# CHAPTER ONE

## François Quesnay: Social Classes in a "Rich Agricultural Kingdom"

François Quesnay and the physiocrats may rightly be considered the founders of political economy. They were a group of scholars, among whom Quesnay and Mirabeau *père* are best known, who were initially called "les économistes"—the first time such a label was used. Only later did they become known as the physiocrats, a term probably coined by Quesnay himself and referring (as the subtitle of his book indicates) to "the natural laws of governance most advantageous to the human kind": respect of liberty and private property founded on the wealth-creating power of agriculture.[1]

The physiocrats' contribution is important in three respects. First, they were (and Quesnay in particular was) the first to see the economic process as a circular flow and subject to regular rhythms. Second, they were the first to see that surpluses are created within the economic process and not from commerce, as mercantilists argued.[2] While it is true that they saw a surplus arising only in agriculture, where the forces of nature ("the inexhaustible powers of the soil," to quote Adam Smith) combine with workers' labor to produce output, their essential idea that surplus is created through production proved crucial and still holds today in our modern concepts of value-added and gross domestic product. In fact, some economists see in the physiocrats' work the precursor of modern national accounting.[3]

Third, and this is what interests us here the most, the physiocrats created *Le Tableau économique,* which displays numerical relations in the economy and defines social classes and their incomes in a way that gives us today an empirical basis to study income inequality in prerevolutionary France. Theirs was the first clear definition of social classes in economics, and probably the first definition of class conflict.[4]

## *Inequality in France at the Time of Quesnay*

Quesnay was the personal physician of Madame de Pompadour in the court of Louis XV at the time when France was the most populous country in Europe. France was a large agricultural kingdom with the king at the top and a formal legal distinction between its three estates: clergy, nobility, and *le tiers état.* The latter included everybody else: bourgeoisie, workers, farmers, paupers, and vagrants. This formalized class structure influenced, as will be argued below, Quesnay's own view of class differences.

Income inequality in France, as we can gauge based on tax data and social tables, was very high. French inequality was considered to be greater than inequality in England. The Gini coefficient for France, calculated from contemporary sources including data provided by Quesnay himself, ranges between 49 and 55, compared to an English Gini estimated to have been under or around 50 at the time.[5] The level of inequality indicated by a Gini above 50 is, of course, not unknown today; it is the level of inequality we find in Latin American countries such as Colombia, Nicaragua, Honduras, and Brazil. As these modern examples suggest, it is a very high level of inequality. Morrisson and Snyder, in a detailed study of French inequality over two centuries, estimate the income share of the top decile in 1760–1790 to have been 56 percent (see also Chapter 5 below).[6] Since wealth is typically more unequally distributed than income, the people in the top decile by wealth might have owned as much as 70 percent of national wealth.[7]

Moreover, the mean income of prerevolutionary France was much lower than that of modern Latin American societies, and thus the prerevolutionary "real" inequality was much greater. A given Gini in a poorer society vis-à-vis a richer one means that the elite is able to push actual inequality much closer to the maximum feasible inequality.[8] ("Maximum feasible inequality" is defined as inequality such that all but a tiny, and at the limit, infinitesimal, elite live at the subsistence level.) This makes a poorer society with the same Gini more "exploitative." The "inequality extraction ratio," which is the ratio of a society's actual inequality level to what is considered its maximum feasible level, is estimated to have reached 70 percent in prerevolutionary France.[9] The same Gini in today's Brazil implies an inequality extraction ratio of around 55 percent. In other words, the French ruling elite pushed inequality as high as it could—for sure, not as close to the 100 percent mark as was the case in many colonies, but not very far from it either.[10]

French income levels were lower than English levels. French mean income is estimated (based on the same sources as used for inequality estimates) to have been between 3.3 and 3.8 times the subsistence level.[11] The English mean income at the same time was about six times the subsistence level.[12] Similarly, the Maddison Project, the main source of historical national accounts data, estimates in its 2020 update that English GDP per capita in the year 1760 was around $3,000 (in international dollars), while French GDP per capita was $1,700.[13] This is in line with Quesnay's perception: "The level of prosperity which we suppose [for France] is much below what is a reality for a nation of which we just spoke [England]."[14] The difference in incomes is nicely captured by François-René de Chateaubriand's impressions on his return to France in 1800, after a period of exile in England:

> I was struck by the look of poverty in the country: barely a few masts were visible in the port. . . . On the road, hardly any men could be seen; women . . . their skin tanned dark, their feet bare,

> their heads uncovered or only wrapped in handkerchiefs, were plowing the fields: one could mistake them for slaves.[15]

The contrast is also observed on many occasions by the British writer Arthur Young, who traveled through French cities, towns, and countryside in the years immediately preceding the Revolution. Young's impressions of France are perhaps excessively negative but nevertheless paint a consistent picture of poverty coexisting with huge wealth, as in this quote (which rather amusingly concerns Chateaubriand's own ancestral castle in Normandy):

> I told M. de la Bourdonaye that his province of Bretagne seemed to me to have nothing in it but privileges and poverty, he smiled, and gave me some explanations that are important; but no nobleman can ever probe this evil as it ought to be done, resulting as it does from the privileges going to themselves, and the poverty to the people.[16]

It is interesting to note that, only two generations later, the tables would turn. While England continued to be seen as a leader in industrial progress and even in political developments and was admired for this by many French thinkers, including Alexis de Tocqueville, a puzzle emerged. England, while economically more advanced, also had much deeper poverty than France. Thus, Tocqueville was in 1835 tasked by the Academy of Cherbourg to travel to England and study British poverty. He wrote a short draft, *Mémoire sur le pauperisme,* but never completed the essay; it was delivered to the Academy and published only after his death (in French in 1911, and in English only in 1968).[17] While Tocqueville failed to give a fully satisfactory explanation of why English poverty was so deep and pervasive (perhaps explaining why the essay was not formally published during his lifetime), it is clear he believed the situation was principally due to the movement of labor from agriculture into industry: people who had previously farmed their own land and enjoyed a modicum of welfare (including ample food) had been displaced

from the countryside and squeezed into the new industrial centers. Primogeniture, entails, and the "improvident" behavior of a new proletariat deprived of possessions, were, according to Tocqueville, the main causes of poverty.[18]

The plight of the British proletariat during the Industrial Revolution impressed many observers, including, of course, Friedrich Engels, who published his famous pamphlet on the subject in 1845.[19] Likewise, it affected Karl Marx and his own views of deepening class polarization and the pauperization of workers during the Industrial Revolution (a topic that will be taken up in Chapter 4). By contrast, the French yeoman peasantry who obtained land after the Revolution now looked relatively prosperous, and the British proletariat impoverished and overworked.

But that was not the case in the mid-eighteenth century, when the physiocrats' main objective was to influence economic policy and help France become a "rich agricultural kingdom" and catch up with England. Their first motivation was not to create a new science but to influence policy, although they did see themselves as "scientists" and their approach as scientific.[20] They argued in favor of "laissez-faire, laissez-passer," an expression coined by Quesnay. Laissez-faire meant, like today, freedom of enterprise without government interference. Laissez-passer meant freedom from internal tariffs that limited the movement of goods and in particular grain within France.

The physiocrats, in a break with tradition, also regarded the wealth of the poor classes as the best indicator of the wealth of a country, and were concerned about underconsumption if incomes of the poor were too low. This appears as Quesnay's Maxime XX (one of thirty in his list of "maxims of economic government"): "Let the welfare [*aisance*] of the lowest classes of citizens not be diminished, because reducing their consumption of the nation's products would reduce the reproduction and revenue of the nation."[21] Concern with the *aisance* of the lower classes was a novel idea and a marked departure from the previous mercantilist view whereby the wealth of the top class, or the wealth of the state, expressed in stocks of gold and positive trade balances, was the barometer of economic

success. The physiocrats' view, which we shall see expressed even more forcefully by Adam Smith, was that the living conditions of the majority of the population represented the key indicator of the wealth of a country and of the soundness of its economic policies.

The physiocrats were much influenced by the idea of China (as China was understood in Europe at that time) for reasons that are easy to understand: like France, it was an agricultural kingdom ruled by an absolute ruler who, in principle, was benevolent and interested in the well-being of his subjects. This emperor, moreover, was understood to maintain a body of noble scholars to implement policies in the public interest, who not only advised him but collectively, to some extent, limited his autocratic powers.[22] Not surprisingly, the physiocrats imagined for themselves the same role as that of the Chinese mandarinate.[23] In a monograph entitled "Le despotisme de la Chine," Quesnay devoted eight chapters to topics ranging from religion to accountability for public expenditures in China, and criticized Montesquieu and others who had claimed that China's despotism was antinomic to progress.[24]

Not everybody agreed with what the physiocrats sought to accomplish. In *The Ancient Regime and the French Revolution,* published some sixty years after the French Revolution, Tocqueville was very critical of the physiocrats. He despised their dogmatism and desire to refashion every institution of society and impose their own way of thinking on everyone else, indifferent to political freedom: "According to the Economists [physiocrats] the function of the state was not merely one of ruling the nation, but also that of recasting it in a given mold, of shaping the mentality of the population as a whole in accordance with a predetermined model and instilling the ideas and sentiments they thought to be desirable into the minds of all."[25] Most important, the ideologically liberal Tocqueville, an admirer of the British system, saw the physiocrats as intellectually "imprisoned" within the traditional and hierarchical monarchical system. Note the heavy dose of sarcasm in Tocqueville's description of the physiocrats' admiration of China, whose system held no particular attraction for him:

> They went into ecstasies over a land whose ruler, absolute but free from prejudices, paid homage to the utilitarian arts by plowing a field once a year; where candidates for government posts have to pass a competitive examination in literature; where philosophy does duty for religion and the only aristocracy consists of men of letters.[26]

Apart from his interest in China, Quesnay found support for the importance of agriculture, and the harmfulness of high inequality and ostentatious urban consumption, in the historical experience of the decline and fall of the Roman Republic. The preeminence of agriculture and small peasant holdings had been the glory of the Roman Republic and the basis of its power. But when wealth accumulated and the large landowners left the countryside to congregate in Rome and spend their money on "the arts of luxury and works of an ingenious industry" (instead of investing in agriculture), they left the conquered lands to be cultivated by hired laborers and slaves, and harvests suffered. As Rome began to depend on shipments of grain from abroad, and agricultural knowledge and customs were forgotten, the decline was inevitable:

> Such was the fruitful origin of the Roman Republic, which was composed at first of robbers and malefactors, a worse than unproductive class, but which soon by necessity transformed itself and was dedicated solely to the work of agriculture; thanks to the products of agriculture, always held in high esteem, and thanks to being protected at home for more than five hundred years, it saw its population and its glory increase continually, and grew to be the happiest, richest, and most powerful state of the known world. . . . But when the great landowners congregated in Rome and spent their incomes there, when the provinces were abandoned to the tyranny of tax-farmers, and the work of agriculture left in the hands of slaves; when it was necessary to call upon the corn of Egypt to feed the capital, which was thus reduced to reliance on a merchant navy; when the arts of luxury and the labors

> of an ingenious industry had made the townspeople important and the *capita censi* [the lowest class] into valuable men, when this multitude of causes had, by departing from the natural order of things, brought about the destruction of morals, the state, weakened on all fronts, just waited for—and could not and should not but wait for—devastation and enslavement.[27]

Consistent with their concerns about agriculture, the physiocrats displayed a strong anti-urban bias, mixed at times with barely concealed contempt for urban philistines. It was a somewhat strange attitude given that their writings were directed at the urban *literati* or the court, the elite of the French society (although some of its members might have liked to imagine themselves "rural," with Versailles serving as a Disneyland-like version of the French countryside).

## *Social Classes and Their Sources of Income*

In the class structure introduced by the physiocrats we see for the first time in economics a very clear delineation of the principal economic classes. Table 1.1 shows the summary of the factoral income distribution that appears in *La philosophie rurale,* published in 1763. The book was written mostly by Mirabeau, but its seventh chapter, dealing with income distribution, was authored by Quesnay.[28] Unlike *Le Tableau Économique,* where the quantities were merely illustrative, here the objective was to depict the real situation of the French economy. Mirabeau and Quesnay, before settling on the final title of the book, thought of calling it *Le Grand Tableau Économique*. The book itself was an ambitious project, perhaps the most ambitious ever undertaken by the *économistes*. It was "an exposition, pure and simple, magisterial and complete, of a . . . superior truth, whose principles are to apply to all countries and all times."[29] It was to be the Pentateuque of the future sect.[30]

The physiocrats define four sources of income—wages, profit, interest, and net surplus—and (at least) four social classes (see Table 1.1). If we break the ruling elite into its component parts (landlords, gov-

*Table 1.1* Summary of Class Structure in *La philosophie rurale*

| Social class | More detailed social groups | Income in terms of overall mean | Population share (in %) |
|---|---|---|---|
| Workers | Agricultural laborers | 0.5 | 48 |
| | Manufacturing low-skill workers (*gagistes inférieurs*) | 0.6 | 22 |
| Self-employed | Self-employed in viticulture | 0.8 | 6 |
| | Artisans and craftsmen in manufacturing (*gagistes supérieurs*) | 2.3 | 4 |
| Capitalists | Capitalists (tenant-farmers) | 2.7 | 8 |
| The Elite | Propriétaires (landlords, clergy, government administrators) | 2.3 | 12 |
| | *Total* | *1* | *100* |

*Note:* Categories and values represent the distribution of earners (people with positive net income), not of the entire population.

ernment officials, and clergy), we get a total of six social classes.[31] The working class is composed of agricultural laborers and low-skilled workers outside agriculture (*gagistes inférieurs*) who together account for 70 percent of the active population. Their incomes are around half to 60 percent of the overall mean. Next are the self-employed, who make up 10 percent of the population and come from two groups. Some are agricultural workers, with Quesnay assuming that all wine producers own their land and use their own capital.* The others are manufacturing workers, artisans, and craftsmen (*gagistes supérieurs*).† The viticulturers in the former group are not much better off than ordinary workers, but the artisans of the latter group are much richer, with an average income

* It is never explained why it is only in viticulture that this particular ownership structure holds.

† As with many terms in Quesnay (perhaps because they were new), there are some ambiguities that require redefinitions. One example is that artisans and craftsmen, who are mostly self-employed, are both called *gagistes supérieurs*—a term whose "gage" has the same etymological origin as the English "wage," leading one to think these must be hired workers, which they were not.

2.3 times the mean. Capitalists or tenant-farmers, who receive compensation for management of the farm (that is, profit) and interest on the capital they advance to workers, are all engaged in agriculture. They have the highest income of all classes (2.7 times the mean) and make up 8 percent of the population.

It is important to note that the only capitalists in the physiocratic system are the tenant-farmers who rent land from landlords.* The class conflict takes place, as in Ricardo (see Chapter 3), between tenant-farmers and landlords. Workers do not participate in that conflict because their wages are assumed to be equal or close to the subsistence regardless of how the distribution between the landlord's rent and tenant-farmers' profits goes. As Vaggi writes, Quesnay tended at first to take the side of tenant-farmers, because he saw their activity as crucial for the expansion of agricultural production.[32] He advocated longer-term land leases and greater stability in the relationship between the two classes—because, obviously, if tenant-farmers could not expect to see returns on their investments, they were not likely to undertake any. He even thought of tenant-farmers and nobility as co-owners of the land: "in agriculture the possessor of the land and the possessor of the advances necessary for cultivation are both equally proprietors, and on that account there is equal dignity on each side."[33] It was nothing less than a call for a change in the French legal system, which had drawn a sharp distinction of clergy and nobility versus everybody else. This could not please the powerful aristocracy, among whom Quesnay himself moved, or the king, and gradually Quesnay's advocacy of capitalists became more muted.[34]

It is notable that capitalists outside of agriculture do not exist in this world. Existing outside agriculture are only the self-employed artisans and craftsmen and, of course, hired workers. As Weulersse writes:

> The Physiocrats, who consider industry as "the wage earner" [*salarié*] of agriculture, do not imagine that this order of things can

* Tenant-farmers bring the plow, animals, seeds, and so forth (that is, the capital) on which they expect a return.

> be reversed; that the manufacturing entrepreneurs come to realize a real net profit, while the farmers, and the propriétaires themselves, are reduced to a condition closer to wage labor than to their former economic primacy. The hypothesis of a society where it would be the rich manufacturers who would sustain agriculture seems to them implausible and, so to speak, monstrous, at least in a country having a vast and fertile territory like France.[35]

The three classes that were not directly involved in the process of production (landlords, government officials, and the clergy) are jointly called "propriétaires" by Quesnay. They broadly overlap with *le premier* and *le deuxième état*—formally, the two top social classes in France. The propriétaires receive their income out of the surplus: landlords receive rent, government officials are paid out of taxes, and the clergy are paid through another tax (tithes). There are quite a few of the propriétaires (amounting to 12 percent of the population) and on average their income is 2.3 times the mean. As can be easily seen, the class structure as defined by the physiocrats closely matched the official classification of classes that existed in prerevolutionary France.

Let us now consider in more detail the composition and income levels of each class, beginning with workers. There are three types of workers: hired workers in agriculture; female agricultural labor (*servantes de basse cour*), whose very low wages are only one-fourth of the unskilled workers'; and unskilled workers in the manufacturing sector.* We may suppose that the latter's wages are at the subsistence level, although this is never clearly stated. Ambiguity regarding subsistence is a feature that, as we shall see, is shared by many classical authors. Subsistence must be understood, of course, as Robert Allen has argued in his many papers, not as subsistence just for the worker, but subsistence for the worker *and* the worker's family.

* It is implicitly assumed that female servants do not have families to maintain. Their average wage of 125 *livres* is therefore, on a per-capita basis, in line with the 500 *livres* received by the agricultural hired worker who has, on average, a family of four.

Capitalists or tenant-farmers, in Quesnay's *Tableau,* own varying amounts of capital, so there is differentiation in income that comes straight from their differences in wealth. They receive income by virtue of both the capital they own (interest) and the fruits of their management (profit). Capitalists also apply capital in different branches of production, but they receive everywhere the same rate of return of 10 percent per year. We should not take that specific rate of return too seriously; the point to note is the equalization of the profit rate, which applies not only to diverse areas of agriculture but also to commerce and manufacturing. Capital, in other words, is mobile.

In principle, lots of income inequality may come from variations within the capitalist class (tenant-farmers). Figure 1.1 presents a more detailed picture of income inequality that distinguishes among different capitalists. As shown, the richest class are the capitalists who invest in grain production, forestry, and commerce; their income is, on average, about 3.8 times the mean. Since we have already accepted the assumption that the rate of return is the same across areas of investment, the higher income of these capitalists simply results from the greater amounts of capital invested in grain production, forestry, and commerce. Presumably, Quesnay had judged these branches to be more capital-intensive than others.

Propriétaires' incomes are all the same. This lack of income differentiation among the three top classes (leaving aside the income differentiation *within* each of these classes, which must also have been substantial) is probably Quesnay's greatest and most unfortunate simplification. The top class, which includes very rich aristocrats but also rather modest or even poor bureaucrats and priests, was heterogeneous. In this lumping together of the "elite" we see the main source of Quesnay's overall underestimation of French income inequality.

Taking all classes shown in Figure 1.1, the income difference between the richest and the poorest is more than seven to one. But although the classes are, broadly speaking, ranked by their income levels—with workers at the bottom, capitalists in the middle, and propriétaires at the top—that ranking, when we look more closely,

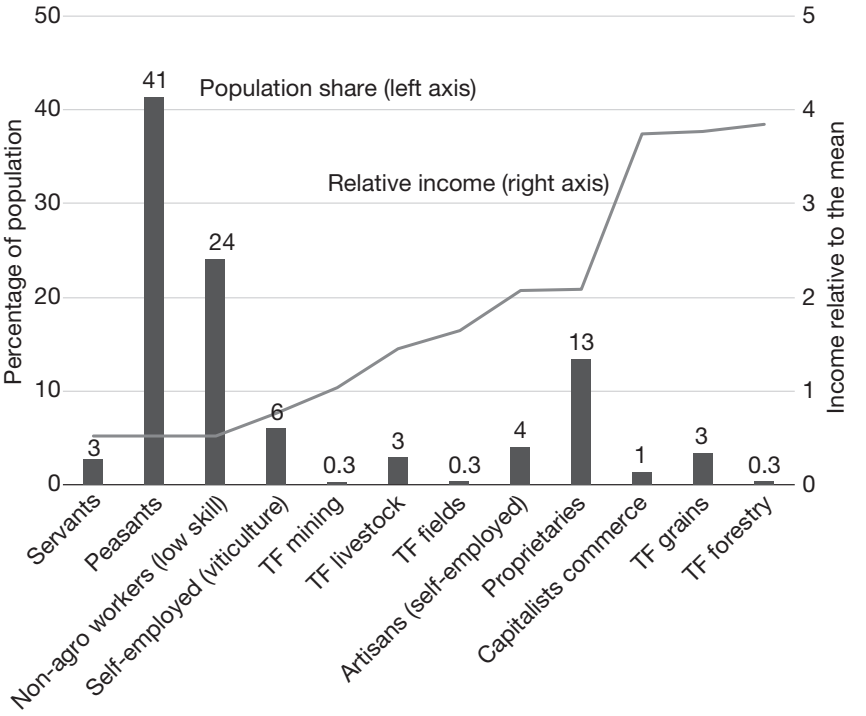


*Figure 1.1.* More detailed social structure (twelve classes)

*Note:* TF stands for tenant-farmers, or land capitalists. Classes are ranked from left to right according to income. Population shares are shown by the bars. Relative income (to the mean) is shown by the line. This is the distribution of the entire population, so class shares are not necessarily the same as in Table 1.1. For example, servants and peasants represent 44 percent of *total population* in Figure 1.1 but 48 percent of *all earners* in Table 1.1.

*Data source:* Mirabeau and Quesnay, *Philosophie Rurale.*

does not always hold. Capitalists can have either greater or smaller incomes than propriétaires, and the self-employed in manufacturing (artisans), who do quite well for themselves, earn more than several groups of capitalists. There are also within-class inequalities: capitalists, as we have seen, earn different amounts depending on how much capital they invest, and among the workers (if we include female servants) some are paid more than others.

Incomes within agriculture are differentiated, but outside of that realm, the class structure is pretty rudimentary. The non-agricultural realm is considered "sterile" because it does not generate surplus for the three top classes. It is assumed that non-agricultural production does not yield taxes, rent, or tithes for the clergy; it simply covers the costs of labor and the average rate of return on capital. There are no residual claimants—that is, landlords, government officials, or clergy drawing on the surplus. Alternatively, and perhaps more accurately, one could say that what mattered was not the inherent productivity of agriculture (land working together with the laborer, to paraphrase Quesnay) but the fact that in manufacturing there was no institutionalized hierarchical relationship that would allow anyone not directly involved in production to receive an income from it. We can simply imagine that manufacturing in Quesnay's world pays zero taxes (and indeed Quesnay argued in favor of a single tax on land), and is free from any institutionalized force above it forcing it to transfer part of its income to people not directly involved in production.[36]

## *The Importance of the Surplus*

It is important to realize that, for Quesnay, the objective of economic activity was production of surplus (as it is today) but that *surplus* was much more narrowly defined than today's *value-added*, because it excluded wages and return to capital. This seems strange from today's perspective, but it wasn't from Quesnay's: wages and interest can be regarded as simply necessary costs of production (given that no legally free worker supplies labor without a wage, and no capitalist lends money or advances capital without compensation). But for Quesnay this was not sufficient. For a society to exist and flourish, it had to generate a surplus sufficient to sustain its ruling classes, whose members, although not directly involved in production—that is, neither working nor advancing capital—played indispensable roles in the society's functioning. For without sufficient surplus, there could be no activities beyond hand-to-mouth pro-

duction: no administration of justice, no defense or protection of property, no ideology (religion) to maintain the entire structure. The surplus may be considered a precondition for the existence of a civilized society, not any differently than taxes are thought of today.*

The three top classes here play the same role, as Marx noticed, that the capitalist class plays in Ricardo.[37] They are residual income claimants and their income is vital to the economy. For Ricardo, the net income of capitalists is needed for investments and ultimately for growth.† For Quesnay, the net income of the propriétaires is needed for the economy and for society to continue functioning: to provide for law and order, and the spiritual sustenance presumably contributed by the clergy. A society unable to pay propriétaires for their functions would dissolve, cease to exist, and descend into a kind of Hobbesian anarchy and chaos.

Growth, never very explicitly discussed by the physiocrats as the goal of the economy, would come from the return on capital received by capitalists, which would then be reinvested. This presumption, however, is not unanimously accepted. Isaac Rubin, for example, argues that Quesnay in reality had in mind only a stationary economy (a system of simple, not expanded, reproduction) and that the return to capital was merely a compensation for depreciation.[38]

Similarly, Quesnay did not imagine that the surplus could be used either to increase wages above subsistence, or to pay higher profit to capitalists. He saw it by definition accruing to the top classes: landowners, government officials (like Quesnay himself), and priests. "In order to get an income from land," he wrote, "agricultural work must produce a net income above the wages paid to workers [and interest paid to tenant-farmers], for it is this net product that allows other classes to exist."[39]

* It does, however, have some similarities with the mercantilist view that it is the income and power of the top classes that matters.

† In Ricardo, capitalists receive their income only after rent is taken by landlords and wages have been paid to workers. (Technically, in Quesnay, wages are paid even earlier, as an advance.)

Quesnay gives us only a static, one-shot picture of the class structure in a predominantly traditional society before the Industrial Revolution. He offers no predictions of how that class structure might be affected by economic development, or how the incomes of the classes might change. This is one of the major shortcomings of the static image of inequality we have inherited from the physiocrats. Was it simply that physiocrats were not interested in a dynamic analysis? Or perhaps they did not recognize the importance of charting the evolution of social classes as a society becomes richer?

More likely, I think, it was because the objective of all their work was to lead the reader to a prior conclusion they had established. The structure of the society they describe, and the income numbers they provide, represent a somewhat embellished version of the French economy at the time. This is because the concealed objective of the physiocrats throughout their studies was to illustrate to the rulers—that is, to the king and the people around him—the prosperity that could be France's were the right policies adopted. The right policies were, of course, those advocated by the physiocrats. Thus, the physiocrats tacitly conveyed the social structure of the ideal society. It was the one they were precisely sketching: a rich, and perhaps stationary, agricultural kingdom. If the ideal is reached, there is no need for dynamics.