

CHAPTER 3 — ADAM SMITH AND THE FRENCH PHYSIOCRATS

If, considering the increasing indefiniteness among professed economists as to the nature of wealth, we compare Adam Smith's great book with the treatises that have succeeded it, we may observe on its very title-page something usually unnoticed but really very significant. Adam Smith does not propose an inquiry into the nature and causes of wealth, but "an inquiry into the nature and causes of the wealth of nations."

These words have become the descriptive title of the book. Yet the limiting words, "of nations," seem to have been little noticed and less understood by the writers who in increasing numbers for almost a hundred years have taken this great book as a basis for their elucidations and supposed improvements. Their assumption seems to be that it is wealth generally or wealth without limitation which Adam Smith treats of and which is the proper subject of political economy, and that if he meant anything by his determining words "of nations," he referred to such political divisions as England, France, Holland, etc.

Yet it is certain that what he meant by "the wealth of nations," of the nature and causes of which he proposed to inquire, was something essentially different from what is meant by wealth in the ordinary sense of the word, which includes as well everything that may give wealthiness to the individual. It was that kind of wealth the production of which increases and the destruction of which decreases the wealth of society as a whole, which he sought to distinguish from the word "wealth" in its common or individual sense by the limiting words, "of nations," in the meaning not of the larger political divisions of mankind, but of societies or social organisms.

It has been much complained of Adam Smith that he does not define what he means by wealth. But this has been exaggerated. In

the very first paragraph of the introduction to his work he thus explains what he means by the wealth of nations, the only sense of the word wealth which it is the business "of what is properly called political economy" to consider:

The annual labor of every nation is the fund which originally supplies it with all the necessities and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labor, or in what is purchased with that produce from other nations.

Again, in the last sentence of this introduction he speaks of the "real wealth, the annual produce of the land and labor of the society." And in other places throughout the book he also speaks of this wealth of society or wealth of nations, or real wealth, as the produce of land and labor.

Through the first and most important part of his work, this is the idea which Smith has constantly in mind and to which he constantly adheres in tracing all production of wealth to labor. But having grasped this idea of the nature of wealth without having clearly defined its relation to other ideas is still lying in his mind, he falls into the subsequent confusion of also classing personal qualities and debts as wealth.

QUESNAY AND THE PHYSIOCRATS

Francois Quesnay, a French philosopher, was born on June 4, 1694, twenty-eight years before Adam Smith, at Mercy, some ten leagues from Paris. Beginning life in the manual labor of the farm, he was without either the advantages or, as they often prove to men of parts, the disadvantages of a scholastic education. With much effort he taught himself to read, became apprenticed to a surgeon, and at length began practice for himself at Mantes, where he acquired some means and came to the knowledge of Marshal de

Noailles, who spoke of him to the Queen, who in her turn recommended him to the King. He finally settled in Paris, bought the place of physician to the King, and was made by the monarch his first physician. Abstaining from the intrigues of the court, he won the sincere respect of Louis XV, with whom as his first physician he was brought into close personal contact. The King made him a noble, gave him a coat of arms, assigned him apartments in the palace, calling him affectionately his thinker, and had his books printed in the royal printing-office. And around him, in his apartments in the palace of Versailles, this "King's Thinker" was accustomed to gather a group of eminent men who joined him in the grandest aim the human mind can entertain — nothing less than the establishment of liberty and the abolition of poverty among man, by the confirmation of human laws to the natural order intended by the Creator.

These men saw what has often been forgotten amid the complexities of a high civilization, but is yet as clear as the sun at noonday to whoever considers first principles. They saw that there is but one source on which men can draw for all their material needs — land; and that there is but one means by which land can be made to yield to their desires — labor. All real wealth, they therefore saw, is the result or product of the application of labor to land.

They had not only grasped this first principle — from which any true economy, even that of the savage tribe or an isolated individual, must start — but they had grasped the central principle of a true political economy. This is the principle that in the natural growth of the social organism into which men are integrated in society there is developed a fund which is the natural provision for the natural needs of that organism — a fund which is not merely sufficient for all the material wants of society, and may be taken for that purpose, its intended destination, without depriving the unit of anything

rightfully his; but which must be so taken to prevent the gravest injuries to individuals and the direst disasters to the state.

This fund Quesnay and his followers styled the *produit net* — the net, or surplus, or remaining, product. They called it this, evidently because they saw it as something which remained, attached, as it were, to the control of land, after all the expenses of production that were resolvable into compensation for the exertion of individual labor are paid. What they really meant by the *produit net*, is precisely what is properly understood in English by the word “rent” when used in the special sense which it has acquired since Ricardo’s time as a term of political economy.

In grasping the real meaning and intent of the net product, or economic rent, there was opened to the Physiocrats a true system of political economy — a system of harmonious order and beneficent purpose. They had grasped the key without which no true science of political economy is possible, and from the refusal to accept which the scholastic economy that has succeeded Adam Smith is, after nearly a hundred years of cultivation, during which it has sunk into the contemptible position of “the dismal science,” now slipping into confessed incompetency and rejection.

But, misled by defective observation and a habit of thought that prevailed long after them, and indeed yet largely prevails, the Physiocrats failed to perceive that economic rent may attach to land used for any purpose. Looking for some explanation in natural law of what was then doubtless generally assumed to be fact, that agriculture is the only occupation which yields to the landlord an unearned increment (rent), they not unnaturally under the circumstances hit upon a striking difference between agriculture, which grows things, and the mechanical and trading occupations, which merely change things in form, place or ownership, as furnishing the explanation for which they sought. This difference lies in the use which agriculture

makes of the generative or reproductive principle in nature.

This supposed fact, and what seemed to them the rational explanation of it, the Physiocrats expressed in their terminology by styling agriculture the only productive occupation. All other occupations, however useful, they regarded as sterile or barren. They assumed that such occupations give rise to no net produce or unearned increment, merely returning again to the general fund of wealth, or gross product, the equivalent of what they had taken from it, changing the form, place or ownership of material things already in existence.

This was their great and fatal misapprehension, since it has been effectually used to discredit their whole system.

Still, it was not really a vital mistake. That is to say, it made no change in their practical proposals. The followers of Quesnay insisted that agriculture, in which they admitted fisheries and mines, was the only productive occupation, or in other words the only application of labor that added to the sum of wealth; while manufactures and exchange, though useful, were sterile, merely changing the form or place of wealth without adding to its sum. They, however, proposed no restrictions or disabilities whatever on the occupations they thus stigmatized. On the contrary, they were — which the so-called “English free traders” who have followed Adam Smith never yet have been — free traders in the full sense of the term. In their practical proposition, the single tax, they proposed the only means by which the free trade principle can ever be carried to its logical conclusion — the freedom not merely of trade, but of all other forms and modes of production, with full freedom of access to the natural element which is essential to all production. They were the authors of the motto that is in the English use of the phrase “*Laissez faire!*” “Let things alone,” has been so emasculated and perverted, but which on their lips was “*Laissez faire, laissez aller,*”

“Clear the ways and let things alone!” This is said to come from the cry that in medieval tournaments gave the signal for combat. The English motto which I take to come closest to the spirit of the French phrase is, “a fair field and no favor!”

ADAM SMITH AND THE PHYSIOCRATS

The resemblance of the views expressed in Adam Smith’s work to those held by the Physiocrats has been noticed by all critics, and both on the side of their opponents and their advocates there have not been wanting intimations that Smith borrowed from them.

It is a mistake to which the critics who are themselves mere compilers are liable, to think that men must draw from one another to see the same truths or to fall into the same errors. Truth is, in fact, a relation of things, which is to be seen independently because it exists independently. Error is perhaps more likely to indicate transmission from mind to mind; yet even that usually gains its strength and permanence from misapprehensions that in themselves have independent plausibility. Such relations of the stars as that appearance in the North which we call the Dipper or Great Bear, or as that in the South which we call the The Southern Cross, are seen by all who scan the starry heavens, though the names by which men know them are various. And to think that the sun revolves around the earth is an error into which the testimony of their senses must cause all men independently to fall, until a first testimony of the senses is corrected by reason applied to wider observations.

In what is most important, I have come closer to the views of Quesnay and his followers than did Adam Smith, who knew the men personally. But in my case there was certainly no derivation from them. I well recall the day when, checking my horse on a rise that overlooks San Francisco Bay, the commonplace reply of a passing teamster to a commonplace question, crystallized, as by lightning-

flash, my brooding thoughts into coherency, and I there and then recognized the natural order — one of those experiences that make those who have had them feel that they can vaguely appreciate what mystics and poets have called the “ecstatic vision.” Yet at that time I had never heard of the Physiocrats, or even read a line of Adam Smith.

Afterwards, with a great idea of the natural order in my head, I printed a little book, *Our Land and Land Policy*, in which I urged that all taxes should be laid on the value of land, irrespective of improvements. Casually meeting on a San Francisco street a scholarly lawyer, we stopped to chat and he told me that what I had in my little book proposed was what the French “Economists” a hundred years before had proposed.

I forget many things, but the place where I heard this, and the tones and attitude of the man who told me of it, are photographed on my memory. For, when you have seen a truth that those around you do not see, it is one of the deepest of pleasures to hear of others who have seen it.

What Adam Smith meant by the wealth of nations is in most cases, and wherever he is consistent, the material things produced from land by labor which constitute the necessities and conveniences of human life; the aggregate produce of society, using the word produce as expressive of the sum of material results, in the same way that we speak of agricultural produce, of factory produce, of the produce of mines, or fisheries, or the chase. Now this is what the Physiocrats meant by wealth, or as they sometimes termed it, the gross product of land and labor.

But this is also, as I shall hereafter show, the primary or root meaning of the word wealth in its common use. And whoever will read Smith’s “Considerations Concerning the First Formation of Languages,” originally published with his “Moral Sentiments,” in

1759, will see from his manner of tracing words to their primary uses, that whenever he came to think of it he would have recognized the original and true meaning of the word wealth to be that of the necessities and conveniences of human life, brought into being by the exertion of labor upon land.

The difference between Smith and the Physiocrats is this:

The Physiocrats, on their part, clearly laid down and steadily contended that nothing that did not have material existence, or was not produced from land, could be included in the category of the wealth of society. Adam Smith, however, with seeming inadvertence, has fallen in places into the inconsistency of classing personal qualities and obligations as wealth. This is probably attributable to the fact that what it seemed to him possible to accomplish was much less than the Physiocrats aimed at. The task to which he set himself, that in the main of showing the absurdity and impolicy of the mercantile or protective system, was sufficiently difficult to make him comparatively regardless of speculations that led far beyond it. With the disproof of the current notion that the wealth of nations consists of the precious metals, his care as to what is and what is not a part of that wealth relaxed. He went with the Physiocrats in their condemnation of the attempts of governments to check commerce, but stopped both where they had carried the idea of freeing all production from tax or restraint to the point of a practical proposition, and where they had fallen into obvious error. He neither proposed the single tax, nor did he fall into that mistake of declaring agriculture the only productive occupation. That there is a natural order he saw; and that to this natural order our perceptions of justice conform, he also saw. But that involved in this natural order is a provision for the material needs of advancing society he seems never to have seen.

There are passages in the *Wealth of Nations* where Adam Smith

checks his inquiry with a suddenness that shows an indisposition to venture on ground that the possessing classes would deem dangerous. But in nothing he left after him (just before his death he destroyed all manuscripts he did not wish published), is there an indication that he was more than puzzled by the attempt of the Physiocrats to explain the great truth that they saw with wrong apprehension. He clearly perceived that "the produce of labor constitutes the natural recompense or wages of labor," and that it was the appropriation of land that had deprived the laborer of his natural due. But he had evidently never looked further into the phenomena of rent than to see that "the landlords, like all other men, love to reap where they never sowed." He passes over the great subject of the relations of men to the land they inhabit, as though the appropriation by a few of what nature has provided as a dwelling-place and storehouse of all must now be accepted as if it were part of the natural order. And so, indeed, in his times and conditions it must have appeared to him.

That Adam Smith, "all-round man" that he was, possessed both the prudence of the man and the prudence of the philosopher, is shown by the fact that he managed to do what he did, without arousing in greater degree the ire of the defenders of vested wrongs. Whoever will intelligently read the *Wealth of Nations* will find it full of radical sentiment, an arsenal from which lovers of liberty and justice may still draw weapons for victories remaining to be won. Yet its author was a college professor, traveling tutor of a Duke, held a lucrative government position and died Lord Rector of Glasgow University. For the present times at least, the Scotsman succeeded where the Frenchman failed. It is he, not Quesnay, who has come down to us as the "father of political economy."