

THE PHYSIOCRATS

Introduction

The term physiocracy means **the Rule of 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, emphasized the government of human society by the law of nature in contrast to its regulation by man-made positive laws. Though the physiocrats wrote only for a relatively short period (1756-1776), their ideas had a profound influence on the economic thought. Therefore, they are regarded as the founders of the science of political economy.

The physiocrats are regarded as the founders of economic science because they were the first to understand the general principles that guide the economic phenomenon and they were the first to present those principles in theoretical form. They also applied these principles and theories logically in dealing with the practical problems of the production and circulation of wealth.

Factors Responsible for the Rise of Physiocracy

The socio economic and political conditions prevailing in France were largely responsible for the rise of Physiocracy in that country.

1. **Extravagant Court Life and Wars:** During the reigns of Louis XV and Louis XVI (ie., the period immediately preceding the French Revolution), France experienced a degenerated and corrupt court life. The king became more and more authoritarian and his attitude was reflected in their statement, "I am the State." They also led a extremely luxurious life which gradually depleted the state treasury and deteriorated the country's economic condition. Physiocracy was an intellectual attempt to save France from economic bankruptcy. Long and costly wars against rivals also increased the poverty of the country.
2. **The Mercantilist Policies:** During this period Industry and trade were given preference at the cost of agriculture. Mercantilism was carried to an extreme degree resulting in the neglect of agriculture. Agriculture was in a poor condition. At the same time agricultural revolution was taking place in England with emphasis on large scale farming and scientific techniques of production. France appeared unfavourable as compared with that of Britain. So in France too, attention was diverted to the strengthening of agriculture.

This created a general distaste for the mercantilist system and liking for policies favouring agriculture.

- i. Preserving the institution of private property and the system of economic liberty
- ii. Abolishing unnecessary legislation interfering in the free economic activities of individuals
- iii. Educating the people on Natural Order
- iv. Undertake the public works for fostering agriculture
- v. Removing the international barriers

3. Net Product

Net product is the excess of wealth produced over and above what is required to produce it. According to physiocrats, agriculture is the only sector which yields net product or surplus produce because it is only in agriculture wealth produced is greater than the wealth consumed. The physiocrats thought that industry, trade and professions **were useful but sterile**. In commerce, we produce nothing but only transfer the already produced commodities from one hand to the other. In industry also the artisans simply combine or modify the raw materials and produce no surplus wealth. They simply reproduced the value consumed in the form of raw materials and subsistence for workers. In Agriculture alone, the wealth produced was greater than wealth consumed.

The physiocrats used the concept of net product **both in physical as well as in value terms**. Agriculture is inherently capable of yielding a disposable surplus over and above the necessary cost in physical terms. (eg. Thousands of coconuts from a coconut tree). **This is called the physical surplus**. They also believed that the price of the agricultural produce in a competitive market is high enough to enable its producers to make a surplus value over and above the cost of production. **This is the net product in value terms**. (This happens because of the physical surplus). However, under perfect competition, manufacturing industries are not capable of yielding the value surplus.

The net product also depends upon the market conditions. Higher the price of the agricultural products, greater will be the net product. Therefore, efforts should be made to raise and to stabilise the prices of agricultural products and to expand the market for these products. So long as the natural order prevails, it will endure the competitive exchange in the market. Competition in the market will ensure **bon-prix** (good price). So they favoured a policy of free trade.

4. Institution of Private Property

According to them, the most important natural right is the right to acquire private property. The right of property is like the trunk of a tree; all the institutions of the society are the branches which it nourishes. They perish 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. 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 one's labour.

ALFRED MARSHALL (1848-1924)

AMONG the neo-classical pioneers, Alfred Marshall was a giant without rival. Alfred Marshall was the leader of the second generation of the marginal utility school. He held economics to be the study of man 'in the ordinary business of life' and that its findings should be accessible to a wide public audience. Unlike most of his neo-classical contemporaries he maintained that mathematical expositions, though invaluable aids to the economist in the clarification of his own thought, were unnecessary to the communication of his findings.

The main corpus of Marshall's teaching was contained in one book - Principles of Economics. Published originally in 1890, this work went through eight editions during his lifetime

Marshall is ranked with the most influential economists and his authority in the subject remains unchallenged. In fact, Marshall's greatness as an economist lay not in his specific analytical contributions to economics, but in his efforts to solve the old problems and to create the new ones for coming generations. He, on the one hand, understood and synthesised the seemingly conflicting ideal of the earlier writers and solved the age old dispute between the classical and neoclassical economists regarding the determination of value. On the other hand, he suggested many new directions for the future development of economic science.

- i. Marshall's 'Principles' has guided the work of the generation in taught. Many of Marshall's disciples such as Pigou, Robertson, Edgeworth etc developed the theories of Marshall.
- ii. Marshall was the first economist to show that perfect competition does not always maximise output.
- iii. The concept of elasticity has set a fashion of reasoning in terms of elasticity. Now there are a dozen elasticity concepts in use.
- iv. Marshall's distinction between long run and short run has opened a new branch of economics ie., Short time Analysis.
- v. Marshall is also the father of the theory of imperfect competition. His comments on the special markets of the individual firms led the economists to develop the economics of imperfect competition.
- vi. Marshall had fully grasped the idea of general equilibrium but he intentionally concentrated his attention on the handier partial equilibrium analysis.
- vii. Marshall had a definite theory of economic evolution which was later used as an instrument of research.

Marshall also contributed to the development of modern econometrics. Nature and scope of Economics

I. Economic Science and Economic Policy

Economic Science

Marshall gave two conclusions of the doctrine of maximum satisfaction which may serve as useful guide in formulating an economic policy.

- a. The total happiness can be increased through redistribution of income. If an individual spends his income in such a way as to increase the demand for the services of the poor and to increase their incomes, he adds something more to the total happiness than if he adds an equal amount to the income of the rich.
- b. Happiness also depends upon the manner in which an individual spends his income. If an individual spends his income on commodities which obey the law of diminishing returns, he makes those commodities more difficult to be obtained by his neighbours, and thus lowers the real purchasing power of their incomes.

Tax and Subsidies: Marshall considered the effects of taxes and subsidies on industries operating under different cost conditions (increasing/diminishing/constant returns). According to him the Government can increase the welfare of the society by taxing the commodities which obey the law of diminishing returns and subsidising the commodities which obey the law of increasing returns.

II. Value and Distribution-The General Principle of Demand and Supply

The whole of his masterpiece, Principles has been devoted to one fundamental idea that is, 'the general equilibrium of demand and supply'. It is with the help of this general principle that Marshall could synthesise the two seemingly antagonistic approaches (the classical cost of production approach and neoclassical utility approach) and thus was able to evolve a single analytical system of value and distribution.

Price of a commodity is determined not by supply alone and not by demand alone but by the intersection of demand and supply curves. By demand, Marshall means the quantity of a commodity demanded at a certain price, other things remaining the same. The individual demand curve which represents different quantities demanded at various prices, can be directly derived from the tendency of diminishing marginal utility. As the satisfaction from the additional units of a commodity diminishes, the price we are going to offer for these additional units will also fall. Thus like that of the marginal utility curve the slope of demand curve is also negative.

Marshall developed his theory of supply on the lines similar to his analysis of demand. Just as the consumers obtain utilities or satisfaction from the consumption of commodities, the producers suffer disutility because the production of commodities involves costs. Just as the marginal utility diminishes as a consumer increases his consumption of a commodity, the marginal costs rise as the production of a commodity expands (in accordance with the law of diminishing returns). The supply curve slopes upward to the right depending upon the tendency of the marginal cost to rise as the output of a commodity increases.

Equilibrium price is determined by the point of intersection between market demand curve and market supply curve. This point shows equality of the demand and supply. At the equilibrium price, the amount produced is equal to the amount demanded and there is no tendency for the former to increase or decrease.

The economic ideas of Thiruvalluvar are found in the second part of the 'Kural' which is named as Porutpal (dealing with wealth).

Wealth

Porutpal literally means things, wealth etc. and hence include all material things than can be acquired which a man requires in daily life for maintaining ones family. According to Valluvar, wealth is only a means and not an end. He was against hoarding of wealth and to him a hoarder is a burden to the earth. Thus, Porutpal covers all consumer and producer goods. According to Valluvar, a society should have freedom from hunger, freedom from disease and freedom from fear of external and internal aggression.

Poverty

Thiruvalluvar was aware of the dangers of poverty and hence cursed poverty and he was against begging. Hence to him poverty and begging are the greatest social curses.

Agriculture

Valluvar attached very much importance to agriculture. He favoured peasant proprietorship and was against absentee landlordism. According to him all are dependent on agriculture for food.

Public Finance

According to him, there are four functions to the state and they are the creation of revenues, collection of revenues, management of revenues and public expenditure. He was not in favour of compulsion in taxation and preferred balanced budgeting.

Welfare State

He was of the view that the king should promote education and health of the people. He believed that people should be free from hunger which increases welfare of the society. Thence, he was an advocate of welfare state.

Modern Indian Economic Thought

1. Dadabhai Naoroji (1825-1917)