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)
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