A DISCUSSION OF SAY'S LAW : THE OUTCOME OF THE SYMPOSIUM

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The most remarkable achievement of the symposium has been the manner in which it has cleared away important parts of the mythology which has surrounded Say's Law since the publication of the *General Theory*. It is clear that what is today referred to as Say's Law is different from the classical meaning associated with the law of markets. All of the participants agree that Keynes misstated the actual meaning which the law of markets held for classical economists. It is jointly agreed that whatever else the law of markets may have meant, it did not mean that recessions and involuntary unemployment are impossible, or as Keynes put it, that if Say's Law is true, there is "no obstacle to full employment."

What is made clear by all of the participants is that classical economists understood perfectly well that prolonged recessions and involuntary unemployment are a fact of economic life. Indeed, the classical literature is so densely populated with discussions of unemployment and the business cycle, it is hard to imagine how a contrary view could ever have taken hold. But take hold it did. If nothing else, the symposium has shown that Keynes was wrong in his interpretation of Say's Law and more importantly, that he was wrong about its economic implications. Say's Law did not rule out the possibility of recession and unemployment.

But if Say's Law did not rule out recession and unemployment, what did it do? In the words of the classical economists, it denied the possibility of "a general glut". But this merely begs the question. For if classical economists denied the possibility of general gluts but accepted that deep recessions could occur and often did, what in particular were they denying the possibility of?

This issue can be put another way. What could have been at stake during the general glut debate which would cause it to be waged with such great intensity for almost thirty years from the publication of Malthus's *Principles* in 1820 until the publication of John Stuart Mill's *Principles* in 1848? If the question was not the very possibility of recession, then what was it that could have been of such importance?

Again here too there is a remarkable degree of consensus, although each of the participants puts the matter in a different way. In my original paper, I stated that the meaning of the law of markets to a classical economist was that it denied the possibility of demand deficiency or overproduction. Recessions could occur for other reasons, but demand deficiency and overproduction were ruled out.

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A very similar position is taken by Baumol. As he wrote, "it is clear that [classical economists] did not use the Law of Markets to deny the occurrence of unemployment, and that the notion of a theory of unemployment would have been anathema to them only if it were based on a model requiring the occurrence of a general glut of commodities." If by "general glut" Baumol means demand deficiency, then he and I hold the identical view. This should not, however, be taken to mean that Baumol has endorsed the classical view, only that he and I have interpreted in the same way what classical economists meant.

Blaug argued that when classical economists denied the possibility of overproduction, they were denying the possibility of secular stagnation. According to Blaug, the issue at hand was: "could the capitalist system absorb the constant increases in productive capacity without breakdown from limits inherent in the system?" That is, were there any demand-side limits to the rate of growth? Classical economists denied that any such limits existed although by putting the issue in terms of secular stagnation, Blaug presents the issue as more long term in nature. Blaug argues that the classics were right to deny the possibility of demand deficiency in their own time but that what was good policy at the start of the nineteenth century would not be good policy today.

Finally, Jonsson specifically notes that classical economists did not have a theory of the cycle based on a Keynesian aggregate demand function but instead explained the genesis of recessions in terms of co-ordination failures. As he shows, the cause of recession in classical theory was not deficient demand but was structural in nature. Their theories were, as he wrote, "quite different from those grounded in notions of inherent limits to the willingness to consume."

Does any of this matter today? I would say that it does. If one believes that demand failure is the cause of recession and unemployment, then solutions will take the form of attempting to raise the level of demand. By ruling out demand deficiency and overproduction as causes of recession, classical economists were seldom attracted to demand-side stimulation as anything more than a minor adjunct to other policies whose fundamental aim was to stimulate production. It was in large part the intent of my paper to point out what classical economists had said and to suggest that they may have been right.

The difference between the classical and Keynesian worldview is emphasised by Blaug who argues that there are two types of unemployment, one involving capital shortage the other caused by demand deficiency. In the developed world, unemployment due to capital shortage has disappeared while demand deficiency remains a major and continuing problem. This is the Keynesian position which has dominated economic policy for the past sixty years. Baumol has shown that Say himself had supported public works as a means to relieve unemployment, but as Baumol has also pointed out, in so doing, Say may have shown himself an unreliable exponent of Say's Law.

In closing, I do not wish to overemphasise the level of agreement or pretend there is agreement in areas where none exists. Nor do I wish to suggest that the four papers presented represent the full range of views on Say's Law. As Baumol has

shown, the meaning and validity of Say's Law has been a focus for discussion for more than two centuries. There is likely to be no last chapter in this ongoing debate. But as the symposium has also shown, the issues are of immense importance. How one answers the questions raised by Say's Law will make the largest imaginable difference to the theories accepted by economists and to the policies eventually adopted by governments to deal with recession and unemployment. The issues raised thus cannot become any more important than that.