

Chapter Three: The Physiocrats (pg 33-44)

Historic Background

France and Britain

Britain and wars of the roses, Cromwell, the restoration, etc.

Parliament and the Crown at war

Two centralizing forces, fighting each other

Commercial life and the common law system

The British experience – Parliamentary Colbertism

The French experience, absolutism

Le estat, c'est moi

The sun kings became absolute monarchs

One centralizing force, against all local forces

But in practice supported many feudal systems

To extract rents and maintain power

The French experience – actual Colbertism

The Physiocrats rose up in France, in opposition to French Mercantilism

Which had devolved into incoherent rent-seeking

Book examples.....

The French Grain Trade

Colbert's "Best Practices Rules"

Versailles and the Nobility

Tenants of the Physiocrats

Natural Order: Physiocrat means "rule of nature"

Influenced by Newton: "the celestial clock"—let's find the laws of society

Bring society into harmony with the laws of nature

Which included the rights to the fruit of one's own labor

Believed in "natural rights"

Laissez-faire, Laissez-passer: Do as you please, without government interference

Government should only protect life, property, and contracts

Opposed feudal, mercantilist, and government inspired regulation

Very often, as a result of government work

Believed in free trade with the world

Emphasized Agriculture: only agriculture produced new wealth

Production, industry, etc. were sterile, the ultimate source of wealth was agr.

Agriculture produces a surplus above what was used to create it

Industry did not, just a re-arrangement of its inputs

The beginnings of a theory of value

Taxation and Landowners:

Only land produced a surplus, only that (landowners) should be taxed

Any other tax just passed on to the landowner (tax incidence)

Interrelatedness of the Economy:

Circular flow of the economy

Whom did the Physiocratic School Benefit or Seek to Benefit

They thought they would help everybody

All taxes ultimately came from rent, so tax only the land-owners

Physiocrats wanted to streamline and rationalize rents

They believed the landowners were already paying all the taxes

In actuality, they would have helped industry – they favored free trade

They would have benefited the renter and peasant, against the land-owner

They would have hurt the government sector, “rent-seeking, rent selling class”

It should be noted that the Physiocrats were never politically influential

The power of vested interests

How was the Physiocratic School Valid, Useful, or Correct in Its time?

French industry was devoted to producing “sterile goods”, i.e. Versailles

French industry, in a sense, was sterile

Verblum, “conspicuous consumption”

The focus on Agriculture was a focus on wealth generation,

Not just commerce can augment wealth, but also production

Laissez faire would have encouraged real industry and production

The direct taxation focus was a reaction to the bewildering profusion of indirect taxes

Which Tenets of the Physiocratic School became Lasting Contributions?

Wrong to view industry and trade as sterile

And thus so to the Georgist belief in only taxing land

Physiocrats thought the “capitalist farmer” was the wave of the future

A tax on nobility land would have been good, but it became impossible

They were correct to look at circular flow

And National Accounting

In a real sense, it founded economic sciences as separate from government

A Natural order separate from government, individual rights

Originated the theory of tax shifting and tax incidence

Important Figures

Francois Quesnay (French, 1694-1774)

Brilliant Surgeon, came to love economics instead

Saw the economy as a living organism

He was confused about motivations, but right about reactions

Human made law should be in harmony with “natural law”

The Tableau Economique (1758, 1766)

First real attempt at circular flow

Additionally, attempted to calculate aggregates

(O.K. to skip his early version of one)

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Physiocrats.docx

Anne Robert Jacques Turgot (French, 1727-1781)

From minor nobility and a church education, to first minister

Applied physiocratic ideals to the running of French Finances

Very successful, and widely hated by entrenched interests

Ran everything through the king, opposed parliament

Believed in the Benevolent Despot view of policymaking

Early believer in the “iron law of wages”

Where worker competition pushes down wages

Also understood the law of diminishing returns

And even how returns can first rise, then later diminish

Much of what he did was incorporated into the French Revolution