Mining Improbable Postulates and the Theory of Diverting Toys

(Advances in General Equilibrium Theory)

Donald A. Walker

Review Article by
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Walker’s Advances in General Equilibrium Theory summarizes his position on the usefulness and appropriateness of much of modern general equilibrium modeling. He argues that much of modern general equilibrium modeling does not have the objective of explaining the real economy. His comments concerning general equilibrium theory are easily seen to be related to his study of Walras. In his text, Walker is critical of the general equilibrium theorizing of a number of well-known economists. He spends the majority of the book tearing down general equilibrium theory and models as they are presented in literature. He concludes his book by summarizing his opinion about how realistic models of the economy should be structured. (JEL B2, D5)

The rather flippant title for this paper is drawn from the words of Donald Walker [p. 116] and Alfred Marshall [p. 38] as presented in the text Advances in General Equilibrium Theory. This paper’s title attempts to summarize Walker’s position on the usefulness and appropriateness of much of modern general equilibrium modeling. He argues that much of modern general equilibrium modeling does not have the objective of explaining the real economy. General equilibrium theory puts forward models that are based on unrealistic assumptions (improbable postulates). These models are of hypothetical economies that have little practical value other than for their own elegance (Marshall’s diverting toys). The text is mistitled. A more descriptive title for the book might be Distractions in General Equilibrium Theory. Though Walker cites much of the literature that many economists would identify as seminal works in the advancement of general equilibrium theory, he cites these works to point out how much of the theoretical work in general equilibrium theory has been misdirected because the models presented are so unrealistic. This misdirected theorizing has reduced the usefulness of general equilibrium modeling as opposed to advancing it.

Walker’s text represents the expansion of a lecture he delivered at the Netherlands Royal Academy of Sciences on June, 12, 1995. The lecture was in honor of the life and professional career of Peter Hennipman. Every two years, the Circle of Amsterdam Economists has organized a lecture by a well-known economist and then published the lecture in expanded form as an article, monograph, or, in this case, a book. Walker is well known for his work dealing with the economics of Walras. When one thinks of commentators upon Walras’s work, one thinks of the names of Jaffe and Walker.

Most probably, the majority of Walker's postulates concerning general equilibrium theory may be tied to his study of Walras. Therefore, to understand Walker's comments on general equilibrium theory and modeling, one really needs to understand his position or perception of Walras's writing. Simply put, Walker interprets Walras's objective as understanding the behavior of a freely competitive capitalist market economy. In this model, there is private ownership of most economic resources and other commodities. In addition, these commodities along with money are exchanged in competitive markets [Walker, 1989, p. 1]. To expand upon this position, Walker puts forward nine propositions of a capitalist economy that he states define Walras's position [Walker, 1989, pp 1-7].

The first aspect of Walras's conception of a capitalist economy, as defined by Walker, is the idea that all economic agents strive to maximize their cardinally measurable utility. Second, capitalism is seen as an economic system in which price competition is strong and widespread, but not necessarily universal. Third, Walker argues that in Walras's freely competitive market economy, all economic phenomena are interrelated. This interrelatedness implies that there are connections between the behavior of consumers, entrepreneurs, workers, capitalists, and property owners. This interrelatedness leads to connections between the prices and rates of output across different commodities.

Fourth, Walker posits that Walras was concerned with explaining that a fundamental aspect of his conception of capitalism was his theory of how entrepreneurs related input and output markets. Modern Austrian economists are still debating this issue.

Fifth, Walker argues that Walras wrote that the center of economic growth is the process of saving and investment, and Walras developed a comprehensive theory of that behavior. Sixth, Walker states that Walras analyzed how the allocation of resources among different economic activities takes place in a capitalist economy. As mentioned earlier, the entrepreneurs play a crucial role because their anticipation of obtaining profits and their desire to avoid losses motivate them to determine the allocation of resources by directing resources into and out of various economic activities.

Seventh, Walker argues that Walras conceived of the economy as always undergoing a process of change. The economy is always in dynamic motion and always in disequilibrium. In Walras's system, equilibrium is never reached because the parameters of the system are always changing. The goal of economic science is to explain disequilibrium behavior.

Eighth, Walras identified consumer sovereignty as a fundamental characteristic of capitalism. According to Walker explaining Walras, the pattern of production of consumer goods in a market economy reflects the pattern of demands of consumers. Finally, a capitalistic competitive economy tends to generate a maximum well-being for its participants.