



**ORIGINAL RESEARCH PAPER**

**Economics**

**HISTORY OF ECONOMIC THOUGHT A FORGOTTEN SUBJECT: AN APPRAISAL OF PHYSIOCRACY WITH REFERENCE TO INDIA**

**KEY WORDS:** Physiocrats, Agriculture, Wealth, National Income

**Dr. Sanjana Saggi** Department of Economics, Government College, Hoshiarpur, Punjab, India

**ABSTRACT**

History of Economic Thought is different from Economic History and History of Economics. While History of Economic Thought deals with the development of economic ideas, Economic History is a study of the economic development of a country. On the other hand, History of Economics deals with the science of economics. Even though Economic History and History of Economic Thought constitute separate branches of study, they are closely related. Economic ideas are directly and indirectly motivated by the economic conditions and environment of the country. Physiocracy is also known as the "Agricultural System". Economic thinkers who contributed to the growth and development of Physiocracy have been called as Physiocrats. The Physiocrats have been regarded as the founders of economic science because they were the first to grasp the general principles under-lying the economic phenomena and to evolve a theoretical system. Physiocracy is also remarked as the first school of economic thought. The term Physiocracy means "Rule of Nature". Physiocracy may be defined as a reaction against Mercantilism and its concepts. The Physiocrats believed that the mercantile policies instead of doing any good have done great harm to the nations. So they revolved against the mercantile policies. According to Gide and Rist, "Physiocrats must be credited with a foundation of the earliest school of economists in the fullest sense of the term. The entrance of this small group of men into the arena of history is a most touching one". The influential French School of thinkers of the early 18<sup>th</sup> century was led by "Quesnay and Turgot". They believed in the existence of natural law which governs the universe. Their emphasis on agriculture has earned for their system of thought, the name agricultural school. The present paper deals with evaluation of "History of Economic Thought a Forgotten subject: An Appraisal of Physiocracy with reference to India" keeping in view the agriculture sector contribution towards national income since independence.

**1. INTRODUCTION**

Study of history of economic thought is important for the following reasons: The study of history of economic thought clearly shows that there is a certain unity in economic thought and this unity connects as with ancient times. The study of economic thought will help us to understand the origin of economics. Economic ideas have been instrumental in shaping the economic and political policies of different countries. Economic ideas are conditioned by time, place and circumstances. A study of economic thought provides a broad basis for comparison of different ideas it will enable a person to have a well balanced and reasonable judgement. Through the study of economic thought the student will realise that Economics is different from economists. The study of this subject helps us to avoid the mistakes committed by earlier economic thinkers. Erick Roll says "with the physiocrats we enter an era of schools and systems in economic thought". Physiocrats are important in the history of economic thought because they represented the first School of Economics The mercantilists were ordinary people who emphasized only foreign trade but the physiocrats realised the importance of various economic activities and their relation in the physiocratic system all social factors like production and distribution are connected in short the physiocrats war reformers.

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 emphasized the inevitability of these principles. 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 way of 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.

**2. 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 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 favoring 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 land lords were exempted from the taxes. The main taxes were *taille* or

tax on land and houses, gabelle or sale 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 two 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.

**3. Social philosophy**

**3.1 The Natural Order**

The physiocrats had firm faith in the philosophy of the natural order. 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 affect. 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 loss of the trains of events as favorable as possible to the happiness of all sentient beings. Using Quesnay's example, "The rain- storm which inconveniences the traveler, waters and fields" The point is that the benefits from the physical laws are far greater than the evils they produce. The natural moral loss which rule human societies, also produce beneficial results in the same manner as the 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 natural 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 emphasized the following points regarding the nature of these laws. They include rules of prudent individual conduct and they include the rules of justice to be followed by individuals while dealing among themselves.

In practical life, the natural order reveals itself through the principles of private property and individual liberty. To attain maximum player 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 popularize the slogan laissez faire, laissez passer, i.e. let every individual do his economic activity freely and let every anomic 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. The physiocrats principle of the natural order was undoubtedly and oversimplified and dogmatic principle.

**The physiocratic natural order has three important features:**

- 1 Natural order aimed at securing pleasure to the people.
- 2 It aimed to increase the rights of the people without imposing any restrictions on their liberty.
- 3 it stands against mercantilism.

**3.2 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 parish when they are detached from it. 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 once labour. Thus, the physiocrats justified the individual's right to private property on three grounds: It represents, the Divine will, it is in accordance with the philosophy of natural order and it is derived from the application of labour. The physiocrats justified private property not only as a natural right, but also on functional or utilitarian grounds. Firstly, private property brings about a harmony of interest between the individuals and the society. Since the interests of the society are simply the sum total of individual interests, therefore, when the individual interests are accomplished by acquiring private property, this will automatically lead to the realisation of the interest of the society. Secondly, private property is justified as a means to achieve the objective of economic development. It stimulates production and accumulation of wealth. As Oncken pointed out, "It is the security of permanent position which induces the work and the employment of wealth to the improvement and to the cultivation of land and to the enterprises of commerce and industry". Thus, according to the theory of private property, private property is held desirable both on moral as well as on functional grounds, it is both a right as well as means. It thus, seems reasonable to conclude that the physiocrats would justify the state action in altering the structure of property right with an objective to achieve harmony of interests and promote wealth and happiness of the people.

**3.3 The Function of State**

The physiocrats were the professors of the philosophy of natural order, and the advocates of the system of economic liberty. It is, therefore, expected that they would be against the state interference in the natural working of the economy. True to the spirit of the naturalistic philosophy, the physiocrats opposed the man made or state made laws, because such laws obstruct the realisation of the natural order. Positive laws are contradictory and obligatory. Moreover, since every law should be an expression of the divine wisdom, both men and governments do not possess the required ability to formulate laws. Thus, the physiocrats wanted that legislation should be reduced to a minimum. The primary duty of the government is to abolish unnecessary and restrictive laws. As Baudeau wrote, remove all useless, unjust, contradictory and absurd laws and there will not be much legislative machinery left after that. The physiocratic tendency towards the undermining of the state does not imply that they were anarchists. On the contrary they wanted to combine minimum of legislation with maximum of authority. The physiocrats interested the maximum authority in the hereditary monarch who was the sovereign head of the state. What they had in their mind was a disport ruler who possesses all arbitrary powers and who is above all individuals.

There are then only a limited number of functions to be performed by the state: preserving the natural order and defending its foundations i.e. the institution of private property and the system of economic liberty; abolishing the unnecessary legislation interfering in the free economic activities of the individuals; educating the people on the natural order; undertaking the public works for fostering agriculture and removing the international barriers.

**Economic analysis**

In economics, the physiocrats made two original contributions (a) The analysis of net product and (b) the economic table. The first deals with the problem of production of wealth and second with that of the distribution of wealth.

**3.4 The Net Product**

In the doctrine of net product, the physiocrats introduced the fundamental idea of economic surplus. In the physiocratic system, agriculture has been given a dominant place because

of its strategic role in the economic development of the country. Agriculture is the only sector which yields net product or surplus produce. In other words it is only in agriculture that the wealth produced is greater than the wealth consumed. Net product is defined as the excess of wealth produced over and above what is required to produce it.

No other sector except agriculture is capable of yielding net product. In commerce, we produce nothing but only transfer the already produced commodities from one hand to the other. In industry too, the artisans simply combine or modify the raw materials and produce no surplus wealth. In industry and in commerce, wealth produced exactly equals wealth consumed. Price of the manufactured goods just equals the cost of production. Weaver buys food and clothing, giving 150 francs for them, together with a quantity of flax for which he gives 50 francs. The cloth will be sold for 200 francs, a sum that will cover all expenditure. Thus industry and commerce are regarded as sterile or unproductive, because no surplus wealth is produced in these sectors. But sterile does not mean useless. The necessity of these sectors was clearly emphasised by the physiocrats. As Baudeau pointed out: far from being useless, these are the arts that supply the luxuries as well as the necessaries of life and upon these mankind is dependent both for its preservation and for its well being. The physiocrats used the concept of net product both in physical as well as in value terms. Agriculture, according to them is inherently capable of yielding a disposable surplus over and above the necessary cost in physical terms. This is the net product in physical terms or what may be called the physical surplus. The physiocrats also believed that the physical surplus is in a free market economy inherently capable of being converted into a value surplus. In other words the price of the agricultural produce in a competitive market is high enough to enable its producers to reap a surplus value over and above the cost of production. This is the net product in value terms. When the physiocrats say that the manufacture is sterile, they are thinking in value terms. Under perfect competition, they thought, manufacturing industries are not capable of yielding the value surplus.

Thus other things remaining the same, net product depends upon the market conditions. Higher the price of the agricultural products greater will be the net product. A tremendous fall in agricultural prices may lead to the disappearance of net product. The physiocrats favoured a policy of free trade. Competition in the market will ensure bon-prix (proper or competitive price). Bon-prix is sufficiently high to yield a surplus over cost. Under such conditions, the question of complete disappearance of net product does not arise.

The physiocratic theory of net product served a political purpose. The assumption that only land is capable of producing a surplus is purely political. Since only land producers surplus wealth, the landlords alone have a right to consume it. The net product goes to the landlords in the form of rent and the assumption that only land is productive justifies this claim of the landlords.

The physiocrats failed to distinguish between the analysis of net product and the political assumption on which it was based. In fact, the analysis of net product does not tell us to whom it should go. The physiocrats were good scientists but bad prophets. They were realistic in recognising the economic facts of their time. Thus, undoubtedly, the physiocratic distinction between productive agriculture and unproductive industry has no rational basis and was made to serve a limited political purpose. But in spite of the limitations, the emphasis on agriculture in the physiocratic analysis is of immense value. Even today, the disposable surplus from agriculture is recognised as the basis for the industrialization and modernisation of the economy.

### 3.5 The Circulation of Wealth

After having discovered the source of wealth, the physiocrats turn to the next problem i.e. how the wealth produced by the agriculturist gets circulated among the different classes of the society. As Hector Denis said, "The discovery of the circulation of wealth in economic societies occupied in the history of science the same position as is occupied by the circulation of blood in the history of biology."

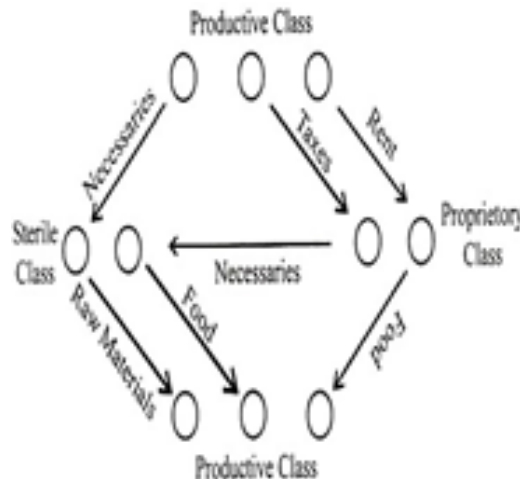
Social structure has to pay an important role in a theory of distribution. The physiocrats divided the society into three classes.

**1 The Productive Class:** All the farmers are included in this class. They work on land and extract the net product from it.

**2 The Proprietary Class:** All the landlords come under this category. Landlords have a claim to the net product. Since the landlords are supported by the rental revenue from the productive class, they are not required, either by their subsistence needs or for commercial purpose, to perform any specific activity.

**3 The Sterile Class:** The sterile class consists of manufacturers and traders. It is regarded as an unproductive class, because, like farmers (the productive class), it does not produce net product. Although the manufacturers and the traders are unproductive, their existence is necessary because they create useful goods required by the other two classes.

The following figure clearly shows the circulation of wealth among the three classes



### 3.6 Quesnay's Tableau Economique

The tableau economic you is based on the existence of a social structure; land is owned by the landlords but cultivated by the farmers who became the productive class. The net product or surplus produced by the productive class is used for the satisfaction of sterile and proprietary classes. The tableau economic assumes constant prices for the commodities. Further it assumes that the harvest is 100 per cent and the expenses of the productive and unproductive classes are equal. In short tableau economic explains two things (a) how the net product circulates among the three classes (b) how it is reproduced each year

The physiocrats used the tableau method to explain the circulation of wealth among the different classes of the society. Quesnay's Tableau Economique which demonstrates the mechanism of circulation of wealth in the economy, is the outstanding contribution of the physiocratic school. Mirabeau regarded it as one of the three great inventions which have principally given stability to political societies, independent of many other inventions which have enriched and advanced them. The other two inventions are those of writing and of

money. Economic table pictures a closed economy in a stationary state repeating itself in each period in a circular fashion.

**4. Physiocracy and the Underdeveloped Countries**

The physiocrats aptly emphasized the role of agricultural sector in the general growth of an economy. They laid down the conditions for the development of agriculture, the main conditions being: capital accumulation and the Institution of private property. On the face of it, it seems that the physiocratic analysis is of particular relevance to the present day underdeveloped countries. These countries are also primarily agricultural countries. The major drawback of these countries is the backwardness of agriculture and the way to progress is through the improvement of agriculture. Agricultural growth is a necessary precondition for rapid industrialization. It provides food to the growing urban population and raw material to expanding industries. So far as the physiocrats singled out agriculture as the leading sector in the economy and realised its importance in the development of the economy, they deserve appreciation. The existing property relations and social structure of the underdeveloped countries, far from promoting agriculture, have turned out to be implements to its growth. The landlords, who receive a major portion of the agricultural produce as rent, pay no attention to improve the productive capacity of the land. They usually remain away from lands, live in big cities and indulge in conspicuous consumption. They, on the one hand, exploit the farmers and, on the other hand, contribute nothing to capital formation. Instead of fostering progressive agriculture, the tenure system in the underdeveloped countries has resulted in low productivity in agriculture. Thus the progress of agriculture in these economies lies in the abolition of absentee landlordism and in the introduction of a system of ownership by the cultivator. Low productivity in agriculture is explained by high ratio of labour to land. The proportion of labour in agriculture has reached such a high level that, even with the more labour intensive techniques available, the marginal productivity of labour has fallen below zero. With the continuous growth of population, the problem of disguised unemployment has become acute in the agricultural sector. Under such conditions the farmers have no incentive to make additional investments of capital in this labour intensive sector even if they have capital to invest, there is no reason to introduce labour- saving machinery because labour is a cheaper factor and labour as a group has no incentive to increase its efforts because labour is redundant.

**Thus the functions of the physiocratic government were**

- 1 to preserve natural order.
- 2 to protect private property.
- 3 to spread education in natural order.
- 4 to undertake public works program.
- 5 to eliminate International barriers.

**5. Importance of Agriculture in Indian Economy**

Agriculture plays a vital role in the Indian economy. If the process of economic growth is to begin and to be self-sustained, it must begin with rural areas in general and agriculture in particular. Every aspect of economic life in India is influenced by agriculture. Agriculture contributes 15.3 per cent of the national income of India and it offers livelihood to nearly 49 per cent of its total population. Indian industries depend upon agriculture for raw materials as well as for the sale of finished products. Success of our plans depends to a greater extent upon the progress of agriculture sector. In the words of Gunner Myrdal, "it is the agricultural sector that the battle for long-term economic development of India will be won or lost". Economic development attempted in successive five year plans has made agriculture a pride of national economy.

**Table 1 Contribution of Primary Sector in National Income**

Year	Primary Sector Contribution (percentage)	Year	Primary Sector Contribution (percentage)
1950-51	61	2001-01	28.1
1960-61	56.6	2010-11	14.2
1970-71	48.5	2014-15	16.3
1980-81	41.8	2015-16	15.3
1990-91	33		

Source: Economic Survey 2015-16

Table 1 shows the contribution of primary sector in India, national income over the different plan periods.

**Table 2 India, s Ranking in the World in Agriculture (Selected Indicators)**

Criteria/Crop	India, s Rank	Criteria/Crop	India, s Rank
Total irrigated Area	1	Cultivable Land	2
Pulses	1	Wheat	2
Jute	1	Rice	2
Spices	1	Sugar Cane	2
Milk	1	Fruits and	2
Butter and Ghee	1	Vegetables	2
Cashew Nuts	1	Tobacco Tea	2

The above table shows that agricultural development has a significant role to accelerate the rate of economic development of the agriculture sector is pre-condition for the success of any development plan of the country.

**Table 3 Percentage Share of Primary Sector in GDP of Different Nations (year 2014)**

Country	Primary Sector Contribution
Germany	1
U.S.A	1
UK	1
Japan	1
China	9
India	18
Pakistan	25
World Average	3

Source: World Development Report, 2016

The above table 3 shows that the contribution of primary sector to GDP is far less in developed countries than in the underdeveloped ones. It indicates that although from 1950-51 to 2015-16, the percentage contribution of agriculture sector in national income of India has reduced but this reduction is slow and still this share is quite high in comparison to developed economies.

**6. CONCLUSION**

The physiocrats made some important contributions to economic thought. They put economics on a scientific basis by applying scientific methods. Economic development was a major concern of the physiocrats they realised the importance of agriculture which gave surplus for capital formation. The physiocrats were the first School of Economics to analyse capital and capital formation. The physiocrats realised the interdependence of different classes in the economy. The physiocrats insisted that the government should respect its functions. They advocated direct taxes rather than indirect taxes. Lastly the physiocrats must be given a high place among those who prepared the ground for French Revolution.

To conclude, in India, still about 15.3 per cent of national income is dependent on agriculture. Due to traditional agriculture and more dependence on rainfall, the growth rate of agriculture sector has remained slow and highly unstable.

In recent years, farmers have started adopting technology in agriculture. The use of good quality seeds, fertilizers, pesticides, modern irrigation etc. has helped the farmers to increase the agriculture production and productivity. In India, agriculture sector provides food to about 121 crore of people and fodder to 40 crore of cattle. Agriculture is the main source of employment in India. It is the main occupation of India. In the year 2011-12, 48 per cent of the population were engaged in agriculture. Dependence of nearly 49 per cent of the population speaks of the significance of this sector to the Indian economy.

#### REFERENCES

1. Byrd, Robert (1995). The Senate of the Roman Republic. US Government Printing Office Senate Document 103-23.
2. Economic Survey of India 2015-16.
3. Henry William Spiegel (1983), The Growth of Economic Thought, Revised and Expanded Edition, Duke University Press
4. Yves Charbit; Arundhati Virmani (2002) "The Political Failure of an Economic Theory: Physiocracy", Population, Vol. 57, No. 6. (Nov.-Dec., 2002), pp. 855-83, Institut National d'Études Démographiques
5. "Theories of Surplus Value" from the Economic Manuscripts of 1861-1863" contained in Collected Works of Karl Marx and Frederick Engels: Volume 30, New York: International Publishers, 1988.
6. A. L. Muller (1978) Quesnay's Theory of Growth: A Comment, Oxford Economic Papers, New Series, Vol. 30, No. 1., pp. 150-56.
7. Steiner, Phillippe (2003) "Physiocracy and French Pre-Classical Political Economy", Chapter 5. in eds. Biddle, Jeff E, Davis, Jon B, & Samuels, Warren J.: A Companion to the History of Economic Thought. Blackwell Publishing, 2003.
8. The History of Economic Thought Website, <sup>(dead link)</sup> The New School of Social Research, 6 Feb. 2006
9. Tableau Économique – Modern view
10. A History of Economic doctrine from the time of the Physiocrats to the present day – Charles Gide and Charles Rist. 1915
11. Vinje, Victor Condorcet: Economics as if Soil and Health Matters (Nisus Publications,
12. World Development Report, 2016