

## II. PHYSIOCRACY: THE HEALER AND THE WIZARD

"I have been to the end of the earth.  
I have been to the end of the waters.  
I have been to the end of the sky.  
I have been to the end of the mountains.  
I have found none that are not my friends."  
Navajo

In ancient China the doctor was paid while his clients were healthy, when they fell ill the pay stopped only to be resumed once health was restored. What can we infer from this practice as to the motivation of the doctor to heal the patient?

The first man to be called an economist in the modern sense of the word was Francois Quesnay (June 4, 1694 – 1774). He happened not only to be the doctor of the French king, Louis XV, but the medical counselor of his mistress, Madame de Pompadour. No record as to the health of his second patient has come down to us. As the king promoted him further to become his main counselor in matters of wealth as well as health, we may assume that in his eyes Quesnay did an excellent job on both fronts.

And, yes, Quesnay understood both the nature of health and wealth and passed on to us groundbreaking insights with regards to both. Indeed he understood the 'nature' of nature better than any western worldly philosopher except perhaps George. He is generally credited with having founded the School of the Physiocrats, a big word, nowadays obscure, which refers to "the laws of nature" or natural law on the one hand. On the other hand it takes the double meaning of the Greek original in a slightly more literal sense as "earth rights" or even "land matters".

The Physiocratic school of thought was influential in France roughly from the middle of the 18<sup>th</sup> Century till its end. Quesnay published several entries in the fabled *Encyclopedia* of Denis Diderot 1756, which was one of the principal instruments for the promulgation of the new philosophy of the Enlightenment and the ushering in of the French revolution. Jacques Turgot (1727-1781), who had impressed Voltaire and other Enlightenment philosophers as a keen thinker and financial wizard, was Louis XVI's Minister of Finance in the portentous pre-revolutionary years 1774-76. He had picked up the Physiocratic torch left at Quesnay's death at the outset of his tenure and carried it on so successfully ("clearing the ways by cutting the restrictions that were stifling French industry" [George]) that two years later, he was unceremoniously removed by Louis XVI.

This is one more demonstration of the popular wisdom that it is just as dangerous to do too good a job as too bad a one in a dependant position. One may easily get fired for either!

This foolishness quite literally cost this sub-mediocre king his head! “Who comes too late will be punished by life!” was Gorbachev’s verdict when the spirit of the times swept away Bolshevik dictators in 1989. The verdict is as true for modern day tyrants as it was for former day royal despots. Marie Antoinette, his queen, famously remarked when the unemployed, much exploited, and depressed French masses clamored for bread: “Why don’t they eat cake?” a remark which didn’t help matters except to display her callousness and send her head into the same basket as her king’s not much later.

In his major work *Reflections on the Genesis and Distribution of Wealth*, published in 1767 in a Physiocratic periodical, Jacques Turgot held the following in concordance with the principles of the Age of Enlightenment:

- ξ That natural laws override restrictions of government and that consequently deregulation was the only sound policy in economic affairs
- ξ That history itself demonstrates man’s progress, and that it is therefore futile and harmful to go against the grain of that process
- ξ That the growth of capital would transform the very structure of society here anticipating thoughts on the accumulation of capital by Adam Smith. [The latter knew Turgot well and was not bashful of borrowing from any of his mentors]
- ξ That there are similarities between the increasing numbers of wage earners in town and the landless share-croppers, called metayers in French, in the country which would anticipate one of the main tenets of Marxism

Because of the last insight, Turgot is considered a precursor of those economists who believed in the “iron law of wages”. He is, albeit, not as reactionary as all that. In reality, Turgot believed that with the increase of capital, wages would indeed rise. And a tax reform or tax reduction along Physiocratic lines was meant to benefit both labor and capital in this manner. As long as his foolish young king would let him, Turgot’s reign as Minister of Finance would actually reflect the given lay-out of his Physiocratic policies which, alas, was not long enough to instigate groundbreaking change, but sufficiently long after all to create a signal effect in the History of Economics.

If Turgot is considered the first “mover” among the Physiocrats, Francois Quesnay is rightfully considered the first overall modern economist and the founder of macroeconomics as he was the first to detect the infinite interrelations and movements that make up a given political economy. The Mercantilists had only seen isolated phenomena and proposed stopgap measures to firefight economic emergencies incurred through decades and centuries of misrule and lack of oversight, while Quesnay was the first to get the ‘larger picture’. An economic theory that confines and satisfies itself with coffers full of gold for the king’s treasury and favors exporting while discouraging importing is bound to bring breakdown before long to the given economy as a whole. A theory so entirely wanting can in practice only lead to a wholesale collapse. The events 1789 in France, 1776 in the US were not only political revolutions, they were economic revolutions, desperate and ultimately life-saving means after a real or imminently threatening collapse!

As a physician, Quesnay was aware that health is not a static phenomenon but a question of dynamic equilibrium. A patient, whose blood flow stops, for example, simply dies. In picking up the Platonic analogy of the physical body of man with the political body of the state, without falling into the Leviathanian distortions and exaggerations of Hobbes, the good doctor simply transposed his medical charts which depicted the proper blood circulation in a healthy human body onto the circulation of goods and money in the economic body of the state. The result was a sensation: It worked! People suddenly understood the larger context and the Science of Political or National Economy was properly created.

Physiocracy achieved something else: It managed to stem and reverse the foolish abuses of the Mercantile system which David Hume had called “the jealousy of trade” in 1752. That is, he had shaken the very foundation of the fallacy of Protectionism, and the set of rules of taxation which Turgot had described in a letter to him as: “plucking the bird without making him squeal!” More accurately, this set of misrules which is still applied against most economic subjects in most countries – meaning and including you and I today – could be described as killing the goose that layeth golden eggs. Heavy taxation, levying of export duties upon any kind of productive activity can do only one thing, namely discourage the very activity upon which any economic system as intimately depends as the human organism depends on blood circulation!

And the Physiocrats did indeed happen upon the very remedy that Henry George would rediscover a century later: the “impot unique” or Single Tax on rent to cut across the board and replace all other taxes! This tax was correctly regarded as the only tax that would engender sufficient income for the state coffers while at

the same token it would not check production in any respect, but on the contrary, because of the complete across-the-board tax cut would definitely encourage it! Henry George agreed with Mirabeau, the elder, who likened the solution of the Physiocrats in importance to the invention of writing or the substitution of money for barter.

“I cannot play upon any stringed instrument; but I can tell you how of a little village to make a great and glorious city,” Themistocles had exclaimed and George who had in his early lifetime witnessed that selfsame thing happening before his very eyes: San Francisco had over two decades in the middle of the 19<sup>th</sup> Century been transformed from a shanty town with a couple of ramshackle mud huts and fishermen’s shacks at the shore of the infinite Silent Ocean into a booming and prosperous center of industry, commerce, and trade in the whole Asia-Pacific region. In Henry George’s case this had happened not because the California politicians had had the wisdom and sagacity to apply the Single Tax - God beware, no - but because the acceleration of economic development had simply outraced the legislative process and heavy and foolish taxation had not as yet kicked in. The effect was in spite of the efforts to the contrary by the legislators the same: production and trade had gone unchecked and boomed in unprecedented ways and numbers.

“This is the secret which would transform the little village into the great city,”<sup>3</sup> George had summed up the effects of the Single Tax when discussing the Physiocrats in *Progress and Poverty*. There is no reason why that same remedy should not be applied today with equal success. The standard “modern” argument against it: that modern statecraft has gotten too large and sophisticated to be covered in its necessary expenditures is itself specious. A booming economy does not need a “large and sophisticated” government bureaucracy any more than a healthy man needs a doctor, unless in the manner in which the Ancient Chinese dealt with doctors.

The Physiocrats denied and sought to reverse the Mercantile or Protectionist principle of taxation: that is, that taxes should fall most heavily upon those people who can least afford it because they are simply too poor to provide for more than their own subsistence, rather than on those who can, namely royalty, nobility, landowners, etc. or their postmodern day equivalent: neo-royalty, media-nobility, monied resources monopolists etc. George correctly identified his intellectual forebears:

---

<sup>3</sup> . *Progress and Poverty*, p. 424, & 432

“These French economists were what neither Smith nor any subsequent British economist or statesman has been – true free traders.”<sup>4</sup> And he hailed the brief Physiocratic period correctly as what it was: “Never, before or since, out of the night of despotism gleamed there such clear light of liberty.”<sup>5</sup>

To resume Physiocratic principles:

- ξ Political Economy is based on natural laws
- ξ To violate these laws invites certain disaster
- ξ To correctly identify these laws and apply them to human activity is to create both wealth and health
- ξ Land and labor are the origin of all wealth
- ξ Man is entitled to the fruits of his labor
- ξ Taxes should be levied exclusively on rent

The principles may well become apparent clearly and forcefully in Francois Quesnay’s own word as he sums up his economic tables as to what needs to be avoided in order not to turn a prosperous economic system into an indigent one:

“We are speaking here of an opulent nation with a territory and advances which yield it annually and without any abatement a net product of 1050 millions. But all these items of wealth, which are successively maintained by this annual product, may be destroyed or lose their value if an agricultural nation falls into a state of decline, simply through the wasting away of the advances required for productive expenditure. This wasting away can make considerable headway in a short time for eight principle reasons:

1. A bad system of tax-assessment, which encroaches upon the cultivators’ advances. *Noli me tangere* - that is the motto for these advances
2. An extra burden of taxation due to the costs of collection
3. An excess of luxury in the way of ornamentation
4. Excessive expenditure on litigation
5. A lack of external trade in the products of landed property
6. A lack of freedom o internal trade in raw produce, and in cultivation
7. The personal harassment of the inhabitants of the countryside
8. Failure of the annual net product to return to the productive class”<sup>6</sup>

---

<sup>4</sup> . cf. Henry George, *Science of Political Economy*, p. 152-53

<sup>5</sup> . op. cit. , p. 159

<sup>6</sup> . Quesnay’s *Tableau Economique*, edited & translated by M. Kuczynski & R. Meek, London, Royal Economic Society, 1972, bilingual text and facsimile reproduction, p. XII