French path to capitalism: Physiocrats, the naturalization of the economy, and the bourgeois revolution
1. Colbertism, or Mercantilism in France

The structure of French government policy was laid down in 17th century by Jean Baptiste Colbert (1619-1683), finance minister under Louis XIV (1643-1715) from 1661 to 1682. Its objectives were to:

1. Replenish the treasury of the nation-state;

2. Breakdown the feudal system and construct a national market.

Typical Mercantilist policies:

The emphasis was on foreign trade (shipping, trade with India, forming colonies in America, etc.)

Cultivating new branches of industry, through subsidies, interest-free loans, tax breaks and monopoly rights.

Strict state control on the quality of production. In 1671—no less than 317 articles relating to the “decoration of woolen fabrics...”
1. Colbertism, or Mercantilism in France

But, in a country with overwhelmingly peasant population mired by exactions of the gentry and the tax officers, capitalist industry had little room for advancement.

1. New manufactories absorbed state’s resources;
2. Dreams of conquering the world market were frustrated by England;
3. Petty regulation became an obstacle to the introduction of improvements, inhibited diversification, prevented flexibility;
4. Lack of an extensive internal market (especially in a country with 18 million population!) due to weak purchasing power of a half-starved peasantry.
2. French Agriculture in the mid-18\textsuperscript{th} century

1. Feudal payments and obligations
   a. Self-employed (alodium) with private property
   b. Cens paying peasantry with usufruct rights and obligations
   c. Sharecropper métayers

2. State taxes & church tithes

3. Corn pricing policy (low price of corn)

4. Limited means for making improvements in agricultural technique which suffered from poor productivity. “Three fields system.”

All of this jeopardized even the simple reproduction of agriculture, leading to depopulation, degradation, and creation of extreme poverty.

“Out of the four sheafs which he brings in from the fields, one belongs to the seigneur, another is owing to the priest or to the payment of taxes, and the fourth to cover his costs of production.” Moreau-de- Jeunesse
3. Two contradictory paths (to capitalism)

1. Lords claim the ownership →
   displace the cens-paying peasants and métayers off the land →
   lease the land to well-to-do peasants →
   leading to large-scale land holdings.

2. Peasants claim the ownership →
   would be freed of all seignioral payments and obligations →
   Great French Revolution →
   leading to small-scale land holdings.
3. Two contradictory paths (to capitalism)

The English model or the French model?

Which one is worse? Recently some historians and economist began to view the French path more favorably.

“Although peasants may have been impoverished, their lot may not have been worse than what the unskilled, urban worker encountered in England. We might even arrive at the conclusion that France’s transition to modern capitalism might have been more humane than England’s. Unfortunately, a humane transition had less attraction for the primitive accumulationists than the great profits to be had from coercing labor into submission.” (Perelman, 2000, p. 132)
4. The financial crises in the 18th century France

Pierre de Boisguilbert (1646-1714) “barrister of agriculture,” critic of Colbertism the idea of laissez faire and natural law

John Law (1671-1729) The first speculator. A swindler or a prophet? He devised a scheme to solve the fiscal crisis of the French Crown. His ideas can be summarized by the following dictum: “Money is not what we give up for commodities, it is what we use to exchange commodities.” In this sense, he believed that it is not necessary to back the money with precious metals. Confidence of the population in the money would be enough. Fiat Money.
4. The financial crises in the 18th century France

In order to establish fiat money, two things were necessary:

1. To establish a central bank which will issue a currency.

2. To consolidate the entire colonial enterprise under one single enterprise (The Company of the Indies—both Oriental and Occidental): *The Compagnie* operating in Louisiana and Mississippi. By selling the shares of the Company in France, Law attempted to make the entire society the investors in the business of colonialism.

In 1720, this first big bubble of the history bursts tragically. Law will die pennilessly.

**Richard Cantillon (1680–?1734)** The land theory of value, the concept of entrepreneur, money supply and its inflationary effects, different effects on different classes, rising prices lead to increase in imports...
5. The Physiocrats

A group of French reformers, led by François Quesnay (1694-1774) a medical doctor by profession. Not professional economists but officials of the French bureaucracy with upward class mobility.

During the period, the French bourgeoisie was incapable of imagining any other source of wealth and power than landed property.

Physiocracy means ‘the rule of nature’.

Physiocrats sought to emulate the British system, they considered England to be a well-functioning society. As distinct from the basic English model, they called for the initial concentration of wage labor in agricultural pursuits rather than industry.

Anne Robert Jacques Turgot (1727-1781), a reformist minister of finance (1774-1776).
5. The Physiocrats

The objective of Physiocrats was to replace the small-scale peasant holding with large-scale farming.

Low productivity of small-scale farming?

Small-scale peasants

(a) work with only the most primitive implements;

(b) have insufficient cattle; and

(c) use practically no fertilizer.

Small-scale agriculture yields no ‘net product’ (net income over and above the worker’s necessary means of subsistence).

The investment of large capitals is a necessary condition for raising the productivity of agriculture.
5. The Physiocrats

The division of classes (from Quesnay to Turgot):

1. The class of proprietors

2. Cultivators (productive class)
   a. Capitalist farmers
   b. Agricultural workmen

3. The sterile class (commercial and industrial)
   a. Industrial capitalists
   b. Industrial workmen
5. The Physiocrats

Why do Physiocrats consider industrial sector “sterile” and agricultural sector productive?

The net product (surplus) was a result of the productivity of nature. Labor could only produce enough goods to pay the costs of labor and the same would hold for the other factors of product—except land. Manufacturing and other non-agricultural sectors were considered sterile. In the middle of the eighteenth century, large-scale industry had not yet developed in France. The small employer with only few employees did not seem to be making any surplus, and his standard of living was not significantly different from that of his employees.
5. The Physiocrats (*Net produit*)

Exclusive productivity of agriculture. Agriculture yields a “revenue”, a surplus of exchange value over and above the value of costs of production; or, a “net product”, a surplus of articles of consumption beyond those necessary for the subsistence of actual cultivator.

The difference between

- surplus quantum of value vs. surplus quantity of material products;
- agriculture being productive of value vs. physical productivity of land;

Rent = ‘price upon sale at first hand’—‘fundamental price’

1. Decisive feature of economic prosperity was the growth of net income or surplus value;

2. The question of the origin of surplus value is not in the sphere of exchange but in that of production.
5. The Physiocrats [Tableau Economique (1758)]

*Tableau économique* gave Quesnay a framework to think of tax as a burden on the economy. Because the only source of surplus was land, the ultimate burden of tax would lay on land.
5. The Physiocrats

Anne Robert Jacques Turgot (1727-1781): A pragmatic reformer that tried to dissolve the guild system (e.g., within corn trade), reform and develop a Government sector, and prepare the French economy for the post-Mercantilist period.

Theory of Capital: The options that savers have may have different risk factors: lending at interest, investing in agriculture, and investing in industry. Savers’ investment decision links these sectors! Once more interdependence. More risky endeavors will have higher returns (Industry versus Agriculture). Competition will establish an equilibrium.
5. The Physiocrats

The idea of natural law and the policy of laissez faire was articulated in this period. Screpanti and Zamagni identifies three points (p.45):

1. The new, revolutionary concepts of productive and unproductive labour, which were introduced in connection with a new concept of wealth; a concept by which the real source of wealth is the net product obtained by applying labor to land;

2. the idea of interdependence among various productive processes and the related idea of macroeconomic equilibrium;

3. the representation of the economic exchanges as a circular flow of money and goods among the various economic sectors.