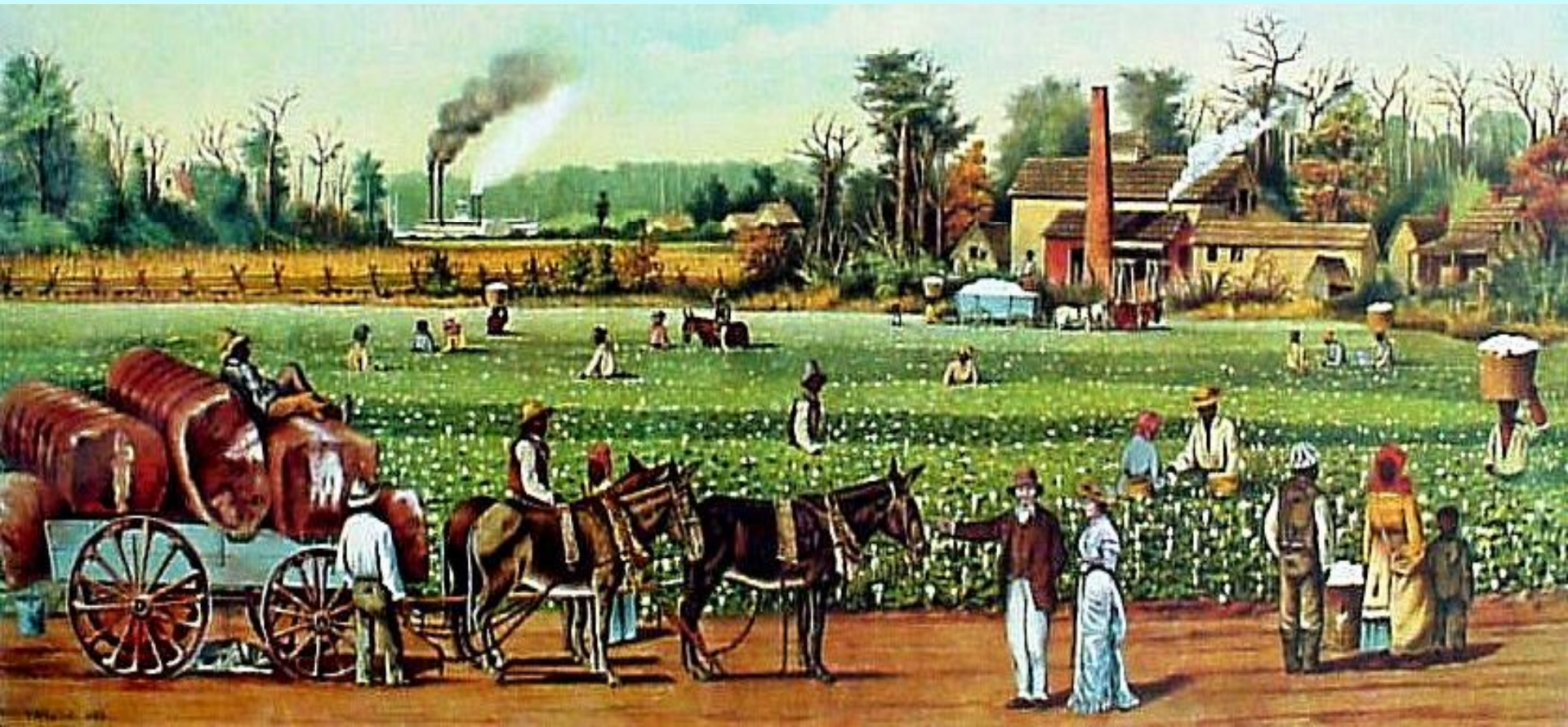


# Physiocracy

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# Physiocracy

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- The Physiocrats were a group of French Enlightenment thinkers of the 1760s
- Led by François Quesnay, the physician of the French court
- The term “physiocracy” literally translates into “the rule of nature”
- Their ideas were in direct opposition to the Mercantilists

**Physiocracy is the collective name of those economic principles and policies which developed in France in the middle of the 18th century.**


**Physiocracy is also known as the 'Agricultural System'.**

**Economic thinkers who contributed to the growth and development of physiocracy have been called as physiocrats.**

# Physiocrats

- Merchants, financiers, & scholars in France who began to voice criticism of the mercantile system in the 18<sup>th</sup> century
- Called themselves the Economists & said mercantilism was based on false principles
- They favored a “natural” economy..one without a lot of governmental influence.
- Their ideas began beginning of classical economics and free market system

# Physiocrats

- Physiocrats, a group of 18th century French philosophers, developed the idea of the economy as a circular flow of income and output. They opposed the Mercantilist policy of promoting trade at the expense of agriculture because they believed that agriculture was the sole source of wealth in an economy. As a reaction against the Mercantilists' copious trade regulations, the Physiocrats advocated a policy of laissez-faire, which called for minimal government interference in the economy.
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**François Quesnay (1694–1774)**  
**Founder of the Physiocratic School.**

# Causes for the rise of Physiocracy

1. Neglect of Agriculture by mercantilism
2. Corrupt Tax system – exemption to clergy and noble men
3. Bad condition of French Government – unnecessary wars and bankruptcy which led to borrowing.
4. Exploitation of French farmers by the nobles and the landlords. High taxes on the farmers.
5. Bad return from mercantilism at the cost of agriculture.
6. Emphasis on the importance of individuals than wealth

# COMPARISON

## MERCANTILISM

- The word comes from the Latin word **mercari**, which means “to run a trade”
- It was dominant in Europe from the 16th to the mid 18th century.
- It is economic nationalism for the purpose of building a wealthy and powerful

## PHYSIOCRATES

- Physiocracy (from the Greek for “Government of Nature” – Physio = Natural – Crat = rule or Rule of Nature or Natural Law)
- Their theories originated in France in mid 18th century

# Main Differences Between Mercantilists & Physiocrats

## **Mercantilist**

- Nations wealth determined by store of precious metals (gold & silver)
- Importation of foreign goods should be limited through restrictions/high tariffs
- Government needed to control population patterns by dictating where people can live and where they may work in order to ensure productivity

## **Physiocrats**

- Nations real wealth derived from land & natural resources
- Free trade should be encouraged among nations through the absence of excessive laws & taxes
- Government should allow people to make own choices
- Because free labor is more productive

# Contributions of Physiocrats

1. They put economics on a scientific basis by applying scientific methods.
2. Economic development was a major concern of the Physiocrats.
3. They realised the importance of agriculture which give surplus for capital formatio
4. The physiocrats were the first school of economists to analyse capital and capital formation.
5. The physiocrats realised the interdependence of different classes in the economy.
6. The physiocrats insisted that the government should restrict its

# Contributions of Physiocrats.....

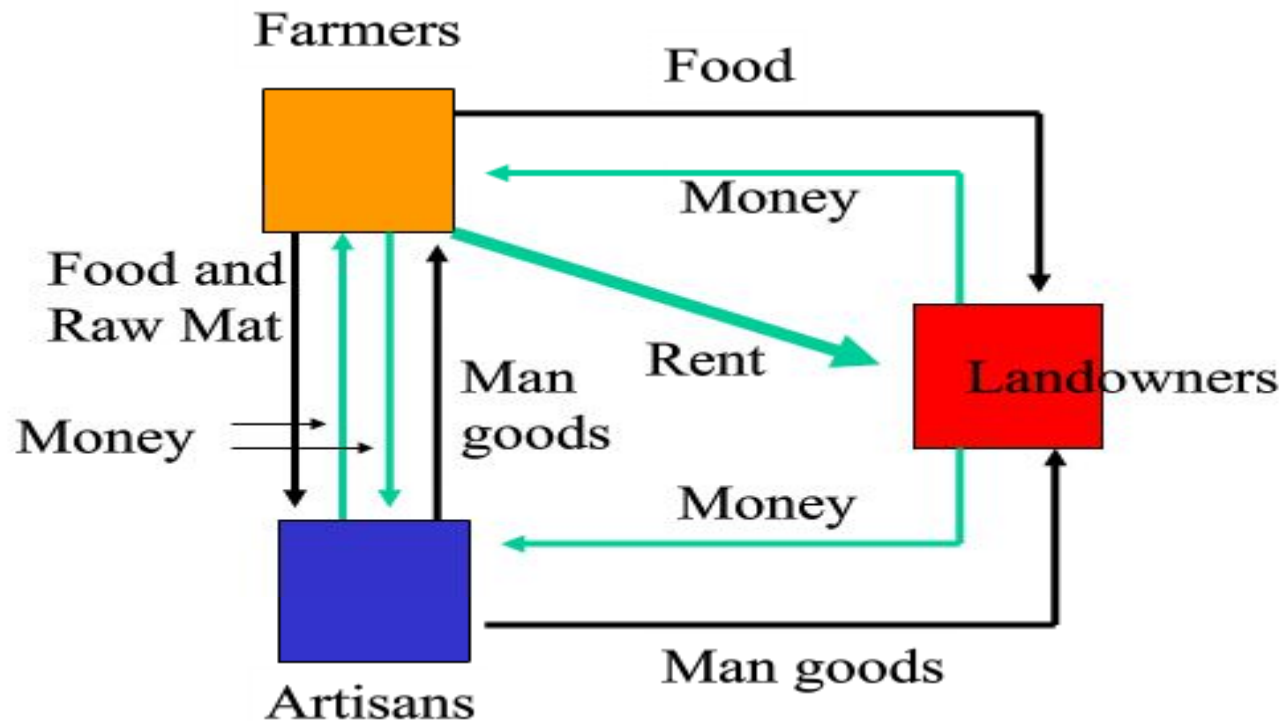
- 7. They advocated direct taxes rather than indirect taxes.**
- 8. Physiocrats must be given a high place among those who prepared the ground for French Revolution.**
- 9. Self interest and competition led to best situation for the economy especially growth in agricultural sector.**
- 10. Recommended to remove of restrictions on internal trade and labor migration, the removal of state-sponsored monopolies and trading privileges and dismantling of the guild system, etc.**
- 11. As Land only creates value added ,Tax should be levied only on land not on other goods.**



# Physicracy

# The Tableau: A Simplified Model (No Trade)

Net product is paid in rent



# What is the role of government?

- ❑ If there is any tax, it should be a tax on landed property.
- ❑ Any taxes levied throughout the economy will just be passed from sector to sector until they fall upon the net product.
- ❑ As land is the only source of wealth, then the burden of all taxes ultimately bears down on the landowner.
- ❑ So instead of levying a complicated collection of scattered taxes, which are difficult to administer and can cause temporary distortions, it is most efficient to just go to the root and tax land rents directly.

# **The Basic Principles of Physiocracy**

The following are the fundamental principles and policies of physiocracy.

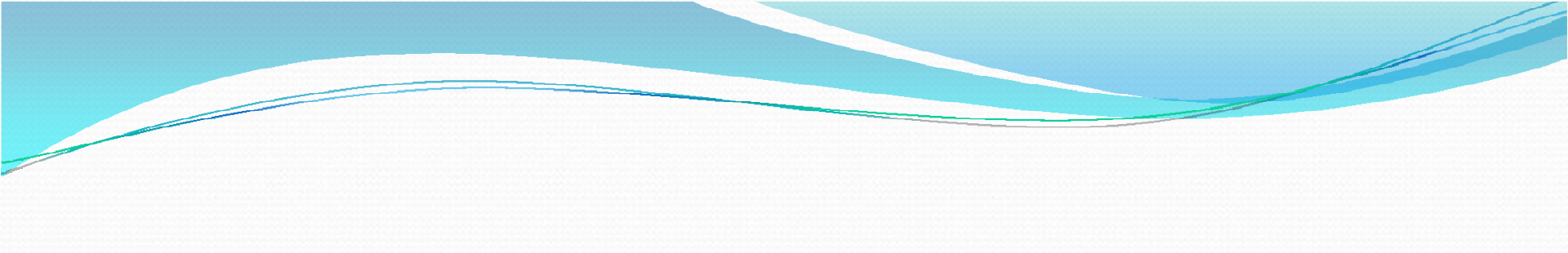
- 1. Agriculture is the only productive occupation.**
- 2. Industry and trade are sterile occupations.**
- 3. Agriculture alone produces net product.**
- 4. There is a natural order which makes life happy and meaningful.**
- 5. There is harmony among all classes of people.**
- 6. The individual should get maximum liberty.**
- 7. State action should be limited to the minimum.**
- 8. Trade is a necessary evil, and there should be free trade.**
- 9. Value depends on utility. Wealth has value. Value and price are the**

10. The wage level is at the subsistence level.
11. There is interdependence in the economic system.
12. Real wealth lies in tangible and consumable goods.
13. Private initiative must be encouraged.
14. Distribution of products is very essential.
15. Money is a medium of exchange.
16. All that is bought is sold and all that is sold is bought.
17. Rent is a perfectly legitimate income of the landlords.
18. There should be a single and direct tax on land, as it is the only productive source.
19. Private property is essential.
20. There is the possibility of overpopulation on land



The Mercantilists aimed at maximising exports and minimising imports with an object of securing a favourable balance of trade. But the physiocrats in general regarded foreign trade as an evil.

While the mercantilists believed in the regulation of trade and Industry, the physiocrats suggested freedom of trade and Industry.



In spite of the above merits, the physiocrats were wrong in considering agriculture alone as the productive occupation. Commerce and industry are equally important and productive. The physiocrats had a wrong idea of production. They regarded manufacture as unproductive although it creates utility. Further the physiocrats were mainly responsible for their wrong classification of labour into productive and unproductive.

The greatest defect in the physiocratic doctrine is the absence of any reference to value. The physiocrats suggested complete freedom of trade and industry. But absolute freedom of trade is not advisable. The aim of the physiocrats was to develop agriculture. They regarded land, as the only source of wealth. So it followed that the landlords should pay the taxes. But this idea is against the interest of the agricultural class. The weakest point in the physiocratic system is the theory of distribution.

**But, at the same time, we have to remember that the physiocrats made some important contributions to economic thought:**

1. They put economics on a scientific basis by applying scientific methods.
2. Economic development was a major concern of the Physiocrats. They realised the importance of agriculture which give surplus for capital formation.
3. The physiocrats were the first school of economists to analyse capital and capital formation.
4. The physiocrats realised the interdependence of different classes in the economy.
5. The physiocrats insisted that the government should restrict its functions.
6. They advocated direct taxes rather than indirect taxes.
7. Lastly, the physiocrats must be given a high place among those who prepared the ground for French Revolution.