

Physiocracy

1. INTRODUCTION

Physiocracy refers to the rule of the nature. It is a system of economic thought which took its birth in France about the middle of the 18th century. Physiocracy, which is also known as the Agricultural System, emphasised the government of human society by the laws of nature in contrast to its regulation by man-made positive laws. The physiocrats have been aptly regarded as the founders of economic science because they were the first to grasp the general principles underlying the economic phenomenon and to evolve a theoretical system which emphasised the inevitability of these principles.

Physiocracy also marked the rise of the first school of economic thought. A school requires a leader and a doctrine. The Physiocrats had in Quesnay a common leader and in *Rural Philosophy* a common doctrine. Again, a doctrine needs systematisation and in *Tableau Economique* the physiocrats discovered a technical formula to represent systematically the circular functioning of economic system. As a school of economic thought, the physiocrats had many things common with the Marxist school. Both Quesnay and Marx, the masters of the two schools, examined the inner physiology of the society in which they lived; both interlocked their economic, philosophical and sociological ideas into an all-embracing theoretical system; both, in their theoretical systems, adopted a materialistic approach, concentrated their attention on the problem of the social surplus and gave reproduction schemes; both had faithful friends (Marx had Engels and Quesnay had Mirabeau) who worked along them and took charge of the leadership of their respective schools.

The representatives of the school of physiocracy called themselves as 'economists', whereas the posterity desired to call them as 'physiocrats'. As far as the contributions of the school are concerned, they justify both these

names. Their chief contributions are in the field of social philosophy and economic analysis. The 'physiocrats' believed in and propagated the philosophy of physiocracy, *i.e.*, government of human societies by the rule of nature. It is only by acting according to the natural order that the happiness of all the members of the society can be maximised. The physiocrats were the first to advocate the institutions of private property and the policy of economic liberalism. They can also be appropriately called the 'economists', because they were the first economic analysts who demonstrated that in economic matters, pure scientific reasoning should be applied in order to arrive at universal truths.

To sum up, the physiocrats made the following three contributions to economic science : (a) *Social philosophy*—they believed in the existence and beneficence of the natural order which prevailed all economic activity. (b) *Economic analysis*—they depicted the circular flow of income and output of the economy, or, showed how the economy grows continuously under the sway of the natural order. (c) *Economic policy*—to ensure the authority of the natural order, they advocated the policy of economic liberty which included minimum of legislation, removal of restrictions on trade and abolition of burdensome taxes.

The Forces Responsible for the Rise of Physiocracy

The socio-economic conditions prevailing in France were largely responsible for the rise of Physiocracy in that country.

1. *The Mercantilist Policies.* During 16th and 17th centuries, the economy of France was under the dominance of mercantilist policies. Industry and trade were given preference at the cost of agriculture. Agriculture was in a wretched condition and the agricultural workers bore the heavy burden of taxes. But now, the mercantilism had outlived its usefulness and was heading towards its decline. The echoes of agricultural revolution in England were reaching the people of France, thus making them conscious of the profitableness of large scale farming and other agricultural improvements. The writers like Gournay, Mirabeau and Montesquieu were looking for a bright future of their country through agricultural advancement. This created a general distaste for the mercantilist system and liking for policies favouring agriculture.

2. *Extravagant Court Life.* During the reigns of Louis XV and Louis XVI (*i.e.*, the period immediately preceding the French Revolution), France experienced a degenerated and corrupt court life. The king was the centre about which everything in the state revolved. He believed in the authoritarian

maxim 'I am the State' and himself led an extremely luxurious life. The court indulged in pomp, extravagance and debauchery. All this resulted in the degeneration of the court, exhaustion of state treasury and deterioration of the country's economic conditions. These facts inspired the people with new ideas and prompted them to strive for a change. Physiocracy was an intellectual attempt to save France from economic bankruptcy.

3. *Wars*. Long and costly wars against Holland during the same period only added fuel to the fire and further increased the poverty of the country.

4. *Heavy Taxes*. Extravagant spendings of the rulers and expensive wars brought an economic crisis in the country. To replenish state treasury, heavy taxes were imposed. These taxes were regressive in character, *i.e.*, the burden of these taxes directly fell on the poor cultivators, whereas the religious class and the nobles (who were also the landlords) were exempted from the taxes. The main taxes were : *taille* or tax on land and houses; *gabelle* or salt tax; *aides* or taxes on the manufactured commodities; and *traites* or customs duties. These taxes further added to the miseries of the poor people.

5. *The Subjective forces*. The physiocrats were also influenced by the subjective forces, which too were at work for change and transformation. A silent revolution was on the way and the prevailing conditions of poverty, oppression and injustice were being discussed and disapproved by the leading thinkers of the time. The political writers were thinking of simple and more rational laws based on the general principles of justice. The natural sciences were advancing and there was a tendency to apply their method to philosophy and socio-economic problems.

Main Ideas

1. *Philosophy*. The essence of physiocracy lay in the philosophy of natural order. Human societies are governed by the natural moral laws. The natural laws are providential laws, beneficial both to the individual and the society. It is the duty of every individual to discover and obey the natural laws. In the economic world, the natural order is realised through the principles of security of property and economic liberty.

2. *Functions of the State*. The physiocrats favoured a system of economic liberty or *laissez-faire* and were against state interference in economic matters. As the positive laws interfered into the free play of natural forces, the physiocrats wanted a minimum of legislation. The head of the state is a despot ruler who serves as a Divine agent for the realisation of natural order in the society. The chief functions of the state thus are the preservation of the natural order and enlightening the people about the natural laws.

3. *Economic Science.* The physiocrats were the real founders of economics. They laid the scientific basis of the subject by discovering the unifying principle guiding the whole economic phenomenon. They also applied this principle logically in dealing with the practical problems of the production and circulation of wealth. Thus, economics has been regarded as both a pure as well as a practical science. The physiocrats also anticipated modern economics in three fields, i.e., general equilibrium analysis, national income analysis and econometrics.

4. *Value.* The concept of value did not play any significant role in the physiocratic system. The physiocrats did not clearly distinguish between value and price and used these terms interchangeably. As Quesnay says, 'What is called value is the price.' They also did not bother much about the forces determining exchange value and simply considered the goods exchanged of equal value. They were mainly interested in the fluctuations of the market price, which, they thought, depended upon the degree of competition of buyers and sellers.

5. *Wealth.* The physiocrats meant by wealth real wealth and not money. True wealth consists of consumable commodities, while money functions merely as a token for the exchange of the commodities.

6. *Net Product.* The net product or the social surplus is the fundamental economic idea introduced by the physiocrats. They regarded land as the unique source of wealth, and believed in the exclusive productivity of agriculture. Agriculture has been considered as the only productive sector because it creates net product (i.e., the surplus over cost). In other words, the wealth produced in agriculture is greater than the wealth consumed. Industry is unproductive in the sense that it does not produce net product or surplus wealth. However, the physiocrats did not deny the usefulness of industry.

7. *Circulation of Wealth.* The Society was divided into three classes : (a) the productive class (farmers), (b) the proprietary class (landlords), and (c) the sterile class (artisans). The physiocrats believed that different classes of the society are interdependent and wealth is distributed among these classes in the same way as blood circulates in the animal organism.

8. *Economic Table.* To explain how wealth is distributed among different classes of the society, the physiocrats employed the tableau method. Through this method, the circular flow of income and output was picturised in an economic table. The physiocratic economic table assumes a static economy repeating itself in a circular fashion.

9. *Economic Growth.* Economic growth of the economy depends upon agricultural advancement, which in turn depends upon capital accumulation

and its investment in agriculture. The physiocrats mentioned three capital requirements of agriculture : (a) *avances annuelles* or circulating capital, (b) *avances primitives* or fixed capital, and (c) *avances foncieres* or expenditure on the improvement of land. Other favourable factors for economic growth are : restricted population growth, expansion of home market and system of competition and free enterprise.

10. *Economic Policy.* The physiocratic views regarding economic policy were the direct outcome of the philosophy of natural order and theory of economic growth. The physiocrats criticised the mercantilist policy of economic restrictions and were opposed to all policies which interrupted the circular flow of income and output. Their important policy slogans were : (a) down with luxury—an increase in the propensity to consume manufactured articles is harmful to economic growth; (b) down with restrictions on trade—removal of such restrictions restores competition and raises agricultural prices; (c) down with indirect taxes—all taxes should be paid by the landlords from their revenue.

2. SOCIAL PHILOSOPHY

The Natural Order

The physiocrats had firm faith in the philosophy of the natural order. In this philosophy lay the essence of their system. Dupont de Nemours called physiocracy as *the science of the natural order*. Physiocracy refers to the government of human societies by the laws of nature. The natural laws inherent within the society govern the activities of its members. These laws are harmonious in character and beneficial in effect. The problem is to discover and obey these laws.

Natural laws are of two types : natural physical laws and natural moral laws. The *natural physical laws* govern the physical universe. Quesnay defined them as 'the laws of the trains of events as favourable as possible to the happiness of all sentient beings.'¹ This does not mean that the physical laws have no evil effects. They bring with them both good and bad events. Using Quesnay's example : 'The rain-storm which inconveniences the traveller, waters the fields.'² The point is that the benefits from the physical laws are far greater than the evils they produce. The *natural moral laws*, which rule human societies, also produce beneficial results in the same manner as the

1. Quoted in, Tayler, *A History of Economic Thought*, p. 17.

2. *Ibid.*

natural physical laws do. They are the laws of human actions, the consequences of which are 'as favourable as possible to the happiness' of all individuals of the human society. But there is a great difference between the physical natural laws and the moral natural laws. The physical natural laws are deterministic laws, exhibiting the actual course of events. The moral laws govern free human beings and set standards for their ideal conduct. The former explain the inevitable 'what is,' while the latter give the ideal 'what ought to be'. The physiocrats were concerned with the natural moral laws and emphasised the following points regarding the nature of these laws : (a) they include rules of prudent individual conduct; (b) they include the rules of justice to be followed by individuals while dealing among themselves.

The natural order of the society is to be *distinguished from the state of nature*. While the former is compatible with the civilised state, the latter refers to a savage state, a negation of civilisation. All the physiocrats themselves belonged to the highly civilised groups of the society. They were mostly magistrates, priests. Rousseau felt that civilised mankind had lost something by passing from the state of nature into the civilised state. The 'social contract', according to Rousseau, was an attempt to give back to the people what they have lost. The physiocrats, on the other hand, believed that nothing was lost, and everything was gained, by entering into the civilised state. One more difference between the physiocrats and Rousseau was that while the former regarded the personal interest and duty as identical because by acting according to his own interest the individual was believed to be promoting the social good, the latter found the two antagonistic.

So far, we approached the concept of the natural order negatively, *i.e.*, what the natural order is not, and sought to clarify certain confusions regarding the concept. Now, there is a positive question : *what the natural order is*. The natural order has been defined by the physiocrats as the providential order decreed by God for the welfare of mankind. It is universal and unchangeable. The natural laws are the expression of the will of God. They belong to 'the essence of matter and the soul of humanity' and are irrevocable. To discover and to understand these laws is man's first duty and to live according to them is the second. The knowledge of the natural laws is attained not by external observations but through introspection. Though the natural order is a Divine light, a self-evident principle, within every man, but only rational human beings become aware of it.

In practical life, the natural order reveals itself through the *principles of private property and individual liberty*. To attain maximum pleasure with

minimum effort is the economic aim of the natural order. This aim is achieved only under the conditions of economic liberty. The physiocrats were the first to popularise the slogan *laissez faire, laissez passer*, i.e., let every individual do his economic activity freely and let every economic event take its normal course. This, however, does not mean that the government should do nothing and the existing institutions should be left unchanged. The idea is to reform the government and its legislation in accordance with the ethical natural law. Only then the maximum welfare of the society will be achieved. It is true that once the order is realised, the government will not have much work to do, but it will be entrusted with the responsibility of educating the people in the laws of the natural order and securing the rights of individual liberty and private property. This is by no means a small task.

The physiocrats' principle of the natural order was undoubtedly an *oversimplified and dogmatic principle*. It was based on the belief that the spontaneous activities of the individuals automatically lead to the maximisation of society's welfare. It ignores the fact that the interests of the individuals are not always in harmony with those of the society and the individual is not always the best judge even of his own interests. But, in spite of the canonical optimism prevailing in the physiocrats' naturalistic philosophy, their achievement was laudable. As Gide and Rist pointed out: '...it was no small thing to found a new science, to set up a new aim and a fresh ideal, to lay down the framework which others were to fill in.'³

The Institution of Private Property

The laws of nature favour man with natural rights. The most important natural right is the right to acquire private property. The institution of private property, according to the physiocrats, is the fundamental institution on which all other institutions of the society depend. '...you can think of the right of property as a tree, and all the institutions of society are the branches which it shoots forth, which it nourishes, and which perish when they are detached from it.'⁴ Private property rights originate from and are limited to the application of labour. Private property can only be *acquired by labour*. No doubt, theoretically speaking everyone has a right to everything, but, in practice, this right is limited to that part of things which one can acquire by one's labour. Thus, the physiocrats justified the individual's right to private property on three grounds : (a) it represents the Divine will; (b) it is in

3. *History of Economic Doctrines*, pp. 29-30.