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THE LAW OF MARKETS AS ENUNCIATED

BY JEAN-BAPTISTE SAY

L. Dwight Israelsen and Kenneth K. Sanders

ABSTRACT

Supply creates its own demand. So reads the common, terse rendering of Say's Law of Markets. With such philosophical abbreviations, it can be of little wonder why the economic logic contained in the Law of Markets has been misunderstood, disparaged, and completely disavowed by the majority of economists for the past five decades. Adherents, as well as detractors, seemingly have not understood it. An example of recent vintage is George Gilder, a neoconservative "economic theorist" who, in confusion, found John Kenneth Galbraith rediscovering Say's Law—business creates consumer desires, hence, consumer demand. Joseph Schumpeter even made the claim that J.-B. Say "hardly understood his discovery himself."

Say took utility as an economic truth established through induction. With the truth of utility, Say made other observations, discovering the exchange or social nature of value. Say's political economy is a study of the distribution, the consumption, and the production of value or social wealth.

Say's own Law of Markets simply pronounces the conditions necessary for any economic market to exist. It is not a macroeconomic concept; it is a microeconomic concept with macroeconomic implications. Economists have confused the implications with the Law itself. Say's own Law of Markets is stated thus: production opens a market for products. This law is a condensation into a single statement of what is imperative for the existence of a market. What is required is two parties, each having a need (a use) for something the other has. This something can be a good or service, material, or immaterial. Moreover, both bodies must consider the sacrifice necessary to gain this something of the other as being not too great. In other words, the costs of production are not more than the utility expected to be acquired. This must be true for both sides. The terms of these comparisons are objectified for the respective parties by values (or prices). Say crystallized all of the above ideas into the word product. Exchange between the two sides is an acknowledgment of the existence of two products—products exchange for products (an unsold commodity is not a product). Finally, again by Say's definitions, for a body to effectively demand a product, it must possess the wherewithal to purchase that product. A product is the means, so it follows, products open a demand or market for products. This statement is examined historically, in order to discover how economists got from it to the modern interpretations. The Smith-Mill Law of Markets is stated thus: commodities open a market for commodities. This might be correctly understood as the classical Say's Law of Markets. yet, it is not Say's own Law of Markets, nor are its implications necessarily those of Say's own Law. Both versions of the Law are based on exchange value, but what separates the two are their respective theories of value. Smith and Mill based value on labor, Say based value on utility.
The presence of general overproduction, however, so impressed Say that he felt compelled to introduce modifications of his theory, which destroyed its inner consistency. This he did by defining "production," not in the usual sense of physical output of goods and services but only as the production of goods of which the sales receipts cover the costs. Thus Say reduced his Law of Markets to a meaningless tautology.—Neisser (1934, 433)

I. Preliminary Comments

It is not to involve oneself in hyperbole to state that most modern economists have not read any of Jean-Baptiste Say's works nor is it immoderate to state that the few who have, have not understood him—simply, they have not had a proper reading of Say. The proof of this indictment can be no more obvious than in the modern reading of Say's Law of Markets. Strangely, some modern economists have identified the correct wording of Say's own Law of Markets—that is, production opens a market for products. Yet, none of these few economists have recognized (at least, they have not noted) the fullness, the realism of Say's antecedent definitions which make up and back up his statement of the Law of Markets. The result has been, when correctly worded, the stamping of Say's Law with the label of tautology. When labeled as such, it has been dismissed outright. As Neisser expressed, "These modifications [Say's definition of a product] must be omitted from the account of the evolution of the theory if it is to be utilized as a theory of business cycles: we call it 'overproduction' if goods cannot be sold at cost" (Neisser 1934, 434). Either by ignorance or by designed neglect, the Law of Markets has become a proposition which Say would not recognize—that is, supply creates its own demand.

Before proceeding, there are a number of ideas which are pertinent—nay, vital—to a true understanding of Say and his economics. First, Say's definitions were a large part of his system. To understand Say's economics—including his Law of Markets—one must attach Say's meanings to the terms he used. In an effort to insure this, Say published with later editions of the *Traité d'économie politique* and separately a small book of definitions entitled: *Épitome des principes fondamentaux de l'économie politique*. (1831). Second, Say was an inductivist. So, Say thought his definitions had empirical content. Third, Say's empiricism was composed of direct observations, which were open to everyone. These observations were not statistical in nature nor did they
lend themselves to aggregation in any meaningful way. Fourth, "[Utility] is, in political economy, the faculty that things have of being able to serve man, whatever manner that may be" (Say 1931, 61). Fifth, exchange opens utility up to being observed, to being examined inductively. Exchange *elevates* utility (the subjective) to value (the objective). Sixth, exchange is by nature purposeful human action. Human action exists in reality, as actuality; therefore, it is objective fact (observable). Seventh, human action is carried out by individuals: ipso facto economics, being a study of human action (exchange), deals with objective fact concerning individuals, not statistical aggregates or mathematical abstractions. Eighth, as a result of his inductive method Say considered his economics a study of reality or, in his words, the nature of things. Say abhorred abstraction., believing that one does not discover reality by abstracting from it. Ninth, Say thought that truth existed and that it was discoverable through induction. Lastly, the heart of Say's economics is value, social wealth. Hence, to understand Say's own Law of Markets one must recognize his definition of value. The value of a thing is defined as the quantity of other things which one is able to acquire for that thing. Any interpretation of the Law of Markets which does not adopt this definition and the definitions which inductively arise from it—emphatically—*is not* Say's own Law of Markets.

The current article endeavors to show what Say's own Law of Markets *is* and, ex post facto, what it *is not*. It is a truth. It is not a tautology. When it is properly understood, it is simple, yet profound. It is not meaningless. It is a basic microeconomic concept. It is not a macroeconomic concept, per se. Say's own Law of Markets is a *natural* law concerning what is fundamentally necessary for any market to exist, and that is all it is. It is not a law about the aggregate equilibrium of markets, nor did Say mean it to be. These juxtaposed contraries are able to be proven true by connecting the Law of Markets with its definitiveual lineage—with this intent, Diagram 1 is provided. Diagram 1 should be viewed by the reader as a summary of Say's system. Also, it serves as a *map* of Say's inductive process, leading up to its apex—the Law of Markets.
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The current article endeavors to show what Say’s own Law of Markets is and, ex post facto, what it is not. It is a truth. It is not a tautology. When it is properly understood, it is simple, yet profound. It is not meaningless. It is a basic microeconomic concept. It is not a macroeconomic concept, per se. Say’s own Law of Markets is a *natural* law concerning what is fundamentally necessary for any market to exist, and that is all it is. It is not a law about the aggregate equilibrium of markets, nor did Say mean it to be. These juxtaposed contraries are able to be proven true by connecting the Law of Markets with its definitional lineage—with this intent, Diagram 1 is provided. Diagram 1 should be viewed by the reader as a summary of Say’s system. Also, it serves as a map of Say’s inductive process, leading up to its apex—the Law of Markets.
SAY'S LAW OF MARKETS

Production opens a demand for products
Products can only be purchased by products

Products [includes immaterial products]
(resulting value ≥ value of productive services)

Production

Value exchanges for value

Distribution

Value exchanges for value

Social wealth

Value (objective)

Exchange

Utility (subjective)

Wants and needs of man

NO FURTHER EXCHANGE

(resulting value < value of productive services)

Unsold commodities
Commodities sold below cost
Accidents

"Ultimate" utility
(satisfaction)

Reproductive consumption

Value exchanges for value

Value exchanges for utility

Consumption

Natural wealth

No value (no cost)

No exchange (no relative scarcity)

SOCIAL wealth

DIAGRAM 1. SAY'S SYSTEM.
II. Production

Production was the first subject discussed by Say of his trinity study of social wealth. But this preeminence in order should not, as many have mistakenly done, be interpreted as preeminence in station. Each—distribution, consumption, production—is a process solely of value and in the nature of things. With Say's trinity, as with The Trinity, no member is able to be subtracted and still gain the truth. Alas, space being a constraint, the present exposition of the Law of Markets is undertaken with the barest of references to consumption and distribution.

A. Of What is Meant by Production of Social Wealth

“Already you foresee that in giving utility to things, or in augmenting the utility they already have, one augments their value, and that in augmenting their value, one creates [social] wealth” (Say 1828a, 170). Production, then, is to give value to or augment the value of an object (or service). It should be remembered that value is the faculty (the quality) of being able to acquire other objects by means of exchange. “Value is the measure of social wealth” (Say 1828a, 138). Say's entire economics is about value—not about material things, not about commodities. Production is the creation of value not material; products are necessarily objects of exchange and value, not necessarily objects of matter.

In order to create products, not being able to create matter, the action of industry is necessarily bound to separate, to transport, to combine, to transform the molecules which they are composed. It changes the state of the bodies, that is all, and, by changing the state, it renders them proper to service us. [Say 1828a, 171]

“Industrious men... have taken all their raw materials [matières premières] in a certain state, in order to render them in another state where these same materials have acquired a degree of utility and, it follows, a degree of value that they did not have before” (Say 1828a, 174-175). The industry of man (and production) can be classified into three basic types: agriculture, manufacturing, and commerce. “This classification is arbitrary and adopted solely for convenience” (Say 1828a, 213). The reader can quickly comprehend that production, in
its particulars, is able to take a great variety of forms. Also, any distinct product is able to be the result of all the different forms of industry, for example, a Mexican basket sold in the United States.

Agriculture is the industry which extracts products from the hands of nature or "the bare collection of natural products" (Say 1971, 64). Included within the domain of natural products are fish, animals, minerals, etc., as well as the obvious agricultural crops. Agriculturalists impart utility and value to natural products by making them available for use by presenting them in a useful form. Examples: fish swimming loose in the sea are of no use to man, they must be caught to be turned to use; coal resting in the earth is of no use to man—"it neither warms us nor heats the iron in the forge" (Say 1967b, 9), it must be brought to the surface to be of use.

Manufacturing is the industry which takes products out of the hands of their primary or first producer and subjects them to a chemical or mechanical transformation. "[Manufacturing industry] is employed in severing, compounding, or fashioning the products of nature, so as to fit them to the satisfaction of our various wants . . ." (Say 1971, 64). Say gave the example of the buckle which is rendered of the iron procured from the miner. The iron in the form of the buckle has greater utility and value than the raw iron. Manufacturing runs the gamut from operations comprised of one individual (e.g., an artist) to operations greatly segmented by an extensive division of labor, comprised of thousands of individuals (e.g., an automobile factory).

Commerce is the industry which takes products from one place to another. "[I]t is employed in placing within our reach objects of want which would otherwise be beyond reach . . ." (Say 1971, 64). The fish catch is of no use stored on the fishing boats, the coal is of no use heaped in piles at the coal mines; for these objects to be of use to man they must be carried to the consumers, to other producers. "The locality of an object, if I am able to express myself thus, is a part of its properties: one modifies it in changing the place, and one modified it particularly in connection to its utility; since an object of which one would not know how to obtain is unable to serve" (Say 1966, 15). Say precisely demarcated trade (circulation) from commerce (production). "When Spanish wine is bought at Paris, equal value is really given for equal value: the silver paid, and the wine received, are worth one the other; but the wine had not the same value before its export from Alicant: its value has really
increased in the hands of the trader, by circumstance of transport, and not by the circumstance, or at the moment, of exchange” (1971, 67). “This modification [commerce] is anterior to the moment of exchange [spending], since the exchange modifies nothing . . . The fact of the sale and of the purchase has established the existence of this value, but it has not given it” (Say 1966, 15). Production as commerce has given it.

A production process combines one or more of the aforementioned types of industry with the productive services of natural agents and/or capital. What Say meant by natural agents was land, water, gravitation, magnetism, the elasticity of metals, heat, etc. “But the productive force of nature manifests itself otherwise [than in the soil] as in vegetation, one has sometimes been constrained in understanding the significance of this expression until designating the productive force of nature in general, such as the action of the sun on vegetation, as of the water in producing spontaneously the fish, or well as a motor, or simply as a vehicle” (Say 1831, 24). What Say meant by capital was the “[slum of values employed to make advances to production” (Say 1831, 5). Capital is composed of products.

Say personified all productive services—industry, natural agents, capital—as productive fund owners. “I said that in order to see how industry, capital, and land respectively act in productive operations, I personified them, and observed them in the services they rendered. But this is not a gratuitous fiction; it is a fact” (Say 1967a, 15). Consequently, these productive fund owners must be paid for their productive services—for their use. It is the entrepreneur who purchases the productive services and turns them to production. In effect, the entrepreneur exchanges the productive services for products.

“Production is able to be considered as a great exchange in which the producers (who all are able to be represented to our eyes by the entrepreneur of industry) give their productive services (which all can be represented to our eyes by the costs of production which the entrepreneur pays), and where they receive in return the products, that is to say some quantity whatever of the utility produced. [Say 1828a, 244]

For this exchange called production to be consummated, a product must be the outcome. Production is an exchange of value for value.
B. Products

One precondition for the existence of a product is that a thing or a service have utility, more precisely created and recognized utility. Value promises the presence of created utility. Created meaning produced which, in turn, denotes costs (i.e., of productive services). Moreover, value defines a thing or a service as an object of exchange. Stating the identical proposition, exchange establishes the value of a thing or a service. "A certain sign that the value of a thing that I possess, is recognized and appreciated by other men, in order to become possessors of it, they consent to give to me another value in exchange" (Say 1828a, 141). A product must have value. This precondition is necessary but not sufficient for the existence of a product. Most commentators on Say have had little trouble in accepting this precondition as valid, although they might have held (as did Malthus) a different theory of value. After all, most theories of value would subscribe to the idea—“value begets value” (Say 1966, 85).

A second precondition for the existence of a product, which presupposes the first condition, is that its costs of production be fully repaid by the value produced. "A product which does not reimburse its costs, is not a product" (Say 1829a, 28). This precondition is necessary and sufficient for the existence of a product.

We have as a measure of production only the value of the things produced; and, from the moment that the consumer attaches to a product a value sufficient, not only for reestablishing the capital, but in order that the capitalist might be paid his interest, and the owner for his rent, we come to regard these last values as effectively products. [Say 1829b, 292]

Most commentators, past and present, have rejected the validity of this precondition, labeling it a tautology or just a definition or a meaningless definition. They have done so because they have lacked an understanding of (or tolerance for) Say’s theory of value.

The mainstream economists of Say’s day (i.e., the English economists) looked upon value as having its origin in physical things—labor, and its state of being in material things—commodities. Once labor had been expended and reincarnated as a commodity then value existed, effective demand (utility) was assumed ex post. Following the intellectual leadership of Adam Smith, the English economists dismissed the concept that value could have any other reality than a corporeal one. In their way of thinking, there was not an iota of difference
between a commodity and a product. Immaterial products were an impossibility. "You [Malthus] assert that there are no *immaterial products*" (Say 1967a, 16). Say disagreed.

Adam Smith was wrong about immaterial products. He concluded they were not products because they have no duration and they are not susceptible to being accumulated. [1828a, 186]

[T]he utility, under any form it presents itself, is the source of the value things have; ... this utility is able to be created, is able to have value, and to become the subject of an exchange, without having been incorporated in any material object. [1828a, 183]

[W]hen the authority of Adam Smith is against the nature of things, it must cede; since the nature of things will end always by being the strongest . . . . [1966, 5 141]

Making an appeal to the reason of the reader: with a different definition of value, with a different definition of product—how could it be that Say and the majority of his contemporaries were discussing the same Law of Markets?

Modern macroeconomists, by the nature of their subject, have become obsessed with numbers, statistics, physical quantities, comparative statics, equilibria, aggregation, etc. By necessity, they abstract from value and the individual consumers who decide it. This abstraction places them far afield from Say and his economics. "It is superfluous to compare two portions of wealth at different times and in different places" (Say 1828a, 148). "[B]ecause they do not have a point of common measure" (Say 1828a, 152). Say referred to the search for an absolute measure of value (of wealth) as "the *squaring of the circle* of political economy" (Say 1828a, 152).

No economist, before or since Say, has found an absolute measure of value. This is the great weakness of economics as a science (especially as a hard science), nonetheless, the fact remains that value is what economics is about. Take it away, abstract from it and economics blurs into engineering. Modern macroeconomists have become engineers (albeit social engineers); they perform as if there were an absolute measure of value, as if the circle has been squared. They speak with the jargon of the technician—idle capacity of material means, output of physical quantities, material costs, unemployment of physical inputs, general price levels, on and so on. "This confusion between technical potentiality and economic value, which, borrowing a
phrase of Professor Whitehead's *[Science and the modern world]*, we call the 'fallacy of misplaced concreteness' . . .” (Robbins 1940, 51).

Say remained an economist. He did not abstract from value or the individual processes which determine it. He was interested in discovering the cause and effect relationships involved in the creation and disposition of social wealth (value). Individuals, at the individual level, judge whether or not a commodity is a product. This judgment is not nor can it be rendered on average or in the aggregate. This is not the nature of things. Say being aware that no absolute measure of value existed and that economics was inextricable from value, formulated his law as a microeconomic truth. The Law of Markets of Say is not a macroeconomic principle at all.

### III. The Law of Markets of J.-B. Say

The purpose of this section is threefold. First, to finish the development of the definitions that are an intrinsical part of Say's own Law of Markets. This purpose is essentially achieved with Say's induction that *productions can only be purchased with productions*. Second, to coalesce all the relevant definitions into a single statement of Say's own Law of Markets. Say himself thought the Law of Markets, too, was an induction. So quite naturally he called it a truth. Third, to draw some implications out of Say's own Law of Markets, at the same time to draw a distinction between the implications of Say's own Law and the Law itself. Say expressly *deduced* consequences from the inductive truth that is the Law of Markets. Say's own Law of Markets is an inductive truth and microeconomic in nature while many, if not most, consequences deduced from it are macroeconomic in nature.

#### A. Production can Only be Purchased by Productions

It is man's nature to live in society. Say appears to have accepted this as being inductively proven.

The nature of man opens him to live in society. Whatever be the cause, it makes itself manifest in every occasion. Everywhere one has encountered, they live in troops, in hordes, in bodies of nation. Perhaps it is in order to unite their forces for their common safety; perhaps in order to provide more easily their needs; always it is true that it is in the nature of man to unite in society . . . . [Say 1829b, 284]
When man lives in isolation, he lives as a savage, enjoying such wealth as nature is inclined to give him—"the liberality of nature" (Say 1829b, 288). When man enters into social organization with others, he procures an opportunity of enjoying wealth beyond that of nature, that is, social wealth. Say refers to this as a "common characteristic of all societies, necessary for their existence" (Say 1829b, 285).

Social wealth can be procured in three ways: production, expropriation, and trade. Production, the first alternative, was discussed in the previous section, therefore, it will wait to be taken up anew. It is in need of being noted though, production is the only font of social wealth. Expropriation and trade are predicated on the existence of social wealth, namely, on production.

Expropriation is, virtually, the redistribution and consumption of existing products. The greatest benefit for society of government is the protection it provides its citizens from expropriation—both foreign and domestic.

"To what degree of civilization that the society might reach, it is necessary that it recognize, that it guarantee to each, the exclusive faculty of disposing of what he produces, that is to say the right of property; otherwise each man would run with his prey, in order not to be plundered by other men, and society would be destroyed. [Say 1829b, 289]

Happily that in a society, even corrupt, the number of men who look for their revenue in a true production, is infinitely more considerable than the number of those who look for it in abusive gains; without that there is no political society which would be able to maintain itself. [Say 1829b, 301].

The last road to social riches is trade. Social man gives birth to new wants. Economic problems become more complex and varied; choices are multiplied. "Each person is unable to create the totality of the products that their wants make them desire to consume . . . . [E]ven if they had all the elements of production: the talents, the land, the capital; but they would make with such a large disadvantage, the quantity of things produced would be so mediocre proportionately to the means employed . . . ." (Say 1828b, 274). "Indeed, if I give my care to the production of food which is necessary to me, I neglect the production of cloth which dresses me" (Say 1828b, 274).

"While I exercise an art, I leave idle the talents that I possess for another; . . . I leave idle capital that I would have applied to other productions . . . . One conceives easily how the quantity of the things produced, would be disproportionate with the means of production; or rather one conceives the impossibility where one would be owner of the means of production vast enough
to procure the multitude of things which satisfy the wants of the most modest families, in social and civilized life. [Say 1828b, 274]

In pace with social man's increasing wealth, are his opportunity costs for any particular action.

In the effort to acquire more goods for the same costs (sacrifices), or the same thing, equal amounts of goods for smaller costs, man learns to specialize and work more efficiently. The division of labor becomes more pronounced and more widely spread. "Each person is only occupied with one product, or even occupied with only one part of one product . . ." (Say 1828b, 275). Everyone must find a mode of exchanging their one product, or portion of one product, for all their wants. "By the facility of exchange [trade], each is able to push further than permitted their means of production, the fabrication of a sole kind of product, and he acquires, with this product, all that is necessary to the support of his family . . . . It is necessary then that they rid themselves by exchange [trade] the totality of the things that they make, in order to obtain the things that they have need of" (Say 1828b, 276). But, as noted, exchange as trade does not create value, social wealth; trade does not make products of products; trade circulates existing products.

Returning to the subject of production. Every producer must produce or cooperate in producing something of value—an object of exchange. Otherwise, their sacrifices would be for naught (i.e., unrewarded). Every producer must produce or cooperate in producing a product. If others were not disposed to give the necessary value (i.e., the costs of production) for the value created by the producers, their sacrifices would go for naught. For example, if a worker requires two cups of rice a day to maintain his existence, he will die if others will give him only one cup of rice a day for his labor. Likewise, with the entrepreneur, if he does not recoup his costs of production, his business concern dies.

[If, after exerting the productive means sufficient for producing an ox, they were to produce only a sheep, and for this sheep, in exchange for other kinds of produce, were only to gain the same quantity of utility which exists in a sheep, who would go on producing under such disadvantages? The persons engaged in such an undertaking would have made a bad business of it: they would have expended a value which the utility of their produce would not suffice to reimburse; whoever should be silly enough to create another production sufficient to purchase the former, would have to contend with the same disadvantages, and would involve himself in the same difficulties. The benefit which he might derive from his production would not indemnify him for its expenses; and whatever he might buy with this production would be of no
greater value. Then, indeed, the workman would no longer be able to live by his labour, and would become burdensome to his parish; then the manufacturer, unable to live on his profits, would renounce his business. [Say 1967a, 48-9]

Only production can sustain production.

“Of every manner, the purchase of one product is able to be made only with the value of another” (Say 1876, 150). Unquestionably products exchange for other things—utility, for one. Say defined the exchange of value for ultimate utility as unproductive consumption. This destruction of products is the raison d'être of products. Yes, products even exchange for commodities sold below their costs of production. This is a point Matthus was trying to make in a letter to Say.

You must agree that in regard of those who having been accustomed to purchasing them, they are satisfied with the same needs as before, and as the portions which form the excess are able to serve for other persons, and conserve some value, even though insufficient as it is for reimbursing the costs of production. Being the results of human industry, having utility and value, I do not see how we are able to refuse them the name of products . . . . [Say 1966, 508]

Matthus was in want of changing unprofitable consumption into production; he was not properly identifying what has happened to preexisting value, the sum of existing value. Unprofitable consumption is reproductive consumption which destroys a value, replacing it with an inferior value.

The point Say was attempting to make—consistent with his entire economics—was, without exception, all these exchanges and exchanges of like kind (trade, unproductive consumption, unprofitable consumption, and distribution), require the preexistence of a product. These processes or exchanges do not create products; these processes destroy or, simply, circulate existing products. In the most opaque case, commodities sold below their costs of production, capital (products) which went into the manufacture of these commodities has been exchanged for these very same commodities. It is the value of the capital which has been diminished, as has its power to purchase products in the future. Repeating, in the context of Say's economics, only production can sustain production. Production requires the profitable consumption of products. Profitable consumption is reproductive consumption which destroys a value, replacing it with an equal or superior value. Productions can only be purchased by productions.
B. Production Opens Markets to Production

"I think I have proven in my first letter that productions can only be purchased with productions: I do not therefore yet see any reason to abandon the doctrine, that it is production which opens a market to production" (Say 1967a, 24). This is the Law of Markets as enunciated by Jean-Baptiste Say: PRODUCTION OPENS A MARKET TO PRODUCTS. Say's own statement of the Law of Markets, a statement combining all the relevant definitions is:

A man who applies his labour to the investing of objects with value by the creation of utility of some sort, can not expect such a value to be appreciated and paid for, unless where other men have the means of purchasing it. Now, of what do these means consist? Of other values of other products, likewise the fruits of industry, capital, and land. Which leads us to a conclusion that may at first sight appear paradoxical, namely, that it is production which opens a demand for products. [1854, 133]

The causal chain begins with utility, which links to value, value links to products, products to markets.

Say's own Law of Markets is a condensation into a single statement of what is imperative for the existence of a market. What is required are two parties, each having a want (a use) for something the other has. This something can be a good or service, material or immaterial. Moreover, both bodies must consider the sacrifice necessary to gain this something of the other as being not too great. In other words, the costs of production are not more than the utility expected to be acquired. This must be true for the one as well as the other side. The terms of these comparable comparisons are objectified for the respective party by value (or price). Say crystallized all the above ideas into the word product. Exchange between the two sides is an acknowledgment of the existence of two products—products exchange for products. Finally, again by Say's definitions, for a body to effectively demand a product it must possess the wherewithal to purchase that product. A product is the means, so it follows, products open a demand or market for products.

With the correct and complete Law of Markets in mind, the reason for Say's insistence on his definition of product emerges. A necessary, but not sufficient, condition for establishing a market is that value exchanges for value. Unproductive consumption cannot open a market because value is exchanged for utility—a destruction of value. This type of consumption closes a market. Unsold commodities are, in effect, an exchange of value
for nothing. In the process of making them, much value (represented by productive services and capital) has been destroyed. It might be said that this type of unprofitable consumption lacks even the necessary condition for a market—value exchanging for value. In the nature of things, though, the value of capital has been exchanged for the value of productive services. The value of both has been destroyed, with no resulting product. This type of consumption closes a market.

A second condition, which is necessary and sufficient for the establishing of a market is that products exchange for products. This condition presupposes that value exchanges for value. Distribution is an exchange of value for value but it does not bring into existence any new value. Say defined distribution as the exchange by entrepreneurs of capital (products) for the productive services of productive fund owners. It is mere circulation; it cannot open new markets. Besides, distribution—what productive fund owner gets what share of the produced value—responds to the needs of production, as decided by the entrepreneur and, ultimately, the consumers. Consumption resulting in commodities sold below their costs of production is an exchange of value for value, yet it destroys a greater sum of value than it creates. This kind of unprofitable consumption terminates products, it does not produce new products (i.e., it does not replenish the value consumed). There can be no confusion here, capital (the power to create products) is being put to death—no matter the number of production periods executed, be it guillotined or be it crucified, in the end, the capital is dead. No new products, no markets opened. The following quote is offered to underscore the nature of the failure when commodities sell below their costs of production.

The industry of man, which consists in general in the faculty of creating social wealth, succeeds by ways prodigiously varied; but its end is always the same: it looks to provide to the need of men in such manner that the use of its products present to the consumers enough enjoyment in order that they consent to pay for them what they have cost. If the enjoyment that they are capable of procuring to the consumers, does not bear the price of a product at the level of its costs of production, not only is there no production, there is a loss. [Say 1829b, 297-298]

Production (profitable consumption) is the only process or exchange that enlarges and perpetuates itself, in the value of products and through markets. *Production opens a market for production.*
Now it is possible to disassociate from Say's own Law of Markets one of the most common misinterpretations of it. Some economists have taken Say's Law of Markets to be the proposition that in the aggregate the necessary income is yielded to purchase all the commodities manufactured. The reasoning is as follows: To manufacture commodities, resources have to be used; to use resources, they must be paid incomes; resource incomes are the ability to demand the manufactured goods. The question then arises whether all the income will be spent. If not, then excess supplies of commodities will result, ipso facto, Say's Law of Markets is disproved for a monetary economy. A lack of effective demand exists. Or else, it is understood that Say's Law of Markets will hold only in the long run, when aggregate demand (spending) will reach equilibrium with aggregate supply (income). Putting aside the concept of the aggregate (which is an abstraction and not of Say), the disassociation of this proposition from Say's own Law of Markets is remarkably easy.

Production is an exchange of value for value. An entrepreneur buys productive services with his capital, he in turn exchanges these acquired productive services for a product. This last exchange is production,

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\text{In order that the exchange be effective, it must be that the value of all the services destroyed be found balanced by the value of the thing produced. If this condition has not been fulfilled, the exchange has been unequal; the producer has given more than he has received. [Say 1828a, 245]}
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Revenue, according to Say, is the amount of value given by an entrepreneur to a productive fund owner for the use of its productive service. Income is revenue in money terms. Consumers determine production to be effective by exchanging their revenue, in requisite amounts to cover costs, for the product. If consumers choose not to do this, then a product does not exist and production has been ineffective. In Say's economics there can be no excess supply of products.

Products exchange for products. For this reason, the ability to demand products is products. Products are exactly what the revenue of productive fund owners is composed. The question remains whether the ability to demand products will be matched by actual demand for products. In the situation where consumers refuse to exchange their revenue for the commodities made by the entrepreneur (i.e., demand), the consumers (productive fund owners) consume their revenue unproductively and the entrepreneur has consumed the value of the
productive services unprofitably. The unprofitable consumption by the entrepreneur is what is of interest since the consumers are liable to consume unproductively regardless. Unprofitable consumption is not production, no product results from it. What has resulted is unsold commodities or commodities that will have to be sold below their costs in order to rid the entrepreneur of them. Three important points: one, no revenue remains unconsumed, meaning that the ability to demand is equal to the actual demand; two, there exists an excess supply of commodities, but not of products; three, the unprofitable consumption shrinks the real economy by reducing the amount of existing value and weakens the ability of the real economy to create value by dissipating capital.

Individual decisions fashion which exchanges are unproductive consumption, which are unprofitable consumption, and which are profitable consumption. With unproductive consumption and unprofitable consumption the circular flow of value that is the real economy contracts; with profitable consumption (production) the circular flow of value expands (see Diagram 2).

In the course of things, every product is consumed; since it is a product only especially as its value equals its costs; its value arises from the demand that one makes of it, of the real demand accompanied with the purchase; and the purchase would be a loss if it would not be followed with consumption. It is then only by accident, by false calculations, by the exceptions in a word, that production is able to be in excess over consumption. [Say 1829b, 325]

It is the type of consumption which is the pulse of the real trade cycle.

Money is not a separate aspect of the above. It is a product, therefore, it forms a part of the real economy. When it is first effectively produced (i.e., exchanged for), it opens a market, its value fluctuates with its relative supply and demand, and so on, just like all other products. Money does not change the nature of the particular consumption of a product, revenue expressed as money income does not transform one type of consumption into another type of consumption—namely, unproductive or unprofitable consumption into profitable consumption (and vice versa).
Diagram 2. Say's Circular Flow.
Say was aware of the existence of excess supplies of commodities (i.e., unsold commodities) and explicitly made reference to them. This circumstance has absolutely no bearing on the validity of Say's own Law of Markets. "Permit me to remark, in the first place, that I never said, commodities are always exchanged for commodities; but that productions can only be purchased by productions" (Say 1967a, 13). Say's own Law of Markets has nothing to say about the impossibility, or otherwise, of a general glut of commodities. "[I]he glut of a particular commodity arises from its having outrun the total demand for it in one or two ways; either because it has been produced in excessive abundance, or because the production of other commodities has fallen short" (Say 1971, 135). If one only considers the demand for unsold commodities as being lacking because of the production (or supply) of other commodities being lacking then, with some abstraction, one is able to conclude aggregate demand and aggregate supply are equal and are always so. In other words, the excess aggregate demand for commodities is equal to the excess aggregate supply of commodities. Setting aside the abstraction of equality, to this extent Say agreed—"one is able to remark that the times when certain commodities do not sell well, are precisely those when other commodities rise to excessive prices . . . " (Say 1876, 151).

The importance of this to Say, and an implication of Say's own Law of Markets, is that the way to clear the economy of excess supplies of commodities is to, in effect, turn commodities into products. This is done by making commodities that are effectively demanded, meaning commodities having utility sufficiently great to justify the sacrifice necessary to acquire them. Also, requisite is that individuals have the means of purchasing the perspective product. "So, these means, in what do they consist" (Say 1828b, 281)? Products. "The man who wants to buy, must commence by selling, and he is only able to sell that which he has produced, or that which one has produced for him" (Say 1828b, 281-282). *Products open a demand for products.*

The reason the abstraction of equality between excess aggregate demand of commodities and excess aggregate supply of commodities has to be disregarded is that some commodities cannot be turned into products. Entrepreneurs are not perfect beings, they commit errors. It is possible, and probable, that entrepreneurs will manufacture commodities in which there is no utility or so little utility that consumers will not purchase them,
no matter how low the price placed on them (i.e., the sacrifice required to acquire them is greater than the utility gained from them). Thus, a supply of commodities exists for which there is no corresponding demand (or, properly said, no want exists), even if the means of purchasing them exists. Accordingly, there can exist a glut of commodities in reality and Say's own Law of Markets does not remotely imply otherwise.

Say did state that a glut of a particular commodity will disappear over time. A glut of a particular commodity is simply an unsold commodity or one sold below its costs of production. Extrapolating on Say's economics, one would have to deduce that all gluts of particular commodities will never disappear as long as the entrepreneur has a functioning existence. Was Keynes correct to advocate the socializing of investment?

C. Some More Implications of Say's Own Law of Markets

Clear implications flow from Say's own Law of Markets like clear water from an artesian well. Indeed, the power and importance of the truth which is the Law of Markets has muddled some and muddied the waters of exactly what is the Law of Markets. Baumol, for example, was able to discover nine Say's Laws and to exclaim "one can go on indefinitely" (Baumol 1977, 159). A few of the implications have already been indicated here, others Say explicitly noted himself. "The first consequence that one is able to grasp from this important truth, is that, in every state, more the producers are numerous and productions multiplied, and more the markets are facilitated, varied and vast" (Say 1876, 150). Economic progress and the development of markets are synonymous. "A second consequence of the same principle, is that each is interested in the prosperity of all, and that the prosperity of one kind of industry is favorable to the prosperity of all the others" (Say 1876, 153). The economic interests of one's society are inseparable from one's own self-interest. "A third consequence of this fruitful principle, is that the importation of foreign products is favorable to the sale of indigenous products; since we are able to buy the foreign merchandise only with the products of our industry, of our land and of our capital, for which this commerce, by consequence, procures a market" (Say 1876, 154). Say's own Law of Markets makes superfluous comparative advantage arguments (i.e., Ricardian economics) in justifying international trade. "A fourth consequence of the same principle, pure and simple consumption, that which does not have the purpose
of provoking new products, does not contribute at all to the riches of countries. It destroys on one side that which it caused to be produced on the other side. In order that consumption be favorable, it must fulfill its essential purpose, which is to satisfy wants" (Say 1876, 155). The Law of Markets of Say provides a persuasive and powerful, yet simple, case against Keynesian economics.

Another implication of Say's own Law of Markets is for economic development. With its truth, one can easily understand the nature of true economic development. Aid to an undeveloped or underdeveloped nation, which provides "pure and simple consumption" but does not encourage production, is aid which is not developmental aid. An absence of production is an absence of markets, therefore, future consumption for the recipient nation will depend on continued aid. Indeed, consumption aid may well be detrimental aid. For example, if wheat were sent as free aid to an undeveloped, wheat-producing country, the result could be a destruction of indigenous wheat production. After all, the nature of things is such that people will not pay for a commodity which they are able to get free. If no one in the undeveloped country will exchange value for wheat, wheat in the undeveloped country has no value. Wheat, there, is not a product and only products open markets. The wheat market in the undeveloped nation is closed, which is harmful, not helpful, to development. The Law of Markets, as enunciated by Jean-Baptiste Say, gives a new meaning to the term market system.

As Baumol said, one can go on indefinitely.
REFERENCES


ENDNOTES

1. Keynes, as a prominent example, was probably ignorant on Say or else he ignored him because it suited his purpose—that of disproving Say's Law. See Keynes (1936).

2. Discussions of modern economists on the meaning or implications of the Law of Markets such as business cycles, barter versus money economies, and overproduction of commodities, Say himself would have considered subservient to or conclusions drawn from the Law of Markets.

3. Value is usually portrayed in money terms.

4. In order that the word measure be not misunderstood, the reader needs the sense in which Say used it. Say compares the idea of value with the idea of distance. To know distance, one needs a here and a there; to know value, one needs a thing and another thing. "It is impossible to appreciate it [value] absolutely, only comparatively" (Say 1828a, 146).

5. "Ricardo in England and Sismondi in France concur with Smith in his mistake" (Say 1828a, 189).

6. This quote was taken from a letter to Malthus. Say may have had an insight into Malthus' character as a conservative in the strictest sense—adhere to tradition and defer to authority (such as Adam Smith). Say gave an example of conservatism—the Flathead Indians flattened their children's heads simply because their own heads had been flattened as children.

7. "Neither aggregates nor averages do act upon one another, and it will never be possible to establish necessary connection of cause and effect between them as we can between individual phenomena, individual prices, etc. From the very nature of economic theory, averages can never form a link in its reasoning . . . ." (Hayek 1960, 4-5).

8. This is the actual footnote of Say. A comparison with Hutt (1974) on the topic of idle resources would be enlightening. "The workman can only labour constantly whilst his work pays for his subsistence; and when his subsistence becomes too dear, it no longer suits the master to employ him. It may then be said, in the language of political economy, that the workman no longer offers (or supplies) his productive services, although in fact he is most anxious for employment; but this offer is not acceptable on the lasting condition on which it can be made" (Say 1967a, 48).

9. This might have been the very concept the Ricardians were supporting.

10. Clearly, unspent money income—a form of hoarding—Say would have classified as unproductive consumption.

11. "It is worth while to remark, that a product is no sooner created, than it, from that instant, affords a market for other products to the full extent of its own value" (Say 1971, 134).