

## Say's Law

Before proposing some ways to respond to the challenge of making dignity for all compatible with the social functions of profit-making and capital accumulation, we will examine Say's Law. We have often mentioned it but we have not yet discussed in detail. If Say's Law were true then it would be easy to achieve dignity for all. There would be no difficulty in reconciling decent livelihoods for everybody with profit-making and capital accumulation. They would already be reconciled. Everybody already would have –what, unfortunately, much of the ideology that pervades today's common sense assumes everybody actually does have--an easy path to dignity. Namely: get a good job. All anybody would have to do would be to offer their services in the labour market. At most they would need to take a course to get a qualification in a field where employers are standing in line to hire employees. If the devotees of Say's Law are to be believed then there is a simple explanation for the millions of young people out of work, and the millions more with precarious or miserably paid work, in Palestine, in Egypt, in the Dominican Republic, in Germany, in South Africa, in China, in India, in Greece and around the world, namely: the government got in the way and distorted the natural benevolence of the [invisible hand](#).

A simple preliminary formulation of Say's Law would be: For every seller there is a buyer. If this is true then every South African who needs to sell labour-power at a decent price in order to rise out of poverty, will sooner or later find a buyer. If this is false, then government policies limited to trying to end poverty by helping would-be sellers of labour-power to find their buyers and to qualify themselves by acquiring the skills the buyers want to buy are not useless but they are not sufficient to solve the problem either. Public policy should in addition follow Amartya Sen's advice: Supplement capitalism with non-market institutions, like for example the nascent institution reported on in this book: using public employment to catalyse the building of resilient local communities.<sup>1</sup> And there is a further important consequence of frankly acknowledging that Say's Law is false and that consequently full-employment-better-called-full-livelihoods (to include the self-employed) created-by-buying-and-selling-in-markets will never happen. It concerns not *whether* there should be relief for the poor but the *design* of the relief. The further consequence is: There is

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<sup>1</sup> Amartya Sen, 2003. Sraffa, Wittgenstein, and Gramsci. *Journal of Economic Literature*. Volume 41, pages 1240-1255. p. 1247. (op cit). The book mentioned is a forthcoming work on economic theory and community development by Howard Richards with the assistance of Gavin Andersson.

no point in making the work as miserable as it is in NREGA<sup>2</sup> from a morbid fear of crowding out private employment by making public work preferable to private work. There is no point in having millions living on social grants as in South Africa from a morbid fear that if the grantees engaged in useful healthy activity instead of just passively living off the government their social-sector-satisfaction-of-needs would crowd out private employment that would otherwise occur. The neoliberal utopia of everybody earning a living in market-based employment is simply never going to happen. Consequently, the fear that some private jobs would be lost by making livelihoods financed by transfer payments attractive, dignified, and useful should not morph into a Frankenstein's Monster. It should not grow and grow until it turns into an absolute principle requiring that every last livelihood financed by sales-in-markets must be squeezed into the economy before there can be even one livelihood financed by recycling the social surplus.

Let us look now at how the French businessman turned politician Jean-Baptiste Say first articulated the law that bears his name in his *Traité d'économie politique*.<sup>3</sup> It was published in 1803 and then re-published with revisions during the next several decades. Seen in the light of the multi-millennial history of the organization of human labour as we recommend, Say's work (and Smith's) can be read as an early version of the story (or mythology) of the then rising and now dominant commercial and industrial classes. Since time immemorial human groups have organized themselves with stories.<sup>4</sup> Say pretty transparently writes a story that makes a sales pitch to the reader claiming it is better than other stories because it is scientific and because it is based on the natural order of things.<sup>5</sup>

On Say's account there was no science of political economy before Adam Smith. Smith himself made fundamental mistakes that Say devotes himself to correcting. Nevertheless, even before *The Wealth of Nations* was published in 1776, from 1760 on the

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<sup>2</sup> NREGA is India's National Rural Employment Guarantee Act.

<sup>3</sup> Jean-Baptiste Say. 1841. *Traité d'économie politique*. Sixth and last edition. Paris, Guillaumin. (first edition 1803), (<https://archive.org/details/traitedeconomie00saygoog> - accessed March 2015). An early edition of this work was translated into English by Thomas Jefferson, the third president of the United States.

<sup>4</sup> See for example, Bronislaw Malinowski 1960. *A scientific theory of culture and other essays*. New York, Oxford University Press. ([http://monoskop.org/images/f/f5/Malinowski\\_Bronislaw\\_A\\_Scientific\\_Theory\\_of\\_Culture\\_and\\_Other\\_Essays\\_1961.pdf](http://monoskop.org/images/f/f5/Malinowski_Bronislaw_A_Scientific_Theory_of_Culture_and_Other_Essays_1961.pdf) - accessed March 2015). We have in mind also Martin Heidegger's proposal in *Sein und Zeit* to see human being-in-the-world always as a matter of interpretation and "story-ness" (*Geschichtlichkeit*).

<sup>5</sup> Of course the same can be said of all the pioneers who first articulated today's dominant ideologies. See for example, Louis Dumont 1977. *From Mandeville to Marx: the genesis and triumph of economic ideology*. Chicago: University of Chicago Press (op cit); Gideon Freudenthal 1982. *Atom und Individuum im Zeitalter Newtons. Zur Genese der mechanistischen Natur- und Sozialphilosophie*. Frankfurt, Suhrkamp.

opinions of *économistes* dominated the minds of the leading progressive thinkers of France. In spite of their intellectual bungling, Say writes, « *Ce que personne n'a refusé aux économistes, et ce qui suffit pour leur donner des droits à la reconnaissance et à l'estime générales, c'est que leurs écrits ont tous été favorables à la plus sévère morale et à la liberté que chaque homme doit avoir de disposer à son gré de sa personne, de ses talents et de ses biens, liberté sans laquelle le Bonheur individuel et la prospérité publique sont des mots vides de sens .Je ne crois pas qu'on puisse compter parmi eux un homme de mauvaise foi ni un mauvais citoyen*». <sup>6</sup> (What nobody denies to the economists, and what is sufficient to give them a right to recognition and general esteem, is that all of their writings favour the most severe morality and the liberty that every man should have to dispose at will of his person, his talents, and his property, a liberty without which individual happiness and public prosperity are meaningless words. I do not believe that one could find among them a single man of bad faith or a bad citizen.)

In other words the social mobilization of the leading thinkers of the time in favour of natural liberty came first. The correct elaboration of the science that gave it an intellectual status superior to the mere playing with words of traditional philosophy came second. Given that at bottom Say was more committed to political effect than to intellectual coherence, it is no wonder that a twentieth century scholar like W.J. Baumol finds that that Say's Law is subject to at least eight mutually inconsistent interpretations,<sup>7</sup> or that Joseph Schumpeter in his *History of economic analysis* finds that the history of debates about Say's Law has been a history of endless confusion, starting with Say himself who according to Schumpeter did not understand his own law.<sup>8</sup> Say wrote with *parti pris*. He was advocating a social philosophy that pre-dated its scientific rationale.

The full title of Say's three book treatise is [Traité d'économie politique: ou simple exposition de la manière dont se forment, se distribuent ou se consomment les richesses](#). (Treatise on political economy, or simple explanation of how wealth is formed, distributed or consumed.) The first book *De la production des richesses* is made of thirty chapters, some of which have long digressions. In the fifteenth chapter he considers the common complaint of entrepreneurs that they often produce goods successfully enough but then they fail to sell them. Many tend to attribute slow sales to a scarcity of money. They could produce more if only they could find more buyers.<sup>9</sup> Say writes, "The

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<sup>6</sup> Say 1841 (1803) in the *Discours préliminaire* that precedes the beginning of Book I.

<sup>7</sup> William J. Baumol 1999, [Retrospectives: Say's law](#). *Journal of Economic Perspectives*. Volume 13, pages 195-204. (<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.184.9525&rep=rep1&type=pdf> accessed March 2015). Diverse interpretations are also discussed in Steven Kates (Ed.) 2003 [Two hundred years of Say's law: Essays on economic theory's most controversial principle](#). Cheltenham UK: Edward Elgar.

<sup>8</sup> Joseph Schumpeter 1954, *History of economic analysis*. New York, Oxford University Press. pp, 621-25.(op cit.)

<sup>9</sup> That more could be produced if there were more buyers is of course true in spades today. Most firms in most industries typically operate at a little over half of their productive capacity. Nevertheless, it is common to acquire *additional* productive capacity, not pursuant to the liberal myth of producing until marginal cost equals marginal revenue, but pursuant to the real-world strategy of erecting barriers to entry to preserve oligopolistic

entrepreneurs in the several branches of industry are in the habit of saying that the problem is not in producing but in selling; that one could produce more goods if one could find an outlet for them.”<sup>10</sup> Say at no point denies that such is in fact the common experience of entrepreneurs. Nevertheless he proposes to pursue the analysis. “Perhaps we will discover new truths, important truths, suitable for enlightening the desires of industrious men, and for securing the actions of governments eager to protect them”.<sup>11</sup>

The background of Chapter Fifteen is, as always for Say, a general effort to persuade the reader that the natural order is the best order. Its foreground is a refutation of the entrepreneurs who attribute lack of sales to lack of money. He describes money as merely the *voiture* (the vehicle) that carries value from buyer to seller.

The conclusion of the refutation of the illusion that a scarcity of money is the cause of gluts in the markets is the beginning of Say’s statement of what we shall call his Principle, and which can be taken as one of a number of formulations that can plausibly be called “Say’s Law” or “Say’s Law of Markets”. Say’s reasoning: A neighbour becomes a buyer not because he magically comes into funds, but because he (or she, but Say appears to really mean he when he says he) produces something useful that has exchange value. His vendible commodity (in Smith’s phrase) gives him access to the *voiture* that will facilitate the exchange of the value of his product for the value of someone else’s product. Here is the Principle: From the *instant* (The French and the English word are the same) when he comes to possess a saleable commodity, the value of his product can be exchanged for the value of your product. (Some subsequent scholars formulate Say’s Law as “Supply creates its own demand”). Like the transubstantiated host that is the real body of Christ, and not merely a symbol of the body of Christ, the finished goods stored in the warehouse of the manufacturer awaiting sale are already effective demand in the marketplace, and not merely potential effective demand in the marketplace.

Having made every producer into a buyer by definition (by following Smith in counting as a producer only someone who makes something that can be sold, and by defining the possessors of vendible commodities as buyers), Say is in principle challenged to reconcile his Principle with the real-world experience of entrepreneurs for whom “the problem is not in producing but in selling.” One might read Say in the balance of the chapter as making a number of sensible observations, which are, however, not always consistent with each other or with his Principle. We propose rather to say that he concedes the facts while in strict logic he does not concede his Principle.

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pricing. These matters are elucidated in Yanis Varoufakis et al, *Modern Political Economy: making sense of the post.2008 World*. London: Routledge, 2012. (<http://digamo.free.fr/varouh11.pdf> - accessed March 2015).

<sup>10</sup> Say 1841 at the beginning of Book One Chapter Fifteen.

<sup>11</sup> Ibid. Our translation.

It may be that the merchant cannot sell because the commodity he offers is something people do not want. Thus Say speaks of *demandes diverses, déterminées par les mœurs, les besoins, l'état des capitaux, de l'industrie, des agents naturels du pays*.<sup>12</sup> There are diverse demands for goods, determined by custom, by needs, the state of development and the natural features of a country. People's motivations for buying are normally determined by causes independent of the need of someone else to sell something to make a living.

Or he may have made something people do want, but which is already sufficiently supplied. Say: *car enfin ce n'est que dans les quantités abstraites qu'il y a des progressions infinies, et dans la pratique la nature des choses met des bornes à tous les excès*. Consumer demand cannot be infinitely expanded. The nature of things places limits on excess. There comes a point when markets are satiated.

He may have the misfortune to live in a backward area where there are no buyers to be found because other people there are not producing vendible commodities that could be exchanged with his. Say: *Que feraient un actif manufacturier, un habile négociant dans une ville mal peuplée et mal civilisée de certaines portions de l'Espagne ou de la Pologne?* What can an energetic manufacturer or a skilled businessperson do in a town that is under populated and under civilized like certain parts of Spain or Poland? Say advises entrepreneurs to move to places where there are many other entrepreneurs so that they can be buyers of each other's products.

His costs of production may be so high that he cannot sell at a competitive price. Say writes: *Alors on peut bien créer une chose utile, mais son utilité ne vaut pas ce qu'elle coûte, et elle ne remplit pas la condition essentielle d'un produit, qui est d'égaliser tout au moins en valeur ses frais de production*. One may well create something useful, but still the value of its utility is less than its cost, and one does not fulfil the essential condition of making a product, which is that its value must at least equal the cost of producing it.

And so on. Say also discusses other reasons why sales do not happen.

In strict logic Say can maintain his Principle while conceding all the facts cited by people who believe that in a capitalist system there is a chronic weakness of effective demand. Each reason why goods are not sold re-classifies entrepreneurs out of the category of "producers." By definition if one's commodity is not vendible, one is not a producer. By

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<sup>12</sup> These quotations from Say are from Book I Chapter Fifteen. The English words after the French here and following are not meant to be exact translations.

definition every product can be sold because if it cannot be sold it is not a product. Every seller has a buyer because if there is no buyer by definition there is no product, and without a product a seller is not a seller.

Meanwhile, the world goes on as before.



Say's Law is not a mathematical theorem or an empirical finding. It is a set of rhetorical tactics deployed in a contested and difficult historical process constructing social reality.<sup>13</sup>

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<sup>13</sup>As noted previously Keynes writes at the end of the second chapter of his *General theory* that Say's Law, regarding full employment as normal, and equating the real wage with the marginal disutility of employment are three interconnected assumptions of classical economics that stand or fall together. John Maynard Keynes 1936. *The general theory of employment, interest, and money*. New York, Macmillan. page. 21. (op cit). On his view they fall together, and are replaced by the concept that liquidity preference produces a chronic weakness of effective demand. Keynes' view, much more than Say's, takes the form of a mathematical theorem, but on our view the mathematical argument depends on premises whose ontology is that of cultural norms. See Howard Richards 2004. *Understanding the global economy*. Santa Barbara, Peace Education Books (op cit); Alvin Hansen 1936. [Mr. Keynes on underemployment equilibrium](http://www.jstor.org/stable/1824136?seq=1#page_scan_tab_contents). *Journal of Political Economy*. Volume 44, pages 667-686. ([http://www.jstor.org/stable/1824136?seq=1#page\\_scan\\_tab\\_contents](http://www.jstor.org/stable/1824136?seq=1#page_scan_tab_contents) – accessed March 2015).