

FIVE FUNDAMENTAL ERRORS

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A SECT WITH A CREED AND A POLITICAL PROGRAM

by Jay Hanson, 11/13/2001, www.dieoff.org

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"Beware of Greeks bearing gifts."
-- Virgil, 30 BC

"A sect with a creed and a political program naturally presents many aspects and calls for interpretative analysis from many standpoints other than ours."
-- Joseph Schumpeter, 1954

Religion is the opposite of science. Science attempts to make its doctrine conform to the physical world, but religion attempts to make the physical world conform to its doctrine. Moreover, scientific doctrine is based upon "observation and experiment" (and is subject to revision), but religious doctrine is based upon "revealed truth" (and is immutable).

Modern economics is shrouded in idiosyncratic self-serving definitions, arcane mathematics, and circular arguments which make it very difficult to understand. But if one removes the math and jargon from modern economics, one finds the revealed truth of eighteenth century liberalism codified in the economic dogma of the French Physiocrats -- which was "*nothing but reformulations of scholastic doctrine*":

"Quesnay's theories of state and society were nothing but reformulations of scholastic doctrine. The motto, *Ex natura jus, ordo, et leges* might have been, though it presumably was not, taken from St. Thomas. The physiocrat *ordre naturel* (to which there corresponds in the world of real phenomena an *ordre positif*) is the ideal dictate of human nature as revealed by human reason. What difference there is between Quesnay and the scholastics is not to the formers credit...

"In his paper on *Droit naturel*, Quesnay defined Physical Law as the 'regulated (*regle*) course of all physical events which is evidently the most advantageous to mankind,' and Moral Law as 'the rule (*regle*) of every human action conforming to the physical order evidently most advantageous to mankind': these 'laws' form together what is called 'natural law,' and they are all immutable and the 'best possible ones' (*les meilleures lois possibles*). In the case of the scholastic doctors, such principles were confined to the realm of metaphysics and not directly applied to historically conditioned patterns. In the case of Quesnay they were directly applied to particular institutions, such as property. And Quesnay's political theory -- *both* analytically and normatively -- turned upon a monarchical absolutism in an uncritical and unhistoric manner that, as we have seen, was also quite foreign to the scholastics.

"Now, we know how well the old natural-law system fared in the eighteenth century and how acceptable it proved to be, in its essential features, to *la raison*. Therefore, Quesnay's particular form of it, some non-essential frills excepted, fell in with the intellectual fashion of the hour: everybody readily understood this part of his teaching, sympathized with it from the start, and felt at home when discussing it. And, unlike other votaries of *La raison*, Quesnay harbored no hostility either to the Catholic Church or to the monarchy. Here, then, was *La raison*, with all its uncritical belief in progress, but without its irreligious and political fangs. Need I say that this delighted court and society?" [1]

Lionel Robbins has described David Hume (1711-1776) as "the greatest philosophical mind in the English language". Hume was a Scottish historian and philosopher whose ideas profoundly influenced the development of skepticism and empiricism.

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Hume -- like empiricists (scientists, engineers) even to this day -- did not understand the futility of pointing out to an economist that his dogma does not agree with observation or experiment. Hume simply did not understand that economics was a religion based on revealed truth, and thus, immutable. In fact he became so exasperated after a heated exchange with the physiocrat Turgot that he wrote to Morellet:

"I see you take care in your prospectus not to offend your economists by a declaration of your views; and in this I commend your prudence. But I hope in your work you will batter them, crush them, pound them, reduce them to dust and ashes The fact is they are the most fanciful and arrogant set of men to be found nowadays, since the destruction of the Sorbonne... I ask myself with amazement what can have induced our friend M. Turgot to join them." -- David Hume, July 10, 1769

The Physiocrats were the first to describe the economy as a circular flow and held that whatever increased economic activity was good, and whatever decreased economic activity was bad. [2] According to Joseph Schumpeter, it is possible to trace practically the whole arsenal of liberal argument to the Physiocrats.

The First and Second Laws of Thermodynamics were unknown at the time of Physiocrats. The French physicist N.L.S. Carnot didn't formulate the Second Law concepts until 1824. The German physicist Helmholtz and the British physicist Lord Kelvin didn't explain the First Law until the middle of the 19th century. So when the Physiocrats were inventing modern economics, they simply didn't know that economic activity is limited by available energy, that energy resources themselves are limited -- limited energy stocks "stocks" (e.g., oil) and limited energy "flows" (e.g., wind), or that all economic activity wastes energy. *Modern economists don't know it either.*

The classical economists Jeremy Bentham, Adam Smith, Robert Malthus, David Ricardo, John Stuart Mill, and Henry George were all operating with the eighteenth-century scientific worldview of the Physiocrats. In the 1870s, neoclassical economists such as William Stanley Jevons in Britain, Leon Walras in France, and Karl Menger in Austria moved even further away from reality by shifting emphasis from limitations on supply to interpretations of consumer choice in psychological terms.

One of the features of the classical framework was the notion of a three-factor production function -- one puts Land (natural resources), Labor (including entrepreneurship) and Capital in one side, and then one gets goods and services out the other side. In contrast, the neoclassical framework combined natural resources with capital in order *to make it easier for economists to pretend they were scientists. But if one removes the math and jargon from modern economics, one finds that nothing of substance has changed since the days of the Physiocrats.*

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[1] pp. 128-129, **HISTORY OF ECONOMIC ANALYSIS**, Joseph Schumpeter; George Allen, 1954 ; <http://www.amazon.com/exec/obidos/ASIN/0195105591>

[2] **THE ECONOMICS OF PHYSIOCRACY**: Essays and Translations (Reprints of Economic Classics), by R. L. Meek; Kelly, 1962; <http://www.amazon.com/exec/obidos/ASIN/0678014663>

"'We must not lose heart', wrote Quesnay in a letter to Mirabeau enclosing the first version of the *Tableau Economique*, 'for the appalling crisis will come, and it will be necessary to have recourse to medical knowledge.' To cure a patient suffering from an illness requires a knowledge of the principles of physiology; similarly, to cure a society suffering from grave maladies requires a knowledge of the physiology of the social order. Since for Quesnay the basis of the social order lay in the economic order, an understanding of the laws and regularities governing economic life appeared to be of primary

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necessity if the sickness of society was to be cured.

"It is difficult to give a short summary of the basic doctrine of Physiocracy without distorting it, and without involving oneself in certain difficult problems of interpretation which I have reserved for discussion in the last part of the present volume. Let me, then, state here more or less dogmatically what I believe to have been the essence of the doctrine, setting aside for the time being all refinements and elaborations, and leaving it to the reader, if he wishes, to study the defence of my interpretation which he will find at the end of the book.

"The Physiocrats assumed that the system of market exchange which it was their main purpose to analyse was subject to certain objective economic laws, which operated independently of the will of man and which were discoverable by the light of reason. These laws governed the shape and movement of the economic order, and therefore (on the Physiocrats' basically materialist hypothesis) the shape and movement of the social order as a whole. Now the relationships between the different variables in a system of market exchange are very intricate -- so much so, indeed, that in a certain sense everything can be said to be dependent upon everything else. If the laws governing the particular type of exchange economy with which the Physiocrats concerned themselves were to be ascertained, therefore, it was necessary to put these variables into manageable form -- in other words, to construct what we would call today an abstract theoretical model of the economy.

"In the construction of this theoretical model, the Physiocrats' main aim was to illuminate the operation of the basic causes which determined the general level of economic activity. For this purpose, they believed that it was useful to conceive economic activity as taking the form of a sort of 'circle', or circular flow as we would call it today. In this circle of economic activity, production and consumption appeared as mutually interdependent variables, whose action and interaction in any economic period, proceeding according to certain socially-determined laws, laid the basis for a repetition of the process in the same general form in the next economic period. Within this circle, the Physiocrats then endeavoured to discover some key variable, movements in which could be regarded as the basic factor causing an expansion or contraction in the 'dimensions' of the circle, i.e. in the general level of economic activity. The variable which they hit upon was the capacity of agriculture to yield a 'net product', i.e. a disposable surplus over necessary cost. Anything which increased this net product would cause an expansion in economic activity, and anything which reduced it would cause a contraction in economic activity. 'The discovery of the *net product*', wrote Mirabeau, 'which we owe to the venerable Confucius of Europe, will one day change the face of the world. . The whole moral and physical advantage of societies is . summed up in one point, *an increase in the net product*; all damage done to society is determined by this fact, *a reduction in the net product*. It is on the two scales of this balance that you can place and weigh laws, manners, customs, vices, and virtues.'

"The leading assumption of the Physiocrats' theoretical system was that this net product was yielded by agriculture, and by agriculture alone. Agriculture was the supreme occupation, not only because it was morally and politically superior to others, not only because its produce was primary in the scale of wants and always in demand, but also -- and mainly -- because it alone yielded a disposable surplus over necessary cost." [pp. 18-20]

Nowadays, the Physiocrats would say that the net product was yielded by "information":

"Twenty years on from the oil shock of the 70s, most economists would agree that oil is no longer the most important commodity in the world economy. Now, that commodity is information." [Blair with the "big lie" at Davos <http://www.asiamedia.ucla.edu/Davos2000/Speeches/Blair.htm>]