

Lecture 3: Precursors II

We consider in this lecture the French marginalists or preclassical economists, and if time permits, we add some comments on other authors of the period.

John Law was Scotch of origin but had emigrated to France, where he published a book “Money and Trade Considered with a Proposal for Supplying the Nation with Money” in 1705, whose most important contribution was that it analysed the demand for money and broke the ruling tight connection with production of gold. He became famous not for his writings but for the practical implementation of his ideas, when appointed to save the public finances of France after the war. His proposal was to finance the public deficit by issuing bonds and notes, and in order to make the bonds attractive to the public (in modern terminology, he needed a *credit enhancer*) he proposed to back them by bonds in the newly created Mississippi Company, which had a monopoly on developing the (at that time) French region Louisiana in North America. The idea was very innovative but Law was ahead of his time, share values in the company collapsed and with them the collateralized public bonds, the system broke down and Law had to leave France in a hurry. What is now a standard piece of financial engineering was banned for centuries to come.

Richard Cantillon. Though born in Ireland, Cantillon is usually considered as belonging to the French tradition, since he spent a considerable part of his life in France, actually making a fortune from the collapse of John Law’s Mississippi scheme, which by the way he severely criticized in his writings.

Cantillon considers land *and* labour as sources of wealth, land is taken as its source and labour the form in which it is produced. Also wealth itself is defined in a rather modern way, as the “maintenance, conveniences, and superfluities of life” (from his “Essays on the Nature of Commerce in General” as cited in V&G), actually a considerable advance in relation to the mercantilist identification of wealth with precious metals.

Even though land and labour contribute to the intrinsic value of goods (as distinguished from its price – a distinction already made by Petty), Cantillon moves on, giving a formula for reducing labour to land, he observes that the value of a day’s work has a relation to the products of land, so the value of labour can be measured by the amount of agricultural products needed to feed the worker delivering this labour. We are here rather close to later theories of value (and even surplus value), with the difference that Cantillon proposes a land theory of value, whereas later writers (Ricardo, Marx) have a labour theory of value.

We stopped short of the mercantilist dilemma and Hume's argumentation in the last lecture, so this is where we begin. For comments, see the handout for Lecture 2. After this we turn to the main figure of the period before the classical economists, Quesnay, and we touch briefly upon a few other contributors, indicating that economic thinking was evolving not only in England and France.

Francois Quesnay: We are now moving closer to contemporary economics, dealing with the school of *physiocrats*, who, following Cantillon, emphasized the fundamental role of agriculture. We shall however focus on another aspect, namely Quesnay's representation of economic activity as a circulation of money and goods, which has had a profound influence on later thinkers, notably Marx. Quesnay was educated as a surgeon but changed to medicine due to bad eyesight, a profession in which he was quite successful, being appointed to the court of Louis 15. The blood circulation had been developed rather recently, and it has had an impact on the way in which Quesnay considered and depicted economic activity.

Later presentations of his ideas, which appeared scattered over several different works, are perhaps not fully reflecting what Quesnay had in his mind. V&G take care to point out that the ideas of Quesnay consisted of many other elements than the *Tableau Economique*, which however was the most lasting part and that which inspired later authors. But it is worthwhile noticing that the idea of agriculture as the only productive branch of the economy, in the sense that only here output could exceed input, connects to his value and price theory. Trade becomes unproductive ("sterile") only equivalents are exchanged, no surplus is created, and the same holds for manufacture.

The treatment of the Tableau in V&G is detailed but involved and not easy to follow, I suggest that you read my version instead (on the course homepage).

Chapter 9 in V&G treats some of the minor contributors of the pre-classical period, namely Galiani and Steuart. We pass quickly over the chapter, since the contributions can be seen as sharper versions of ideas which were already on their way. Other authors, some of them known in different contexts (there was no fixed distinctions between different fields of science), are mentioned at the end of Lecture Note 3. We shall return to Bernouilli much later, but historically it seems the right place for mentioning him here.

V&G has a chapter (10) on **Turgot**, another other famous representative of the physiocratic school, who was also successful as minister of finance. We skip this chapter since we cannot cover everything.

We read: V&G, chapters 5-10 (this sounds like an enormous number of pages, but we go into detail only with the authors mentioned above, leaving out Boisguilbert and putting main emphasis on Quesnay).