INTRODUCTION

The language of economics evolves and past use of terms may not always agree with the denotations of modern literature. This, in turn, masks meanings and exacerbates misinterpretations. Hence, when studying past writers, we need to pay careful attention to their definitions lest we find ourselves arguing about semantics rather than substance. Moreover, when reading the classical economists, we must take due note of their parsimonious style. In their writings, the exact phrasing of a single sentence may be used in lieu of lengthy explanations. As a result, our reading needs to be attentive and precise. Most importantly, we must read their arguments in context. It is all too easy to cut and paste, to combine a simplifying assumption from one context with something from an entirely different one, and thus to concoct notions that never really existed. Certainly, this is what some of the history of thought literature has done to the works of Jean-Baptiste Say. Yet, his writings do still speak for themselves, making it ever so clear that secondary sources are a poor substitute for originals. In truth, the literature on Say's law evokes the game wherein a specific message is whispered from one person to another down a line only to emerge at the end twisted beyond all recognition.

The accepted Keynesian view has been that most of the classical economists of the early nineteenth century (Say, Ricardo, McCulloch, James and John Stuart Mill, etc.) denied the existence of gluts, commercial crisis, and involuntary unemployment. As Clower and Leijonhufvud [1978] have explained, this is a gross misrepresentation of the facts, ineptly sustained by successive writers who have carried their distortions of the original arguments further and further without carefully checking the original sources. Hence, as Becker and Baumol have noted, most of the classical economists "never held views like those ascribed to them" [1992, 355].

In fact, the classical economists were deeply concerned about the causes of gluts and unemployment in the various markets of the world. It could hardly be otherwise, since they lived in turbulent times characterized by both great innovations and progress as well as sectoral shifts which caused gluts in many sectors of the economy. The late eighteenth and early nineteenth centuries witnessed economic changes due to war, revolution, cultural change, and most importantly, technological progress. The economies of Europe were remade by the increased production of pig iron and steel; new uses for steel—in the building of ships, machines, bridges and pipes; the expiration of  

which keeps down the demand for goods, and this is also how we should take his repeated statements to the effect that goods always buy goods. For Say, money was indeed a veil, and his arguments to the effect that the supply of goods drives the demand for goods are really no different from modern circular flow arguments to the effect that productivity of the factors determines factor incomes which in turn represent expenditures on goods and services. As Baumol [1977, 160] points out, much of what Say wrote focused on "the influences that promote long-term economic growth, and not...short-term problems of unemployment or overproduction." We must not confuse separate arguments that Say made in discussing these two distinct issues.

Say's *débouchés* (vent or market opening) arguments were based on the simple truism that trade is bilateral. Successful trade is based on each trader's ability to offer something of value. It is only in this sense that Say [1821, 3] argued that "the value which we can buy is equal to the value which we can produce." Say generally assumed *quid pro quo* in voluntary transactions. Thus he held that if an agent offers something for sale, it is offered in order to get something else. It is in this sense that "the creation of one product immediately opens a vent for other products" [Say, 1880, 135]. But note that immediate creation of vent is not the same thing as immediate sale. The point is simply that once something is offered for sale it can potentially be traded for something else, and in this sense there is now a new possible opening (or vent) for this other thing. To wit, the value of things that agents offer for sale determines the maximum value of other things that this agent can buy, and in bilateral trade any attempt to sell is also an attempt to buy.

If, due to miscalculations etc., a trader's offerings are not wanted by the trader's prospective trading partners then this will affect the trader's "effective demand" for other products. It is in this sense that Say's theory of vent provides the foundation for Say's view of recessions. That is, effective demand is constrained by the supply of goods with exchangeable value. Suppliers of worthless things do not have the means to buy the products of others. In its proper context, this is also the point of the quote from Ricardo chosen as an epigraph by Kates:

"The difficulty of finding employment for Capital in the countries you mention proceeds from the prejudices and obstinacy with which men persevere in their old employments, —they expect daily a change for the better, and therefore continue to produce commodities for which there is no adequate demand. With abundance of capital and a low price of labour there cannot fail to be some employments which would yield good profits, and if a superior genius had the arrangement of the capital of the country under his control [sic], he might, in a very little time, make trade as active as ever. Men err in their productions, there is no deficiency of demand. [Ricardo, 1952, VIII, 277]"

At the risk of undue repetition, anything that is sold must also be bought, and nothing can be bought without the proper means to purchase it. Hence markets are inter-related and it is not possible for any "one branch of industry [to] suffer without affecting the rest" [Say, 1880, 140 (in a footnote)].
THE TERM "EFFECTIVE DEMAND"

Contrary to Steven Kates, the terms "effective demand" and "actual demand" were frequently used by the classical economists. Still, he is right in insisting that neither Say nor the Ricardians had a theory of "aggregate demand" in the Keynesian sense of that term. That is, they did not conceive of aggregate demand as a function relating aggregate expenditures to aggregate income. What they did offer, however, was a theory of how aggregate "effective demand" could be limited by coordination failures. In any case, it is clear that Kates misses the point of my earlier article [Jeninos, 1969]. My thesis was that the "effective demand" failures discussed by Say and the Ricardians were quite different from those grounded in notions of inherent limits to the willingness to consume. I never suggested that they had a theory based on some Keynesian aggregate demand function.

That Say held general pluts and commercial crisis to be caused by coordination failures was understood and commented on by Ricardo, McCulloch, Senior, and both James and John Stuart Mill. In fact, McCulloch singled out the coordination explanation of commercial crisis as Say's one and only significant contribution to economic theory:

His principal merit in a scientific point of view consists in his showing, in a more satisfactory manner than it had been done previously, that effective demand [italics added] depends on production. And it is easy to see that such must be the case. An excess of a particular commodity, or of a few commodities, may be occasionally produced; but it is quite impossible that there could be an excess of every commodity... [The] excess is not in producing too much, but in the production of commodities which either do not suit the tastes of the buyers, or which we cannot ourselves consume. [McCulloch, 1845, 21-22]

To keep straight the various arguments made by Say and to prevent the kind of misunderstanding that Say's arguments originally faced from Malthus and Sismondi, and which they have since faced from so many others, we need to examine Say's arguments more formally. In other words, we need come up with a "restatement" of the kind that Lange [1942] supposedly attempted. This is necessary since, as Schumpeter has noted, Say did not use a word to clarify his position in detail:

He never bent—as even Ricards did—to the task of hammering them out so that they might be recognized by everyone for what they were and stand criticism and wear and tear. Also he invariably mismanaged his case in controversy by replying to criticism in a desultory manner, without bestowing the requisite amount of work on it. Hence, the historian must restate his argument for him and, in doing so, must often neglect ingenious wording or even discard downright silly bits of reasoning that only carelessness will account for. Everyone realizes that this must be done for Ricardo and Marx because, in their cases, the toughness of the surface invites digging. But the economists were few indeed who were able and willing to render this service to Say. [Schumpeter, 1964, 491]

A FORMAL RESTATEMENT

A formal restatement of Say's ideas is complicated by the fact that when we discuss coordination failures, we need to make a clear distinction between ex ante trading plans, attempted trades in the face of rationing in non-clearing markets, and actual trades. Following Clower and Leijonhufvud [1973], let us start out with ideal non-rationalized, where $d_{i,t}$ is used to denote the amount that agent $i$ plans to purchase of good $j$ in period $t$, and $s_{j,t}$ to denote the corresponding amount of planned sales. The individual's net planned purchases (or ex ante individual excess demand) for good $j$ can then be defined as $x_{j,t} = d_{i,t} - s_{j,t}$ so that a negative value of $x_{j,t}$ indicates a net planned sale. Ex ante trading plans are presumed to be non-rationalized in the sense that it is assumed than one can buy and sell desired quantities of all goods at prevailing prices. Given $m$ different goods and services (including money), the vector $x_t = [x_{1,t}, x_{2,t}, \ldots, x_{m,t}]$ then describes the trading plans of agent $t$, and the following matrix describes planned trades in an economy made up of $k$ agents in period $t$:

$$
X_t = \begin{bmatrix}
    x_{1,t} & x_{2,t} & \cdots & x_{m,t} \\
    x_{1,t} & x_{2,t} & \cdots & x_{m,t} \\
    \vdots & \vdots & \ddots & \vdots \\
    x_{1,t} & x_{2,t} & \cdots & x_{m,t}
\end{bmatrix}
$$

(1)

Let us assume that a unique price vector $p_t = [p_{1,t}, \ldots, p_{m,t}]$ describes prices in any period $t$, where good $m$ is defined as the numeraire good, so $p_{m,t} = 1$. Assuming quid pro quo, the budget constraint for agent $t$ in period $t$ can then be written as $x_t \cdot p_t = 0$. The ex ante planned vent based on planned sales by agent $i$ during period $t$ can then be defined as $V_{i,t} = \sum_{j=1}^{m} x_{j,t} p_{j,t}$. The quid pro quo assumption dictates that this ex ante planned vent must also equal the value of the goods that the agent planned to buy, so $V_{i,t} = \sum_{j=1}^{m} p_{j,t} x_{j,t}$.

As Clower and Leijonhufvud [1973] have pointed out, the proper specification of Say's arguments must be made in terms of the aggregate consequences of such individual trading plans. If everyone plans to trade honestly, then aggregate trading plans must also have a net value of zero, that is $\sum_{t=1}^{n} x_{j,t} p_{j,t} = \sum_{t=1}^{n} \sum_{j=1}^{m} x_{j,t} p_{j,t} = 0$. This is what Clower and Leijonhufvud referred to as the aggregative version of Say's principle. Note that this tells us nothing about whether the various markets are in equilibrium or not. To see this, consider the ex ante excess demand (ED) for various goods and services, based on planned trades.
The ED for any good $j$ can be found by summing up the elements of column $j$ in the matrix (1) above to get $ED_j = \sum_{i=1}^{k} a_{ij}$. The only constraint provided by the aggregative version of Say's principle is that the values of those ex ante excess demands must sum to zero across all commodities, that is $\sum_{j=1}^{m} p_{ij}ED_j = 0$. In other words, since all sellers intended to receive something of equal value for all the items that they intended to sell, by definition, the aggregate value of all planned sales equals the aggregate value of all planned purchases. But this is still perfectly compatible with situations where the ex ante plans of buyers and sellers are incompatible. That is, we may still find $p_{ij}ED_j \neq 0$ for any or all $i$, as long as the aggregate value of all ex ante gluts is equivalent to the value of the corresponding ex ante shortages. This is what McCulloch had in mind in attributing to Say the idea that a "universal glut of all sorts of commodities is impossible; every excess in one class must be counterbalanced by an equal deficiency in some other class" (McCulloch, 1845, p.239). In sum, in the absence of market clearing, failures to carry out planned sales in some markets must correspond to matching failures to carry out planned purchases in other markets (hence not all markets can have gluts), but there is no presumption that markets will clear in the first place.

Remember, in any market which does not clear, the short side always dominates and ratios quantities to a smaller number than that specified by equilibrium. So, since markets need not clear, it is perfectly possible that an agent may not succeed in selling whatever was planned. In other words, planned income from sales may not be realized, and a consumer may therefore be forced to revise or consume plans. This is a crucial point. Say understood well that attempted purchases in some markets may be conditional upon the successful execution of planned sales in other markets. That is, unemployed workers, who fail to sell their labor, may attempt to buy less than they otherwise would of consumer goods. This in turn will lower the vent for consumer goods, and this was the essence of Say's explanation of commercial crisis. In this context, let us use $\delta_{ij} = p_{ij} - \bar{x}_{ij}$ to denote the actual (as opposed to the ex ante planned) individual excess demand for good $j$ by agent $i$ at time $t$.

As long as workers remain unemployed, and as long as demand for consumer goods remains weak, gluts in some areas will exacerbate gluts in others. Moreover, we cannot observe the involuntary underconsumption that is a concomitant of involuntary unemployment. Whenever suppliers fail to sell all that they planned, their income fails short and this may in turn spur them (1) to try to sell more of something else in order to compensate for the shortfall, and (2) to constrain their demand for the things that they intended to buy. To reiterate this crucial point: if individual $i$ plans to sell good $j$ then, once the individual is actually engaged in trade, the individual may be compelled to try to sell more of other goods and hence to plan more, since the individual needs to obtain more income. On the other hand, if the individual plans to buy good $j$, it is possible that falling income will constrain consumption. In short, people may attempt to sell more than they attempt to buy, so $\sum_{i=1}^{k} \sum_{j=1}^{m} \delta_{ij}p_{ij} < \sum_{i=1}^{k} \sum_{j=1}^{m} \bar{x}_{ij}p_{ij}$.

In terms of overall attempted transactions in the economy, this implies that when it comes to the actual excess demands (D) as opposed to ex ante excess demands (ED) across markets, we will find:

$$\sum_{i=1}^{k} \sum_{j=1}^{m} p_{ij}D_{ij} = \sum_{i=1}^{k} \sum_{j=1}^{m} \bar{x}_{ij}p_{ij} \leq 0.$$

Note that any glut is likely to change this into a strict inequality. Of course, by definition, actual sales are always equal to actual purchases ex post. But when ex ante trading plans are not mutually consistent, and for that reason not jointly attainable, attempted (as opposed to ex ante planned, or ex post actual) trades are not balanced. The effective demand therefore falls short of notional demand in the sense that $\sum_{i=1}^{k} \sum_{j=1}^{m} \delta_{ij}p_{ij} < \sum_{i=1}^{k} \sum_{j=1}^{m} \bar{x}_{ij}p_{ij}$. It is in this sense, and in this sense only, that Say's theory of vent and coordination is also a theory of effective demand failures.

To see this clearly, we had to distinguish ex ante planned trades from attempted trades, and those in turn from actual trades. Lange [1942] never did, and so he missed this point. It was probably also a failure to understand this aspect of Say’s theories of vent and market openings that originally prompted Malthus to ask:

> where are the under-stocked employments, which, according to this theory, ought to be numerous, and fully capable of absorbing all the redundant capital which is confessedly glutting all the markets of Europe in so many different branches of trade? (Malthus, 1836, p.420)

Malthus, it seems, did not understand that when markets do not clear, attempted trades are not symmetric. Hence, the values of actual, ex post observable, gluts and shortages need not be equal. All that Say's arguments spell out, is that gluts cannot, by the rules of logic, be everywhere. As Ricardo, in his Notes on Blacke, put it: "This is what the Political Economists of the present day call glut from miscalculation. They do not say there may not be a glut of 2 or of 10 commodities but they say there cannot be a glut of all"[1901], Vol. IV, p.344.) It is only in this sense that Say and the Ricardians agreed that a universal glut could not exist.

**ON LANGE'S OBSCUSATIONS AND THE ROLE OF MONEY**

Lange [1942], in his often cited "restatement" of Say's law ignored the asymmetry of attempted trades in non-clearing markets. In fact, he never even distinguished planned from attempted transactions, and he believed that the aggregate values of "total demand and total supply are identically equal." [Lange, 1942, 58] He used the term "Walras' law" to describe this notion, and, absurd as it may seem, he really thought that its validity did "not require that the demand or supply of each commodity, or of any of them, be in equilibrium." [Ibid., 1942, 58] In other words, he argued that:
mistake had already been made by Malthus and has often been repeated. [1854, 618]

Anyway, Say understood well that in a monetary economy, where only a few specific goods can serve as media of exchange, the quantity of money in circulation can constrain the volume of trade. And he also understood that the relative opportunity cost of holding money does affect its circulation, since when prices are unstable, "goods are then held back in expectation of a rise, and money in the prospect of a fall" [1800, 142]. But, like other classical economists who thought about these issues, he saw the speed of the circular flow (or, equivalently, the velocity of money) primarily in terms of the timing of actual trades rather than in terms of monetary factors per se.

ON THE MEANS VS. THE WILL TO PURCHASE GOODS

A number of writers have focused on James Mill as the true author of the supply-side, in-theory-of-demand view of market interrelationships. Certainly, in his Commerce Defended, Mill made a number of strongly worded statements to the effect that "the demand of a nation is always equal to the produce of a nation" [1866, 136]. And yet, it is also quite clear that he understood Say's coordination arguments. Just consider Mill's caveat:

It may be necessary, however, to remark, that a nation may easily have more than enough of any one commodity, though she can never have more than enough of commodities in general. The quantity of any one commodity may easily be carried beyond its due proportion; but by that very circumstance is implied that some other commodity is not provided in sufficient proportion. [Ibid.]

So, before we pin this version of Say's law on James Mill, we must take due note of the context of his arguments. In Mill's time, many believed that rising productivity, due to technology and capital, was in-and-of-itself a problem. Against this background, Mill is arguing the case for more capital as a means of increasing production and thus living standards. Today, the benefits of rising productivity seem so obvious, and concerns about overproduction seem so ludicrous, that we find this hard to fathom. And yet, understanding this is a sine qua non requisite for grasping Mill.

Malthus [1822, 1850] and Sismondi [1828, 1847] both specifically rejected the idea that increasing productivity would eventually increase consumption and living standards. Thus, Malthus talked about the lack of "proper taste for manufactured products" and "incalculable numbers" [Malthus, 1836, 374] of consumers as restricting effective demand for goods and thus as being an obstacle to the creation of income through greater productivity in manufacturing. In the same vein, he argued that uneven income distributions translate into less effective demand as "it has always been found that the excessive wealth of the few is in no respect equivalent, with regard to effectual demand, to the moderate wealth of the many" [Ibid., 375].

In this context, Schumpeter astutely points out:

But this identity is quite irrelevant for Say's purposes. To make it relevant, it would be necessary to prove that, in barter, everyone's offer is at all exchange ratios equal to what other people wish to take at the same ratios. This is obvious nonsense, of course, for disequilibrium is as possible in a barter economy as it is in a money economy, though the latter may display additional sources of disturbance. This
Malthus worried openly that increased productivity would in and of itself lead to gluts, since he believed that there were positive a priori limits to how much consumers wanted to buy. As he put it: "But whenever this production so exceeds the actual state of the demand, whatever that may be, as to disable the producers from putting in motion the same quantity of industry as before, to that extent exactly is the effective demand for a further increase of produce diminished and the stimulus to the increase of wealth abated" [1820, 231]. In short, he concluded that a limited desire to consume could permanently hold the economy back as "the power among capitalists of supplying the results of productive labor would be much greater than the will to consume them, and the progress of wealth would be checked by the want of effectual demand" [1836, 375-76]. Similarly, Sismondi reasoned that if technical progress were to increase productivity any further then this would be a "national misfortune; for the number of consumers can scarcely increase, and it would then be the number of producers which would be diminished." [Sismondi, 1828, 113]

Say, in his *Letters to Malthus* [Say, 1821a], made short work of such ideas. And it seems that most of the Ricardians understood and agreed with Say on the essentials of this debate. Consider Senior's elegantly unadorned refutation: "Now as by the assumed hypothesis of a universal glut all the articles of wealth exist not only in abundance, but in superabundance, an absolute deficiency of equivalents cannot be one of its causes" [1836, 29]. McCulloch later summed it up this way:

Malthus has justly stated that the demand for a commodity depends "on the will combined with the power to purchase it;" that is, on the power to furnish an equivalent for it. But who ever heard of a want of will to purchase? If it alone could procure necessities and luxuries, every beggar would be rich as Croesus, and the market would constantly be understocked. The power to purchase is the real desideratum. It is the inability to furnish equivalents for the products necessary to supply our wants, that "makes calamity of so long life." [1864, 140]

In this sense, one might say that Say and the Ricardians rejected the notion of inherently deficient demand (or demand failure) based on a limited willingness to consume. That is, in Keynesian terms, they believed that the marginal propensity to spend would tend to be one. Moreover, as a result of this belief, it is also true that Say and his followers did not believe that commercial crisis would last very long. Consider Ricardo's statements to the effect that in the long run no man will continue to produce things that do not sell:

It is not to be supposed that he should, for any length of time, be ill-informed of the commodities which he can most advantageously produce, to obtain the object that he has in view, namely, the possession of other goods; and therefore, it is not probable that he will continually produce a commodity for which there is no demand. [1831, Vol. I, 290]

In a similar vein, Senior argued that traders would eventually find out where best to take advantage:

It can scarcely be supposed that when A has what B wants, and B what A wants, A and B should, in the majority of instances, instead of finding out and exchanging with one another, offer their respective commodities to Y and Z, having also each reciprocal wants and supplies, neither wish to purchase from A or B, nor have discovered the means of exchanging with one another. [1836, 29]

Perhaps Ricardo and Senior overstressed the temporary nature of commercial crisis. But, their arguments do not constitute a dismissal of gluts.

**ON THE PERSISTENCE OF GLUTS**

In any case, the most substantive challenge to Say's ideas came not from Malthus or Sismondi, but rather from Chalmers. While Chalmers has sometimes been lumped with Malthus and Sismondi for his opposition to Say [J.S. Mill, 1909, 67 and 657 and 562] his critique was more sensible than theirs. Chalmers understood Say [Chalmers 1832, Chapter 5] and he explicitly agreed that in the long run "the destruction of any one branch of manufacture is necessarily attended with the creation or the extension of some other" [1838, 15-16].

Instead of focusing on limited willingness to consume, Chalmers' critique focused first on diminishing marginal returns and on limited means for producing the necessities of life. These, he argued, might create a "glut of human beings, which nothing can prevent, but the reign of prudence and principle amongst families, and nothing can correct but... famine, disease, and war" [1832, 156]. This glut of labor is premised on Malthusian population and subsistence wage arguments. A limited availability of land eventually ensures that subsistence wages are higher than warranted by the returns to additional labor and this brings about widespread unemployment. That is, at the margin "the food which has been consumed by workmen, during the process of their labor, exceeds in quantity the food they raise" [ibid., 158]. And this yields an "anterior glut, not to be rectified by any skill in the transference or new distribution of capital..." [ibid., 156].

Next, Chalmers considers limits to the downward adjustment of interest. This would affect the clearing of the credit markets. To incorporate credit in the formal framework used to present Say's ideas above, let us simply assume that good m - 1 is a credit instrument, so that \( e_{m-1} = \delta_{m-1} \), represents the net or ante planned individual demand for this instrument by agent \( i \) in period \( t \). Specifically, \( e_{m-1,i} \), denotes the amount of credit that agent \( i \) plans to obtain in period \( t \) by selling some credit instrument, and \( \Delta_{m-1,i} \), is the amount of the credit instrument that \( i \) plans to buy either in order to grant credit to other agents or to buy back previous issues of the credit instrument. Non-clearing credit markets, or \( \Sigma_{i=1}^{n} p_{m-1,i} r_{m-1,i} \), would generally cause an adjustment in the interest rate.
If the actual quantity demanded of the credit instrument is greater than the actual quantity supplied then we would expect the interest rate to fall. Except, the real interest rate cannot fall below the real rate of return on money balances plus the relevant risk premium (which will rise during recessions). As soon as the interest rate falls to this benchmark minimum, prospective lenders are better off hoarding cash than lending their funds by buying the credit instrument. Once we penetrate Chalmers' archeic definitions and sometimes hard to follow explications, we see that he was really arguing along these lines. He stressed that capital is "limited in its power of returning ... a profit" [1832, 171], and that since credit risks rise during recessions we may find that the credit markets no longer clear [ibid., 166-70]. The problem is that the market clearing natural rate of interest (which is based on returns to capital) would have to lie below the minimum rate acceptable to prospective lenders. Hence, "capital cannot be carried beyond a certain limit in any country" [ibid., 170]. Possibly, in spite of their actual explanations, Malthus' or even Lange's theory, really had something like that in mind. At least, their intuition was that planned hoarding of financial assets by those looking for future (rather than current) consumption, could generate current gluts in the markets for goods. In other words, that at time \( t \) we might find

\[
\sum_{t-1}^{t} \left( x_{t,n} - 1 + x_{t,m} \right) = \sum_{t-1}^{t} \left( \sum_{j=1}^{n} \left( k_{j} p_{j} \right) \right) > 0.
\]

Of course, there is nothing in Say's reasoning that precludes this. And, it is clear that he was aware of this potential cause of current gluts in the markets for goods. He just did not think that recessions generated by such inter-temporal coordination failures would last very long.

First, Say believed that interest rates would adjust to clear the markets for credit or capital. Countering concerns about excessive savings, Say argued that "here the excess carries the remedy along with it. Wherever capital becomes too abundant, the interest which capitalists derive from it becomes too small to balance the precautions which they impose on themselves by their economy" [1821a, 40]. Hence expenditures would flow into other areas. It is really on this, the market clearing role of the interest rate, that we find a true rift between Say and Chalmers.

Second, Say thought that even if gluts based on too much savings were somehow to persist, this would in-and-of itself bring deflationary pressures which ultimately should help bring the economy out of the doldrums as "the general wealth is increased by the low price of commodities and productions of all sort." [Say, 1821a, 29] In other words, he felt that real balance effects would prevent intertemporal coordination failures from keeping the economy down permanently.

In any case, unlike Malthus and Sismondi, Chalmers was building on the very framework presented by Say. Their disagreement notwithstanding, Chalmers [1832] represents an extension, rather than a refutation, of Say. Say died in the very year that Chalmers [ibid.] published his On Political Economy, and so he never responded to Chalmers. But, ultimately, there is no intrinsic difference between intratemporal and intertemporal coordination failures.

CONCLUSION

Since Keynes, much of the literature has misrepresented how Say and the Ricardians thought about gluts and unemployment. This paper suggests that they were thinking along lines related to those now considered by modern temporary-equilibrium business cycle theorists like Grandmont [1988, 1991], De Leire [1991], and Frenzen [1991], as well as the so-called New Keynesians [Mankiw and Romer, 1991]. That is, Say and the Ricardians explained gluts in terms of how miscalculations lead to coordination failures which in turn may limit the effective demand for goods. In contrast, Malthus and Sismondi argue that gluts were caused by the effects of uneven income distribution etc. on the absolute willingness to spend. In some respects this Malthus-Sismondi argument is captured by the naive Keynesian-cross, since it also suggests that the average propensity to consume declines with rising income and that this in turn will limit the amount of production that can be sustained by the willingness to spend.

In short, the paper suggests that the Say vs. Malthus debate mirrored some of the elements of the debate between (1) those who see coordination failures and sectoral shifts as the causes of business cycles and (2) simple underconsumptionists. Hence, it is a delectable irony that while Keynes [1936, Chapter 23] himself denounced Say and endorsed Malthus, most of the modern economists who still use the "Keynesian" label, base their Keynesianism on ideas which were originally presented by Say, while explicitly rejecting underconsumptionist notions of the kind espoused by Malthus.

NOTES

I would like to thank Robert W. Clower, James C.W. Alakoski, Grant Fleming, E. Roy Weatrehuch, Neil De Marsh, and the editor of this Journal for insightful observations and helpful comments, andbelvis Williams for her help in translating, vetting, and making sense of Say's original French press. Also, I thankfully acknowledge financial support in the form of a research grant from Fayetteville State University.

1. This passage, which represents a substantial change from the 1st edition of the Treatise [Say, 1803, 182-183] to the 2nd edition [Say, 1814, 143], remained more or less unchanged through the 7th edition [Say, 1827, 160].

2. Patman, 1884, 791 published with Say's wording on this. Of course, Say could have been more careful in distinguishing between such terms as creation or production and the actual offering of an item for sale. Nevertheless, his meaning is clear from the context of his arguments. Only a patient, predisposition to reject Say's arguments, would focus exclusively on such terminological distinctions in order to refute the point being made.

3. The context of this quote is quite interesting. Ricardo, it seems, was a bit sore at Say [1826, II, 67-68] for having disagreed with Ricardo and Malthus in their discussion of values. Specifically, Say had pointed out something that we now consider obvious, that for non-traded goods corner solutions are possible, which also means that for a given consumer the utility of a particular good may differ from its tradable values. This, in turn, suggests that utility is not always reflected in market price and hence that Ricardo had been wrong in his generalizations. So, Ricardo is rather unhappy about this, and he goes on to complain about Say's failure to understand other things, including English tax laws. And then he exclaims that in any case, Say did not defend himself properly in his debate with.
GLUTS, EFFECTIVE DEMAND, AND SAY'S LAW


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The Other Symposium Papers: A Few Comments

Steven Kates' valuable paper on J. B. Say is essentially right in its three basic points. Say, like James Mill and Ricardo, was at pains to emphasize that there could be no general deficiency of demand, or at least, not for any substantial period. Second, none of these authors denied the existence of business fluctuations or, I may add, of unemployment. Third, Keynes' description of the positions of Say and Malthus leaves much to be desired. In short, I have much more with which to agree than with which to differ in the Kates article. Indeed, the bulk of my note is dedicated to showing that both Say's and Ricardo's concerns about unemployment were deeper than even the Kates article suggests, that this concern even led Say to advocate a clear Keynesian remedy for unemployment: public works. Correspondingly, I will show that Ricardo's disquiet about joblessness constitutes a good part of his reversal on the role of machinery (i.e., innovation) that so distressed his adherents.

Still, I do have a few minor differences with Kates' position, and it seems desirable to get them out of the way before turning to the main substance of this note. First, while anyone who reads Say, James Mill and Ricardo with care must agree that the nonexistence of general gluts was one of their central points, it seems equally clear that it was only one among a set of contentions that they considered to constitute vital components of their general position in the discussion. For example, all three of these authors, in Kates' words, "find...it beyond comprehension that someone should recommend wasteful expenditure as a way of generating wealth. Spending is a depletion of wealth while saving adds to it" (Kates, 1977). This, in the form of their repeated and emphasized distinction between "productive and unproductive consumption," surely is a very different point from denial of "the possibility of demand failure" (ibid., 192) which Kates would have us take as the unique and true meaning of Say's law. I find that a bit odd, given the fact, pointed out by Kates, that the term "Say's law" is modern, and that none of the three classical authors who are the focus of the discussion would have known what to make of the term. My own conclusion, then, is that the "Say's law" discussion encompassed a number of different propositions, all of them important to the three authors, denial of the possibility of demand failure being only one of them. 1 The term "Say's law" should therefore be recognized as ambiguous, at best, and is perhaps best interpreted to mean what Keynes and Lange claimed Say to have asserted, not what Say really did state. 2 In what follows, I deliberately use the term vaguely, to connote the complex of ideas that was the focus of the classical discussion under consideration here.


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