

Lecture 3: Precursors II

We consider in this lecture the French marginalists or preclassical economists, based on Chapter 4 in H&E – we dealt with Petty in the previous lecture.

H&E have a section on **Boisguilbert**, which are sometimes treated rather superficially in textbooks. He is important as an early representative of the ideas which gained strength during the next century, and he has many of the same points as Petty (so that it is only right that they figure in the same chapter).

Following this, H&E have a very detailed account of Cantillon, which has also been treated somewhat stepmotherly by the aftertime, being almost forgotten until rediscovered by the neoclassicals. Before we turn to him, there is another significant person, both as economic theorists and – in particular – as economic policymaker, who deserves to be mentioned:

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. And as our book mentions, he disappeared under mystical circumstances.

The section in H&E is very readable, but it is also rather long, so here is what at least should be remembered:

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” – 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.

Cantillon treats the quantity theory of money in a more sophisticated way than earlier authors, in particular he is explicit on the different effects on interest rates according to whether additional money is *lent* (used to expand credits) or *spent* (used in demand for goods, which then increases the demand for credits), something which was only further elaborated upon much later.

Our textbook is less enthusiastic about the physiocrats, using much space and energy on criticism. Surely one wouldn’t consider manufacturing as sterile today, but the approach taken by Quesnay was certainly innovative, and very much of contemporary economics is based on it.

Francois Quesnay emphasized, as did Cantillon, 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, and indirectly on input-output analysis and national accounts. 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 circulation of blood in the human body 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. 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. I have put a somewhat more modern version of the *Tableau* in the Lecture Note 3, and I comment

briefly on it during the lecture.

H&E has a very nice section on contributions from Spanish authors of the period, showing that they were as well advanced as the contemporary English and French writers. The final section about the importance of Protestant thinking for the rise of capitalism is less exciting and may be skipped, having noticed that the ideas were introduced by Max Weber. Here (and in other contexts) our textbook is somewhat loose in what it considers as capitalism. The textbook by Hunt and Lautzenheiser (see the homepage) is much more explicit on this.

We read: H&E, chapters 4, pp.76–98.