

PORTRAITS OF FRANCE FRENCH ECONOMICS (PT. I)

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Today's economics

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- Today's economics is mostly American economics.
 - ▣ Leading departments: Harvard, MIT, Chicago, etc.
 - ▣ Leading researchers: 49 Nobel Prize winners are/were Americans
 - France: 3 and, still, one of them obtained the American citizenship!
- The Americanization of economics occurred in the immediate postwar period.
 - ▣ This corresponded to a period where the method of inquiry became unified
 - ▣ Formal theoretical models and econometrics

Is there a French « cultural exception » in economics?

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- Many observers like to think so.
 - ▣ There is in France a strong « heterodox » tradition.
 - ▣ People who still rely on Marxism and non-mainstream/neoclassical method (less mathematized)
 - ▣ More critical of free-market
- Yet back in the 19th century, things were different.
 - ▣ French economists were more 'libertarian' than their British counterparts.
 - ▣ Arguably, mathematical economics has its origins in France.

Back to the 18th century

- Whereas British economics is more like a branch of moral Philosophy, led by Scottish philosopher Adam Smith ...
- ... French economics is a science of the state, practiced by people who are close to the King, like Turgot and Quesnay.

Anne-Robert-Jacques Turgot

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- 1727-1781
 - ▣ Writer, statesman, economist
 - ▣ Intendant (tax collector) of Limoges, 1761
 - ▣ General Inspector of Finances, 1774-1776
- *Réflexions sur la formation et la distribution des richesses*, 1766



Turgot's ideas

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- Defense of free-trade
 - ▣ Opposed to the main school in economics: mercantilism
 - ▣ International trade is mutually beneficial, not a zero-sum game
- Defense of interest loan, which should not be submitted to moral appreciation.
- *L'impôt unique*
 - ▣ The tax system should be reformed and there should be only one tax on the product of land (which is at the origin of wealth)
- Is said to have influenced Adam Smith's *Wealth of Nations* (1776).

How economic ideas were disseminated

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- Turgot was a pragmatic person
- But he was influenced by theorists such as Vincent de Gournay (1712-1759) and François Quesnay (1694-1774)
- Those people formed “circles”, gathered in “salons” and tried to influence politics through writings (sometimes published anonymously) and through networks.

François Quesnay and Physiocracy

- ❑ It is a “school” of thought created by François Quesnay
- ❑ It is a collective endeavor, they often published anonymously
- ❑ Well-known contribution: the *Tableau économique* (1758)
 - ▣ First attempt at a “theory” of the circulation of wealth

DEPENSES PRODUCTIVES.	DEPENSES DU REVENU, l'impôt prélevé, le partageant aux Dépenses productives & aux Dépenses stériles.	DEPENSES STÉRILES.
Avances annuelles.	Revenu.	Avances annuelles.
11	11	11
600 produisent.....	600	300
Productions.		Ouvrages, &c.
11	11	11
300 reproduisent net.....	100	300
150 reproduisent net.....	150	150
75 reproduisent net.....	75	75
37-10 reproduisent net.....	37-10	37-10
18-15 reproduisent net.....	18-15	18-15
9-7-6 reproduisent net.....	9-7-6	9-7-6
4-13-9 reproduisent net.....	4-13-9	4-13-9
2-6-10 reproduisent net.....	2-6-10	2-6-10
1-3-5 reproduisent net.....	1-3-5	1-3-5
0-11-8 reproduisent net.....	0-11-8	0-11-8
0-5-10 reproduisent net.....	0-5-10	0-5-10
0-2-11 reproduisent net.....	0-2-11	0-2-11
0-1-5 reproduisent net.....	0-1-5	0-1-5

Physiocracy's ideas

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- The Wealth of Nations should not be confused with the State's wealth
 - ▣ Governments should not limit trade
 - ▣ So that the taxable wealth becomes greater
- All resources come from land
 - ▣ Only agriculture produces some net wealth
 - ▣ The industry consumes everything it produces
- Politically, they are for an authoritarian, but enlightened king
 - ▣ Free trade is going to represent a limitation to his authority
 - ▣ Economics is the “science” that helps rationalize politics
- The market as an instance of “veridiction” (M. Foucault, 1979)

Why Physiocracy failed

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- The rising price of bread in 1774
 - ▣ People blame Turgot's reform of grains trade for the crisis
 - ▣ In addition, there is a political coalition against him
- More generally, Physiocracy suffered from inconsistency
 - ▣ Economic laissez-faire and. political despotism
 - Some physiocrats like Mirabeau participated in the French Revolution but they were in favor of constitutional monarchy
 - ▣ How can you argue for laissez-faire while instituting reform?

The Classical School

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- ❑ The so-called Classical School, which began with Adam Smith was mostly British (David Ricardo, Thomas Malthus)
- ❑ Jean-Baptiste Say (1767-1832)
 - ▣ He was a rather idiosyncratic economist
 - ▣ Analytically, he did not fit, exactly
 - ▣ But he was responsible for one of its main tenets: “the law of markets”



Say's law: a cornerstone of classical economics

- Generally summarized as “supply creates its own demand”
- But the real sentence is: “Products are paid for with products”
 - ▣ It means that producing X is motivated by the need to buy Y
 - ▣ The idea is that money is only a temporary commodity, used to exchange products
- Consequence
 - ▣ General overproduction is not possible
 - ▣ John Maynard Keynes (1883-1946) will criticize the law by showing that some economic agents may want to detain money for its own sake.
 - ▣ But many contemporary economists maintain that Say's law is still valid if markets are sufficiently competitive (prices are flexible)

In the wake of Say: the French School of Economics

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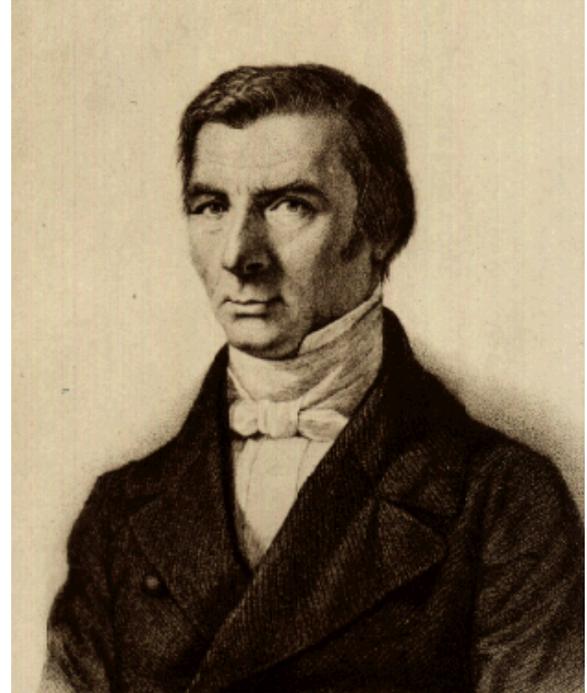
- More like free-market propagandists than theoreticians
 - ▣ Politicians and practitioners
 - ▣ They gathered in the *Société d'économie politique* (created in 1928)
 - ▣ They published in the *Journal des Economistes* (created in 1941)
- Inspired by Benjamin Constant and, later, Alexis de Tocqueville
- A few names
 - ▣ Frédéric Bastiat, 1801-1850
 - ▣ Léon Say (grandson of JB Say), 1826-1896
 - ▣ Yves Guyot, 1843-1928



Frédéric Bastiat and anarcho-capitalism

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- ❑ Bastiat was a flag-bearer for the French school of liberalism
- ❑ His liberalism was quite extreme:
 - ❑ He was against social security
 - ❑ He thought that even the police should be privatized
- ❑ Precursor of “subjectivism”
 - ❑ Subjective theory of value
 - ❑ Opposes the British theory of value
- ❑ He is worshipped by today’s French libertarians



Optimistic vs. pessimistic economics?

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- ❑ Charles Gide and Charles Rist, *A History of Economic Doctrines* (1915)
 - ▣ They labeled the French School as optimistic and the British as pessimistic
 - ▣ British economists believe that the economy is necessarily led to decline because of the tendency of the rate of profit to fall
 - ▣ French economists have a different view, capitalism will be saved by the extension of the system of liberty
- ❑ French economists are more dogmatic. Their views predate 20th century “neoliberalism”
 - ▣ Inspired by their struggle against socialists



French socialism

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- ❑ France was also the birthplace of socialism
- ❑ A precursor: Saint-Simon (1760-1825)
 - ❑ Faith in science, inspires Auguste Comte's positivism
 - ❑ Imagines a techno-republic led by scientists and intellectuals
 - ❑ Believes in some kind of scientific planning and egalitarianism
- ❑ He also wants to create a religion derived from scientific principles. In practice, these are moral principles not unlike Christianity.
- ❑ Saint-Simon's disciples have embraced his faith in the industry but not his socialism.



Proudhon and criticism of property

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- ❑ Pierre-Joseph Proudhon (1809-1865)
 - ❑ Politician, philosopher and economist
 - ❑ He wrote more than 60 books
 - ❑ Said, famously, that “property is theft”
- ❑ Difference with marxism
 - ❑ Proudhon predated the idea of capitalistic exploitation
 - ❑ He wanted to reform capitalism, and did not think that revolution was an obligation
 - ❑ Marx thought he was too idealistic
- ❑ Tried unsuccessfully to promote the idea of a universal income tax in 1948.
- ❑ Inspire anarchism but also reformist socialism



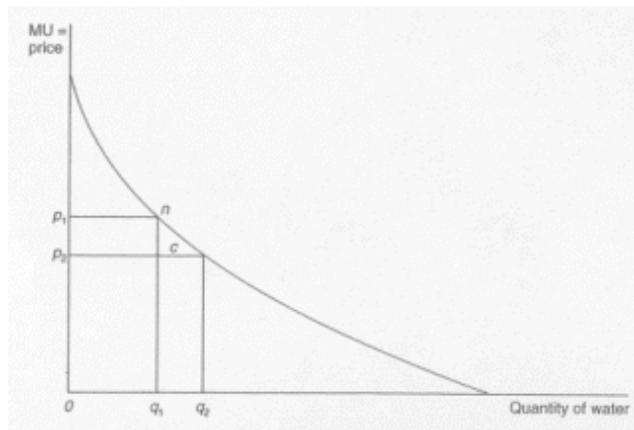
The “mathematization” of economics

- Mathematical economics emerged at the end of the 19th century and was part of the rise of the “neoclassical” canon.
 - ▣ Neoclassical economics considers the economy as a set of inter-related markets and focuses on the way prices are determined
 - ▣ JB Say’s, among French economists, was the closest to this method but he used no mathematics
 - ▣ In France, “neoclassical economics” was pioneered by Léon Walras (1834-1910), who followed from the works of Augustin Cournot (1801-1877).
- Yet, even before Walras there was another branch of mathematical economics, developed independently by French engineers.

French engineers and economics

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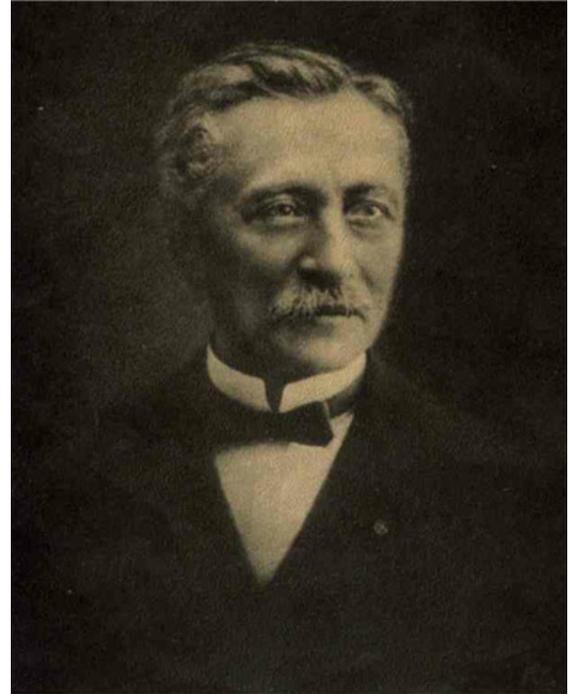
- French engineers were statesmen, trained in State Schools such as Ecole Polytechnique, Ecole des Mines and Ecole des Ponts et Chaussées.
- They weren't theoreticians but practical people who came to economic problem through public works.
 - ▣ For instance, you are told to build a bridge and you want to determine what the fee to pass on the bridge will be.
 - ▣ Then, you have to estimate a demand function.
- Jules Dupuit (1804-1866) was the first to use cost-benefit analysis and to talk about decreasing marginal utility.
- They do empirical, not theoretical economics.



Emile Cheysson and geometric statistics

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- Cheysson (1836-1910)
 - ▣ Former student at Ecole polytechnique
 - ▣ Director of the Creusot coal mines
 - ▣ Held the industrial economics chair at Ecole des Mines
- He developed “geometric statistics”
 - ▣ These were empirical demand and revenue curves.
 - ▣ Worked on the question of optimal taxation using these curves.
 - ▣ Used linear extrapolation to predict future prices
- He did not know about the works of Augustin Cournot, which were very close, and had a dispute with his disciple Léon Walras.



Augustin Cournot and the theory of duopoly

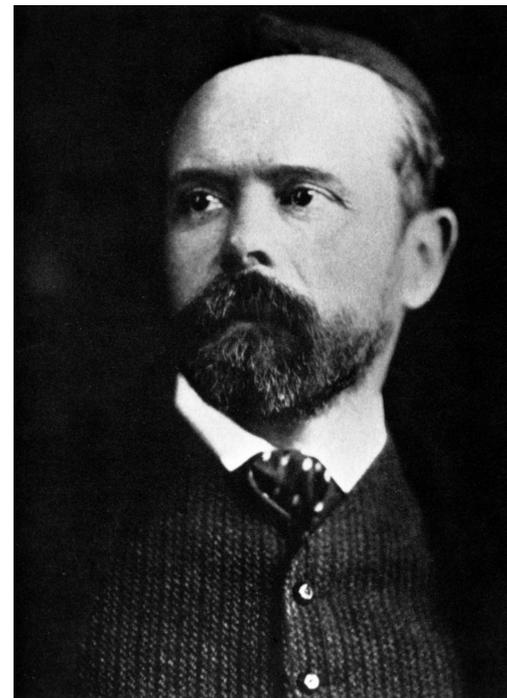
- Augustin Cournot was a pioneer in the use of mathematics in economics
 - ▣ Yet he was not recognized in the 19th century, except for his disciple Léon Walras.
 - ▣ That's because he was a Ecole Normale supérieure trained mathematician, not an engineer.
- His main contribution: duopoly
 - ▣ Two firms compete for market shares.
 - ▣ They both know the demand for a good and react to each other decisions.
 - ▣ This is considered a very important result by today's economist, predates “game theory”.



Léon Walras: a cult hero of mathematical economics

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- Yet Cournot was not exactly a “mathematical economist”
 - ▣ He used mathematics but did not believe economics was mathematical by nature.
 - ▣ In fact, no one believed that before Walras, who developed a coherent mathematical system.
- Walras was an outsider
 - ▣ Son of Auguste Walras, a social economist.
 - ▣ He failed to enter the Ecole polytechnique.
 - ▣ He developed his theories as a self-taught economist



Walras' General Equilibrium Theory

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- Walras represents the economy as a set of inter-related markets
 - ▣ Markets for goods and services, markets for credit and a market for money.
 - ▣ For each market, there is a demand equation and a supply equation.
 - ▣ A market is said in disequilibrium if supply exceeds demand or demand exceeds supply, price flexibility is what leads to equilibrium.
- Walras' law: if there are n markets and $n-1$ markets are in a state of equilibrium, then market n is also in equilibrium.
 - ▣ He wasn't able to come up with a proof that such a general equilibrium exists. He just showed that there were as many variables as equations.
 - ▣ The proof of existence of a general equilibrium will be brought in the 1950s.

Walras' tripartite division of economics

- Walras, however, thought that economics was reducible to this set of equations. For him, there are three branches of economics.
 - ▣ Pure economics: this is interested in the relation between markets and the determination of prices
 - ▣ Applied economics: Applies the previous model to policy issues
 - ▣ Moral economics: More like a branch of philosophy, it studies which states of the economy are the most desirable.
- Walras was a socialist, he thought that the property of land should belong to the State.
- But he thought that his theoretical system was independent of political and moral issues. This is crucial to the image of economics as a science.

Walras' success and failure

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- The father of modern economics
 - ▣ Joseph Schumpeter, one of 20th century most influential economists considered Walras as the greatest of all economists.
 - ▣ American economists such as Paul Samuelson considered themselves as Walrasian economists.
- Yet in France, Walras did not gain much recognition
 - ▣ He was opposed by the economists of the French school, which were reluctant to use mathematics and opposed to socialism
 - ▣ Walras was a contrarian: he opposed even people like Dupuit and Cheysson, because he thought they had plagiarized Cournot.
 - ▣ Walras held a chair in Lausanne and his only allies in France were law school economists such as Charles Gides and Charles Rist.

A portrait of economists at the turn of the 20th century

- In the end of the 19th century, there are three kind of economists
 - ▣ Doctrinal economists are libertarians, and are involved with politics. They are in decline but they still dominate public opinion through pamphlets and newspapers
 - ▣ Law school economists (like Charles Gide) are mild socialists who are supportive of mathematical economics but reluctant to consider the field as mathematical
 - ▣ Engineers are the most mathematically literate of economists but they are very practical, not much interested in building theory, even though they will increasingly be led to do so.
- These divisions explain most of the debates that will happen in the 20th century, including today's opposition between the so-called “orthodox” and “heterodox” traditions.