The Physiocrats
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The Physiocrats

In the 18th Century, the "Age of Reason," and "The Enlightenment," the ad hoc policies and inconsistencies of Mercantilism were not good enough. Physicists, biologists and chemists were popularizing new thinking that linked complex details into systems, unified by a few general principles. In this politico-economic world of new puzzles, it was time for a new thinker to step forward with a unified, coherent system of thought. One group of thinkers obliged: they pioneered ways to sort out the pieces and fit them together. We turn first to them, the French "Physiocrats," aka *Les Économistes*.

The Physiocrats - Outline

1. These Physiocrats were pioneers of applied economic analysis. They were people of influence in the French court under Louis XV and XVI. Their motives were benign and idealistic: to shape royal policies to solve real social problems at home. They observed that France, with the greatest resources and population and location, was not living up to its potential. They were French patriots motivated to strengthen their nation and raise the welfare of its people; but they thought France could learn from England, whose progress and power they admired. They preceded the English in analyzing and articulating what the English, to some extent, practiced; and in showing France how to improve on it.

2. They addressed problems specific to France, but in the process developed a universal system of ideas, applicable to all nations, times and places. By virtue of their universality, their ideas were also mutual. That is, what is good for France in France is also good for England when applied in England, and more, what is good for England in England is also good for France when transmitted internationally through trade - an idea soon to be developed more thoroughly by Adam Smith, and identified forever after with his name. This universality gave their ideas a consistency and harmony reminiscent of that given earlier by the universal church, as codified by St. Thomas Aquinas in the 13th Century. Between Aquinas and the Physiocrats, the doctrines of Mercantilism saw and fostered nothing but greedy strife and rivalry among nations, one gaining only by harming another.

The Physiocrats wrote during "The Enlightenment," and "The Age of Reason," which led to the age of "Benevolent Despotism," when reform was in the air in every court in Europe. Ideas were international: they learned from English scientists like Isaac Newton and James Harvey, and philosophers like John Locke. Their ideas, in turn, spread widely to Europe and America. In religion

they were mostly Deists, like Washington and Jefferson, while nominally Christian.

Their ideas were not purely Eurocentric, but had a strong Chinese strain. Turgot, a leader of the group, was called "The European Confucius" because of his interest in Chinese philosophy. *Laissez-faire*, their slogan, is Taoist. They followed an ancient Chinese tradition that "Nature ruled society" - but they called it "natural law." The idea is found in Lao-tze, d. 530 B.C. As for Christianity's being "Eurocentric," it is well to remember that it originated in Asia, and many scholars find Buddhist elements in the teachings of Jesus.

3. Politically, they got "ahead of the curve," and in France lost favor and power after 1776. (In Austria, under the Benevolent Despot Joseph II, their influence grew until Joseph died in 1790.) Their enemies who ousted and succeeded them paid the price in the French Revolution, from 1789, which the Physiocrats were trying to forestall.

4. Causes they championed:

A. Reforming obvious abuses: graft, corruption, tax-farming, etc.
B. Laissez-faire
C. "Natalism" - raising the birth rate
D. Untaxing production, trade, capital formation, and parenthood
E. Focusing taxation on the net product of land (aka economic rent), the only true taxable surplus

5. They had strong influence abroad, e.g. in England on Adam Smith, and in America on Ben Franklin, Tom Paine, John Adams, James Monroe, and especially on Thomas Jefferson. The "commerce clause" of the U.S. Constitution, the basis of our national unity, is pure Physiocracy. The Founding Father who led in demanding its adoption was James Monroe, who had and was placedIn trying to understand the thinking of the "Founding Fathers" who wrote the U.S. Constitution we have to understand that most of them were steeped in Physiocracy. The U.S. Supreme Court today often tries to interpret the Constitution according to the contemporary thinking of those who wrote it. Even Alexander Hamilton, champion of commerce, finds it necessary in his Report on Manufactures (1791) to refute this Physiocratic idea, which he does only clumsily, as though feeling his way through new

territory - no one at that time had articulated the reasons for the tremendous productivity of urban land.

6. Some of them undervalued urban production relative to farm and other "primary" production. They called urban activities "sterile," because they generated no net rent (even though, in fact, they do). Another branch of Physiocrats (Vincent de Gournay, A.R. Jacques Turgot) did not buy into this quirky idea, so you may take your Physiocracy with or without it. Today, few economists overvalue primary production, but many other people still do.[1]

The Physiocrats - Narrative

1. The Physiocrats were a group of French thinkers from "The Age of Reason" (18th Century) who mingled and found favor in the courts of Louis XV and, briefly, Louis XVI. They were at the core of "The Enlightenment" of the times - "Enlightenment" meaning to apply the findings of The Age of Reason to real life. Paris, in turn, was the leading intellectual center of Europe. Their ideas travelled east as far as St. Petersburg (Catherine the Great), and west as far as the new U.S.A. (Tom Paine, James Monroe, John Adams, Tom Jefferson, and Ben Franklin). It was actually the Americans who travelled, for all five of the foregoing lived in Paris in the 1780s, and fraternized with the Physiocrats. Some influential French Physiocrats also came to the U.S., like Pierre Samuel DuPont, and Jefferson's brilliant Treasury Secretary, the French-Swiss Albert Gallatin. Recall that Jefferson's political party, which routed the Federalists in 1800, was pro-French. Louisiana, which joined the U.S. in 1803, was heavily French.

François Quesnay, the leading thinker, was a physician who became personal doctor to Mme. Pompadour, favorite courtesan to Louis XV. She also did most of the heavy thinking for Louis, who preferred chasing stags and skirts. Quesnay's influence grew when he saved the life of Louis' son (a life later lost to the

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[1]Ironically, these modern "farm fundamentalists" are mostly dead set against the policy that the Physiocrats favored, i.e. basing taxes on the value of land. They are those who make a religion out of raising cattle on western ranches, or milking cows in Vermont, or spraying citrus in Riverside, or growing rice in Tokyo, heedless of other demands for the land they preempt. History makes strange and contradictory bedfellows.

guillotine). Quesnay was a deep thinker and creative theorist. He explained matters in plain French, exploiting and augmenting the clarity and utility of that sophisticated language; but he also used intricate diagrams and mathematics that still beguile economists. Being a physician, he analyzed the economy in physiological terms of circulation and metabolism,Adam Smith was his pupil.

Marquis Viktor de Mirabeau, a rich nobleman, was a humanist whose book title, Friend of Mankind, bespoke his benign attitudes (similar to those of Wm. Godwin whom we will meet later in England). Mirabeau was also a "pro-natalist," meaning he favored raising the population of France, which had been falling. Quesnay persuaded him that the route to that was a stronger farm economy.

Pierre Samuel du Pont de Nemours was a cagy politician and publisher who got the Physiocrats lots of good ink. He served for a time as Turgot's secretary. He later was to participate in the French Revolution, support a losing faction, and yet manage to survive. In 1799 he left France for America where he befriended Thomas Jefferson, and reinforced Jefferson's belief in Physiocratic ideas. With his son, a chemist, he established the I.E. Du Pont firm in Delaware, now America's most enduring family-business dynasty.[2] His namesake, P.S. du Pont IV, was Governor of Delaware, had a run at the Republican Presidential nomination in 1988, and is still active in public affairs. Like a good Physiocrat, he is known for opposing sales taxes.

Baron A.R.J. Turgot was a skillful and honest administrator. Louis XVI, when newly crowned in 1774, made him Minister of Finance. It was a time when most people saw that France needed saving from itself. He proceeded vigorously to implement Physiocratic reforms, and weaken special privileges, but Queen Marie Antoinette, who had liked him once, fired him in 1776 for refusing to hire and promote her favorites. That political mistake led him to a comfortable early retirement, and later led her to a most uncomfortable one, as he had warned.

Turgot came to Physiocracy through the influence of Vincent de Gournay, rather than Quesnay. Turgot and Gournay did not buy into the quirk for which later critics have faulted

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[2]P.S. du Pont named his son Irenée Éleuthère du Pont de Nemours - good thing they shortened the firm name to I.E. du Pont, and then simply DuPont.

Quesnay, i.e. the notion that commerce and industry are "sterile." They were of one mind, though, on all practical policy issues.

Turgot was also an intellectual, an author and an idealist - a fully rounded, admirable and independent human being. He always put Justice at the center of his system, unlike Adam Smith, who trod around it.

2. France had a number of problems inherited from previous regimes.

A. Vast lands held by nobles (the "First Estate") and the Clergy (the "Second Estate") were exempt from taxes. The "Third Estate" (businessmen, workers, and plain folks) paid the taxes.

Most revenues came from taxes on consumption and exchange (excise taxes) and from forced labor (called the *corvée)* on public works and in the military. (Similar forced labor in Bohemia was called the "Robot," whence our word for a mechanical slave.) The *corvée* amounted to a tax on rearing children, which helped account for falling population in France. (Interestingly, we are returning today to a somewhat similar tax system, and calling it "tax reform." We no longer force labor, except in prisons, but we do force people to pay special taxes for working, and again when they spend to support their families.)

B. J.B. Colbert, adviser to Louis XIV, had left France with a legacy of paternalism (or, more accurately, "*dirigisme,*" which is the same control-freak policy but without any fatherly solicitude for the poor, infirm or aged), whereby the state micro-directed many business and manufacturing affairs.

C. The state controlled farm prices below market levels, in a clumsy effort to share the bounty of farms with the urban poor. To keep the poor quiet, the state tried in this small way to appease them for the many wrongs it did them. A harmful side-effect was to demotivate farm production.

D. French Provinces regulated and taxed interprovincial trade, so that France itself did not comprise one common market.

E. Actual tax collections were handled by "tax farmers," each of whom was sold (or corruptly given) a contract for a certain region, and allowed to collect as much as he could force from the people there. This kind of "farmer" had the power of

the state, without clear rules or restraints. Thus a basic tax on members of the Third Estate (commoners), called the *taille*, evolved under tax farming from a tax on real estate to a tax on visible wealth and expenditure.

F. No one ever heard of a merit system in the civil service.

3. The Physiocrat's impact on power

Quesnay enjoyed favor at the court of Louis XV, thanks to the good graces of Mme Pompadour, Louis's favorite and Quesnay's patient. (To understand French policy, a good rule was "*Cherchez la femme.*") It was the age of "The Enlightenment," and for a time, Quesnay reigned as a guru at its center. European monarchs viewed themselves as "Benevolent Despots"; they vied to patronize artists, scientists and intellectuals, and to show their modernity and compassion by helping (or ceasing to abuse) the poor and oppressed. Frederick the Great of Prussia, Charles III of Spain, and Catherine the Great of Russia, among others, imported French intellectuals and savored their ideas - French being the universal court language.

Above all, Joseph II, Holy Roman Emperor and ruler of Austria, bought into Quesnay's ideas, and set about enacting them with conviction, royal power, and determination. To give you an idea of where Austria was coming from, though, his related reforms included freeing serfs, abolishing torture, allowing freedom of worship, basing the civil service on merit, and letting peasants marry whom they wished. Austria was just emerging from the night of tyranny and oppression. The ancient oppressors, including Joseph's own family, did not appreciate his efforts. Only the people loved him.

To help you remember Joseph's time and place in history, he was the patron of composers Gluck, Salieri and Mozart. Much has been made of the suspicion that Salieri may have poisoned Mozart, from professional jealousy. That may be a coded surrogate for the more plausible suspicion that someone did in Joseph himself, who died young in 1790. Privilege plays rough.

Joseph's keystone reform was having all lands valued, in order to tax them "ad valorem" (in proportion to value). That was Quesnay's central proposal. It aroused fierce opposition from the First and Second Estates, who had been riding on the the Third Estate for so long they regarded this free ride as a sacred

right of property. When Joseph died (or was he pushed?) in 1790, his brother and successor, Leopold II, aborted his reforms, and joined the entente against the French revolution, then just beginning. The establishment then did its best to wipe out the memory of Joseph II, and jeer at him. Not until the uprisings of 1848 was there an effort to revive some of Joseph's reforms, by which time Austria had fallen behind rival powers, never to recover.

Louis XVI, King of France from 1774, made a Physiocrat, Baron A.R. Jacques Turgot, his Minister of Finance. Turgot was a seasoned administrator with a "bias for action," who got right down to it. He pushed through new edicts ending the *corvée*, and subjecting the vast estates of the nobles (the First Estate) and the clergy (the Second Estate) to taxation on the Net Product. He freed trade among the provinces, and let prices seek their own level in free markets. He proposed to end tax farming, and wipe out many other abuses and special privileges.

He also refused to let Queen Marie Antoinette pad his civil service with her friends. She got him sacked in 1776, and his laws repealed. (Ironically, Marie was the sister of Joseph II of Austria.)

Marie should not take all the onus, however, and it is perhaps only the male chauvinism of some historians that has highlighted her role. The major landowners of France, the tax-exempt nobles and clergy, led in resisting Turgot. The *Parlement de Paris* represented these landowners. When Turgot issued an edict abolishing the *corvée* (forced labor), and substituting a land tax, the *Parlement* issued a Remonstrance against the Edict Suppressing the Corvée, 1776. It urged the King to maintain the rights of property, and also to preserve "rights attached to the person and those which derive from the prerogatives of birth and Estate." ("Estate" referred to the caste system then in place, with nobles being the First Estate, Clergy the Second, and commoners the third.) The Remonstrance warns against "mixing all the orders of the state together by subjecting them to the uniform yoke of a land tax." This would cause "disorder and confusion." "It is necessary that some command and others obey." That was the mindset of the *ancien régime* (old order).

It was tragic: Turgot might have been one of the great lawgivers of all the ages, like Moses or Solon. Well may he have said, "*Bien rude prendr'essor avec les aigles en travaillant avec les dindons*" (It's hard to soar with eagles when you work with turkeys).

Marie, meantime, began a long journey that ended on the guillotine. Her main legacy is her memorable dismissal of the starving poor, "*Qu'ils mangent de brioche*" (Let 'em eat cake). She was seriously out of touch, and was to pay the price. During this period, France got revenge on Britain by helping win the American Revolution (some say it was France did the heavy lifting, and the Americans who just helped). This victory did not placate the suffering French masses, though, who took THEIR special revenge starting July 14, 1789, when they stormed the Bastille.

4. What policies did the Physiocrats champion?

A. They would reform obvious abuses like corruption, favoritism, undue influence, graft, and tax farming. This program was more novel and shocking in 18th Century France than it might seem today.

B. They adopted the slogan of *Laissez-faire, laissez-passer, le monde va de lui-même* (Let things work, let them happen, the world goes by itself). Today, we just say "*Laissez-faire*." This advice is aimed at control freaks in government. It bids them resign as general managers of the universe, and let people produce and trade freely, guided by market prices. Adam Smith was to borrow this concept, and time has coupled it with his name. It was novel in 18th Century Europe, but derives much from the Taoist philosophy of the ancient Chinese Lao-tze (d. 530 B.C.), whom Turgot studied and admired. Let no one say that market economics is "Eurocentric"; its central idea derives from a great Chinese philosopher.

Recall that at this time the spirit of J.B. Colbert was ascendant in France. Physiocrats were reacting against his brand of extreme *dirigisme*. It is unlikely they would have gone as far to the other extreme as today's anarchists, libertarians, and Ayn-Randians. Quesnay, like Adam Smith later, explicitly acknowledged the need for the state to supply capital for public works, which Quesnay called *avances souveraînes*.

Laissez-faire meant letting prices seek their own level, free of controls. In France of that age, that meant in particular letting the price of grain and flour rise. This was the people's bread, but Quesnay et al. reasoned that the people would be more than compensated by their relief from oppressive taxes. The Treasury, in turn, would be more than compensated by the resulting rise in land rents, which the Treasury would tax.

Note that in France, *laissez-faire* meant raising the price of grain. In England, we will see that it meant lowering the price - for France exported grain, while England imported it. In passing from France to England, the generic concept of *laissez-faire* had to pass from the particulars of an exporting nation to those of an importing nation.

Laissez-faire also meant revoking monopolies, at least those that the state granted and supported. Chief among these were the "guilds."

C. Physiocrats were pro-natalist. This meant ending the *corvée* (forced labor), and encouraging subdivision of large estates by taxing the land. It also meant ending consumption taxes like the *gabelle* (salt tax). Does a salt tax seem trivial? To us, maybe, but that tells you something about the low living standards of that time and place. Salt was a big item in family budgets, just as it was later in Ghandi's India. In case the taste for salt was insufficient, the French required each family to buy seven pounds a year.

D. They would end all taxes that are contingent on production, labor, and trade. They would nurture capital, which they clearly distinguished from land: creating capital, conserving it, and turning it over. To them, taxing trade was as bad as regulating it - they correctly perceived taxes as a form of regulating. They favored complete free trade, including freedom from excise taxes, both domestically and internationally - but with emphasis on the domestic trade (unlike today's free traders, who slight domestic trade as they hype international trade).

E. They would focus taxes on the *produit net*, that is the Net Product of land after deducting all costs of improvement and production. ("*Net*" is French for "clean," or "clear," and has been borrowed into English accounting.) We will see that the classical English economists translated *produit net* as "rent." Today, "rent" has taken on many confusing and conflicting meanings, even among economists, so when in doubt, think of economic rent as the "Net Product" of land.

This idea, too, has Chinese antecedents, for the land tax in China is as old as history. A famous administrator who revived it during the Sung dynasty was Wang An-shih, who was chief councillor, 1069-76 (just after William the Norman conquered England). Just like Turgot, he lowered the forced labor levy and raised the land tax - only Wang partly succeeded

where Turgot failed, and the Dynasty lasted another 200 years. In the 20th Century, Dr. Sun Yat-sen revived the idea. He was frustrated during his lifetime, but the idea passed to Taiwan in 1948, where Chiang Kai-shek and his successors applied it vigorously and with great success, somewhat atoning for Chiang's miserable record on the mainland.

The French Physiocrats did not view this tax shift as a real shift that would raise the tax burden on landowners, because they believed other kinds of taxes are shifted to landowners anyway. You can't squeeze blood out of a stone, they reasoned, so there is only one true taxable surplus, and that is rent, the Net Product of land. For an acronym, we will use ATCOR (All Taxes Come Out of Rent) for this Physiocratic doctrine of tax incidence. Mirabeau's Theory of Taxation, 1760, spelled it out. Thus, to lower the corvée and poll and consumption taxes, and replace them with taxes on the Net Product of land, would not raise the end-result tax burden on landowners. This was true even if the tax switch was "revenue neutral," i.e. would raise as much money as taxes do now. It would even lower the total burden on landowners.

How's that again? LOWER the total tax burden? This would result from unleashing the great power of market incentives, incentives to work, to save, to exchange, to produce, and to direct resources to their best uses. Such forces are now twisted and suppressed by taxes on capital, labor and exchange. Such twisting and suppression constitute an "excess burden" of such taxation, a burden NOT imposed by taxes on the Net Product. This is the distinctive Physiocratic doctrine, one that we will find repeated in Adam Smith, David Ricardo, John Stuart Mill, and Henry George. (It is also expounded in "The Taxable Surplus of Land," a paper I presented in January, 1999, to the Russian Duma, which is on reserve for this course.)

F. They gave a lot of thought to the role of capital in production. They thought of capital as what we today call "front money" - which they called "*avances*". They stressed the importance of getting it back, which reflux they called "*revenue*" (French for comeback). This reflux is recycled (reinvested) to create new incomes. (Today we call it "turnover.") Physiologists will see here the analogies to circulation of the blood, and metabolism of body tissues, reflecting Quesnay's knowledge of medicine. Turgot specifically credits James Harvey's science, and makes the connection. This was one of their reasons for wanting to keep taxation off capital, and focus it on the Net Product of land.

This part of their analysis was gradually lost, except among Austrian economists, who are still trying with little success to reintroduce it into Anglophone economics. This thread is important, but complex to follow, so we do not treat it in this short course.

G. Composing "left" and "right" positions. You may have noted that the Physiocrats appear "radical" in terms of raising taxes on the rich, and lowering them on the poor. At the same time they appear "conservative" (in modern terms) by favoring free markets. Their genius was to show how to accomplish both ends at once, by focusing taxes on the Net Product of land. This is a concept that most of the polarized pundits of today still fail to grasp, 223 years after Marie Antoinette axed Baron Turgot. It is one of the main ideas you should take from this course - an idea tragically missing from modern discourse.

5. Influence on Smith, Jefferson, Paine and Monroe

Adam Smith travelled in France and studied for a time with Quesnay, to whom Smith credits many of his best ideas. Neither Smith nor Quesnay was the first to write on political economy, but most people look back to Smith as the father of Anglophone economics. First or not, Smith cast a long shadow: people still quote and revere him. Few realize their debt to the Physiocrats, who passed the baton to Smith: he published The Wealth of Nations the same year France lost Turgot, 1776.

Thomas Jefferson also penned a famous document in 1776. The Declaration owes a lot to the Physiocrats. Jefferson, like Franklin, Adams, Paine, Monroe, Madison and others, spent time in Paris consorting with leaders of The Enlightenment like Turgot and Quesnay. Later he knew Du Pont and other transplanted Frenchmen in the States. Jeffersonian land policies, the basis of western settlement in the 19th Century, show the Physiocratic influence.

James Monroe is often called the father of the "commerce clause" in the U.S. Constitution (part of Article I, Section 8). This is the clause that gives Congress the power to regulate interstate commerce, and thus prevents the states from taxing trade among themselves. This idea is pure Physiocracy - see "D" above. The commerce clause is what created and sustains our huge

domestic marketplace, the largest free trade zone in the world, and the basis of our national greatness.[3]

6. Primacy of agriculture?

It was Quesnay's quirk to undervalue commerce and industry. He thought them "sterile," meaning they produced no Net Product. This quirk found its way into English thinking, too, and took nearly a century to be worked out. Jefferson even shipped on a bit too much of it. Indeed, the attitude called "agricultural fundamentalism" is still common in most nations, including ours.

Some captious critics of Physiocracy have seized on this flaw to try to discredit the whole structure of their thought. As noted above, de Gournay and Turgot were devoted Physiocrats who did not buy into the fallacy; neither should we. We may appreciate Quesnay's greatness, and forgive him this trespass. We can blame Adam Smith for exaggerating Quesnay's error. Smith did this in an unworthy effort to downplay his own debts to his French teachers by misrepresenting and belittling them.

7. Revival in the late 19th Century

Physiocratic ideas, especially of land reform, enjoyed a worldwide revival in the late 19th Century. Léon Walras (1834-1910) considered himself their intellectual and spiritual heir and successor. He penned vigorous attacks on land monopoly, as well as on French academic economists who supported it (*Théorie d'Économie Sociale*). In Germany. H.-H. Gossen revived the Physiocratic position; in England, James Mill, his son J.S. Mill, and the evolutionist A.R. Wallace; in America, Henry George; in Russia, Count Leo Tolstoy; and in Sweden, Knut Wicksell. The practical counterpart of this intellectual movement was a notable rise in dependency on the property tax, rising to a peak in about 1920 in the U.S.A.

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[3]Monroe as a member of the Continental Congress led the drive for free trade among the states. He was not actually a delegate to the Constitutional Convention, and his tour in France occurred after the Convention, so the French influence on him at the crucial time was indirect, and so was his influence on the drafters of the Constitution. He was, however, the acknowledged leader in the struggle for a commerce clause, and was finally rewarded with two terms in the White House.