The Physiocrats

- Mainly French, centered on the French Court, 1756-1776.
- First real “school” of economics
- Their work was analytical
- Based on natural law philosophy
- Addressed to the problems of the French economy: Financial problems of the State, great inequalities, policies of Colbert
- Quesnay and the “Tableau Economique”
Jean Baptiste Colbert
1619-1683
Colbert’s Mercantilist Policies

• Who is Colbert?
  – Finance minister under Louis XIV
  – Implemented harsh mercantilist policies in France
  – His main goal was to increase the power of the king (i.e., the state)
  – He believed that the volume of world trade was fixed.
  – So, a gain for France had to come at the expense of England of the Netherlands.
Colbert’s Mercantilist Policies

• An important goal was to increase exports and reduce imports, in order to increase the inflow of gold and silver
  – Colbert’s policies
    • encouraged population growth,
    • Encouraged immigration of skilled workers,
    • Discouraged emigration, and
    • Extended corvée or forced labor throughout France in 1738
  – Why? To keep wages low, so that French exports would be cheap.
  – The state heavily regulated French businesses in an effort to boost the quality of France’s exports
    • Colbert once announced that fabric from Dijon and Selangey must contain 1,408 threads.
Physiocracy

• Francois Quesnay (1694–1774) and his followers are jointly referred to as the Physiocrats.
• They were heavily influenced by Cantillon (1680-1734).
• They further developed two of Cantillon’s ideas:
  – land as the source of wealth and
  – the circular flow of income.
Francois Quesnay
Main Components of Physiocracy

• Concept of the “natural order”
• Concept of “net product” or surplus
• The analysis contained in the Tableau Economique
• Policy implications and proposals
The Natural Order

• The social and economic world is governed by natural laws
• Natural laws are part of God’s creation
• Man’s rationality has the purpose of discovering and understanding these laws
• Following these laws will ensure the happiness of mankind
• Greatest possible abundance of goods, greatest possible liberty to make use of these goods, and harmony of interest between social classes
Fundamentals of the Natural Order

• The natural state of existence of man is in society
• There is a physical necessity of society
• Individuals have a right to survival (security of person)
• Individuals have a right to acquire property through labour
• Duty to respect the person and property of others
• Security and liberty of enjoyment
• Free exchange
The Net Product

• Based on a concept of the particular productivity of nature
• When people work with nature they produce a surplus over their own subsistence requirements
• A farmer produces more than enough to support his own family and replace the inputs used up in production—net product
• *Only* agriculture produces a net product (productive)
• Manufacturing covers subsistence and the costs of the inputs used up but does not produce a surplus (sterile)
The Net Product

• The agricultural surplus is what supports the aristocracy, the church establishment, the Court, armies and navies, the arts, and civilization

• “It is obvious that the volume of the annual crop is the determinant of population and of everything that determines the political power of Society”

• The greatest possible farm output makes for the best political order and a maximum of power and security

• Estimated that the best agricultural techniques could produce 100% net product, but much existing French agriculture much less efficient
The Tableau Economique

- The tableau is an analytical “model” of the economy
- It assumes three social classes (landowners, tenant farmers, and artisans)
- It assumes that only agriculture produces a surplus—artisans are sterile
- The Tableau uses the concepts of productive and sterile expenditure flows
- Capital requirements are discussed in terms of “advances”
The Tableau Économique

- The period of production is one year (based on agricultural production)
- The Tableau displays the circulation of goods and money in the economy, the interdependence of the three classes, and the importance of agricultural productivity
- The Tableau also demonstrates how the system can reproduce itself year after year, and what might cause the economy to grow or decline over time
The Original Tableau

- Shows the initial payment of rent equal to the net product
- Assumes 100% net product
- The Landowner then spends half on food and half on manufactured goods
- The series of zig-zags show the subsequent expenditure flows between farmers and artisans
- Initial expenditure of rents of L600 leads to total expenditures of L1,200 half on agricultural goods and half on manufactures
Original Tableau
Problems with the Tableau

• Agricultural sector is supposed to produce twice the output of the manufacturing sector but expenditures on each are equal

• “Sterile” class seems to produce 600 from 300 of advances

• If applied to a closed economy then something has to change

• Or can assume an international sector that is not explicitly modeled
The Tableau: A Simplified Model (No Trade)

Net product is paid in rent

Farmers

Food

Man goods

Rent

Money

Landowners

Food and Raw Mat

Artisans

Money

Man goods
An Interpretation of the Tableau (no trade)

[ ] = stocks at the beginning of the year

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<tr>
<td>Man Gs</td>
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<td>[2]-1-1</td>
</tr>
</tbody>
</table>

- Farmers pay rent of 2 to landlords
- Landowners buy food and man goods
- Farmers buy 1 manufactured goods
- Artisans buy 1 food and 1 raw materials
- Over the next production period landlords consume everything, artisans produce 2 units of output from 2 units of input, and farmers produce 5 units of output from 3 units of input (net product=2)
The Tableau: A Simplified Model (Trade)

Net product is paid in rent

1. Farmers
   - Food
   - Food and Raw Mat
   - Money

2. Artisans/Merchants
   - Man goods
   - Money

3. Landowners
   - Rent
   - Money
   - Man goods

Export of food
Import of Man goods
An Interpretation of the Tableau (trade)

[ ] = stocks at the beginning of the year

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<tr>
<td>Man Gs</td>
<td>[0]+3</td>
<td>[0]+3</td>
<td>[3]-3+3-3</td>
</tr>
</tbody>
</table>

- Sterile Class contains both artisans and merchants
- Farmers pay rent of 6 to landlords
- Landowners buy 3 food and 3 man goods
- Merchants buy 3 food for export for 3 man goods
- Farmers buy 3 manufactured goods
- Artisans and Merchants buy 3 food and raw materials
Tableau: Comments

- Net product is what supports the landowning class
- Artisans are sterile, produce useful output but no net product
- What is the role of the Landowners?
  - Bring land into production
  - Improve land
  - Limit rents to no more than the net product
Use of the Tableau

- Analyze effect of luxury expenditure
- Taxation on Farmers
- Lack of foreign trade in agricultural products
- Failure of net product to return to the productive class as advances
- Peasant agriculture
Policy Implications

• Encourage Agriculture--Improve agricultural management and technique. Example of England
• Dismantle restrictive laws and regulations—Laissez-faire
• End artificial encouragement of manufacturing
• Reform the tax system—single tax on the net product
• Importance of consumption to maintain income flows
• Free trade, particularly in agricultural exports