

# **‘Philosophie économique’ and Money in France, 1750-1776: The Stakes of a Transformation**

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**Abstract.** *The developments of political economy in France between 1750 and 1776 did not allocate a central place to the discussion of the nature and functions of money. The object of this paper is to account for this fact and what it denotes: the disappearance of money as a central object in the discourse on economy and society. We outline the context of this mutation in relation to the ideas of Montesquieu, Gournay and Forbonnais. The actors of this change will then be considered: the promoters throughout these years of ‘philosophie économique’ i.e., Quesnay, the Physiocrats and Turgot. An analysis of these authors, together with a founder of this perspective, Boisguilbert, will show how the status and role of money was modified, and illuminate the issues involved. This transformation can be related to the affirmation of a new political discourse whose foundations are rooted in economic interest.*

## **1. Introduction**

When in mid-eighteenth century France active economic discussion became increasingly commonplace, it centred first of all on the objects and practices involving grain — the staple item of consumption — and the grain trade. Commentators analysed the institutions enabling the market to function, the rules determining local exchanges or the degree to which the national economy was open to international trade. Attention was

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also drawn to problems posed by the fiscal system — the nature and level of taxation, and the manner in which it was levied. Of course, once it started, economic thinking extended to a number of additional domains, such as manufactures and finance. In this context, political economy in France did not allocate a central place to discussion of the nature and functions of money.

This is paradoxical. On the one hand, the sudden appearance of writings on commercial issues, agriculture, finance or population confirms the general view that this form of knowledge emerged in France during the second half of the eighteenth century. “Political economy” was understood as both a system of reflection on the organisation of society, and as form of knowledge exercised in the public sphere — according to the dictates of reason — in order to assess the justifications advanced in favor of government policy. If the founding works by François Quesnay and Anne-Robert-Jacques Turgot are the best known exemplars, other phenomena support this general perception, such as the frequent polemics that can be read in the periodicals that began to appear from 1751, or again the writings that crowded the bookshops of the period: works by François Véron de Forbonnais, Ferdinando Galiani or Jacques Necker, for example, to cite only the most notable names.

On the other hand, it is quite striking that so little of this upsurge in writing dealt with money. This observation is further reinforced if we compare the works of all these authors with the writings of those who, like Pierre de Boisguilbert or Richard Cantillon, preceded them; or if one considers the place occupied by money in the experience and writings of John Law and those, like Du Tôt, Jean-François Melon or Joseph Pâris-Duvernay, who reflected on this experience.

The object of this paper is to account for this paradox and what it denotes: the fading away of money as a *central object* in discourse on economy and society. It is of course necessary, in relation to the ideas of Montesquieu, Gournay and Forbonnais, to outline the context of this mutation in the status of money. Following this, the actors who take part in this change will be considered: the promoters throughout these years of *philosophie économique*.

*Philosophie économique* is characterised by three elements.<sup>1</sup> In the first place there is a conception of human action as self-interested, whether this is considered at the pragmatic level of daily activity oriented toward gain or at a purely intellectual level as a form of utilitarianism. Secondly, there is a sensationist theory of knowledge that takes account of the way in which individuals apprehend the world. This theory of knowledge gives a particular colouration to *philosophie économique* insofar as it opens out to the pedagogic dimension of the French Enlightenment and the possibility of modifying the representation of the social world. Thirdly, there is a relation set up with those who govern, or in the language of the time, with the legislator. In contrast to developments in Scotland, the rationalism that derived from the Cartesian tradition lent a particular significance to some expressions of *philosophie économique* in this regard — a kind of political theology — even if some *philosophes économistes* attributed a more important place to the representation of interests, or the involvement of enlightened citizens in a framework of a decentralised political organisation.

The main authors referred to here are Quesnay, the Physiocrats and Turgot. An analysis of these authors, together with a founder of the perspective that they made their own — Boisguilbert — will show how the status and role of money was modified, and illuminate the issues involved. This transformation can be related to the affirmation of a new political discourse whose foundations are rooted in economic interest, unlike an older discourse which founded social relationships on principles such as virtue, honour and military grandeur. Though money is not entirely absent from *philosophie économique* and the *philosophes économistes* appreciated its importance with regard to social relationships, it no longer appeared to be a central object, so that the political dimension of economic discourse is expressed some other way than through the discussion of money.

The authors selected for discussion allow us to elaborate our argument, in spite of there being major differences between them; the criterion adopted here is that political thinking must, in one way or another, place self-interested economic activity at the centre of discussion. Accordingly the great political theorists of the seventeenth and eighteenth centuries, such as Bossuet, Montesquieu, Rousseau and Mably, are not treated as part of

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<sup>1</sup> For a detailed analysis, see Faccarello and Steiner (2008).

*philosophie économique*. Administrators like Gournay and Forbonnais did of course develop a science of the legislator themselves, and their arguments presumed the existence of economic behaviour on the part of individual agents. What is decisive here is that they solely address one part of society (merchants or administrators), while the *philosophes économistes* generalise the behaviour in which they deal to the entire society: the new social relations here implied are *general* values for the conduct of a rational and systematic life.

Defined in this way, *philosophie économique* runs counter to the ideas, practices and propositions of any political economy that works along different lines. On the subject of money, during the period in question, the essential conflict bears upon its role in economic activity, and hence also upon the place — compared to those who produce wealth, that is, the productive classes — that should be given to those who are able to draw upon the ebb and flow of money on an international scale, that is, merchants; and above all those who are involved in the ebb and flow of national monetary movements: financiers.

## **2. The balance of trade, the quantity of money and economic activity**

### *The Intellectual Context*

It has long been recognised that there is a close relationship between *économie* and politics, as is apparent from the first two paragraphs of Claude Dupin's book of 1745 published under the title *Œconomiques*, a usage already found in the translators of Aristotle and Xenophon.

“That finances are the nerves of war and sustain the peace is a language both general and conventional shared by all jurists, historians and men of politics ancient and modern; they set in motion all parts of the body politic; they maintain the laws, justice, the dignity and splendour of States; they are the strongest link capable of uniting peoples, and the firmest support of empires. From this indispensable, constant and universal utility it follows that that art that teaches the administration of finances, that is *œconomic science*, must be considered one of the most important objects of political government.” (Dupin 1745: iii)

But in the mid-eighteenth century this relationship seems to have been reassessed because of basic changes that took place in commerce, forms of government and the power relations of European states. Striking examples of this can be found in the works of Montesquieu and Mably.

Following Ch. 27 Book XIX of *Spirit of the Laws* in which these three themes are closely related in the context of England, Montesquieu places a series of four books dealing with commerce, money and population in which the modern condition appears to be a singular one. He does not fail to emphasise the revolution that had taken place in commerce following the discovery of America, and the arrival of precious metals from the New World:

“A consequence of the discovery of America was the connecting of Asia and Africa with Europe; it furnished materials for a trade with that vast part of Asia known by the name of the East Indies. Silver, that metal so useful as the medium of commerce, became now as merchandise the basis of the greatest commerce in the world. In fine, the navigation to Africa became necessary, in order to furnish us with men to labor in the mines, and to cultivate the lands of America. Europe has arrived at so high a degree of power that nothing in history can be compared with it, whether we consider the immensity of its expenses, the grandeur of its engagements, the number of its troops, and the regular payment even of those that are least serviceable, and which are kept only for ostentation. [...] Europe carries on the trade and navigation of the other three parts of the world; as France, England, and Holland do nearly that of Europe.” (Montesquieu 1748: 369)

In this intertwining of European world domination, commerce and money, England assumed a special place, Montesquieu expressing this in one of the terse formulations that he affected:

“Other nations have made the interests of commerce yield to those of politics; the English, on the contrary, have ever made their political interests give way to those of commerce. They know better than any other people upon earth how to value, at the same time, these three great advantages — religion, commerce, and liberty.” (ibid. Book XX, 7: 321)

This increase in the power of England, both in Europe and in the world as a whole, is also especially noted in the works that Mably (1754, 1764) devoted to military and diplomatic relations. Mably emphasised the fact that it was England which had overturned ancient alliances — making Prussia its Continental ally at the expense of Austria, and so making the enemy of France its ally! — and that Holland no longer represented a major force on the diplomatic and military map. Consequently, Britain became the one and only true enemy of France. The struggle between the two nations was therefore engaged at sea and in commerce.

Convinced by these ideas the French translator of Hume’s *Political Discourses*, the abbé Jean Bernard Le Blanc (1754), thought it an encouraging sign that the topic of commerce had finally attracted attention in France. The work by Hume that he offered to the public belonged exactly to “a great many writings of the same kind, which have begun to form a

*school of politics* for all the other countries of Europe, which have shaken off the yoke of ignorance and superstition". (Le Blanc 1754: viii, our emphasis).

The appearance of Physiocracy in France is directly related to this issue; but the same can be said of the "science of commerce" taken up by the *intendance du commerce* in the person of Jacques Vincent de Gournay.

*Jacques-Claude Marie Vincent de Gournay*

The nomination of Gournay in 1751 as Intendant of Commerce, and his subsequent activity from 1751 to 1758 are generally considered to be a decisive moment in the evolution of economic thinking in France. Gournay symbolises the rise to an elevated position in the royal administration of a merchant with ideas and convictions relating to the "science of commerce" — that is, possessing this knowledge from the point of view of the practitioner; but combined with a political perspective, for the task was to guide the activity of merchants and traders for the larger profit of the State. The importance of Gournay was not least that he formed around him a group of young and talented men, among them Turgot and Forbonnais, who made their mark on administration and economic thought in the following decades.

This new context is the substantive indicator of the importance accorded to questions concerning commerce. In the vanguard of this new development, and basing themselves for the most part on writing published in England, Gournay and Forbonnais formulated a coherent vision of the conditions for wealth creation in which money was ascribed a decisive importance.

This rationalisation of economic thinking can be found in the form of commentaries in the notes that Gournay added in 1754 as part of his translation of Josiah Child's *A New Discourse on Trade*, which had originally been published in 1693, with a new English edition appearing in 1751. His views were however also expressed, and in a more systematic way, in Forbonnais's very influential *Éléments du commerce*, which brought together articles which the author had first prepared for the *Encyclopédie*.

Let us first consider Gournay's ideas. Taken together, his annotations turn upon an affirmation of the need to reform economic policy by taking account of the science of commerce with which the Dutch, and above all the English, were familiar and which they

employed to the detriment of France. This reformed economic policy would be founded upon the four following measures:

“Knowledge of the principles of Mr. Child, and the application made in the course of this book to the condition of commerce in France, must lead to the conviction that we remain far removed from a sufficiently flourishing agriculture, a sufficiently flourishing commerce, and shipping adequate to our needs, and which we need to possess to increase the power of the King, the happiness of his subjects. The means to procure all such things are principally 1. a prudently-introduced reduction in the rate of interest; 2. a well-formed Navigation Act; 3. public credit which will naturally follow from flourishing agriculture, flourishing commerce and ship-borne trade; 4. an Office or Council for Commerce to which reports on the various forms of commerce flow and from which one can observe the entire object of commerce.” (Gournay 1754: 401)

A reading of these notes reveals two major points. Firstly, Gournay gives pride of place to a reduction of the rate of interest, a topic which constantly recurs in his writing. Secondly, Gournay does not put forward a theory that explains the formation of the rate of interest, and in particular, he does not put forward a *monetary* theory of this rate. Like the author he translates, he appears to think that this rate is fixed by statute (ibid.: 39, 141; 364); he twice mentions “the administration of interest” (ibid.: 293, 436) and all that he says is that the reduction in the rate of interest should not “be forced” but instead “wisely guided” (ibid.: 312, 401-2, 436). This perspective shows that we are not dealing here with the kind of rationalisation capable of producing theorists seeking to explain the formation of a key variable, but instead a rationalisation linked to the practice of an administrator having precise knowledge of international trading interests. This type of argument is also explained by the fact that Gournay’s attention is drawn to the *consequences* of the impact of investments made by individuals holding money when there is a difference between interest rates among nations and/or within a country, *i.e.* a distortion in profitability brought about by the level of the rate of interest. It is for this reason that money and the holders of money intervene in an essential manner, the latter being thought sensitive to the differences in the rates of return on capital advanced.

The high rates of interest on royal finances offered to subscribers — at 5% to 6% almost double those prevailing in Britain — attracted disposable monetary capital towards financial investments rather than towards commerce, in which Gournay estimated the rate of return to be less, because of the uncertainties inherent in commercial activity (ibid.: 297-8, 303). The same applied to all agricultural enterprise: the high rate of interest prevented money from “fertilising” the land through the improvement of cultivation, the increase of

livestock and so forth — the calculation is rendered precisely with respect to the yield of timber from woodland (ibid.: 395-7). The harmful nature of this differential in profitability therefore translated into a poor allocation of productive resources directly attributable to this differential.

And that was not all, in Gournay's view: one should also compare the situation in France with that in Britain. In France, the high rate of interest had a depressive effect on activity since any commercial or agricultural project that could not show a rate of return greater than 5% or 6%, but which was nevertheless 3% or more, was rejected. This had not happened in Britain, and that country enjoyed an advantage with regard to the level of activity as a consequence. According to Gournay, the high rate of interest could even lead to the withdrawal of monetary capital from circulation, to be locked up in vaults or converted into gold plate (ibid.: 39-40, 290). And even if the money is injected into the economy and the financing of a project takes place, the high rate of interest reduces the gains of any merchant or agricultural entrepreneur who has to borrow at this rate for his business; the costs of finance therefore reduce his capacity to raise finance and the net rate of return which he enjoys.

The existing differential between the rate of interest at home and abroad also played a part. In the first place, a high rate of interest will attract foreign investment in funds established by the French royal financial administration, which will then lead to a reduction of French coinage through the transfer of interest payments to the country from which the capital originates. In the second place, a high level of interest penalises French commerce in that the higher financial costs generated by the borrowing of every trader prevents the latter from being competitive — or reduces the degree of competitiveness — with respect to foreign competition which enjoys more advantageous financial circumstances; even worse, it is possible that this foreign competition will be able to sell products abroad purchased in France at better terms than the French merchants themselves, purely on account of the differences in the cost of finance.

To sum up, the policy to which Gournay was inclined chiefly involved depriving finance of the means of capturing the economic surplus through the maintenance of a high rate of interest; as he stated in regard to the borrowing of the *Compagnie des Indes* at 6% or 5%:

“[...] one will see that its profits are all in the coffers of those who have made loans to it, that it cannot be any richer than it is, and that it will never be so long as it borrows at 5% to pursue its commerce. For I maintain that there is at present no branch of commerce in the kingdom, including that of the Compagnie des Indes, that is able to sustain continually a rate of 5%, and I believe that I cannot be contradicted on that by any merchant in the whole world.” (ibid.: 25-6)

By proposing a reduction in the rate of interest Gournay therefore favoured commerce at the expense of finance, placing the latter at the heart of his critique of the economic functioning of the kingdom, in respect of both economic and social matters (ibid.: 303-5). Production is not neglected where it concerns the general interest of the kingdom (ibid.: 35), but he considers it to be “the mechanical part of commerce” (ibid.: 37) and hence, in Gournay’s eyes, the central domain of activity remains that of international trade.

There is another element important for Gournay: that a law be established in France similar to Britain’s Navigation Act of 1663, several articles of which he describes (ibid.: 111-13). This is in his view a necessity, a *sine qua non* (ibid.: 184, 425), a measure that will enable France to struggle against the hold that the British and the Dutch have on the carrying trade by favouring French cargoes, even if they are more expensive. Gournay is not indifferent to those who improve techniques of production or the means of commerce. He marvels, for instance, at the competence of Dutch crews able to manoeuvre a vessel of 500 tons with a crew of only twenty men, when a French vessel of 300 tons needs more than forty (ibid.: 194-203). But he balances this higher cost with the traditional “mercantilist” argument that such expenditure is offset by the fact that the money involved remains “at home” (ibid.: 167, 184, 199). He reinforces his position by making use of what would later be known as the infant industries argument, suggesting that while in the short term French freight might be more expensive, in the long run, thanks to the experience thereby gained, the expense of such freight would converge with international costs and France would consequently gain on both counts.

Where this argument concerned the internal circulation of money, this mode of rationalising economic knowledge highlighted the problem of the quantity of money circulating in the country, a quantity which is the driving element of economic activity. Coinciding with this, Forbonnais presented the same argument, but in a more systematic manner.

*François Véron de Forbonnais*

Forbonnais took up a number of “mercantilist” principles regarding the distinction between the circuits of internal and external trade. In the articles that he wrote for the *Encyclopédie* and republished in 1754 under the title *Éléments du commerce*, he clearly exposed the approach taken and the type of political discourse that it presupposed. This amounted to the idea that the power of a State depended upon its population, which in turn depended on its “political wealth”, that is, those real and relative forms of wealth (Forbonnais 1754, I: 48) which were the object of the “science of the administration of political commerce”. Real wealth depended upon domestic trade; this constituted the “greatest degree of independence for the State” *vis-à-vis* its neighbours “for its needs and the greatest possible surplus that it might be able to export”. Its relative wealth depended upon “the quantity of wealth by convention [money] that it was able to attract through its [external] trade” (*ibid.*), again compared with that of its rivals. “This portion of commerce is very closely related to political interests, and is part of their nature” (*ibid.*: 61). Foreign trade and its practitioners — merchants — therefore constituted a strategic variable to which one could not pay too much attention:

“It is advantageous to deprive our rivals of the means to become powerful, for by this we increase our relative strength.” (*ibid.*, II: 176).

But why, economically speaking, is it advantageous to have a positive balance of trade? Forbonnais presented his arguments by invoking what he called the “virtuous circle” (*cercle heureux*) (*ibid.* I: 96-9), and he returned to these arguments later when responding to those of Quesnay (Forbonnais 1767).<sup>2</sup>

Let us suppose we begin with a condition of industrial and commercial liberty. This creates ease among the industrious, that is, an income sufficient to their needs and freely chosen, agreeable employment. Output is steadily rising and the general price level is relatively low and stable, thanks to the competition that exists among producers. If goods are exported, the low price secures overseas markets and hence a favourable balance of

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<sup>2</sup> There is a filiation here with Montesquieu, where he presents the following sequence: “The quantity of commodities and merchandise increases by an augmentation of commerce, the augmentation of commerce by an augmentation of the specie which successively arrives, and by new communications with freshly discovered countries and seas, which furnish us with new commodities and new merchandise.” (1748 XXII Ch. 8 p. 380; translation revised)

trade, which brings about an inflow of money into the country *and* an increase in production. The conjunction of the price effect and the quantity effect of an inflow of specie *procured in this manner* is a central argument of the so-called “mercantilist” School, from Thomas Mun to Richard Cantillon.<sup>3</sup> The increase in the number of purchasers in the national market that this money facilitates engenders a rise in prices, but the “virtuous circle” restricts the latter factor thanks to an increase in production. Forbonnais introduces the hypothesis that the profit made by producers diminishes, but he also supposes that this diminution of their revenues is offset by a fall in the rate of interest and hence of their financing costs. How does he explain this fall? The quantity of money in circulation being greater, this contributes to the increased economic well-being of agents, and so the number of lenders increases while that of borrowers decreases. Configured in this way, commerce is especially vigorous: domestic activity is stimulated and any great increase in prices is constrained by external competition. And so:

“Industry opens up new paths, it perfects its methods and its works; the œconomy of time and of energy multiplies men in like manner; needs succour the arts, competition raises them [to perfection] and the wealth of artists makes them learned men.” (ibid.: 99)

This vision appears to be more substantial than that of Gournay, especially in respect of the formation of the rate of interest and the way that the reduction in this rate is promoted by a favourable balance of trade. The argument that Forbonnais develops by reference to his idea of a “virtuous circle” also emphasises the importance of a positive balance for the growth of the nation’s capital.<sup>4</sup> It follows that if an influx of specie led to an increase in production, this was all to the good since it was employed as capital in

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<sup>3</sup> This argument is stated in the following passage: “Hence any augmentation of the mass of money, evident in circulation, begins with the multiplication of its function as a sign; that is, the new money will, before raising the price of commodities, draw in trade to a greater extent than hitherto.” (Forbonnais 1754, II: 156).

<sup>4</sup> The assimilation of a positive or negative balance of trade to that of monetary capital is made clear in the following passage from Forbonnais: “Hence, if the balance of trade is advantageous to a nation, its money capital (*fonds capital des richesses de convention*) is augmented by the sum of that balance: if it is disadvantageous, the capital fund is diminished by an amount equal to the sum that has to be paid.” (Forbonnais 1754 I: 74). It is not therefore surprising to see that Forbonnais rejected the mechanism of an automatic equilibration of the balance of payments advanced by Cantillon or by David Hume (Forbonnais 1754 II: 175), either by putting off the consequences of such a mechanism to a very distant future and therefore diminishing its significance, or by stressing quantity as well as price effects.

economic activity. Insofar as it was a matter of wages — circulating capital — this was stated openly; it was the same insofar as it was a question of mobilising savings thanks to credit (Forbonnais 1767 II: 239, 146). In every case, Forbonnais's line of argument clearly displayed the central role of the quantity of money in explaining the level of economic activity in a country.

### **3. 'Philosophie économique' and monetary analysis: from Boisguilbert to Quesnay**

*Pierre de Boisguilbert*

Between 1695 and 1707, that is, between the *Détail de la France* (1695) and a number of other works — primarily *Factum de la France*, the *Dissertation de la nature des tributs*, and the *Traité des grains* — most of them published under the misleading title *Testament politique de M. de Vauban* (1707), Boisguilbert put forward the basis of a style of economic thought which was intimately linked to a new conception of social organisation and social relationship: what we call *philosophie économique*.

It is convenient to situate Boisguilbert's thinking in relation to Jansenist social philosophy of the kind expressed in the seventeenth century by the writings of Pierre Nicole and Jean Domat. Boisguilbert, who was a pupil of Port Royal's *Petites écoles*, adopted these Jansenist themes but provided them with a quite different solution in respect of the central question concerning the life of men in society. Nicole and Domat emphasised the depravity of man after the Fall: love of God was supplanted by an unrestrained selfishness, "amour-propre". This raised the question of how a society might continue to exist, since such egoism would seem to lead into a war of all against all. Nicole shows how men, renouncing the pursuit of their egoism through force and violence, embarked upon a kind of "ruse of passion", taking a strategy of the indirect approach: by serving others the better to serve themselves, they achieved their own ends. This is what Nicole called "enlightened self-love", and which he illustrated with examples drawn from economic activity. Despite this novel departure, the social and political philosophy of Nicole and Domat remains quite traditional, the maintenance of society being assured to a great extent by the "political

order". In a society hierarchised by orders, social connection remained political and religious.

By contrast, the image of society that emerges from Boisguilbert's writings is one founded upon private property, the market and competition: a society in which agents enter into contracts with one another through commercial relationships. Economic activities — the sole motivation of which is personal interest and which are *a priori* uncoordinated — can lead, unintentionally, to an "equilibrium", a "state of opulence". Economic regulation operates *a posteriori*, through the fluctuation of market prices. But this work of regulation is also a work of social regulation since, from this perspective, the legislator must primarily confine himself to creating and enforcing respect for the permissive conditions of such an equilibrium, that is, of the "liberty of commerce"; he should not disturb the proportions that might spontaneously arise between prices — the "proportionate prices" — and between classes, while otherwise securing the minimal functions of police, justice and defence.

In this context, what is the role of money? This revolution in thought concerning the economic and political organisation of society is associated with a shift in monetary matters, and as a consequence in regard to the "balance of trade". Insight into this can be gained by considering the analysis of the three functions of money: as a measure of value, medium of exchange and as a store of value.

So far as the measure of value is concerned, the usual approach prevails: precious metals endow money with the property of being the standard of value.

Boisguilbert is more daring however with regard to money as medium of exchange; this is made up of coinage, but also by "notes" or "papers", by which he does not mean bank notes which were more or less unknown at the time, but rather the different bills of exchange that circulated through endorsement. In modern terms, one could therefore say that the supply of money as medium of exchange had two components: coinage which depended upon the wealth accumulated in a country as a result of the presence of mines or of the balance of trade, and the bills in circulation that derived from "merchants".

What is the demand for medium of exchange? Here an essential variable arises, that of confidence. To the degree that agents might be optimistic or pessimistic about the present or future state of the economy, they would have greater or lesser confidence in the bills in

circulation — that is, in the solvency of their issuers — and this in turn was a condition of their acceptability. During periods of prosperity when confidence was high the component of circulation made up of paper was important on account of its practical and assured features, while the metallic component was limited. But by contrast, in the event of a crisis, confidence in the solvency of many merchants was destroyed, many bills were no longer accepted, the paper component contracted, and demand switched heavily to metallic currency.

Money as a store of value inevitably added a new component to the demand for money: money as an asset. This function could be dangerous because of the different motives behind it. The first of these involved entrepreneurs hoping to constitute or reconstitute their capital; but here the withdrawal from circulation of particular amounts only reflected the normal rhythm of economic activity. A second motivation was precautionary: when times are prosperous this played a small part, but it had a far larger role in times of crisis. There is furthermore a third motivation, with harmful consequences: that which follows from the illusion that money is itself true wealth, and which gives rise to a demand for money purely for its own sake.

Two consequences follow from this analysis. Money is, quite paradoxically, at once essential and inessential.

Money is essential to the circulation of commodities in an economy where the multiplication of markets makes barter impossible. It is however also essential on account of the illusory phenomena that it creates. But it is also capable of having real effects, of shattering the equilibrium of opulence and throwing the economy into crisis. Demanded as an asset it prompts hoarding and thereby breaks the chain of exchange; expenditure diminishes, markets are unsettled and the system of proportionate prices is affected. From the servant of commerce it becomes its tyrant, and hence its hangman. From which follows Boisguilbert injunction: don't hoard, spend.

Nonetheless, money is in some ways inessential to the economy, since the quantity of coinage in circulation is unimportant to the determination of the level of activity. The decline or the prosperity of states is owed to the economic policy pursued and to the institutional context of activities, and not to the greater or lesser quantities of money that

they possess. A policy of “liberty of commerce” leads to prosperity and abundance, while intervention in the markets and a poor fiscal policy send the economy into crisis:

“It is very certain [...] that the quantity [of money] does nothing for the opulence of a country in general, assuming it is sufficient to sustain agreed prices for the goods necessary to life: [money] does not prevent those countries in possession of mines from being very impoverished. One man in that kind of country can spend two *écus* a day and pass his life in greater difficulty than someone who, in Languedoc, has no more than six *sols* to support himself. One can indeed say that the richer a country is, the more it is capable of doing without specie, for there are then more people prepared to accept instead a piece of paper, called a bill of exchange.” (Boisguilbert, 1695-1707: 617)

Everything is a question of relative prices — the “proportionate prices” — and not of absolute prices: “It is proportions that make up all wealth, for that is the sole means through which exchanges, and as a result commerce, can be effected: it would be ridiculous to differentiate between two equally good meals because one had cost a great deal and the other much less, supposing there to be a greater degree of happiness in the one for which one had laid out more” (ibid.: 891). The quantity of money adjusts itself. During periods of prosperity economic activity creates the instruments of circulation that it needs; “paper” makes up a flexible and endogenous fraction of the quantity of medium of exchange. It is true that during periods of crisis this fraction collapses and the mass of medium of exchange tends to fall back to coinage alone. But it is wrong to say that that depression is caused by a lack of money; on the contrary, it is this depression that creates the impression of a want of legal tender. From this point of view, every expansionist monetary policy — melting down objects made of precious metals to increase the quantity of coinage, for example — is incapable of changing the situation. The crisis, the want of confidence, renders agents more cautious and the additional money is hoarded. The causes of crisis are not monetary; nor are the ways out of them.

“If the worst situation of a merchant, while commerce is flourishing, is to have his money lying idly in his chest, since it produces nothing of itself, it is to his advantage in times of recession that it stay there, in the anticipation that while he gains nothing, neither does he lose, and he would risk bankruptcy with the cessation of trade. And what is true of merchants is also true of all who live from rents [...]. There is no point in blaming the lack of money, but only that it does not take its normal course. And the gold plate melted down into money these past days has no more brought about a remedy to this malady than the arrival of a fleet from Peru did to the poverty of Spain.” (ibid.: 619-20)

These arguments lead to another important conclusion concerning foreign trade and the balance of trade. In the absence of a banking system, those countries that do not

possess mines can always turn to an active monetary policy by seeking a positive balance of trade, and this, from the traditional perspective, is supposed to raise the level of their economic activity. The quantitative aspect here is essential: the impact of foreign trade upon domestic activity depends upon the state of the balance of trade.

Boisguilbert refutes this view. He does this first of all, as has been seen, because he believes this type of monetary policy to be pointless. But he also argues, as Quesnay and Turgot would later, that the role and importance of external trade is qualitative, linked to the liberty of commerce. He thought that only such liberty would allow a state of plenty. However, a free foreign trade is an essential aspect of this general liberty to engage in commerce; for in its absence, supposing that liberty was restricted to domestic trade, agricultural prices would continue to fluctuate violently, ruining sellers and buyers in turn, provoking cyclical crises and preventing the formation of a system of “proportionate prices”. It is therefore the *freedom* of external trade that is paramount, and not the *balance* of trade. Such liberty allowed price stabilisation and the realisation of a condition of opulence.

A final aspect of this question concerns the rate of interest and “finance”. The group of contractors and financiers who advance money to the king in different forms — advances on taxes, loans in the strict sense, etc. — are described by Boisguilbert as very harmful parasites since their action undermined the proportions necessary to produce a state of abundance.

Economic stagnation, in itself, already prompts a rise in the rate of interest through the growth in demand for loanable funds and the increasing scarcity of supply. But the activity of financiers also had the consequence of raising the rate further, and its maintenance at an abnormally high level. The financial difficulties of the State being recurrent and familiar, the king was constrained to borrow at a higher rate from financiers who had become the sole suppliers of significant loans to him; these financiers, for the most part, do not themselves possess such sums, and have to borrow them in the market at a rate of interest higher than that which would have otherwise prevailed. From this there resulted a kind of financial crowding-out that prevented many productive enterprises being undertaken; the high rate of interest also prompted at the same time a negative wealth effect — a devaluation in the price of land and of rents — which prompted a reduction of expenditure and sharpened the crisis.

*Money in Quesnay*

These themes were taken up by Quesnay and later by his disciples, though for them money in no respect played the central role ascribed to it by Gournay and his group. Does this mean that Quesnay and the Physiocrats did not ascribe any importance to money? Certainly not, and contrary to interpretations of Quesnay as a theorist of exchange in kind — wheat against manufactured products — he did in fact think in terms of an economy with monetary exchange.

The monetary nature of exchange is recognised by Quesnay in the manuscript for the article “Hommes”:

“*Commercial wealth is that which can be exchanged for pecuniary wealth, in conformity with the prices that constitute their valeur vénale [...] for all kinds of commercial wealth can be exchanged for money and money can be exchanged for all kinds of wealth. Hence, through the intermediation of money, men in possession of commercial wealth of whatever kind can acquire every other kind of commercial wealth on account of the reciprocal price of one with the other.*” (Quesnay 1757a: 272).

This position is reiterated in *Philosophie rurale*, which Quesnay wrote with Mirabeau. Here money was given a more directly political dimension:

“The *valeur vénale* in money is the common measure of wealth adopted by nations. It is not therefore simply the territorial productions of a kingdom that make up the revenues of a nation, it is also necessary that these productions have a value that exceeds the price of the costs of exploitation of agriculture. It is only this excess which is able to furnish revenue, or net product. Hence the greater that this excess surpasses the costs, the greater the revenue that the nation will have. Revenues and taxes are paid in money. Thus all expenditures and all products have to be reckoned in money. *Thus venal value in money is the basis of all estimation and all calculation in political economy, and of all relations of wealth among nations.*” (Mirabeau and Quesnay, 1763: 651, our emphasis)

Such statements are however associated with a clear attenuation of the role of money in the determination of the sources of a nation’s wealth. First of all, Quesnay explains that money does not have use value, that is, it satisfies no need since its utility is purely as an intermediary between parties to an exchange: money is no more than a “tool of commerce” (Quesnay 1757a: 273).<sup>5</sup> Secondly, as in Boisguilbert, the quantity of specie imported is of no relevance since metal can be supplemented with paper and other bills of

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<sup>5</sup> In the work of Le Mercier de la Rivière, to which we refer below, the function of money as a medium of exchange is related to the dual coincidence of needs on the part of many agents (Le Mercier 1767: 347-8).

exchange that merchants use among themselves (Quesnay 1757a: 274). Finally, Quesnay explains that the global distribution of gold between different commercial nations conforms to a general law that the quantity of money circulating in one nation is proportionate to the sum in value of national production (Quesnay 1757a: 275); ultimately, he would refine his idea by equating the quantity of money in circulation in a nation to the amount of the net product (1766b).

All of this lays the basis for the unequivocal condemnation of the principal argument of what Quesnay calls the “merchants’ system” to the effect that the accumulation of wealth is measured in the quantity of money acquired thanks to a surplus on the balance of trade, which we have seen to be a central tenet in the writings of the followers of the “science of commerce” grouped around Gournay:

“It is not at all that the quantity of money of a kingdom leads to a high level of prosperity [...] Hence it is always the abundance and good price of produce which is the source of money, but money itself is no more than sterile wealth in the absence of commerce. It is only possible to create a greater amount of wealth in a nation by converting it with profit into commercial wealth purchased from abroad. Thus money must not accumulate in a State to the detriment of the increase of wealth that commerce can procure.” (Quesnay 1757a: 275).

This leads us right to the foundation of Quesnay’s approach: the conditions of the production of wealth, which is to say the conditions for the employment of agricultural advances. These conditions are detailed in his article “Fermiers” (1756) insofar as it is a matter of the theory of production properly speaking; and his articles “Impôts” (1757b) and “Intérêt de l’argent” (1766a) deal with the relations between production and monetary circulation, which should be organised so that it does not disturb production itself.

Among this set of conditions emphasis has to be laid upon the importance given to the way that money returns to the hands of those who first spend it. Via a circular flow, economic activity presumes that agents hold money to initiate the circulation of products, but also that this money returns to them since all production effects its circulation *via* all the operations intermediary to the initial seller and the final purchaser. It is only this condition of monetary circulation that allows it to reproduce commercial wealth from one period to the next.

*Rate of Interest and Finance*

Up to this point *philosophie économique* has not however completely responded to adherents of the science of commerce advocating a fall in the rate of interest. Quesnay's response can be found in his article on the rate of interest, which is a major element in his line of argument: here he shares the concern of Gournay and his group in seeking to find a way of unravelling the influence of finance. He proposes to put in place a dual system for the determination of the rate of interest. On the one hand, merchants should be entirely free in their transactions with regard to the rate of interest; on the other, the interest rate for individuals should be capped at a rate equivalent to that of rent.

What impact does Quesnay expect this measure to have? The capping of the interest rate among individuals will render the latter uninterested in placing their monetary capital in finance, inducing them to turn to the agricultural sector, whether this be through the purchase of land, or in the form of investment in large farms. On this point Quesnay agrees with Gournay: for the science of commerce, as for *philosophie économique*, the adversary underlying the rationalisations of policy is finance and its depressive effects on economic activity, its deleterious impact upon public finances, upon welfare and the power of the nation. The point over which they differed was nevertheless a central one: while for Gournay commerce and, consequently, merchants, represented the heart of economic activity, for Quesnay this heart was constituted by agricultural activity and the classes related to this — landed proprietors and capitalist farmers. If, in both cases, the effective functioning of money is defined contrary to its financial use, this does not mean that they favour the supremacy of the same class and the same mechanism. For Gournay, a fall in the interest rate improved the conditions of the merchant; for Quesnay, this fall avoided a 'leakage' — and its depressive impact — from the monetary circular flow of production in agriculture.

#### **4. The intervention of Le Mercier de la Rivière: 'Let us for a moment rule out the use of money'**

Written under the supervision of Quesnay, Pierre-Paul Le Mercier de la Rivière's *L'ordre naturel et essentiel des sociétés politiques* (1767) takes the form of a condensed exposition

of the new conception of politics shared in this intellectual milieu close to the centres of power.

Le Mercier de la Rivière takes as given Quesnay's thoughts on *valeur vénale* as the monetary expression of the rate of exchange between goods, rates which are themselves determined by competition between participants in commercial activity. *Philosophie économique* does rely upon Boisguilbert's conception of proportionate price, insisting on its monetary dimension which implies ideally that for each agent or each class the inward and outward monetary flows are equal sums, what Boisguilbert calls the "tacit condition" of exchanges. Secondly, these monetary relations are considered from a political point of view, according to the principles of Physiocratic politics: the growth of utility for the members of the social body, a utility measured in terms of disposable wealth, that is, the portion of the net product not absolutely devoted to the reproduction of economic activity.

On this basis the work takes account of money where it is a matter of taxation (and so concerns the relation between a sovereign and his people) and of foreign trade (and so concerns the relations between a nation and other trading nations). Le Mercier de la Rivière places in question the importance granted to money by adherents of the science of commerce on these two central political points in order to place emphasis, beyond monetary issues, on the fundamental proportions by which the political body maintains itself through the reproduction of wealth. He does this in a very characteristic way.

One certainly encounters here the habitual theme of money as sign and as common measure, producing what Karl Marx later called the fetishism of money, and which Boisguilbert had for his own part already isolated half a century earlier;<sup>6</sup> one also encounters here the theme of trade as a deceptive phenomenon (Le Mercier 1767: 341). But what is characteristic in his approach is the setting aside of intermediary phenomena,

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<sup>6</sup> "Once money is made the sign representing all values [...] one does not seek to be informed of the relationship that a venal value might have with the value of this or that other commodity. How much is that in cash? What sum of money is needed to pay for it? That is all one needs to know. We are so little used to following the threads of the connections between things that, without troubling ourselves regarding the relationship that this same sum of money might have with other goods, we believe ourselves to have gained much by giving less money for the things which we buy, or in receiving more for those things which we sell." (Le Mercier 1767: 366)

whether it concerns money or trade, intermediaries which are however recognised as essential cogs in the economic activity of the agricultural kingdom. Le Mercier de la Rivière comes to this result by relying on the same procedure for taxation as for international trade: to highlight the proportion between products once the intermediaries have completed their work of circulating the products. This procedure is none other than that which allowed Quesnay to move from his zigzag — the first form taken by the *Tableau économique* showing how the wealth circulates by following all the transactions taking place between the three classes in the kingdom (Quesnay 1758-9) — to the “arithmetical formulation” of the *Tableau*, which condenses this infinity of transactions into a small number (five in total) summing and summarising at the same time the relations between classes and hence the proportions existing between them (Quesnay 1766b).

Let us take the case of taxation to see Le Mercier de la Rivière’s procedure at work. The difficult question that he raises concerns tax on the net product, that is, a tax paid by the proprietor class — a class which, the author never ceases to repeat, should enjoy the best position in society (Le Mercier 1767: 290-2, and Ch. 29). Who could doubt the difficulty of explaining to landed proprietors that it is to their advantage to pay tax, all the tax, instead of and in place of their farmers? The argument that Le Mercier de la Rivière puts forward rests upon fiscal incidence: he who pays the tax by transferring to the Sovereign the sums of money demanded is not necessarily the one who bears the tax.

“The money used to pay the tax can pass through several hands successively; but it is necessary to examine if the last [in the chain] upon whom the tax is levied has realised the value of this money; if this is not so, we need to go back to whoever has remitted the money to him, pursuing our investigation until we find the genuine proprietor of this money, he who has really purchased it, but who instead of then reselling it, has given it to be passed from hand to hand as tax.” (ibid.: 261-2)

By moving backwards in this way to the source of wealth, Le Mercier de la Rivière suggested that “the use of money be proscribed for a while” (ibid.: 264): “and without re-establishing money use, let us shape the public revenue” (ibid.: 265). The origin of wealth was to be found in agricultural production, jointly produced by land and agricultural advances; and since the entire disposable net product is paid by the cultivator to the landed proprietor it is the latter who, in the final analysis, actually bears the tax, whoever the person might be who pays it in a monetary form to the Sovereign.

Le Mercier de la Rivière applies the same procedure to the case of external trade. The class that he has in mind is no longer that of proprietors, as with taxation and fiscal incidence; now it is merchants, and above all those who, dazzled by the opulence of commercial republics, think that a positive balance of trade is the true source of national enrichment. Yet again money is treated as an indispensable intermediary, but one has to set that to one side so that the mechanisms hidden behind monetary exchange might be exposed:

“Let us for a moment rule out the use of money and coin, substituting exchanges for the terms of buying and selling and supposing that they are actually made in kind; is it not then obvious that if I want to procure your commodity I need to have one of an equal value to give to you, that I am a seller so that I might be a buyer? Is it not also obvious that if I wish to find a sale for my commodity, it is necessary that I take in exchange another commodity of equal value, and that likewise, to be a seller I have to be a buyer?”  
(*ibid.*: 347)

This procedure, which aims to reveal the relationship between products themselves and the proportions that prevail between them, demonstrates that external trade does not admit any enrichment by value, even if one had secured a net inflow of precious metal — *i.e.*, that more was sold abroad than was bought from abroad.

The line of reasoning followed by Le Mercier de la Rivière in the above shows clearly how money was dealt with by *philosophie économique*. The rationalisation of policy at work here is aimed at nullifying the arguments of those authors who favour the practices of merchants and the state, of trade and finance respectively, both of which operate in terms of money, and which consequently conceal the conditions of the production of wealth, without which there would be no finance, no trade, and no monetary enrichment. Since commercial circulation operates in practice with money, and value is measured with money, the manner in which Quesnay and his disciples seek to bracket money implies two things. Firstly, it identifies the nature of economic relations between the classes at an aggregate level, and hence reveals the proportions that should exist between the monetary flows so that a condition of abundance in the agricultural kingdom might be established and maintained.

But secondly, this theoretical rationalisation is closely linked to a political dimension: the definition of economic policy confronts adversaries precisely because this definition determines the classes of the nation that economic policy has to favour. The revelation of the connection between the production, circulation and consumption of wealth presented

in the *Tableau* makes it obvious that the propositions of economic policy advanced by those whose eyes are fixed upon monetary relations are not only erroneous and contradictory, but are directly opposed to those related to *philosophie économique*; they block the full expansion of the nation's productive capacity and hence the blossoming of the political linkage organised around landed property and agricultural capital for the benefit of private and public utility.

## **5. The completion of a mutation: Turgot, the theory of value and the role of savings**

How can the argument be justified that flows are necessarily monetary flows if money as such loses its central analytical status? How might one respond to those arguments from opponents regarding the importance of money as capital in the context of a positive trade balance? With Turgot two decisive steps are made: first, by the development of a theory of value, relations between individuals are rationalised directly in terms of utility; and secondly, through the development of a theory of capital, the theory of the balance of trade is definitively discarded.

Turgot's ideas are all the more interesting when one takes into account that he was a member of the group around Gournay and that he always acknowledged this intellectual connection. And so he reproached Dupont for giving too much weight to the principle of the exclusive productivity of agriculture, and failing to consider with sufficient attention "[...] the principle of competition and of the liberty of commerce, a direct consequence of the right of property and of the exclusive faculty for each individual of knowing his own interest better than any other." To which he added:

"This single principle led M. Gournay, starting from trader's counter, to all the same practical results at which our Doctor [Quesnay] has arrived, starting from the plough. I count myself honoured [...] to have been the disciple of both, and the memory of the one that I have lost will forever remain dear to me." (Turgot, letter to Dupont 20 February 1766)<sup>7</sup>

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<sup>7</sup> In Turgot 1913-23 II: 507. It is however certain that Turgot only retained those ideas of Gournay that coincided with his own; and so his "Éloge de Vincent de Gournay" gives an inexact picture of Gournay's thought, in which the "neo-mercantilist" aspects are suppressed.

*The Texts*

Turgot was long interested in monetary problems. Early evidence of this interest comes in his famous letter to the abbé de Cicé 7 April 1749 in which he touched on the question of credit. But it was only later — in *Réflexions sur la formation et la distribution des richesses* (1766); in his unpublished article “Valeurs et monnaies”, generally dated as 1769; and in his *Mémoire sur les prêts d'argent* (1770) — that he really developed his ideas. During Turgot's life only the *Réflexions* were published; the other writings remained in manuscript. But we also know that at this time manuscripts circulated from hand to hand, and that there is evidence of such circulation.

The article “Valeurs et monnaies” was intended for a new *Dictionnaire du Commerce* in five volumes that abbé André Morellet planned to publish and which he described in detail in his *Prospectus d'un nouveau Dictionnaire de commerce* (1769) — a work which was already very lengthy, despite its title. The *Dictionnaire* never saw the light of day but Morellet made use of Turgot's manuscript in the composition of a long “Digression pour servir à l'intelligence de la partie du plan du nouveau *Dictionnaire*, relative aux monnaies” which he included in the *Prospectus*. For his part the abbé Pierre Rullié, in his *Théorie de l'intérêt de l'argent tirés des vrais principes du droit naturel, de la théologie et de la politique, contre l'abus de l'imputation d'usure* (1780), draws upon Turgot's *Mémoire sur les prêts d'argent* and cites extensively from it. He also relies on the *Réflexions sur la formation et la distribution des richesses*. The work prompted some polemical exchanges and a second enlarged edition was published in 1782.

*Money as a measure of value and medium of exchange*

Boisguilbert, Quesnay and Turgot maintained that the system of relative prices was important; however, for both the “proportionate price” and the *bon prix*, the process through which these exchange relations formed was not elaborated. Developing a theory of value, Turgot sought an explicit and simultaneous determination of relative prices and the necessary monetary form of exchange.

As with Quesnay among others, Turgot always invoked sensationist philosophy, especially the ideas of Locke on sensation and origin of human knowledge. He was clearly also familiar with the philosophical work of Condillac. It is from this angle that he developed a theory of value based upon need and utility. It will suffice to recall here that,

in exchange, the price or “appreciative value” (*valeur appréciative*) that is determined at the equilibrium is the outcome of a process of bargaining and arbitrage between co-contractors in competition with each other (Turgot 1769: 89-91, 97-8): each of them is driven by a desire to cede the least in return for more and bases his supply and demand on subjective “esteem values” (*valeurs estimatives*), measured in terms of utility, imputed to the object received and the object surrendered. When commodities are exchanged, their owners do give “an equal value for an equal value” since the “appreciative value” is unique and each commodity expresses its value through the other commodity. But each agent simultaneously improves his or her position, for whenever an exchange takes place the “esteem value” of the commodity received is greater than that of the commodity given. Each one of them therefore realises a gain in utility; the gains are equal on both sides: “appreciative” value is an “average esteem value” (ibid.: 92).

With this analysis of the commercial process, social bonds, founded upon interest, clearly appear as bonds of utility. Underlying exchanges made in money there is therefore something hidden that is much more fundamental. But the problem, Turgot goes on to say, is that values and utilities cannot be expressed as such. It is exactly at this point that money intercedes as their necessary expression.

Turgot thus sees at once the difficulty that confronts a theory of value: the measure of this value (ibid.: 88, 94-5). We cannot present here the argument in any detail, but the conclusion is plain: “It is [...] impossible to express value itself.” The value of a commodity is essentially relative and can be expressed only in terms of a quantity of another commodity against which it is exchanged.

“The sole means of expressing *value* is therefore [...] to say that one thing is equal to another in value [...]. Value has [...] no other measure than value; and one measures values by comparing values, in the same way that one measures a length by applying another length to it; in either means of comparison there is no kind of *fundamental unit* given in nature; there is only a conventional and *arbitrary unit*.” (ibid.: 95)

In this perspective every commodity is money and money is necessarily a commodity. Turgot emphasises this point and reproaches John Law for having failed to see it. For the convention that he is referring to in this text does not relate to money as such, but exclusively to the choice of commodity which will be considered, by all agents, as the most convenient expression of the value of their commodities.

“One can only take as a common measure of value that which has a value, which is

accepted in trade in exchange with other values, and the universal standard [*gage*] representative of one value can only be another equal value. — A purely conventional money is therefore an impossibility.” (Turgot 1766: §XL; see also 1767: 636)

This analysis is given in detail in the *Réflexions* of 1766 (§§XXXIII-XLVII). The “appreciative value” of a commodity is first of all expressed by each of the quantities of every other commodity against which it can be exchanged. Then Turgot deduces from this the money form properly speaking: thanks to its intrinsic qualities, related to the exigencies of the functions of the measure of values and medium of exchange, one commodity detaches itself from the rest, and all the other commodities, by convention, express their value in terms of this good, which therefore becomes the unique form of expression of value. This analysis was to a great extent taken up and developed by Morellet in his “Digression” on money which he included in his 1769 *Prospectus* — but another author later also profited from it: Karl Marx, whose analysis of the “forms of value” systematises those developments.

*Money as a store of value: money as capital*

The preceding analysis mainly deals with the functions of the measure of value and medium of exchange. These functions do have important real effects: they facilitate the extension of the division of labour and the growth of productivity. But money is also, and inevitably, a store of value. Far from seeing in that a potential source of crisis and an interruption in the circulation of commodities, Turgot detected in this instance a positive aspect linked to what he called “the true idea of the circulation of money” (1766: §LXVIII). This “true idea” is nothing other than the circulation of capital:

“[...] the cultivation of all land, manufactures of all kinds, and all branches of commerce run on a mass of capital or of accumulated moveable wealth which, having first been advanced by entrepreneurs in each of the different classes of work, must return to them each year with a constant profit [...]. It is this continual advance and return of capital which makes up *what one must call the circulation of money*, this useful and fertile circulation which animates all the works of society, which maintains life and movement in the political body, and for which there is good reason to make a comparison with the circulation of blood in the animal body.” (Turgot 1766: §LXVIII)

It is therefore essential to explain the origin of capital. This origin is none other than savings, money not spent on current consumption or on luxury products; it arises from what Turgot calls “the spirit of economy” (*ibid.*: §LXXX). With this Turgot rehabilitates the third function of money whose role is to facilitate accumulation. He puts forward the concept of saving which, in turn, leads to a distinction between two types of expenditure,

one of which — expenditure on productive capital — is vital to the progress of the economy, and to growth.

Turgot notes that those who save and those who invest are not necessarily the same: the collection of savings and their distribution therefore poses the question of the role of financial intermediaries. He touched on this theme in *Mémoire sur les prêts d'argent* in relation to a project prepared by the *juges consuls* in Angoulême which, for the purposes of commerce, established intermediary officials who would carry out this work of collection and distribution, quite legally and with interest paid and received. While he criticised the project, he contested neither the necessity for nor the importance of such intermediaries; he opposed only an institutional solution which would have conferred an official status, a monopoly, on this kind of transaction. As with every other form of activity, this intermediary has to remain free, and must assume any form that merchants and producers will find most suited to their financial needs.

One possible form is of course that of a bank. Turgot paid a great deal of attention to the “transport of debts”, that is, as Boisguilbert and Quesnay had done, to the circulation of “paper”, of bills of exchange. Paper issued by a solvent agent, and endowed with confidence, was able to play the role of medium of exchange. And this paper, by definition “convertible”, could be issued by a bank,<sup>8</sup> one of whose functions could also be that of discounting.

#### *Money, Rate of Interest and the Balance of Trade*

Savings, the existence of capital, the necessity of credit — all of these raise the question of the rate of interest. It is on this topic that Turgot demonstrates most clearly his intellectual heritage in the work of Culpeper, Child and Gournay. But his line of argument, which has as its *leitmotiv* the desirability of a low rate of interest (1766: §§LXXXVIII-

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<sup>8</sup> On condition that it respects certain rules designed to assure the security of the enterprise — we find here an echo of the controversies surrounding Law’s “system”. In particular, merely receiving deposits without raising borrowing, pursuing discounting as the prime activity, not exceeding the limits of its own activity — by not engaging in trade, for instance — and possessing no kind of exclusive privilege, that is, remaining in a competitive situation. This was required at the creation of the Caisse d’Escompte in 1776: see the “Arrêt du Conseil portant établissement de la Caisse d’escompte” 24 March 1776, in Turgot 1913-23 V: 354-57.

LXXXIX), turns out to be based upon a subjective theory of value, and on the behaviour of the market, which prevails in this domain as in any other.

The innovation in *Mémoire sur les prêts d'argent* is to note that interest arising from an exchange is a price like any other; the question of the fixing of its rate is therefore resolved in the same way as one would any other question relating to the theory of value. Essentially the reasoning goes as follows: what is at stake in a loan is the exchange of a sum of money available today against a promise of reimbursement at a later date. For the exchange to work it is necessary that for each party the “esteem value” (*valeur estimative*) of what is received be superior to that of what is surrendered. As the “esteem value” of a sum available at a later date is inferior to that of the same sum available today — what later came to be called a preference for the present — exchange presumes that the sum stipulated in the promise of reimbursement is higher than that which is advanced, that is, it presupposes a positive rate of interest (Turgot 1770: §XXVII).

Two important consequences follow from this. First of all, the rate of interest has to be fixed under the same conditions of liberty as all other relations of exchange: “it is a current price fixed in the same way as all other commodities” (1766: §LXXV). From this point of view, Turgot does not propose any specific measure apart from there being a competitive financial market: according to him, the general economic policy which assures prosperity at the same time prompts a fall in the interest rate.

Next, the rate of interest is not a monetary variable. Turgot argues this at length and emphasises that the common expression “price of money” does in fact have a dual meaning very different depending on whether it is bought or sold (its purchasing power) or whether it is a loaned good (the rate of interest). There is no obvious connection between the two since the economic logic at work is not the same. Regarding the first price, a form of quantitativism prevails; as for the second, it is the logic of a particular market — that for loanable funds (see for example *ibid*: §§LXXVI-LXXIX). Turgot’s explicit acceptance of a connection between the quantity of money and absolute prices — apparently inherited from Cantillon and Hume — is a distinctive marker of his position.

The theories of value and of the role of savings are ultimately complementary, since they dispose of arguments advanced by the partisans of the balance of trade.

The nature of external exchange is at first identical to transactions made within a country. It is an exchange of utilities, of values. Whether one gives or receives commodities or money, one gives and receives, by definition, equal value for equal value: from this point of view the balance is always in equilibrium. Foreign trade is important, but for a different reason: it only serves to establish the existence and stability of optimal prices — “proportionate prices” or *bons prix* — independent of the volumes of transactions with foreign countries.

The fact that the interest rate is not a monetary variable and that savings are the origin of capital allows a response to the arguments of Gournay and Forbonnais. First of all, because there is no point in having more money to effect a fall in the interest rate; such a fall depends upon real factors. And secondly, because the growth of capital in one country cannot be brought about by a supposed “surplus” on the balance of trade. If one receives a “surplus”, a quantity of money, then one has given in exchange a mass of commodities of equal value, that is, a quantity of capital-commodity. Accumulation can only follow from the “spirit of economy”: doing without current consumption with a view to future consumption.

## 6. Conclusion

In the eighteenth century *philosophie économique* represents a new way of conceiving the connections between the members of a nation and between nations themselves. As such, it constitutes a political discourse and, throughout the period, finds affirmation in its resolute opposition to the economic policy prescriptions presented by those who seek to favour finance or trade.

Against those who start from a definition of the power of a State so that emphasis might be laid upon the role played by money and the balance of trade, especially in respect of its treatment of monetary conditions for the formation of capital, *philosophie économique* minimises the role of money as a tool for governing the nation, while also insisting on the importance of monetary conditions in the absence of which there could be no commercial valuation of the production and circulation of the product within the nation. Money and the search for a favourable balance of trade hence lose the pride of place which they had occupied until then in economic thinking and political discourse and, by contrast, the

emphasis is put on the behaviour of interested agents at the root of the functioning of the economy and the flows of money that are associated to it.

This theoretical shift can be explained in two ways. For Quesnay and the Physiocrats, the transactions occurring between the initial agent and the final agent are neglected in favour of highlighting aggregate relations between classes. In Turgot, these transactions are taken into account, but through a theory of value and utility which demonstrates that, underlying exchange and the necessarily monetary expression of values there was something more fundamental in play: the social connections of utility linking agents together, and the laws of proportion — between expenditures, between the volume of differing classes, between the prices of commodities, and so forth. *Philosophie économique* takes from this the path to a real analysis of economic activity and is followed in this by classical political economy.

Paradoxically, while the political dimension of the monetary link is obscured, the idea is reasserted by Rousseau. But this argument will have to be updated during the following century by a number of reformers, and will find its most striking expression in Marx, where he describes the fetishism of commodities and of money as a social relationship between men, assuming a “fantastic” form of a relationship between things. But that is another story: that of the criticism of *philosophie économique*.

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