

Physiocracy and the dawn of capitalism

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Liberal thought

Liberal thought

Mercantilism & excessive regulation

Costs:

- *Institutional*;
- *Intellectual*.

What system of *beliefs/philosophy* opposes economic *regulations*?

French liberalism

French liberalism

Writings on France's *misguided mercantilist policies*.



Pierre le Pesant de Boisguilbert (1646–1714)

- *Three-point* attack on Mercantilism:
 1. Money ≠ wealth;
 2. Agriculture;
 3. Regressive tax system.

French liberalism

Pierre le Pesant de Boisguilbert (1646–1714)

Dissertation on the Nature of Wealth, Money and Taxation (1704)

- All the different economic activities are *interrelated*.

“A country can become prosperous only if exchanges take place according to the natural order of things, in which all activities are as complementary as the works of a watch.” (pp. 30–1)

- How is this *order* achieved?

French liberalism

Pierre le Pesant de Boisguilbert (1646–1714)

Dissertation on the Nature of Wealth, Money and Taxation (1704)

“[...] the fruits of the soil, and principally corn, put every occupation on their feet. Now their production is neither the consequence of chance, nor the free gift of nature. It is the outcome of a continual labour and of expenses paid in money.” (p. 22)

- Agriculture should be **tax-exempt**.

French liberalism

Pierre le Pesant de Boisguilbert (1646–1714)

Dissertation on the Nature of Wealth, Money and Taxation (1704)

Three causes for economic *crises*:

1. Excessive *taxation* on agriculture;
2. Excessive *gains* from exchange;
3. Excessive *luxury* spending.

French liberalism



Richard Cantillon (1680?—1734)

- *Less attacks* on Mercantilism;
- More focused on laying out *principles*;
- *An Essay on the Nature of Trade in General* (1755).

Fench liberalism

Richard Cantillon (1680?—1734)

“The land is the source or matter from whence all wealth is produced. The labour of man is the form which produces it: and wealth in itself is nothing but the maintenance, conveniences and superfluities of life.

Land produces herbage, roots, corn, flax, cotton, hemp, shrubs and timber of several kinds, with divers sorts of fruits, bark and foliage like that of the mulberry-tree for silkworms; it supplies mines and minerals. To all this the labour of man gives the form of wealth.

Rivers and seas supply fish for the food of man, and many other things for his enjoyment. But these seas and rivers belong to the adjacent lands or are common to all, and the labour of man extracts from them the fish and other advantages.” (p. 1)

- Definition of **wealth**?

French liberalism

Richard Cantillon (1680?—1734)

Still one foot on *Mercantilism*:

“[...] the comparative greatness of States is their reserve Stock above the yearly consumption.... And as Gold and Silver can always buy these things, even from the Enemies of the State, Gold and Silver are the true reserve Stock of a State.” (pp. 89-91)

Fench liberalism

Richard Cantillon (1680?—1734)

A *hierarchy* of social classes:

- *Landlords*;
- *Entrepreneurs*;
- *Hired workers*.

Fench liberalism

Richard Cantillon (1680?—1734)

“[I]t may be established that, except for the prince and the property owners, all the inhabitants of a State are dependent. They can be divided into two classes, entrepreneurs and hired workers. The entrepreneurs are on unfixed wages while the others are on fixed wages as long as there is work, although their functions and ranks may be very unequal. The general who has his pay, the courtier his pension and the domestic servant who has wages, all fall into this last class. All the others are entrepreneurs, whether they are set up with capital to conduct their enterprise, or are entrepreneurs of their own labor without capital, and they may be regarded as living under uncertainty; even the beggars and the robbers are entrepreneurs of this class.”(p. 76)

Fench liberalism

Richard Cantillon (1680?—1734)

“All these entrepreneurs become consumers and customers of each other, the draper of the wine merchant, and vice versa. In a State, they proportion themselves to the customers or their consumption. If there are too many hat makers in a city or on a street for the number of people who buy hats, the least patronized must go bankrupt. On the other hand, if there are too few, it will be a profitable business, which will encourage new hat makers to open shops, and in this manner, entrepreneurs of all kinds adjust themselves to risks in a state.” (p. 75)

- *Farmers* as entrepreneurs.

Physiocracy

Physiocracy

The first *school* of economic thought

- *Physio* = *nature*
- *Cracy* = *rule*, or *government by*

Building blocks:

- *Natural law*;
- Primacy of *agriculture*.

Physiocracy

Historical background

- France *vs.* England
- *Productivity* of agriculture
- *Tax* burden

Physiocracy

The *founding* figure:



François Quesnay (1694—1774)

- Working-class background
- Louis XV's physician
- Contributor to Diderot and D'Alembert's *Encyclopédie* (1751) ([see here](#))
- “The wisest man”?

Phisiocracy

The *founding* document:

TABLEAU ÉCONOMIQUE.		
DÉPENSES PRODUCTIVES.	DÉPENSES DU REVENU, l'impôt prélevé, le partagent aux Dépenses productives & aux Dépenses stériles.	DÉPENSES STÉRILES.
Fournies par l'agriculture, prairies, pâtures, forêts, vignes, pêche, &c. En grains, bœufs, viandes, bestiaux, matières premières des marchandises de main d'œuvre, &c.		
Débit réciproque d'une classe de dépense à l'autre qui distribue le revenu de 600 liv. de part & d'autre, ce qui donne lieu à la répartition de chaque côté : toute les avances qui sont conservées. Le Propriétaire subtilise par les 600 liv. qu'il dépense. Les 300 livres distribuées à chaque classe de dépense peuvent y nourrir un homme dans l'une & dans l'autre : ainsi ces sommes de revenus peuvent faire subsister trois hommes chefs de famille. Sur ce pied 600 millions de revenu peuvent faire subsister 3 millions de familles estimées à 3 personnes, les deux dernières , par famille. Les frais de la classe des dépenses productives sont au moins aussi élevés que l'an passé, & donc non la moitié est en salaire pour le travail d'homme, ajoutent 300 millions qui peuvent faire subsister encore un million de chefs de famille à 300 liv. chacun. Ainsi ces 900 millions qui naissent de la distribution des biens fonds pourraient faire subsister 12 millions de personnes base de base de , conformément à cet ordre de circulation & de distribution des revenus annuels. Par circulation on entend ici les achats payés par le revenu, & la distribution qui en suit le paiement, les hommes, par le paiement des achats par le premier main, abstraction faite du commerce qui multiplie les ventes & les achats, sans multiplier les choses, & qui n'est qu'un surcroit de dépenses stériles.		
Avances annuelles.	Revenu.	Avances annuelles.
600 produisent.....	600	300
" 300 reproduisent net.....	300	300
150 reproduisent net.....	150	150
75 reproduisent net.....	75	75
37-10 reproduisent net.....	37-10	37-10
18-15 reproduisent net.....	18-15	18-15
9-7-6 reproduisent net.....	9-7-6	9-7-6
4-13-9 reproduisent net.....	4-13-9	4-13-9
2-6-10 reproduisent net.....	2-6-10	2-6-10
1-3-5 reproduisent net.....	1-3-5	1-3-5
0-11-8 reproduisent net.....	0-11-8	0-11-8
0-5-10 reproduisent net.....	0-5-10	0-5-10
0-2-11 reproduisent net.....	0-2-11	0-2-11
0-1-5 reproduisent net.....	0-1-5	0-1-5
RÉSULTAT total.....	600 de revenu & les frais annuels d'agriculture de 600 livres que la Terre reflue. Ainsi la reproduction est de 1200 livres.	

Tableau Économique (1759)

Physiocratic economics

Physiocratic economics

Devoted to the discovery of the *principles of Political Economy*.

Underlying *philosophy*:

- *Natural law*;
- *Individual rights/private property*.

Physiocratic economics

A *reaction* against Mercantilism

Q: How to react to an *established* economic doctrine?

A: Appealing to a *higher power*.

A country's economy as a *mutual-interaction* system.

Physiocratic theory

Physiocratic theory

Q: What is a country's *source of wealth*?

A: Its *net product* (*produit net*).

- *What* is it?
- What *generates* it?

Physiocratic theory

The Physiocrats' *fundamental axiom*

A hierarchy of activities:

- Agriculture = *productive*
- Commerce and manufacturing = *sterile*

Against *arbitrary price-setting*.

Quesnay only observed French *small-scale manufacturing*.

The *Tableau Économique* (1759)

The Tableau Économique (1759)

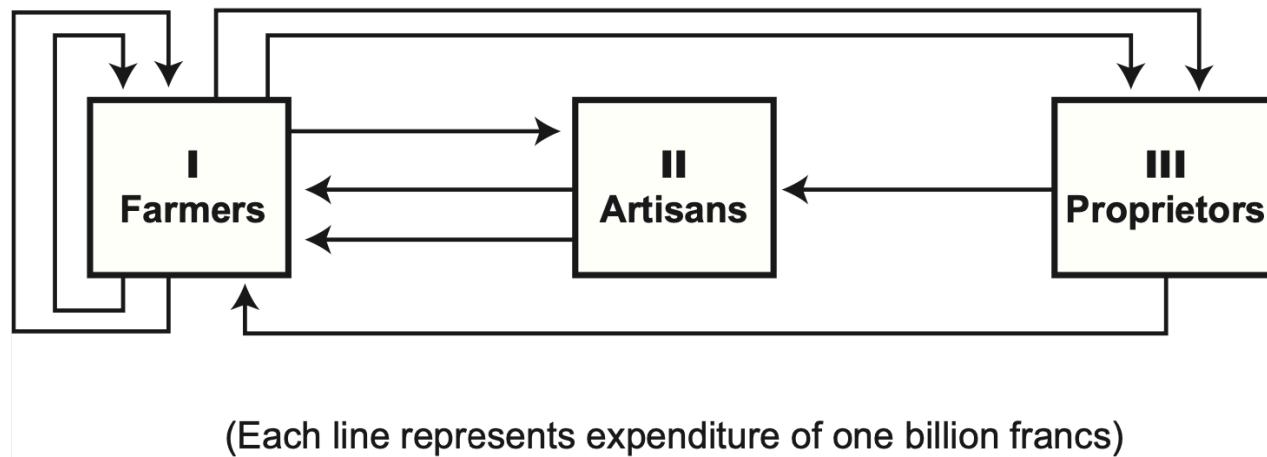
Three sectors:

- *Proprietary* class;
- *Productive* class;
- Sterile class (*artisans*).

An *analogy* between the *operation of the economy* and the *performance of the human body*.

The Tableau Économique (1759)

A *simplified* version:



Source: Ekelund and Hebert (2016).

Policy prescriptions

Policy prescriptions

Policies to encourage the *accumulation of capital*

- *Tax reforms;*
- *Free trade.*

Criticisms

Criticisms

Two forms:

- *Unreflective* fo the *facts* of their day
 - How come manufacturing *does not* create surplus?
 - A “natural” justification.
- Overshadowed by *normative* considerations
 - Are Physiocrats mere *neomedievalists*?
 - Are they *reformists*?

Next time: Intro to Adam Smith