

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 or 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 Economique

- 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

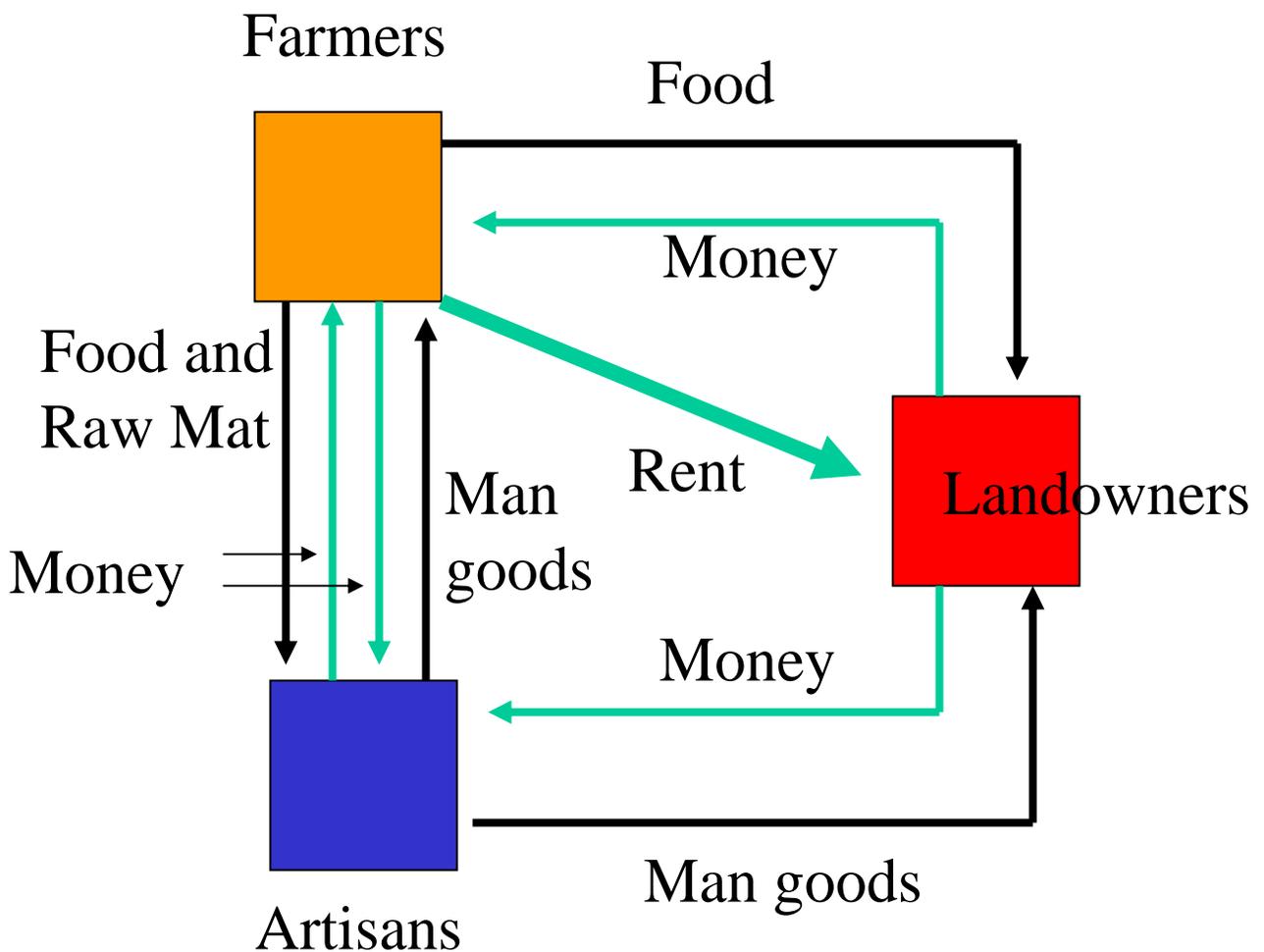
Original Tableau

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



An Interpretation of the Tableau (no trade)

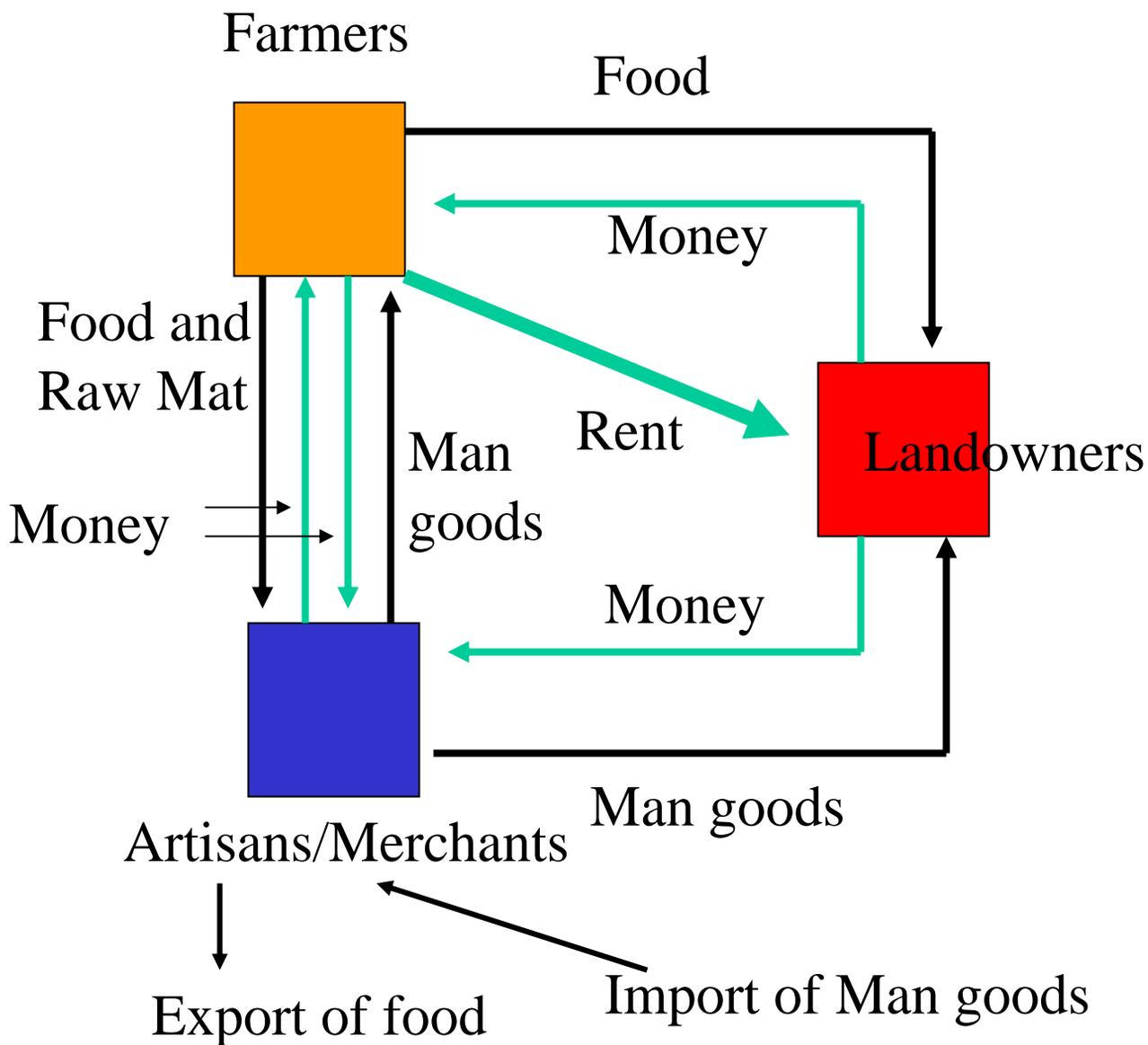
[] = stocks at the beginning of the year

	Farmers	L'lords	Artisans
Money	[2]-2+1 -1+2	[0]+2-1-1	[0]+1+1 -2
Food and Raw Mat	[5]-1-2	[0]+1	[0]+2
Man Gs	[0]+1	[0]+1	[2]-1-1

- 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



An Interpretation of the Tableau (trade)

[] = stocks at the beginning of the year

	Productive	L'lords	Sterile
Money	[6]-6+3+3 -3+3	[0]+6-3-3	[0]+3-3 +3-3
Food and RM	[12]-3-3-3	[0]+3	[0]+3 -3+3
Man Gs	[0]+3	[0]+3	[3]-3+3-3

- 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