

THE PHYSIOCRATS: An Outline "The Economists" (Mid Eighteenth Century) R. Larry Reynolds

Introduction

The Physiocrats, or the "Economists" as they called themselves, were the first school of economic thought. They represented a reaction against the policies of Jean Baptiste Colbert [1619-1683]. Colbert was served as a minister in the Court of Louis XIV. Colbert advocated strict regulation of commerce, protective tariffs and is regarded as a archetypical "Mercantilist." There were a number of writers who began to question the mercantilist policies of Colbert by the early 1700s (examples are Pierre Boisguillebert [1646-1714], Seigneur de Vauban [1633-1707] and later Richard Cantillon [1680-1734]), however it was François Quesnay [1694-1774] who provided the basic structure of the Physiocratic system in the late 1750's.

The Physiocrats represented an *"alliance of persons, a community of ideas, and acknowledged authority and a combination in purpose, which banded then into a society apart."* [Higgs] They held in common the idea that all things are part of an interconnected system that is rational and comprehensible to the human mind.

The ideas of the Physiocrats lay the foundation for Adam Smith and the Classical Economists. It was the Classical Economists who provided the intellectual map and the justification for capitalism and market economies. Vaggi points out that the Greek word *phýsis* is nature and *krátos* is power. The core of the system described by the Physiocrats is one of the "power of nature," a system based on a natural order. A group of closely related writers (Vincent de Gournay [1712-1759] and Anne Robert Jacques Turgot [1727-1781]) held many ideas that were shared by the Physiocrats. (Vaggi, p 869) Together the two groups developed the concept of *Laissez faire, laissez-passer*. They believed that a natural system, free from the intrusions of an improper man made law, would result in a harmony and improvement of the human condition.

A key idea of Physiocracy was that agriculture (land or extractive industry which included grasslands, pastures, forests, mines and fishing [Vaggi, p 871]) was the productive sector of an economy. The economy was divided into landlords, farmers and artisans. Quesnay's *Tableau économique* is a model of the flows of commodities among the three sectors. Land is seen as the source of the *net produit* (net product that may be regarded as a surplus). Trade and industry perform an function but were seen as sterile in that they produce no *net produit*..

As a reaction against the extreme mercantilist policies of Colbert, the Physiocrats advocated *laissez faire* policies. They believed that if the *ordre positif* (positive order or rule of man) could be made consistent with *ordre naturel* (the order of nature not to be confused with the state of nature), the well being of society could be increased. Given the complex and high levels of taxation of Louis XIV, one of the proposals was a single tax on land.

Adam Smith characterized the system of the Physiocrats,

The "system with all its imperfections, is perhaps the nearest approximation to the truth that has yet been published upon the subject of political economy, and is, upon account, well worth the consideration of every man who wishes to examine with attention the principles of that very important science." [Higgs, p 2]

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I Historical Background

Colbert (1619-1683), served Louis XIV as an economic administrator and had control of the French economy from about 1651 until 1683. He can be considered a mercantilist and imposed strict regulations and taxes on the French economy.

J.F. Bell argues that the historical background of the Physiocrats would be a social history of France. Years of wars and extravagance of the monarch left a society ready for a new perspective that the Physiocrats provided. While they lasted only a brief time, their ideas were powerful and left a permanent influence on the development of economic thought

Regulations

Under Colbertism, detailed regulations were imposed on prices and quality of many goods. There were subsidies, tax exemptions, and protection against imports. Encouragement of large families and a variety of other regulatory techniques were prevalent. While many industries were regulated, an example is textiles. There were controls on lengths, widths, threads, dyes, colours, etc.

Taxes

The Court of Louis XIV was extravagant and relied heavily on taxes to finance the monarchy. A variety of taxes were imposed and contributed to the frustrations of the writers and people. A few features of the taxes under Colbertism included:

- i) tax collectors paid King for right to collect taxes
- ii) *Taille* - was a tax on land, house and presumed wealth. The tax was levied on peasants, craft and bourgeois while the clergy and nobility were exempt. The tax took as much as 50% of the earnings of the non-privileged class.
- iii) *Gabelle* - every person over age 7 was required to buy 7 lb. salt each year from the state owned salt monopoly
- iv) *Aides* - tax on goods when manufactured, transported or sold, "*douanes*" - a general sales taxes
- v) *Traites* - customs or duties on goods imported or exported

- vi) Peasants were required to pay for the use of roads, bridges etc and to provide labor (*corvée royale*) to build and maintain these facilities.

Conditions

The regulative apparatus created to enforce Colbertism became corrupt and an excessive burden. By the mid 18th century,

- The Population of France was about 25 million. Of this number 600,000 were members of the clergy and nobles.
- Approximately 1/5 to 2/3 of land was owned by clergy in each province
- 9/10 [about 21 million] of population was engaged in agriculture
- 1 million serfs, about 500,000 owned land, some worked for subsistence and small "wage," some were share croppers (Metayers), some paid a perpetual rent
- England was "ahead" of France in industrial revolution and output. The agrarian revolution in England [farming on a larger "scale"] was more developed than in France.
- Under policies of Colbertism the French economy was highly regulated, there were excesses by both Louis XIV and XV [wars, extravagances in the court, etc.]
- Industry/commerce added little to nat'l income due to regulation and protection. There was a desire for reform.

II Core Beliefs

The Physiocrats believed in the existence of a "natural order," or *ordre naturel*. They appealed to rational principles in the tradition of a "Cartesian" perspective. The cosmos was seen as a hierarchically and harmoniously arranged order. There was a distrust of "data," "positive" law and human behavior. The social order, "*ordre positif*" should be consistent with the "natural order, *ordre naturel*." The Physiocrats "deduced" a connected series of doctrines based on premises and endeavored to include all social phenomena connected with the production of wealth.

The natural order was not to be confused with state of nature. The natural order was founded on law and property rights. They denied that every one has a right to everything: A "Bird has a right to a insect that it can catch." They believed that liberty and equality were incompatible. As a society grows wealthier, inequality increases. Men in society are subject to natural laws in the same way that the equilibrium of nature is maintained by physical laws.

The Physiocrats saw the interrelation between physical and social phenomena, but physics and biology were not highly developed in modern sense.

There was an emphasis on the individual and individual rights. It was believed that the individual knows their interests and will act on those interests. The principle idea embedded in Physiocracy is that of "self interest" as the motivating force in the economy. The rights of each individual limited the rights of others. "Freedom of the foolish man must be restricted by the state."

III Precursors

Locke, Decartes and Newton

The work of the Physiocrats was influenced by the philosophy of each of these writers. John Locke's (1632-1704) views on natural rights, natural law, property

rights and the role of the individual in society influence the views of the Physiocrats. René Descartes' (1596-1650) provides rationalism and belief in a system or order that can be understood through reason. The mechanical view of the natural world is provided by Newton (1642-1727)

Jean François Melon (1675-1738)

Jean Francois Melon (1675-1738) [was a mercantilist but provided some of the roots of Physiocracy] was a secretary to John Law.

Mellon believed that the necessities of life were more important than gold. And he reacted against monopoly.

Pierre Boisguillebert (1646-1714)

Boisguillebert wrote 5 major works between 1665-1707. However, he had no systematic treatment of economy. He encouraged direct taxes (rather than indirect) on all incomes.

He made three main attacks on mercantilism, (according to Hébert and Ekelund)

- a) The true nature of nat'l wealth is goods not money, [money is means and method of wealth, not wealth]. He recognized the circulation and velocity of money and goods.
- b) He believed in the primacy of agriculture rather than trade as the source of production and creation of wealth. He argued that the mercantilist prohibition on export of grain caused cyclical variations in price of grain and land.
- c) He saw the French system of taxes as a major factor that inhibited production.

John Law (1671-1729)

Law was the son of a goldsmith; born and educated in Edinburgh. He shot and killed A rival in love affair then escaped to Europe. He became a Financier in the Mississippi Company that collapsed. He escaped, went to Belgium and eventually became a professional gambler in Venice.

Law believed in the use of money policy to manage the economy, money can be created by banks

He identifies the diamond water paradox and saw same solution as Smith.

Richard Cantillon (about 1680-1734)

Cantillon created something of a system of economics, he was a model builder and used abstract methods. A major work was published in 1755, about 20 years after his death.

Cantillon was a Paris banker of Irish extraction. His work in economics demonstrated a mechanical, rationalist approach. According to Hébert and Ekelund, Cantillon was seeking basic principles that governed the economy and society. In this effort, his contributions include:

- The treatment of population as an integral part of the economic process
- A theory to explain the location of cities and manufacturing
- That change in velocity are equivalent to changes in the quantity of money
- Show the paths by which changes in the quantity of money influence price
- Explain the adjustment of prices in international trade
- Consideration of the flows among sectors of the economy

He started with land as the source, "matter" of all wealth, labour is the "form" that produces it [echoes of Locke]. He saw the economy and society as a interconnected, mechanical process that was constantly adjusting through individual pursuit of profits in a series of connected markets. The concept of the "entrepreneur" is associated with Cantillon in this regard. It is these

entrepreneurs who react to markets and generate a loose "general equilibrium."

Hébert and Ekelund argue that Cantillon's system of three rents provides the foundation for Quesnay's *Tableau*. Within the agricultural sector, farmers pay a rent for the use of land. A second rent is paid for labour, capital and raw materials. The farmer earns a residual or third rent that is the net income. This system of three rents becomes the foundation for the three segments of the economy in Quesnay's *Tableau*.

IV Leader - François Quesnay (1694-1774)

Quesnay was a surgeon who turned to medicine as the result of failing eyesight. Adam Smith sent for Quesnay to treat the 3rd Duke of Buccleuch (a student Smith was tutoring in France). Quesnay apparently was unable to come, however. Smith was favorably impressed (and undoubtedly influenced) by the ideas and ideals of the Physiocrats.

Quesnay began publishing in economics in 1756 (at the age of 62). Quesnay was concerned about the state of the French economy, particularly agriculture. The *taille* (a tax on property and wealth) resulted in a dearth of capital on farms. Lack of security in agricultural pursuits and the regulations on trade of grain caused productivity of French farms.

There is no single document or book that summarizes Quesnay's economic system. He tended to write articles on specific topics. The *Tableau*, or more correctly according to Vaggi, several different *Tableaus*, provides a rough structure for his system. Economists identify a variety of ideas in the *Tableau*. The circular flow, Keynes' multiplier, Walras' general equilibrium and Wassily Leontief's input-output matrix are implied in Quesnay's model. The *Tableau* usually presented in physical terms and encourages the incorrect perception that Quesnay didn't develop price theory. However he does have a rudimentary theory of prices.

V. Contributors

Victor Riquetti, Marquis de Mirabeau (1715-1789)

Several writers (including Groenewegen and Vaggi) see Mirabeau as the major proponent of Quesnay's economics. Quesnay collaborated on Mirabeau's major works and is credited with shaping most of the ideas found there. Cantillon's work was also a major influence on Mirabeau.

Jacques Claude Marie Vincent, Marquis de Gournay (1712-1759)

Gournay is credited with the phrase "*laissez faire, laissez passer*." His work is closely associated with the Physiocrats while both Vaggi and Groenewegen point out that he is not technically a Physiocrat. Unlike the Physiocrats, Gournay places industry and trade important roles in economic growth and development. Groenewegen comments that Gournay is ". . . a founder of a separate non-Physiocratic free trade school. This non-Physiocratic free trade school includes Turgot, Morellet and Trudaine. Gournay was closely associated with Turgot.

Anne Robert Jacques Turgot (1727-1781)

Turgot was close friends with Gournay and was influenced by his work. Turgot like Gournay was influenced by English economics. Turgot maintained that he was not a Physiocrat (like Gournay he was unwilling to accept that land alone was productive) although he maintained close friendships with Du Pont and other Physiocrats. Turgot took a strong *laissez faire* position and was an influence on Smith and Böhm-Bawerk.

Turgot was also friends with Condorcet (1743-1794). This association probably influenced Turgot's position on social progress.

Du Pont de Neumours [1739-1817]

Dupont was an advisor to Turgot who escaped to the U.S. in 1799 and later returned to France. He established the Dupont chemical empire in the U.S. Dupont's work closely reflected the ideas of Quesnay.

Mercier de La Rivière [1720-1793]

Mercier was the controller of the French colony of Martinique. He attempted to systematize the principles of Physiocracy in *L'Ordre naturel et essentiel des sociétés politiques* in 1767.