

Natural Order And Economic Prosperity: An Analysis Of The Physiocratic School

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Abstract:

This study delves into the Physiocratic School, an 18th-century French economic movement that heralded the significance of natural order and agriculture in national wealth. Founded by François Quesnay, the Physiocrats posited that a nation's wealth originated from its soil and the agrarian sector's productivity, which contrasted sharply with the preceding mercantilist emphasis on trade and precious metals. This research traces the Physiocratic assertion that land is the sole source of a "net product" — an actual surplus post the cost of production, arguing that only agriculture could transform natural resources into valuable commodities. This paper examines the Physiocratic perception of social classes, including the productive class of farmers, the sterile class of manufacturers, and the proprietary class that benefitted from agricultural yields. It scrutinises the Physiocrats' advocacy for an unobtrusive government and laissez-faire economics, which, despite their pioneering stance, faced significant resistance and criticism for their perceived contradictions, such as supporting absolute monarchy alongside individual freedom. The study highlights the profound impact of the Physiocratic principles on later economic thought, particularly their influence on classical liberalism and the market economy as endorsed by Adam Smith (2023). It discusses the criticisms directed towards the movement's simplified economic model and the focus on agriculture as the sole productive sector, as well as the school's limited perspective on value, differentiated between use and exchange. Finally, the study contemplates the Physiocratic legacy, acknowledging their foresight in sustainability and economic development, and evaluates the relevance of their concepts in modern economic discourse, particularly their appreciation for the environmental capacity to sustain economic activities.

Key Word: Physiocracy, natural order, economic prosperity, laissez-faire, market economy.

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I. Introduction

At the heart of 18th-century economic discourse in France lay a transformative ideology that espoused the Earth as the singular fountainhead of wealth—this was the doctrine of the Physiocratic School. Under the intellectual aegis of François Quesnay, a physician-turned-economist, the Physiocrats ventured beyond established mercantilist doctrines, asserting an economy's natural order as a parallel to the physical world's rhythm and balance. This order, a providential blueprint, stipulated that societal harmony and economic prosperity could be achieved by aligning human activities with the inherent laws of nature. Amidst a landscape marred by fiscal turmoil and governmental indebtedness under Louis XV's reign, the Physiocrats' radical propositions surfaced not only as an economic solution but also as a challenge to the prevailing socio-political norms.

The crux of Physiocratic thought championed agriculture as the sole creator of a "net product", positing that unlike industry and trade, which merely altered materials, agriculture uniquely produced value exceeding its production costs. This analysis interrogates the philosophical underpinnings and economic assertions of the Physiocrats, exploring their classification of society into productive, sterile, and proprietary classes, and examining their plea for minimal governmental intervention in economic affairs—a call encapsulated by the phrase 'laissez-faire, laissez-passer'. The Physiocrats' vision of natural order extending into economic freedom was a clarion call for an absolute but benevolent state, safeguarding individuals' rights to pursue agricultural prosperity.

This introduction sets the stage for a comprehensive critique of the Physiocratic School's contributions and contradictions. It assesses their impact on subsequent economic thought, their role in pre-revolutionary France's fiscal policies, and their enduring legacy in the modern conceptualisation of sustainability and economic development. Thus, we embark on a historical and analytical journey through the verdant fields of Physiocracy, unearthing insights into their pursuit of prosperity through the natural order and the inexorable tide of economic liberalism that followed.

II. Brief History

The Physiocratic School, which emerged in France, stood out as an influential intellectual movement in the field of economics. The physician and economist François Quesnay is regarded as its founder. The foundation of his theory is the existence of a natural order that should also be applied to relationships, the state, industry, and commerce.

To Bell (1976), the natural order is understood as a kind of underlying pattern to reality, preceding and transcending all human institutions and constructs. It is seen as a design or providential plan that encompasses the entirety of existence, providing an intrinsic structure that guides both the functioning of the universe and the lives of the creatures inhabiting it, including humans. In this sense, the natural order is universal and immutable, establishing the principles according to which the world operates.

According to this concept, humanity, as well as all social classes, should mould or adapt themselves to this natural order. Doing so not only ensures an existence in harmony with the surrounding world but also allows the individual to find a sense of purpose and happiness. The alliance with the natural order, therefore, is seen as the path to achieving a fulfilled life.

Bell (1976) suggests that through careful observation and learning from the patterns of nature, humans can achieve self-expression and find happiness, indicating that understanding and respecting the natural order are essential for human and social well-being. This concept reflects a worldview that values integration and harmony with the natural environment as fundamental to human fulfilment and social justice.

Spiegel, H. W. (1991) in line with the fundamental principles of the Physiocratic School, advocated for the primacy of natural resources and agriculture as the foremost source of wealth for a nation. Marked by a period of predominance that extended from 1756 to 1778, this economic movement, led by prominent figures such as François Quesnay, was pioneering in championing these ideas, which would eventually pave the way for the development of classical economic liberalism.

The ideas stimulated arose from the predominance of strong state interference. In France, the country with notable interventionism in Europe, economic ideas emerged in response. The controlling policies encouraged debate and economic critique. Thinkers argued for markets less regulated by the state. This dialogue led to the recognition of market self-regulation and the reduction of government intervention. Therefore, the interventionist state stimulated the emergence of Physiocratic thought and the evolution of economic thinking towards classical liberalism.

Meek (1993) elucidates that Physiocracy emerged during Louis XV's reign, notably marked by governmental indebtedness. In this era, the costs of war significantly elevated the national debt, compelling the government to impose increased taxation on the agricultural sector. This economic pressure on agriculture, which was considered the backbone of the nation's wealth according to Physiocratic principles, catalyzed the development of this economic thought. The Physiocrats argued for the primacy of agriculture, advocating that it was the sole source of net product within the economy. Consequently, the adverse impact of war expenses and subsequent heightened taxation on agriculture underscored the Physiocratic call for a more rational economic policy, emphasising the need for reform in taxation to alleviate the burdens on the agricultural sector and, by extension, the economy.

Agriculture was subject to heavy taxes, such as the *taille*, which could absorb up to fifty per cent of the income of the less privileged producers, in addition to the salt monopoly and many other charges. It is worth noting that the King, the nobility, and the clergy were exempt from all these taxes. The nobility justified this exemption by paying the King with their blood, and the clergy by paying the King with their prayers, as Bell pointed out:

(...)The nobility and the clergy were exempt from taxes, with the former supposedly paying the king with their blood and the latter with their prayers. BELL (1976, p. 120)

Historically, the justification for the King and the privileged classes being exempt from taxes was based on the social and political structure that defined the roles of these groups in governance and the maintenance of social order. In many cases, the King's exemption from taxes did not require an explicit justification, as it was understood to be part of his divine rights and sovereignty prerogatives. The concept of the 'divine right of kings' maintained that God directly granted monarchical authority, placing the monarch above the laws applicable to the common people.

Furthermore, the feudal system was characterised by the relationship of vassalage, involving providing military services and loyalty to the King. In return, he offered protection and privileges, such as tax exemptions, primarily to the nobility and the clergy. The nobility, in particular, argued that their contribution to the King and the kingdom, whether through engagement in wars or managing fiefs, justified their exemption from certain taxes. Concurrently, the clergy contended that their exemption was justified by their spiritual role, including the administration of sacraments and prayers, for the benefit of the community and the monarch.

Merchants without close ties to the elite or monarchical power attempted, unsuccessfully, to access the enormous profits generated by monopolies, often finding themselves excluded. Conversely, those with privileged

connections with the nobility or the government could participate in these monopolies and secure substantial amounts of profit.

Customs duties reduced the competitiveness of exports, which, combined with dissatisfaction among groups not benefiting from government measures, fuelled broader dissatisfaction with the government. Carvalho et al. (2013) highlighted this dissatisfaction with government intervention through the expression cited by a well-known merchant of the time, Gournay: "*Laissez-Faire, Laissez passer, le monde va de lui-même.*" This famous Physiocratic motto embodies the idea that the government should allow the economy to operate without interference, especially within the agricultural sector.

Physiocracy, the dawn of systematic economic thought, presented a comprehensive analysis of the economy of its era. The members of this intellectual group would assemble to discuss pertinent economic issues, leaving a lasting imprint on future economic thought. Meek (1963) posits that this school of thought significantly influenced the work of Adam Smith, sparking curiosity about the extent of this influence. The ideas propagated by the Physiocrats were instrumental in shaping the fundamental concepts of classical economics.

III. Agriculture As The Pillar Of National Wealth: Physiocratic Perspectives On The Economy

For the Physiocrats, the concept of 'value' was intrinsically linked to tangible goods, particularly those produced by agricultural output, as this allowed for the physical measurement of the surplus that the land afforded. They held that agriculture did not just transform natural resources into valuable products. However, it was also the sole economic activity capable of producing a 'net product' – a genuine surplus over the cost of production. Thus, agriculture was regarded as the cornerstone of national wealth, with its unique ability to generate measurable and substantial value, in contrast to the manufacturing and commercial sectors, which merely modified or augmented value to what was already provided by nature.

It should be noted that the Physiocrats did not realise that industry could also create new products. For instance, the textile industry transforms fabric into clothing. This outcome of the manufacturing process equally constitutes a new product. Thus, this new product has a market value higher than the inputs used.

This deeply rooted understanding of agriculture as the primary source of economic value led the Physiocrats to advocate for an economy centred on this sector, underlining the need for governmental policies that fostered and valued its pivotal role. The Physiocratic authors believed that the economy should be structured around agriculture and that government policies should recognise and support this role. The land, a source of sustainable and constant wealth, was the foundation upon which all economic prosperity was built.

The Physiocrats identified the productive class as farmers who worked the land and generated wealth. They also assumed the existence of two other classes: the idle class of landowners, who lived off the proceeds generated by the productive class, and the sterile class, which included manufacturers and industrial workers, considered incapable of generating wealth in the same way as agriculture.

According to the principles of Physiocracy, agriculture was significant because it played a vital role in producing food, which is essential for human survival. They saw agriculture as the only genuine source of wealth. This aspect of agriculture reinforced the Physiocrats' belief in the agricultural sector as the fundamental pillar of society and the economy.

The Physiocrats understood that while other economic sectors, such as manufacturing and trade, could generate profit and employment, only agriculture had the unique ability to produce the "net product" necessary to sustain the population. Food production ensured the subsistence of all society members and allowed the productive agricultural class to provide the surplus needed to feed the sterile and idle classes. This surplus ultimately supported non-agricultural activities and trade, facilitating the development of other areas of the economy.

Moreover, the ability to generate food surpluses was directly linked to growth and economic stability. In an era when food security was a constant concern, the ability of a nation to produce more food than needed for its population was seen as an indicator of its wealth and prosperity. Therefore, agriculture ensured not only immediate survival through the production of food but also secured long-term economic sustainability. In light of this, these authors argued that it would be in the national interest to encourage agricultural production and, therefore, to remove obstacles to its development.

The Physiocrats believed that personal spending and economic policies should prioritise agricultural products, which are productive expenditures that contribute to producing food and essential raw materials. However, spending on manufactured goods was almost considered a mistake by them, as it did not contribute directly to wealth creation in the same way as agriculture. When agriculture was in a depressive phase, this was seen as a crime against the State since it directly affected the foundation of national wealth, as conceived by the Physiocrats.

A defence of the expansion of capitalism accompanied this appreciation of agricultural activity. Thus, the Physiocrats advocated for replacing small-scale farming with capitalist agriculture. These thinkers also advocated for political reform by abolishing guilds and removing all tariffs, taxes, subsidies, restrictions, and regulations that harmed industry and trade. These measures aimed to promote more efficient forms of production

based on market principles. Moreover, abolishing guilds and removing tariffs, taxes, subsidies, restrictions, and regulations were seen as essential to unleashing the economic potential of the agriculture industry and trade.

One of the most notable proposals was that government revenue should be derived from a single tax on agricultural activities. This tax would be imposed on the landowning class based on the net product. The Physiocrats argued that imposing this tax on the sterile class would decrease their purchasing power, resulting in higher product prices. Conversely, if the tax were levied on the productive class, the farmers would pay less to the landowners, thereby reducing the net product.

The Physiocrats, in advocating for *laissez-faire*, were asserting their natural right to produce goods of their choice and the freedom to sell those goods to any interested parties. The Physiocrats defended the *laissez-faire* philosophy, which advocated for the individual freedom of producers and supported the view that the market can self-regulate and achieve a natural equilibrium of supply and demand. They believed that government intervention in the economy was harmful and often resulted in distortions that limited the potential for economic growth. This conviction was rooted in the idea that markets could efficiently coordinate resources and encourage innovation and productivity when left free to operate without external interference.

In conclusion, the Physiocrats' defence of *laissez-faire* not only represented a claim to the natural right of producers to act as they wished but also reflected a deep trust in the intrinsic ability of free markets to promote economic well-being. Their vision of an economy based on individual freedom and the primacy of agriculture significantly influenced subsequent economic thought, contributing to the development of economic liberalism and the theory of the free market.

François Quesnay's 'Tableau Économique', by depicting agriculture as the primary source of wealth in a self-regulating market system, echoes the Physiocrats' confidence in the intrinsic ability of free markets to promote economic well-being. François Quesnay's 'Tableau Économique' is a simplified model of the Physiocratic economy, representing it as a circular system where agricultural production is seen as the main source of wealth. However, this simplified view and the exclusive emphasis on agriculture were criticised for not adequately representing the complexity of the real economy, ignoring other forms of production and contributions to wealth generation.

The Physiocrats' concept of value was also found wanting. This deficiency arose because their economic model did not prioritise value study. The market determines the value they recognized, specifically the exchange value. Nonetheless, they made a distinction between use value and exchange value.

IV. Criticism And Reception Of The Physiocratic School In Pre-Revolutionary France

Despite its unpopularity in France, the Physiocratic school stood firm in its measures, despite significant criticism. Critics, while disagreeing with the concept of 'produit net' as a solution to the disorganised French tax system and the capability of only the tenant class to create a surplus, could not shake the school's resolve.

The Physiocratic reforms, which valued land and suggested raising the status of farmers, met resistance in France, partly because they challenged the dominant nobility. In a context where liberal thought and economic freedom were gaining strength, the Physiocratic idea of an absolutist state to protect individual rights became unpopular, encountering a political and social environment resistant to its innovations. This scenario became even more complicated shortly after passing a decree on free trade when the 1776 harvest failed. The immediate consequence was a surge in agricultural product prices, for which the Physiocrats were directly blamed. This event exacerbated the resistance to their proposals. It weakened the credibility and acceptance of their economic ideas, which were already in conflict with the growing liberal wave and dissatisfaction with existing power structures.

Beyond the challenges faced in the political and social arena, Physiocratic philosophy also met opposition in the intellectual field, drawing severe criticism from prominent figures such as François de Forbonnais, Abbé de Mably, Voltaire, and Abbé Galiani. These critics, each from their own perspective, questioned the foundations and implications of Physiocratic theories. Voltaire, for example, was particularly sceptical of the viability and fairness of the natural order and the single land tax, the cornerstones of the Physiocratic proposal. Abbé Galiani, in turn, raised objections against the Physiocratic simplification of the economy to agriculture and the idea of a single tax, highlighting the economic complexities that these proposals overlooked. These criticisms not only broadened the debate on economic reforms in France but also reflected the intellectual divisions of the time, with lasting repercussions on economic and social thought.

Physiocracy, often criticised, brought valuable contributions to the economy by highlighting the interconnection between social classes and the continuous movement of goods and money. This focus has helped us to better understand the complexity of economic relationships and the importance of a system where resources can flow freely. Additionally, the adoption of the philosophy of political *laissez-faire* was one of several factors that precipitated the French Revolution, demonstrating how economic theories can profoundly influence the course of history. This legacy of Physiocracy, therefore, reminds us of the power of economic ideas and their ability to shape societies and trigger revolutionary changes.

Subsequent economic thought was influenced by the notion of freedom provided by Physiocracy. Adam Smith's insight on the physiocratic system is cautious praise, acknowledging its proximity to what he considers economic truth despite its flaws. He recognizes the Physiocrats for seeing agricultural labour as the source of a nation's wealth but critiques them for not considering the full breadth of productive labour. Smith highlights their fundamental contribution to economic thought: the recognition that real wealth comes from the goods and services produced by a society's labour and not from the accumulation of money, which is not consumable. Furthermore, Smith lauds the Physiocrats for advocating for the freedom of economic activities, arguing that this freedom is essential for maximizing the annual production of a nation. This perspective, he suggests, is as comprehensive as it is forward-thinking, promoting a liberal and abundant economy.

V. Conclusion

The analysis of Physiocracy has exposed the errors and contradictions of this school of thought. The fundamental mistake was to assert that the entire system is driven by a metaphysical guideline, such as natural order, leading to contradictions in advocating for freedom while simultaneously supporting an absolutist state to protect individual interests. The notion that only the tenant class could produce a surplus was a compromising misconception. Furthermore, Physiocrats limited their discussion of all problems to their effects on agriculture, arguing that land was the only productive labour. This perspective on agriculture reflected an understanding of the interdependence between the economy, society, and natural resources, emphasising the importance of agriculture for human survival and wealth generation. They considered the farmer an entrepreneur coordinating activities during production stages, suggesting that encouraging agricultural production was of national interest.

The emphasis on the primacy of agriculture distinguished Physiocracy from other economic theories, which attributed significant value to sectors like industry and commerce. While mercantilism, prevalent before Physiocracy, emphasised trade and the accumulation of precious metals as wealth indicators, Physiocracy introduced the idea that wealth comes from a nation's production capacity, starting with agriculture.

Examining the Physiocratic School's theoretical structure offers a reflective assessment of its contribution to developing subsequent economic theories. Although their assertions on wealth generation through agricultural primacy deviated from conventional thinking, doctrinal inconsistencies and the essential nature of their propositions did not fully capture the complexities of economic dynamics. The Physiocratic conceptualisation of an autonomous, self-correcting natural order was both seminal and contentious, challenging established norms and laying the groundwork for the advent of classical economic liberalism. This analysis rigorously assesses the extent and impact of their ideas regarding the genesis of wealth, the stratification of social roles, and their strong endorsement of laissez-faire principles advocating for limited governmental involvement in economic matters.

Despite criticisms, the Physiocrats' emphasis on land as the source of a "net product" highlights a doctrinal weakness, yet their contributions to economic freedom and self-regulation discourse remain significant. Their anticipation of modern sustainability concepts secures their place in economic history, illustrating their forward-thinking approach to the interplay between humanity and the natural world. While Physiocracy may not have fully endured, its core principles resonate in contemporary discussions on sustainability and ecological economics, marking a pivotal chapter in the story of economic thought with lasting relevance in the evolving global economy of the 21st century.

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