Marx recognizes the innate nature of the laws of capitalism, he strenuously rejects and severely denounces a system functioning on the basis of such laws.

Indeed, and this is the second aspect of Marx's critique, economic laws are not eternal in their nature, but characteristic of capitalist production that is itself only a stage in human history. Unlike Ricardo, who assumes that the same mode of production, involving rentiers, capitalists, and wage earners, will continue in the stationary state, Marx emphasizes the historical relativity of the capitalist mode of production, destined to give way first to socialism, then to communism.

The capitalist systems obeys natural laws (the law of value, the inverse relationship between wages and profits, or the downward trend of the profit rate, etc.); it is deeply unjust and it is not modifiable. Ricardo and Marx share this analysis but Marx changes everything by introducing a small difference: the system is not eternal. The capitalist system, based on exploitation, is inherently unjust and the fate of workers cannot find lasting improvement. Ricardo's stationary state sets definite social class positions: immensely rich rentiers, capitalists who

have to content themselves with near zero profits, and minimal subsistence wage earners. The possibility of revolution upsets everything. For Marx, the capitalist mode of production rests on a glaring injustice; only the advent of socialism will be able to improve labors' fate. The one solution is, therefore, avoid being deceived by the illusion of impossible reform and overthrow, as soon as possible, an intrinsically unjust, exploitive system.

As a consequence, if placed in human history, exploitation and alienation are no longer unavoidable phenomena, but a transitional stage for humanity in its progress toward emancipation. The impossibility of Ricardo's reform due to natural laws is swept away by the prospect of revolution.

### Walras's Reformism

Between liberalism and revolution, a third way, reformism, seems to be excluded. If there are economic laws, economic policy is possible only within those laws. Ricardo's powerlessness in facing human misery maintains a constant. This is what Walras adopts, in considering poverty, as part of the discussion that Ricardo largely established at the start of the nineteenth century.

The primary object of Walras was to resolve the social question, which is why he was interested in economics. Obviously, Walras's economic theory is very different from that of Ricardo, but this difference does not prevent a resemblance in the way problems are posed.

### The Three Truths

It is worth recalling that, for Walras, the subject of political economy was about social wealth, defined as "all goods which are scarce," that is, goods seen as useful and limited in quantity. It follows logically that only rare goods (all rare goods), are, first, appropriable; second, reproducible by human activity; and third, valuable and exchangeable (Walras 1874, 3rd lesson). This threefold characterization of social wealth led Walras to define three different domains for the political economy: exchange, production, and distribution. His work is an attempt to deal with those three aspects of social wealth. The theory of exchange and prices (general economic equilibrium), presented in *Elements of Pure Economics* (1874), is pure science, subject to the criteria of truth. The analysis of production in *Studies in*



*Applied Economics* (1898) is applied science (an art), subject to the criteria of efficacy. Finally, distribution, presented in *Studies in Social Economics* (1896), pertains to a moral science, based on the criteria of the just. Hence the famous Walrasian trilogy—art, science, and ethics— which defines three scientific domains whose respective validity criteria are the truth of interest (the useful), pure economic truth (the true) and truth of justice (the just) (Dockès 2006). In other words, political economy obeys three different scientific criteria according to the subject matter addressed: 1) the theory of production must be assessed in terms of effectiveness; 2) the theory of exchange is a mathematical science that obeys criteria of truth; 3) the theory of distribution must be regulated by justice. The conjunction of these three criteria for the study of social wealth constitutes the complete science of political economy.

Like Ricardo, Walras believed that some economic facts are governed by natural economic laws that impose themselves in the same way as laws of nature. He draws an analogy between the value (the determination of prices) and gravity: “Because gravity is a natural phenomenon and obeys natural laws, it does not follow that all we can do is watch it operate. We can either resist it or give it free rein, whichever we please, but we cannot change its essence or laws. It is said we cannot command nature except by obeying her. This applies also to value” (Walras 1874, 50–51). Therefore, if there are economic laws governing us, we are not free to contradict them by an action that is doomed to failure. But, whereas the determination of prices is governed by necessary laws (the theory of value), the distribution of social wealth pertains to the exercise of human will.

Pure economics demonstrates that free competition leads the markets to a general equilibrium. In these competitive markets, prices are imposed on individuals as the blind force of nature. In contrast, the distribution directly depends on human will, insofar as society chooses the initial distribution of wealth among individuals. With regard to distribution, society must implement the regulation criteria that applies to this dimension of social wealth, namely the criteria of justice.

Walras’s definition of justice derives from the Republican ideals of 1789: liberty and equality.<sup>[14]</sup> These ideals must be specified. For Walras, the liberty of individuals must be combined with

[14] “Fraternity” in the motto of the French Republic was introduced only in 1848 (Lallement, 1990). We will see that Walras gives fraternity only a subordinate place in the principles of organization of society according to the rules of justice.

the authority of the state. Public order intends that individuals are free to act under the general conditions decided by the state. The authority of the state is therefore necessary for establishing these social conditions for the exercise of individual liberty, namely internal and external security, general administration, the vote, enforcement of the laws, etc. Once these conditions are fulfilled and guaranteed by the state, individuals are free to act in all the domains concerning their individual situation (freedom of enterprise, freedom of work, consumer sovereignty, etc.). The state should have the necessary authority for establishing equality of opportunity (equality of conditions); but this on no account means a radical egalitarianism, since equality of conditions is accompanied by an inequality (that is, a differentiation) of individual positions. Hence the phrase, “Liberty of the individual, authority of the state; equality of conditions, inequality of positions” (Walras 1896, 140), which contains both an explicit definition of justice and the solution to the social question. This phrase constitutes for Walras what he calls a truth of justice, as true as pure economic truth (the truth of the theory of prices) or the truth of interest (the criterion of the theory of production).

Implementation of this definition of justice led Walras to formulate two principles as a starting point for the fair distribution of wealth.<sup>[45]</sup> The first declares every individual to be autonomous, owner of himself, his labor, and the price of his labor in accordance with natural law. The second declares the land to belong to humanity past, present, and future; it cannot be the object of private appropriation and should be entrusted to the state (nationalized), which represents society as a whole, and, more broadly, present and future humanity. These two requirements create a level field of equal of opportunity; individuals are then free to reach a position according to aptitude, taste, and effort. This explicit theory of justice, as we will see below, would eradicate poverty and resolve the social question.

For Walras, the organization of human relations must first respect justice. This principle is compulsory (imposed on everyone) and reciprocal: “Each duty of justice corresponds to a correlative right; any juridical right entails a correlative duty” (ibid., 186). For political economy, justice is the first principle according to which society must organize the initial distribution of wealth between individuals, but it is not society’s only organizational principle. Walras offers two additional principles: voluntary

[45] See for example Dockès (1996) or Lallement (2000).



**[16]** By relating the explanation of poverty to the ownership of production means, Walras is here quite close to Marx.

**[17]** If one excepts the question of inheritance: indeed, inheritance completely distorts equality of initial conditions. Walras raises the question, but provides no clear answer to it.

and reciprocal association, and optional and unilateral charity (fraternity) to be solicited, successively, when the higher-order principle of justice fails.

### Eradication of Poverty

It is within this framework that Walras poses the question of poverty. He has shown that the origin of poverty and inequality is not found in the sphere of exchange (in pure economics), but in the initial ownership of social wealth,<sup>[16]</sup> contradicting equality of conditions; that in creating a just starting point for distribution of social wealth, poverty will disappear and the social question will be resolved.

With state ownership of land and individual autonomy over labor defining the initial distribution of wealth as just (corresponding to equality of initial conditions in society<sup>[17]</sup>), individuals become self-determining as described above. This includes what work they do and the time they put in doing it; their wages, high or low, fixed by the market according to the natural laws governing all, and according to their chosen level of effort; freedom to consume or save, spend or accumulate, thereby attaining individual positions that will inevitably differ; leading to a perfectly just diversity of individual situations (Walras speaks of “inequality of positions”) out of free choice of size and use of income. This is how to eliminate poverty.

Walras recognizes however that, in reality, poverty will not be totally eliminated. Despite the fair initial distribution of wealth and equality of opportunity to eliminate the structural causes of poverty, poor people will always exist. “Even in society wherein there is absolute justice, and we are still far removed from that, there would be superiors and inferiors, rich and poor, though the latter may be in this position only through laziness or accident” (Walras 1879, 410). Justice may resolve social problems as a collective issue, but individual problems such as disease, old age, accidents, death, etc., unavoidably remain.

For this, Walras resorts to a second principle of organization of human relations, membership in associations (or insurance). This principle is optional and reciprocal: everyone is free to insure himself and to belong to associations or mutual-aid societies; it is up to these voluntary associations, not society, to take the responsibility of insuring against individual risk. This means

that it is not up to the state to organize pension funds, health or unemployment insurance, but up to individuals to decide whether to insure themselves. Walras had in mind the example of nonprofit, mutual insurance companies or benefit societies, which, operating on the basis of reciprocity, insure their members against certain risks, and in which membership is a free and optional choice.

However, Walras recognized that the principle of voluntary association will not end human despair, that there will always be disadvantaged people and, more generally, “individuals who are in a condition to consume much more than they produce” (Walras 1907, 480). It is these people, solely, who Walras regards as poor (those whose destiny has not been their choice, even with fair distribution of wealth and well-developed voluntary associations for insurance), ill-fated people no longer able to support themselves by their labor.

This leads to Walras’s third principle of organization of society, optional and unilateral charity (fraternity). This comes after the state has fulfilled its duty entirely, by distributing social wealth in accordance with justice, and there is nothing more to expect; and after voluntary associations and their insurance have met the limits of reciprocity. Charity thereby becomes the last recourse against residual poverty.<sup>[18]</sup> Nevertheless, Walras shows much reluctance to resort to charity, for two reasons. First, since charity is decided unilaterally by the benefactor, it leaves the beneficiary in a dependent relationship with the benefactor. Second, since it is optional, it depends on the goodwill of the donor.

Recourse to charity, as the ultimate recourse against extreme situations, illustrates the limitations of a rational organization of society.<sup>[19]</sup> Walras agrees here with Ricardo that it has to be acknowledge that “there are miseries in the social state which legislation cannot relieve” (Ricardo 1817, 126). It is interesting that, regarding the recourse to charity, the position of Walras changed. Whereas, in his first writings, in particular in the *General Theory of Society* (1867–1868), he expresses reservations over using recourse to charity to effect social justice and eradicate poverty, later, at the end of his life, he is much more pragmatic. In one of his last articles, “Peace through Social Justice and Free Trade” (1907), he admits that, if all the other

**[18]** Echoing Ricardo’s arguments on the Poor Laws, Walras explains at length that if the state is assigned the role of taking care of these poor, then “one tends to make the unskilled lazy; unthrifty individuals live at the expense of the skilful, hard-working, thrifty individuals; or the former to live at the expense of the state and the state at the expense of the latter. This is contrary to both justice and usefulness, because in these conditions, with ability and foresight making more and more room for incapability and improvidence, the state and the individual would soon be equally ruined and miserable” (Walras 1907, 480).

**[19]** Dockès (2006) provides an enlightening description of this rational society.



means have been exhausted, charity can be the ultimate solution to help the rejected members of society. Charity, he finds, though optional and unilateral, is nonetheless a useful principle, since it can possibly complement the action of the state. “Let us entrust ourselves to the binding law and either to the free sympathy of the state exercised toward individuals, or to the free sympathy of strong individuals exercised toward weak individuals or toward the state itself through donations and legacies for philanthropic and patriotic foundations, as is natural and as we see every day; thereby justice will bring and maintain general comfort” (Walras, 1907, 480).

By formulating natural economic laws, classical theories of political economy had introduced an inevitability that partly disappears in the Walrasian system, wherein men and society recover scope for action. Whereas the determination of prices is governed by necessary laws, the distribution of social wealth pertains to the exercise of human will. This possibility to change the distribution of wealth is due to a new epistemological model. The Ricardian unitary model of an economy entirely governed by natural laws is replaced by the Walrasian triad of art/science/ethics, which makes natural economic laws coexist with chosen norms of distribution. Prices are natural features imposed on individuals, although the entire economy is not encompassed by this model. Society has regained the ability to intervene—at least in terms of distribution—to bring about an ideal of justice without contradicting the logic at work in pure economics (the sphere of exchange) governed by natural laws.

Throughout his life, Walras claimed to draw from socialism. He was convinced that implementation of his proposed reforms would resolve the social question. From a fair initial distribution of wealth, the economic system, influenced by free competition, would have to bring a general equilibrium corresponding to maximum satisfaction for each individual. The resolution of the social question is the common thread throughout Walras's works. He was so convinced of the soundness of these ideas that he presented his candidature for the Nobel Peace Prize in 1906, and again in 1907, sending to the jury “Peace through Social Justice and Free Trade,” as a summary of his works. The Nobel jury was not persuaded.<sup>[20]</sup>

**[20]** In 1906, the jury attributed the Nobel peace prize to the president of the United States, Theodore Roosevelt; in 1907, jointly to the Italian journalist Ernesto Teodoro Moneta and the French jurist Louis Renault.



## Conclusion

Several conclusions can be drawn from this review of the authors studied. First, for Ricardo, Marx, and Walras, solutions to conditions of human misery depend on analysis of its causes which come from economic theory. If the solutions diverge, it is not because the theories diverge, but rather because the authors here diverge on the scope of valid reach in the field of political economy. The question for them is to determine the valid domain. For Ricardo, universal and timeless; for Marx, historical and relative; for Walras, specific to the laws of exchange and the market. These laws are similar to natural laws (Baranzini 2006) but, according to Walras, coexist with the demands of justice, which must organize the distribution of income. In the nineteenth century, the debate is not primarily an ideological or doctrinal one, wherein political choices on the social system (just or unjust) would a priori be expressed. (Opposing views only concern the valid domain of economic laws.) It is an epistemological debate on the nature of economic laws, which is obviously less spectacular than the controversies on inequality that inflamed the eighteenth century.

Second, the definition of poverty and inequality is unclear. For Smith, Ricardo, and Marx, the poor are those who do not have sufficient wealth to subsist without work, nor means to work for themselves, and who are thus forced to sell their labor. To a certain extent, wage earners are considered disadvantaged, like the poor. Smith emphasizes the fundamental inequality between wage earners and the rich; Ricardo evokes their “moderate comforts” with no prospect of improving their destiny; Marx emphasizes their exploitation and their alienation. The holist conception of society at work here emphasizes the role of class membership—those who sell their labor belong to the wageearner class (the proletariat, for Marx), and their unequal situation only reflects the inequality between social classes. Still, within this class divide, there is also a second division between wage earners and the poor, the latter being those unable to work (initially targeted by the English Poor Laws; Marx’s *Lumpenproletariat*). For them, political economy theory has no solution to propose.

With Walras, class membership disappears, giving way to an individualistic concept of poverty. Society is no longer exclusively holistic, and each individual is potentially equal to all others.



Society can, through the initial distribution of wealth, establish this principle (“equality of conditions”); the individual can, by his individual choices, acquire differentiated economic positions (“inequality of positions”), but there is no class determinism here. Lack of equality between individuals becomes more important than any other consideration. For Walras, the poor (the same “individuals who are in a condition to consume much more than they produce” [Walras, 1907, 480]) are not impoverished from an initial unjust distribution of wealth, for which the society would be responsible, but from the random accident of fate. After Walras, inequality between individuals will become the essential question and will serve to define poverty.

Third, Walras introduced a break in the unity of nineteenth-century problems for economists. Walras’s approach to political economy combines pure science, applied science (an art), and moral science, each a science obeying different truths. The truth of justice is as scientific as the criterion of efficiency in production or pure economic theory is as scientific as the criterion in the theory of prices.

A great majority of economists coming after Walras have typically embraced only half of his theories. They accept that the questions of distribution pertain to the criteria of justice, that is, criteria different from those governing the theory of prices. But they do not believe that the theory of wealth distribution obeys the truth of justice, and believe that the distribution involving value judgments be absent from the theory of prices. Since the theory of distribution specifically cannot avoid referring to standards of justice (that is to policy choices or value judgments), Walras’s theory of distribution is no longer considered integral to economic science.

Today’s economists refuse the epistemological position of Walras, for which the theory of justice is a moral science, as scientific as the theory of prices but with different criteria (the just instead of the true). Indeed, they say that, regarding the distribution of wealth, the choice of a criterion of justice is a matter of individual preference, and there is no relevant scientific criterion. Walras believed that Republican ideals of liberty and fraternity provided an unquestionable (true) definition of justice, and that these ideals could form the basis of a moral science, the science of wealth distribution.<sup>[21]</sup> Nowadays, economists consider

[21] Walras shaped the contours of the moral science of wealth distribution by making explicit the theory of initial distribution, and the means to achieve this distribution: the nationalization of land and a theory of taxation.

it obvious that the initial distribution of wealth is a given and that economic science should not pronounce on this distribution, owing to the lack of a generally recognized definition of justice. It is possible to intervene on distribution in two ways, either before or after the exchange of goods and services. First, before the exchange, one can change the initial state of distribution through measures such as taxation on inheritance, the nationalization of production means, etc. But these measures could never be justified by a scientific definition of justice to be imposed on all, contrary to what Walras postulated. Second, it is also possible to intervene after the exchange. Then it is a redistribution that corrects the inequalities and injustices of the primary distribution, as determined by market forces.

The legacy of Walras (in opposition to Ricardo), claiming that poverty could be eradicated through appropriate measures that would leave only inequalities that were just (difference in individual circumstances of each choice results from a situation of equal opportunity), is partially upheld, but diverted from its primary objective. Walras placed concerns for justice at the start of the economic process. It is only once a just initial distribution of wealth is achieved, in accordance with the “truth of justice,” that the market is free to operate. The ambitions of economists have become much more modest. They admit the possibility of correcting at the margin some results of the primary distribution of incomes according to issues of political choice, but those same economists, scientists in the sense of Max Weber, can only remain silent on questions of distribution.

Henceforth, the theory of distribution and issues of justice are no longer considered as belonging to economics. Following Walras, only a few heterodox authors, such as Keynes or Sen, will challenge this separation between the scientist and the politician. ■



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