

The Physiocrats (revised March 28, 2005)

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 of natural law. New ideas of natural law and natural rights provoked established authorities, but in 18th Century France the religious intellectual leadership had turned inward. They consumed themselves with internecine nitpicking that mostly just bored others. Catholic Louis XV in 1764 even banned the Jesuit order from France. Tradition presented no effective alternative to the new *Philosophes* (as they were called). These new thinkers sidestepped charges of "atheism" by quietly adopting a modified religion called "Deism." Deists believe there is a Creator. This Creator made the universe and the natural laws that keep it running, but then stepped aside. Their way to worship this Creator is to study his universe and its unifying, orderly natural laws, as Newton had done. In this politico-economic world of new universals and decayed leadership, it was time for a new thinker to step forward with a unified, coherent system of thought for political economy. 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."

1. These Physiocrats were pioneers of applied economic analysis. They were people of influence in the French court under Louis XV and XVI. They were charter members of the French *philosophes* and Encyclopedists in the time of The Enlightenment (*Éclairçissement, Aufklärung*). Their motives were benign and idealistic, in contrast with the cynical Mercantilists. Their goal was 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. They ended up influencing most nations in Europe, some directly, and some

indirectly through the French and Napoleonic conquest of Europe.

2. They addressed problems specific to France, but in the process developed general principles applicable to all times and places. They 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, and America was forming a new government. Ideas were international: they learned from English scientists like Isaac Newton and William Harvey, and philosophers like John Locke. Their ideas, in turn, spread widely to Europe and America. In religion they were mostly Deists, like Washington, Franklin and Jefferson, while formally attached to Christian denominations.

Their ideas were not purely Eurogenic, but had a strong Chinese strain. Turgot, a leader of the group, was called "The European Confucius" because of his interest in Chinese philosophy. "European Lao-tze" would have been closer to the mark. Laissez-faire, their slogan, is Taoist (although one doubts if Lao-tze, founder of Taoism, would care for all the corporate excesses committed under the banner of laissez-faire today).

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., and has worked its way into the center of our culture today. As for Christianity's being "Eurogenic," it originated in Asia, and many scholars find Buddhist elements in the teachings of Jesus.

At any rate, Turgot et al. were Deists rather than Pauline Christians in the modern charismatic, evangelistic, altar-call style of, say, Jimmy Swaggart or Billy Graham. In The Declaration of Independence, Jefferson appeals not to "God" but to "The Laws of Nature and of Nature's God" - that is vintage Deism. He wrote The Virginia Ordinance of Religious Freedom. He bulled it through the Virginia legislature over fanatic opposition from the established Episcopal Church, and esteemed it so highly that he directed it be listed on his tomb as one of his three greatest achievements. (The other two were The Declaration, and founding The University of Virginia, a pioneer in state-supported higher education.) He (and not the ACLU, as many moderns seem to believe) wrote the First Amendment to the U.S. Constitution. He feuded with the puritan theocrats of New England, especially Connecticut. He later

went so far as to edit the Gospels and publish The Jefferson Bible, removing all references to supernaturalism.

3. Politically, the Physiocrats 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 - the First and Second Estates of France - who ousted and succeeded them paid the price in the French Revolution, from 1789, which the Physiocrats were trying to forestall. During the Revolution many of their ideas were applied, although not in pure forms. The conquests of Napoleon spread French-Physiocratic ideas over most of Europe. Later they were incorporated in the new synthesis and compromises of the French Bourbon Restoration after 1815. Nations throughout western Europe and the British colonies moved in their direction by taxing property more and internal trade less, throughout the 19th and early 20th Centuries.

4. Causes they championed:

A. Reforming obvious abuses: graft, corruption, tax-farming, etc.

B. Equality before the law, which meant taxing the First and Second Estates same as the Third.

C. Laissez-faire

D. "Natalism" - raising the birth rate

E. Untaxing production, trade, capital formation, and parenthood

F. Focusing taxation on the net product of land (aka economic rent), which they saw as the only true taxable surplus

5. They had strong influence abroad, e.g. in England on Adam Smith, who studied under Quesnay, and on other English classical political economists like Ricardo and Mill. The Court of Versailles, with all its faults, was the intellectual and social center of 18th Century Europe. In America they influenced Ben Franklin, Tom Paine, John Adams, James Monroe, and especially Thomas Jefferson, all

of whom had put in tours in France. 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.)

Why should we care today? The U.S. Supreme Court today tries to understand words in The Constitution according to the contemporary thinking of those who wrote it. The "Founding Fathers" who wrote the U.S. Constitution were steeped in Physiocracy. Even Alexander Hamilton, champion of commerce, finds it necessary in his Report on Manufactures (1791) to refute an idea advanced by some (not all) Physiocrats that farming is more "basic" than other pursuits. (He does it 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, which waited upon Henry George, 1879).

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 maybe they have overdone it. With oil prices soaring, many are rediscovering the primacy of "primary" products.

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 and Versailles, in turn, were the leading intellectual centers of Europe. Their ideas traveled east as far as St. Petersburg (Catherine the Great), and west as far as the new U.S.A. (Tom Paine, James Madison, James Monroe, John Adams, Tom Jefferson, and Ben Franklin, among others).

It was actually the Americans who traveled, for all six 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. France, of course, had helped win the

American Revolution, and earned all the good will that England lost. Recall that Jefferson's political party, which routed the Federalists in 1800, was pro-French. Louisiana, which Jefferson joined to the U.S. in 1803, was heavily French. Jefferson's political "dynasty" lasted a long time: through Madison, Monroe, John Quincy Adams, Andrew Jackson, and Martin van Buren - at least.

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 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. Do not mistake Viktor for his son, Honoré, a leader of the French Revolution (the two were estranged, for personal reasons).

Pierre Samuel du Pont de Nemours was a cagey 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 The Terror of 1794. In 1799, the ascendancy of Napoleon, he left France for America where he befriended Thomas Jefferson, and reinforced Jefferson's belief in Physiocratic ideas. With his son, a chemist who studied under Lavoisier, he established the I.E. Du Pont firm in Delaware, now America's most enduring family-business dynasty. (The "I.E.", in case you were wondering, stands for Irénée Éleuthère, the son.) Pierre's namesake, P.S. du Pont IV, had a run at the Presidential nomination in 1988.

Baron A.R.J. Turgot was a skillful and honest administrator. As the Intendant (Royal Governor) of

Limousin he had applied Physiocratic policies to good effect. 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. 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 Quesnay, i.e. the notion that commerce and industry are "sterile." They were of one mind, though, on 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. Turgot believed in "natural rights," a popular ethical and philosophical concept of the times. Modern academic philosophers cavil at the concept that rights or law are "natural." Maybe not, but natural law and rights "have legs," going back to Lao-tze in 500 B.C., and are firmly embedded in our culture: in Jewish and Christian Doctrine, the English Bill of Rights (1689), the American Declaration of Independence (1776), the Massachusetts Declaration of Rights (1780), the French Declaration of the Rights of Man (1789), the Bill of Rights in the U.S. Constitution (1789), the Gettysburg Address (1863), the United Nations Declaration of Human Rights (1946), and more orations and sermons than you could count.

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

A. Vast lands held by the clergy (the "First Estate") and ancient pedigreed nobles (the "Second Estate") were exempt from taxes. The clergy devoted some of their rents to charity and good works and education - they were the welfare system of the times. The nobles were mainly decorative and self-serving. The "Third Estate" (businessmen, workers, and plain folks) paid the taxes, and resented the privileges of the First two Estates - feelings that were to boil over in the Revolution.

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. (Ironically, 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. California's Proposition 13, 1978, now shelters property from taxes above a low level, thus forcing the state to levy taxes on other bases - mainly human labor.)

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 much fatherly solicitude for the poor, infirm or aged). Under Colbert, the state micro-directed many business and manufacturing affairs. What was the State? Louis XIV said "*L'État, c'est-moi!*"

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. Another bad effect was to create a noisy mob-lobby opposing free markets.

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 for centuries was "*Cherchez la femme.*") It was the age of "The Enlightenment," and for a time, Quesnay reigned as a guru at its center in Versailles. European monarchs viewed themselves as "Benevolent Despots"; it was chic, and 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. It was something like the "radical chic" of the 1960s in America. Frederick the Great of Prussia, Charles III of Spain, and (very briefly) 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 seriously 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, and not all of them, for he ruled over scattered polyglot domains that resisted central administration.

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 a jealous Salieri may have poisoned Mozart, who died young. Joseph himself also died young in 1790. So did his brother and successor, Leopold II, in 1792. Hmmm.

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 in 1790, his successor, Leopold II, aborted his reforms, and joined the entente against the French revolution, then just beginning. Court historians since then have sneered too much at the problems and overreach of Joseph II. 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 clergy (the First Estate) and the nobles (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, *l'Autrichienne*, was the sister of Joseph II of Austria. "*Chienne*" translates as "bitch," and she was called that, too.

Marie should not take all the onus, however, and it is perhaps 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, 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." 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).

Do not think that mindset passed away long ago. It was also the mindset of economists Francis Y. Edgeworth and Vilfredo Pareto, whom you meet later. The ideas of Pareto, an Italian fascist, have been adopted by much of the economics profession to justify the unequal distribution of wealth.

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 alleged and widely quoted 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. Even more shocking, they would add the lands of the first two estates to the tax base.

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 "Laissezfaire." 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 souverânes* (public front-money).

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. This line of economic reasoning entailed too many steps for many angry and hungry consumers who relied on cheap subsidized bread, and they dealt Turgot a setback. Their anger and simple-mindedness were studiously stirred by agents of Turgot's enemies, the First and Second Estates. Turgot needed a marketing agent.

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. In both cases, cheap bread won out. In politics, the stomach is mightier than the heart and the head.

Laissez-faire also meant revoking monopolies, at least those that the state granted and supported. Chief among these were the "guilds," both craft guilds (labor) and merchant guilds (cartels). These went back to the middle ages, and had the enduring support of the Vatican, a force that helped revive them in the 20th Century, as we will see.

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 Gandhi's India. In case the taste for salt was insufficient, the French Crown required each family to buy seven pounds a year. To be sure, most of that was used by peasants for cattle licks.

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 misnamed free traders, who pile taxes on 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. Remember that Turgot, "the French Confucius," was much influenced by Chinese precedents. A famous administrator who revived it during the Sung dynasty was Wang An-shih, who was chief councilor, 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 Sung 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. Eastern Asia, indeed, has prospered mightily by using this principle of public revenue. Hong Kong is the most visible modern example. Japan's Meiji Restoration was financed by land taxes, and the MacArthur reforms during the occupation restored many of them, helping with Japan's astounding postwar recovery and prosperity. Singapore has prospered with heavy use of land taxes, as have the "lucky countries" of Australia and New Zealand.

The French Physiocrats did not view this tax shift as raising 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.)

Selling this idea to landowners themselves was another story. Adam Smith was later to deplore that the "indolence of landowners" prevented them from seeing how they might gain from the above shifting process. Like the Parisian breadline mobs who shouted down Turgot, landowners had trouble following an argument of more than one step.

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 and jobs, and the quicker the better for labor. (Today we call it "turnover.") This was one of their reasons for wanting to keep taxation off capital, and focus it on the Net Product of land.

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 William Harvey's medical science of circulation, and makes the connection. This part of their analysis - the circulation of capital - was gradually lost, except among Austrian economists, who are still trying with little success to reintroduce it into the mainstream of economics. Modern macro-economists, following Keynes, deal with what they call circulation, but it is only the circulation of money, not of real capital. This thread is important, but involved to grasp, 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, 229 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 traveled in France and studied for a time with Quesnay, to whom Smith credits some of his 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 Gallatin 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 sometimes called the father of the "Commerce Clause" in the U.S. Constitution¹ (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.

6. Primacy of agriculture?

¹ Monroe was not a delegate to the Constitutional Convention. He had been a Virginia member of the Continental Congress, in which capacity he led the agitation for a commerce clause.

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 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 quirk to dismiss 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, although generally a great spirit, did this in an unworthy effort to downplay his own debts to his French teachers by misrepresenting and belittling them. Modern critics should also note that Quesnay stressed the primacy of ALL natural resources, not just farmland. As the natural scarcity of oil looms up, Quesnay's quirk looks better every day.

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 China, Sun-yat Sen; in Japan, the Meiji Restoration; 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.

The Physiocrats, Q & A

1. Were the Physiocrats narrow nationalists?

Patriots, yes; narrow, no. They addressed problems specific to France, but in the process developed general principles applicable to all times and places. In this respect they resembled the author of the Declaration of Independence, who was one of their students.

2. Were the Physiocrats influential in politics?

They were people of influence in the French court under Louis XV and XVI. They got "ahead of the curve," and in France lost favor and power after 1776. They had some vogue in many European courts. In Austria, especially, under the Benevolent Despot Joseph II, their influence grew until Joseph died in 1790. They had strong influence abroad, e.g. on Adam Smith and Thomas Jefferson. In 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.

3. Where did the Physiocrats stand on free markets?

They adopted the slogan of Laissez-faire. 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 has been hypocritically "kidnapped" by various neoMercantilists and other privileged groups to support policies the original Physiocrats opposed. Confusing? Modern economics has become a jungle of semantic manipulation - we are here to learn to deal with it.

4. Who were some leading Physiocrats?

Dr. François Quesnay, Baron A.R. Jacques Turgot, Pierre Samuel du Pont, Marquis Viktor de Mirabeau, Vincent de Gournay, and others: quite a large clique. If all those names are hard to retain, just remember Quesnay (keh-NAY), the heavy thinker, and Turgot (tour-GO) the practical man-of-action. Americans will also have no trouble remembering Du Pont, friend of Jefferson.

5. What economic problems did the Physiocrats see in France?

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.

The state micro-directed many business and manufacturing affairs.

The state controlled farm prices below market levels. A harmful side-effect was to demotivate farm production.

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

Actual tax collections were handled by "tax farmers."

No one ever heard of a merit system.

6. What tax policies did the Physiocrats endorse?

They would end all taxes that are contingent on production, labor, and trade. They favored complete free trade, including freedom from excise taxes, with emphasis on freeing domestic trade (unlike today's self-styled free traders, who hype international trade while taxing domestic trade, production, and labor).

They would focus taxes on the *produit net*, that is the Net Product of land after deducting all costs of improvement and production. This accomplished two ends at once. One, it raised revenues without taxes on production, labor, or trade. Two, it asserted a kind of "co-proprietorship" of land by the state.)

7. Were the Physiocrats on the "left" or the "right" of the politico-ideological spectrum?

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" 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. It is one of the main ideas you should take from this course.

8. Did the Physiocrats undervalue commerce and industry?

Some did; others did not. De Gournay and Turgot were ardent Physiocrats who did not buy into the fallacy; neither should we, but beware the oil shortage.

9. Did Physiocracy die away?

Physiocratic ideas, especially of land reform, enjoyed a worldwide revival in the late 19th Century. 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. As for *laissez-faire*, that was never stronger than in the oratory of today, but unfortunately only in a hypocritical form that endorses

taxes on production, labor, and trade, and leaves out the taxation of land rents.

In England, an outstanding thinker adopted Physiocratic ideas, and built on them. He was Adam Smith. We turn next to him.