

The Physiocracy of Henry George
By L.S. Anderson
Reprinted from Land & Liberty magazine / 2016

In chapter 4 of book VIII of *Progress and Poverty* (1879), Henry George singled out the school of Physiocracy for particular praise. In their doctrine of the single tax (*l'impôt unique*) he saw nothing less than an anticipation of his own idea. He wrote: ...there has been a school of economists who plainly perceived ... that the revenues of land, ought to be appropriated to the common service. The French economists of the last century, headed by Quesnay and Turgot, proposed just what I have proposed, that all taxation should be abolished save a tax upon the value of land. (George 1879 p. 423) Years later, in *The Science of Political Economy* (1898), George told the story of how his own ideas had suddenly come to him in a flash of clear vision, and how these ideas were almost immediately shown to him to have a prominent French pedigree.

I well recall the day when, checking my horse on a rise that overlooks the San Francisco Bay, the commonplace reply of a passing teamster to a commonplace question, crystallised, as by lightning-flash, my brooding thoughts into coherency, and I there and then recognised the natural order ... Afterwards, with the idea of the natural order in my head, I printed a little book *Our Land and Land Policy*, in which I urged that all taxes should be laid on the land, irrespective of improvements. Casually meeting on a San Francisco street a scholarly lawyer, A.B. Douthitt, we stopped to chat, and he told me that what I had in my little book proposed was what the French "Economists" a hundred years before had proposed. (George 1898 p. 163)

As is abundantly clear from these paragraphs, George viewed the Physiocrats as co-campaigners of his own single tax idea and as fellow believers in a natural economic order; an order of which he was careful to claim his own independent discovery. In other words, he read the Physiocrats as anticipators of his own work, and he therefore never really appreciated this intellectual precursor on its own terms and in its appropriate historical context. In this article, then, I will try in some small way to compensate for this incuriosity on the part of Henry George and attempt to lay out the fundamentals of Physiocracy and the specific meaning of the single tax proposed by the Physiocrats. Francois Quesnay and the rise and fall of Physiocracy.

The republic of letters was first introduced to the ideas of Physiocracy by two long articles entitled *Fermiers* (1756) and *Grains* (1757) published in Diderot's and d'Alembert's *Encyclopédie* but written by the royal physician Francois Quesnay (1694-1774), who gradually rose to prominence in Paris as the charismatic leader of a group of reform-minded *économistes*, as they called themselves. This group of dedicated followers of Quesnay, of which the first and foremost was the Marquis de Mirabeau (1715-1789), laboured vigorously to proselytise and disseminate their message, laid out in these initial articles and later, in 1758, formalised in the *Tableau Économique*; a somewhat puzzling piece of economic modelling whose complicated zig-zag pattern purported to visualise Quesnay's insights into the annual production, distribution and consumption of wealth under a system of unrestricted trade. The central claim of Quesnay and the Physiocrats was that the only way in which the French monarchy could escape its dire financial situation would be to abolish its mercantilist policies and properly respect the natural economic order.

According to Pierre Samuel Du Pont de Nemours (1739-1817), a young acolyte of the cause, Quesnay had been the first to penetrate the deep mysteries of the natural

economic order, enabling him to establish scientifically the fact that agriculture was exclusively productive and that strong property rights and free trade were necessary preconditions for its development. In 1768, he published a brief history of the movement entitled *De l'origin et des progress d'une science nouvelle* in which he wrote: About thirteen years ago, an ingenious and vigorous man, immersed in deep meditation ..., divined that nature does not limit herself to the law of physics of the kind that has been studied in our schools and academies until the present. ... Animated by the importance of this vision, and by the great lessons that could be drawn from it, he applied all the force of his mind in the search of the natural laws relating to society, and in the end he came to understand the unshakable foundation of these laws, their relation to each other, their development from each other, and their implications and results. It all formed a completely new doctrine, far removed from the prejudices adopted by general ignorance, and high above the comprehension of vulgar men in whom habitual thinking suppresses their ability to reason properly. (Nemours 1768 p. 9-10, my translation)

Du Pont de Nemours's history is an invaluable guide to the orthodoxies of Physiocracy (a term that he coined) and it brilliantly conveys the optimism and the confidence with which the movement propounded its ideas – especially in the period after the attempted liberalisation of the French grain trade in 1766. These were the years in which Physiocracy thrived. In 1763, Mirabeau and Quesnay had published their massive, collaborative work *La Philosophie Rural* that attracted much attention in the wake of the disastrous Seven Years War, during which France practically lost its colonial empire and – in the process – bankrupted itself. In 1768, Du Pont de Nemours published his *Physiocracie, ou constitution naturelle du gouvernement le plus avantageux au genre humain*; a work that schematically (and laboriously) reiterated the central ideas of Quesnay. After 1770, though, when the old policing of the grain trade was reintroduced, the movement lost a lot of its impetus.

A second attempt to liberalise the grain trade in 1774, this time by the philosopher-minister Jacques Turgot (to whom Du Pont de Nemours served as a secretary), briefly brought Physiocracy back on the scene, but the death of Quesnay that same year, and the subsequent “fall of Turgot” in 1776, meant that Physiocracy quickly lost its standing in the public sphere. The year 1776 also saw the publication of Adam Smith's *Wealth of Nations* and the almost complete dominance that Smith's great book henceforth exerted as the foundational text in political economy naturally stole a lot of attention away from the Physiocrats. To Smith, however, Quesnay's ideas played a crucial role as both a source of inspiration and an object of criticism. He fully adopted Quesnay's idea of measuring a nation's wealth in terms of the annual produce – the idea with which he opened the *Wealth of Nations* – and he no doubt felt a great deal of sympathy for the only other comprehensive system of natural liberty to his own. Their “agricultural system” was, according to Smith, the “nearest approximation of the truth” that had “yet been published upon the subject of political œconomy” (Smith p. 199).

Mercantilism and legal despotism

What Smith and the Physiocrats had in common was the strong conviction that society ought to be organised according to a natural order, and they equally shared the realisation that the present organisation of society deviated considerably from such an order. As Quesnay wrote in 1765: “The host of contradictory and absurd laws which nations have successively adopted proves clearly that positive laws are often apt to deviate from the immutable rules of justice and the natural order which is most advantageous to society” (Meek p. 45). Commerce and manufacture had become

subject to reason of state because the interests of merchants and colonialists had been allowed too much influence on public policy. The principal culprit in this calamitous development was Jean Baptiste Colbert (1619-1683), the comptroller general under Louis XIV and the grand architect of the “unnatural” system known to posterity as mercantilism (a term which Smith happily borrowed from the Physiocrats). In his effort to finance Louis’ growing military expenses, Colbert’s not only encouraged the expansion of France’s overseas empire, he reorganised the domestic economy for the purpose of making France commercially competitive. To Colbert, the balance of trade was a zero-sum game and his efforts were therefore directed towards gaining a trade surplus. On one hand he liberalised the manufacturing parts of the economy, incentivising and protecting their exports, and on the other hand he prohibited the exportation of agricultural goods. This latter thing was done in order to keep the prices on subsistence goods down because low living costs – it was understood – kept wages low as well. In this way, and at the expense of the agricultural sector, Colbert attempted to make domestic manufacture competitive in the international environment dominated by England – the new commercial giant in Europe (Hont p. 367-8).

In his article *Grains*, Quesnay gave his undiluted view on this Colbertian system: A nation with a large territory which causes the price of its raw produce to fall in order to favour the making of manufactured goods completely destroys itself. For if the cultivator is not compensated for the heavy cost entailed in cultivation, and if he makes no gain, agriculture is ruined; the nation loses the revenue of its landed property; manufacturing work diminishes and, because this work can no longer be paid for by the proprietors of landed property; and the country is depopulated through poverty and through the desertion of manufactures, artisans, labourers, and peasants, who can subsist only in proportion to gains which are produced for them by the nation’s revenue. Then the kingdom’s strength is destroyed, its wealth is wiped out, the people are overburdened with taxes, and the sovereign’s revenue diminishes. Thus a policy based on such grave misconceptions would alone suffice to ruin a state. (Meek p. 76-77).

Aside from his lamentation of these mercantilist policies, Quesnay identified two further problems which hampered agricultural development. Firstly, agricultural land was extremely unequally held in France and the largely absentee landlords didn’t see it as their duty to develop the productivity of the soil. The majority of the farmland was instead cultivated by sharecroppers (*métayers*), who had little or no incentive to increase its yield. The lion-share of any improvement would go to the landlord anyway. Secondly, the burden of taxation fell disproportionately and often arbitrarily on the cultivators since the privileged classes were largely tax-exempt and land-taxes fell heavily on the farmer’s share of the produce. Moreover, due to the ever-increasing public debt ensuing from Louis’ wars and his extravagant court-life, the tax burden on agriculture kept rising to ever unprecedented levels. This was highly inappropriate since taxing the productive element in the economy at some point would run into diminishing returns and, ultimately, kill the proverbial goose that laid the golden egg.

Something clearly had to be done to reverse this unnatural and unproductive order. Therefore, the Physiocrats put their faith in the unlikely emergence of a philosopher king (i.e. a Physiocratic king). Somehow, by some revolutionary act or decision, royal absolutism had to be rendered complete. “When the torch of reason illuminates the government, all positive laws harmful to society and the sovereign will disappear” (Meek p. 55). Intermediary institutions such as the regional parliaments, which everywhere were dominated by landlords, had to be abolished since they formed an arbitrary and biased constraint on the monarch. All privileges had to be abolished and all power had to be centralised in a monarchical system which they called legal

despotism. In short, they wanted something like Hobbes' Leviathan to enforce the laws of nature. There was no need for a constraining class of nobles since the laws which the monarch was supposed to enforce were natural laws the constraining of which would only be unjust and disadvantageous – and besides this to enforce were natural laws, the constraining of which would only be unjust and disadvantageous – and besides, this had been the common practice for far too long.

The natural order and the net product.

The content of these natural laws did not spring into existence along with Physiocracy. Like Adam Smith, the Physiocrats were heavily indebted to the principals and reasoning of natural jurisprudence as it had developed since the time of Hugo Grotius (1583-1645). Their preference for agriculture and free trade was rooted in the so-called stage-theory of history according to which the development of society from barbarism to civilisation was structured along changes in the predominant method of satisfying basic human needs. Actually, this materialist theory of society's development was primarily an attempt by natural lawyers to explain the origin and necessity (and thus legitimacy) of the modern regime of private property rights. Private property, they argued, ensured – by way of increased productivity – that even the propertyless were better provided for than if land was held in common.

With a similar purpose in mind, Quesnay and Mirabeau stressed repeatedly in *Philosophie Rural* that the satisfaction of man's basic material needs was the origin and *raison d'être* of society, and the political system ought therefore to be organised with the satisfaction of subsistence needs as its primary goal. They recognised three fundamental modes of subsistence. First, there was the hunter-fisher-gatherer way of life. Second, the shepherding or herding mode of subsistence, and third, the agricultural mode. Commerce, they thought, was not an independent mode of subsistence. Instead, it was a natural consequence of the establishment of property rights in agricultural societies. Surpluses of agricultural products inevitably emerged when the cultivation of the earth was incentivised through property rights and the exchange of these surpluses became the activity and livelihood of the people who were deprived of access to land. An additional, fourth, pseudo-mode of subsistence thus inevitably coexisted with the other three, yet it was only secondary due to its dependency on the other three for basic subsistence goods.

This point about the epiphenomenal nature of commerce is actually what most clearly separates the Physiocrats from Adam Smith. Contrary to the Physiocrats, Smith believed that commerce represented an independent fourth stage of society in which everyone "in some way becomes a merchant" (Smith p. 198). Smith was thus more sociological and less materialist when he developed his own stage theory of history. Moreover, commerce also possessed for Smith an amazing transformative power as an agent of civilisation. Ultimately, to bring about the transformation from a mercantilist system to a system of natural liberty; a transformation for which the Physiocrats needed a philosopher king, Smith relied largely (and perhaps naïvely) on the positive, yet unintended, consequences of commerce. He therefore considered the radical solution of the Physiocrats to be highly illiberal and itself subject to unintended consequences. Furthermore, the fact that commerce did not represent an independent mode of subsistence for Quesnay and Mirabeau is also reflected in their idea that only agriculture is truly productive. Commerce is by definition an exchange of a surplus. Yet commerce and manufacturing are not capable of creating such a surplus themselves, since everyone except the farmer "destroys in the form of subsistence as much as he produces by his labour" (Meek p. 73). Artisans and merchants are thus "sterile" in the

sense that they do not produce a net product (produit net). This net product only comes into existence when cultivation is applied to the land, and as such the net product is really to be understood as a species of rent – a gift of nature – given to the diligent cultivator. The entire population of a country is thus, according to the Physiocrats, maintained by the wealth that originates as a rent in agriculture; that accrues to the landlords as an unearned revenue, from whom it flows via consumption to the rest of society where it is transformed – not increased – by artisans, manufacturers and merchants. As Quesnay wrote in *Grains*: “All the kingdom’s inhabitants should profit from the advantages afforded by proper cultivation, if the latter is to be maintained and made capable of producing a large revenue for the sovereign. It is by increasing the profit of the farmers that it procures gains for all the other classes...” (ibid. p. 82).

Free trade and the preservation of wealth

This identification of all wealth with the net product of agriculture is crucial because it lies behind the Physiocrats’ idea that the king should focus exclusively on the aggrandisement of this single factor. For this purpose, two things were essential. Firstly, trade in grain needed to be absolutely unrestricted. Colbert’s policy of artificially keeping the price of subsistence goods low had only “ruin[ed] the countryside under the delusive pretext of assuring abundance for the towns” (ibid. p. 80). Only free trade could square the circle of creating both reasonably high and stable prices on grain (benefiting and incentivising the cultivator) as well as an abundance of grain.

When trade is free, the dearness of produce has necessary limits which are determined by the prices of the produce of other nations which have extended their trade to all parts of the world. The same cannot be said of the valuelessness or dearness of produce caused by the absence of free trade. These follow one another in turn and irregularly. Both are extremely harmful, and are almost always due to unsound government policy. (ibid. p. 86) Secondly, it was of paramount importance that the cultivator was relieved of the burden of taxation. The wealth that was needed as investment in cultivation had to be set apart for the cultivators and exempted from all taxation. “If the sovereign imposes taxes on the cultivator himself, if they swallow up his profit, there is a decline in cultivation and a diminution in the proprietors revenue, whence follows an inevitable retrenchment which affects hired people, merchants, workers, and servants” (ibid. p. 82).

The single tax and the changed conception of rent

It was as a solution to this problem that the Physiocrats proposed their single tax (*l’impôt unique*). It was to be levied on the net product when it accrued as revenue to the landlords. These landlords (or proprietors) were only useful to society because of their consumption which caused the net product to flow to the rest of society. If they hoarded their revenue, or spent it on imports, society would suffer. Their revenue, however, because it was unearned, could be taxed without discouraging agricultural production. In fact, by taxing their revenue, and untaxing their tenant farmers, the Physiocrats hoped to increase the net product even as it was taxed because the farmer would thus be incentivised by being tax exempt. “Taxes which are laid on the revenue, and which do not fall on cultivation, are not destructive at all, for cultivation will always amply compensate the proprietor, through the revenue it brings in for him, for the burden of the tax placed on this revenue itself” (ibid. p. 106). As a further reason for the single tax, the Physiocrats argued that a tax that varied with the size of the net product of agriculture would incline the monarch to encourage agricultural growth as much as possible. The single tax would thus create an advantageous alignment of interests which

tied the revenue of the monarch with the rise or fall of the revenue of landlords. Agriculture would then surely receive the proper attention of which it had hitherto been deprived.

In the *Wealth of Nations*, Smith devoted considerable attention to this scheme of taxation, and he attempted to improve on what he perceived to be its weakness. He clearly thought that this “variable land-tax proposed by the *économistes*” was superior to the English land-tax, which taxed landlords at an ancient, fixed rate even though the rent of land had been “continually rising” (Smith p. 354). However, he worried that the mere uncertainty of a variable tax would cause some discouragement, and he predicted some serious problems with exempting the improvement of land from taxation. If the Physiocrats’ land-tax was to work properly, it would be necessary to permit the landlord, before he began his improvement, to “ascertain, in conjunction with the officers of revenue, the actual value of his lands, according to the equitable arbitration of a certain number of landlords and farmers in the neighbourhood, equally chosen by both parties...” (ibid. p. 358) The improvements of land should then be tax-exempt for a fixed term, long enough to avoid their discouragement, but not so long as to discourage the sovereign from taking interest in the improvement of the land. Precisely like the Physiocrats then, Smith maintained that the rent which went to the landlords ensured that their interest was completely aligned with that of society in general (ibid. p. 276). When society prospered, they prospered as well. Smith, however, acknowledged that rent was a monopoly income. “Landlords, like all other men, like to reap where they have never sowed, and demand a rent even for its natural produce” (ibid. p. 56). Yet he did not think that this fact rendered it neither harmful nor unjust. The consumption of landlords kept the wheels of the economy going and thus made sure – by an invisible hand – that even the lowest and poorest workman, if he was “frugal and industrious”, would enjoy “a greater share of the necessities and conveniences of life than it is possible for any savage to acquire” (ibid. p. 2).

It was thus not until David Ricardo (1772-1823) that it was properly understood that rent was a derivative source of wealth and, therefore, detrimental to the development of society when appropriated by the landlords. With Ricardo it was also made clear that it was the inherent scarcity of land – both qualitatively and quantitatively – that gave rise to the phenomenon of rent. For this reason, Ricardo had a much more critical view of landlords (hence his campaign against their protectionist corn laws). Moreover, Ricardo believed – contrary to Smith – that the rent of land would rise, not only in absolute terms, but in relative terms as well. This was what lay behind his pessimistic prediction of a falling rate of profit in capitalist society and the inevitable regression to a steady state.

Half a decade later, Henry George was a true child of Ricardo when he proposed his single tax on the unimproved value of land, and this is the principal reason for the difference between his idea and that of the Physiocrats. According to the Physiocrats the rent of land should be taxed because it was the original source of wealth. As such the rent of land was purely beneficial to society – even if it went untaxed – and its taxation was supposed to align the interests of king and country and thus bring about a gradual return to a more natural economic order in which the incentives for cultivation weren’t discouraged. According to Henry George, on the contrary, the rent of land should be taxed because it was a derivative source of wealth, highly detrimental to society, when unjustly appropriated by the owners of land. Progress would forever be the cause of poverty unless the rent of land was taxed. In this view – and only in this view – does it become economically sensible to imagine the complete taxation of the rent of land. To a Physiocrat, that would mean the total nationalisation of wealth – the

gift of nature – which presumably would destroy all incentives for cultivation. To George, however, it meant reclaiming for the benefit of society the unearned wealth that owners of land derived from the benefit of society.

Bibliography

George, Henry [1879](1971): *Progress and Poverty*. Robert Schalkenbach Foundation. New York.

George, Henry (1898): *The Science of Political Economy*. London. Keagan Paul, Trench, Trubner

Hont, Istvan (2005): *Jealousy of Trade*. Harvard University Press.

Meek, Ronald (2003): *The Economics of Physiocracy*. Routledge.

Nemours, Pierre Samuel Du Pont de (1768): *De l'origin et des progress d'une science nouvelle*. Desaint. Paris.

Smith, Adam [1776](1976): *An Inquiry into the Nature and Causes of the Wealth of Nations*. The University of Chicago Press.