# THE CAPITALIST ADVISOR

*TOP DOWN INSIGHTS…BOTTOM LINE RESULTS*

## Saysian Economics

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"The healthy state of industry and wealth is the state of absolute liberty, in which each interest is left to take care of itself." – Jean-Baptiste Say, *A Treatise on Political Economy* (1803), p. 168

We would commit a disservice to capitalists (investors) – and an injustice to political economy – were we to allow 2003 to pass without commemorating and celebrating the bicentennial of the greatest economics book ever written: *A Treatise on Political Economy* (1803). The book was authored by the man who we consider (not coincidentally) to be history's greatest political economist: Jean-Baptiste Say (1767-1832).


**Jean-Baptiste Say**
(1767-1832)

In coining "Saysian economics" we capture the essence of Say's doctrines: the sanctity of private property, the primacy of production, the creative entrepreneur, the virtue of saving, the benefits of capital formation, the need for gold-based money, the gains from unilateral free trade and the case for *laissez-faire capitalism*. These are the causes of prosperity and investment-portfolio gains. Departures from these principles bring poverty and portfolio losses. Saysian economics is the foundation of IFI's forecasting system and the *precise opposite* of Keynesian economics, which governs most *other* forecasting systems today.[1]

Investors can benefit enormously from a proper economics – and from a quantitative forecasting system built upon it. Absent a consistent, "big picture" view of the context in which business and investment performance occurs, strategists and portfolio managers can't know for sure whether a period of prosperity is genuine or not, whether it's sustainable or not and how government policies are likely to affect the outcome. Saysian economics is essentially free-market economics – but of the purest kind. As such it's well-equipped to explain the conditions that are likely to *boost* prosperity and those likely to *undermine* it. Together with modern portfolio theory and techniques, Saysian *economics is an invaluable tool for investors.*

**Originator.** In the history of economic thought Say is often unfairly characterized as a mere "popularizer" of Adam Smith and his doctrines. He wasn't. Although Say admired Smith, he did not mimic him. Say was a *more consistent* defender of free-markets than was Smith and he perpetuated none of Smith's errors.[2] In fact, Say actively *refuted* them, while *originating* many doctrines that later were attributed (improperly) to subsequent economists.

Say 1) *rejected* the labor theory of value (that economic value reflects manual labor), 2) explained

[1] See "Introducing the 'Policy Mix Index,'" *The Capitalist Advisor*, InterMarket Forecasting, Inc., April 23, 2002, especially "Foundations of the Policy Mix Index" (p. 6) and "Keynesian vs. Saysian Economics" (p. 7).
[2] In a letter to Thomas Malthus in 1821, Say wrote: "I revere Adam Smith – he is my master. . . . [Yet] I learned to go alone. Now I have ceased to belong to any school. . . . I submit to the decrees of eternal reason, and I am not afraid to declare it. Adam Smith has not embraced all the phenomena of the production and consumption of wealth." (*Letters to Malthus*, p. 21).

how *intelligence* is the main source of wealth, 3) showed that *profit is the net production of wealth* (not a "theft" from manual laborers), 4) advanced the doctrine of *utility* as the basis of value and price, 5) showed that the value of finished goods determines production costs (not the reverse), 6) recognized entrepreneurs as the greatest producers, 7) defended as productive what later became known as the "service sector," 8) promulgated "Says' Law" (that there can never be an aggregate supply in "excess" of aggregate demand, or vice versa), 9) explained how recessions are caused by government impediments to production and profit, and 10) classified consumption, not as a boon to wealth-creation but as the *destruction* of wealth (and government as the biggest consumer).

**Supply-side economics.** Today most of Say's views are *flatly denied* (or blithely *ignored*) by Keynesians. Say's views are *most* closely endorsed by supply-side economists, although today's supply-siders are but a *pale imitation* of Say (and perpetuate many Keynesian fallacies).[3] Nevertheless, it's important for investors to know that even the (watered-down) "supply-side" program of "Reaganomics" in the 1980s (of which we still see *vestiges* today) at least was a lot *closer* to Saysian economics than to Keynesian economics (which dominated in the 1960s and 1970s). Economic and investment performance have been *far better* under Saysian policies.

Below we discuss the main elements of Saysian economics, with Say himself doing most of the talking. It should be clear why we see Saysian economics as the only sensible basis for interpreting and forecasting business activity and investment performance.[4]

**Property rights and regulation**. Unlike many economists today, Say recognized the crucial importance (for business confidence and hence prosperity) of private property rights and freedom of contract – and how government's main function is to defend each, not to violate them.

> Political economy recognizes the right of property solely as the most powerful of all encouragements to the multiplication of wealth and is satisfied with its actual stability . . . The legal inviolability of property is obviously a mere mockery where the sovereign power is unable to make the laws respected, where it either practices robbery itself or is impotent to repress it in others; or where possession is rendered perpetually insecure, by the intricacy of the legislative enactments and the subtleties of technical nicety.
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> Nor can property be said to exist where it is not a matter of reality as well as of right. Then, and then only, can the sources of production, namely land, capital and industry, attain their utmost degree of fecundity. . . . For who will attempt to deny that the certainty of enjoying the fruits of one's land, capital and industry is the most powerful inducement to render them productive? Or who is dull enough to doubt that no one knows so well as the proprietor how to make the best use of his property? . . . There is no security of property where a despotic authority can possess itself of the property of the subject against his consent. Neither is there such security when the consent is merely nominal and delusive. (*Treatise*, pp. 127-129)

In contemporary times Say would be astounded to see the widespread violation of property rights. Above he asks "who is dull enough to doubt that no one knows so well as the proprietor how to make the best use of his property?" In fact Say would find today a *majority* of politicians and economists perfectly "dull enough" to doubt just that, since no producer today is fully free to make the best use of his own property. Worse, governments today tax property, regulate it and violate it in a variety of ways. When biotechnology patents were undermined and Microsoft's right to voluntary contract was violated in early 2000 the result was a peak and then a long plunge in U.S. equity prices.

[3] In April 2002 we wrote: "Unfortunately, most of what passes today as "supply-side economics" – especially as promulgated by its more famous adherents – is *not* based on Saysian economics but instead on an eclectic hash of classical, monetarist and Keynesian dogmas. That most of them are unabashed defenders of the welfare state is reason enough to separate them from Say (and from IFI). The school's most famous adherent popularized a "curve" that served primarily to teach *how to maximize government revenues*. Investors, of course, seek *companies* whose revenues (and profits) are maximized.

[4] Our main goal is to present Saysian economics as Say himself explained it – not as later economists (mostly Marx and Keynes) ignored or misrepresented it. To the extent Say engaged in polemics, he did so primarily against the mercantilists (the interventionist school that *preceded* Adam Smith in the mid-1700s but still exerted influence in Say's time). Since Keynes himself was a self-professed admirer and adherent of mercantilism, Say's doctrines and criticisms effectively refute Keynesian economics – and Marxist economics as well (since Say rejected the labor theory of value, the "exploitation" myth, the "excess production" myth and used Aristotelian, not "dialectic," logic).

Equally burdensome was the cascade of new laws, regulations and edicts inflicted on U.S. business in 2002 – the Sarbanes-Oxley Act, new SEC rules, a new government board to regulate CPAs, new interventions aimed at the NYSE – which further depressed the U.S. stock market. Despite all the talk of "deregulation" in recent years, in fact markets today are *ever more* regulated. Say remarked that

> One malady to which political bodies are liable is the excessive accumulation of laws. Their number soon prevents the citizen from knowing what they are; and hence the need for lawyers. Some laws soon provide the means for eluding others; and hence comes chicanery. (cited in Palmer, p. 26.) Whenever legislation is too complicated . . . the study of law, becoming more intricate and tedious, occupies more persons whose labor must likewise be better paid. What does society gain by this? Are the respective rights of its members better protected? Undoubtedly not; the intricacy of the law, on the contrary, holds out a greater encouragement to fraud, by multiplying the chances of evasion and very rarely adds to the solidity of title or of right. The only advantage is the greater frequency and duration of suits. (*Treatise*, 121).

***One malady to which political bodies are liable is the excessive accumulation of laws***

Say showed that excessive law-making only invites "chicanery," "fraud," and "evasion." In today's world a growing number of laws are enacted to *combat* growing "fraud and chicanery" (see Enron) that *previous* excessive law-issuance helped make *possible*. Instead of recognizing *past*, burgeoning law as the cause of *today's* greater law-breaking, most people today demand *still more laws and regulations*. Say argued that such a response only makes the problem *worse*. He also recognized the deeper danger of controls and regulations breeding still *more* controls and regulations and found that such a pattern robs the producers and can only "paralyze the spirit of enterprise."

> Nothing is more dangerous than views that lead to regulation of the use made of properties. To do so is as bold as trying to regulate the innocent use that a man might make of his own hands and faculties, which are also a form of property . . . With such a system, slavery reappears. . . . [Some people argue that] it is the task of the legislature to adopt laws requiring the employer to guarantee the subsistence of the worker he employs . . . [That] would paralyze the spirit of enterprise. The mere fear that public power might intervene in private agreements is a scourge that damages the prosperity of a nation. (cited in Palmer, p. 26) If the measures of authority, leveled against the free disposition of each man's respective talents and capital, are criminal in the eye of sound policy, it is still more difficult to justify them upon the principles of natural right. (*Treatise*, p. 181)

**Power lusters.** Say recognized that for a nation to become (or remain) prosperous government must be limited to protecting property rights and voluntary contracts, that it *violated both* whenever it regulated, prescribed or proscribed voluntary behavior among consenting adults. The more government *protects* property rights and contracts, the more likely a nation prospers; the more it *violates* those rights, the less prosperity is likely. Say also knew that a burgeoning regulatory state attracts power-lusters (today see New York Attorney General Eliot Spitzer): those who seek political aggrandizement by fabricating "criminals" out of whole cloth:

> Arbitrary regulations are extremely flattering to the vanity of men in power, as giving them an air of wisdom and foresight, and confirming their authority, which seems to derive additional importance from the frequency of its exercise. (*Treatise*, p. 177)

Say's appreciation for limited government did *not* make him an anarchist. He recognized that government has *some* function, but a strictly *circumscribed* one: government should be an objective, *impartial arbiter* that prevents the abrogation of contracts and punishes fraud, but little else besides. Say also saw national defense as legitimate – but not imperialistic ventures to "secure markets." He knew that state activity *beyond* these few key functions tends only to *undermine* property and prosperity while *encouraging* fraud (by Enron-types *and* Spitzer-types).

In Washington alone today there are *more than a dozen* cabinet agencies regulating and subsidizing every sector of the U.S. economy, together with *more than four dozen* regulatory agencies decreeing the level and manner of production, employment and capital allocation in every business. Add to this the thousands of agencies at the state and local levels of government – plus foreign regulations restricting

U.S. firms abroad – and there is no question but that the freedom to produce and trade in modern times is significantly restrained and misdirected. American prosperity and the rate of economic growth today are but a small *fraction* of what they *could* be if property rights and free contracts were protected – instead of continuously abrogated.[5]

Less prosperity due to ever-greater regulation (and the inflation caused by the Federal Reserve) has been reflected in U.S. stock prices. Since early 1968 – the last time the U.S. dollar represented a fixed weight of gold – the S&P 500 has risen 11.9 times in *nominal* terms; yet in *real* terms the index has *declined*. Since 1968 the gold price, the most objective measure of inflation, has risen 12.1 times, or *more* than have stock prices. Thus in *real* terms U.S. stock prices today are 1.7% *lower* than they were 37 years ago.[6] Those who deflate stock prices by *consumer prices* (instead of by the gold price) will discover that real stock prices have increased by 118% since 1968 – a compounded, annual gain of merely 2.2%.[7]

We've already mentioned the violations of property rights (in biotechnology and at Microsoft) that triggered the stock market plunge of 2000-2002. But Federal Reserve policy prior to (and during) that plunge also inflicted harm. The Fed's interest-rate hikes were based on the myth that stock-price gains can be "excessive" and on an *implicit rejection* of Say's Law (see page 13); Greenspan assumed that aggregate supply and aggregate demand were *out of balance* and had to be "re-balanced" by Fed rate hikes.[8]

**Intelligence as the source of wealth.** Major economists *before* Say's time (Adam Smith), *during* his time (David Ricardo, Thomas Malthus and James Mill) and even *after* his time (John Stuart Mill and Karl Marx) believed in the *labor theory of value* – that only manual laborers create wealth and that non-manual laborers (inventors, capitalists, managers and other "white-collar" workers) are *extraneous* at best and *parasitical exploiters* at worst. Say knew otherwise – and knew it long before it became fashionable (as it has become today) for people to speak of an "Information Revolution" or of the reign of *intellectual* (versus physical) capital (as if *neither* feature was necessary in the Industrial Revolution).[9]

Say saw that the *intelligence* of scientists, inventors, engineers, entrepreneurs and capitalists is the *main source of wealth* and did so even though the Industrial Revolution had barely begun (in Britain or France):

> Human intelligence and the knowledge of the laws of nature enable mankind to turn the resources she offers to better account. . . . It is not nature but ignorance and bad government that limit the productive powers of industry. (*Treatise*, pp. 75, 77) . . . The learned serve as a guide to the industrious . . . The work of one, as well as the other, is productive, since they concur in creating products. It is only in civilized and enlightened countries that we see a very great and productive industry [and] that we find that great mass of acquired knowledge, of which the industrious, the agriculturalists, manufacturers and merchants avail themselves. (*Catechism*, p. 15)

> The light of the mind is like the light of day. It no sooner penetrates our houses than our work, pleasures and movements all come alive; and hence comes happiness. But if the light fails us, or if we close up its passage, then we fall asleep; and sleep is the moral equivalent to barbarism. Who would wish to retrogress to the reign of Charles VI and go back to that unformed state of existence?[10]

Say was a product of the 18th Century *enlightenment*, an era when reason, natural law, science and technology (the basic constituents of civilization) were

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[5] A recent study has documented how the costs of production of U.S. manufacturers are *22% higher than they might otherwise be*, due to government regulations and mandates. See Jeremy Leonard, "How Structural Costs Imposed on U.S. Manufacturers Harm Workers and Threaten Competitiveness," December 2003 (available at http://www.nam.org/tertiary.asp?TrackID=&CategoryID=245&DocumentID=27531).

[6] Since January 1968 the S&P 500 has increased from 95 to 1126, or 11.9 times; meanwhile the gold price has risen from $35/ounce to $422/ounce, or by 12.1 times. Thus the real value of stocks (measured as the S&P 500/gold-price multiple) has declined from 2.72 times in 1968 to 2.67 times today (-1.7%).

[7] Since January 1968 the CPI has increased from 34 to 185. Thus the real value of stocks (measured as the S&P 500/CPI multiple) has increased from 2.79 times in 1968 to 6.09 times today (a rise of 118%, or 2.2% per annum *compounded*).

[8] See "Why Greenspan Trashes the Markets," *The Capitalist Advisor*, InterMarket Forecasting, Inc., February 22, 2000.

[9] In one passage of his *Treatise* (p. 342) Say contrasts the barbarism of the Middle Ages, when wealth was seen as a zero-sum game – as a fixed hunk to be fought, over instead of produced and exchanged - to the more enlightened 19th Century, when "the fate of nations will thenceforth hang no longer upon the precarious tenure of political pre-eminence, but upon the relative degree of information and intelligence."

highly esteemed. As such Say was an optimist who couldn't imagine that anyone living in 1803 might wish instead to live in a poverty-stricken era like the late 14th century (during Charles VI). Yet today millions of people seek to do precisely that; in fact, many "wish to retrogress" to an age *even earlier* than the 14th century – and to *destroy* 21st Century advances in the process.[11]

In *The Wealth of Nations* (1776) Adam Smith had explained that the division and specialization of labor makes manual laborers more efficient and productive. Say agreed but emphasized the *intellectual* advances that make division and specialization possible and how advances multiply as philosophers, scientists and engineers are able to focus on their specialties (and discover new ones), while capitalists and businessmen do the same in their own fields.

> The subdivision of labor enables men to devote themselves to the exclusive pursuit of one branch of knowledge; which exclusive devotion has wonderfully favored their advancement. Thus the knowledge or theory necessary to the advancement of commercial industry attains a far greater degree of perfection, when different person are engage in the several studies . . . Thus, too, the application of knowledge in the same department of commercial industry will obviously arrive at a higher degree of perfection. (*Treatise*, p. 93)

Say would *not* have stressed this great potential for intellectual advancement had he been wedded, as Adam Smith was, to the labor theory of value. Say knew that the men of greatest mental ability are the main creators of wealth – that it is primarily brains, not brawn, that makes prosperity possible.

As we'll see when we assess Say's view of the *entrepreneur* (page 6), Say also understood that manual labor is not divided and specialized by accident or "spontaneously." The efforts of manual laborers are directed and coordinated by entrepreneurs.

> Man will perform his business the better, the better he understands the nature of things and the more his understanding is enlightened. . . . Superior and enlightened men [who possess] single talents and virtues, have more effect upon the happiness and wealth of nations than the groveling industry of a million of ordinary mortals. (*Treatise*, p. 432, 376) The first step towards the attainment of any specific product is the study of the laws and course of nature regarding that product. . . . The next step is the application of this knowledge to a useful purpose . . .The last step is the execution of the manual labor, suggested and pointed out by the two former operations. . . . Industry is in all cases divisible into theory, application and execution. . . . The cultivator, the manufacturer and the trader make it their business to turn to profit the knowledge already acquired and apply it to the satisfaction of human wants. (*Treatise*, pp. 80, 81, 83)

***Man will perform his business the better, the better he understands the nature of things and the more his understanding is enlightened.***

Notice in this passage that for Say "the execution of the manual labor" is the *last* step, *not* the first one, in creating wealth. The first step is taken by those who discover the laws of nature and identify the scientific principles that bring more perfected production. Entrepreneurs *apply* that knowledge and *instruct* manual laborers who merely execute the work assigned to them, work not requiring great thought. The *men of the mind* are real prime movers.

A few decades after Say wrote Karl Marx claimed (taking Smith to his necessarily-absurd end) that if only manual laborers produce wealth, then profits are unjustly extracted from labor by "exploitative" entrepreneurs and capitalists. Marx, not Say, became the "vulgar popularizer" of Smith. Say had already refuted Smith's myths. Marx revived them.

As long as an economy was free, Say found no inherent antagonism or exploitation in the productive relationship between brains and brawn; manual laborers *depended* on the brains and initiative of productive superiors, not the reverse. Unfortunately the myths shared by Smith and Marx – not Saysian economics – came to dominate the late 19th Century and to fuel the rise of socialism.

**The vital entrepreneur**. U.S. business schools in the 1980s saw a brief revival of interest in

[10] Cited in Palmer, p. 7. Charles VI was the king of France from 1380 to 1422. Say wrote this in 1789, when he was 22.

[11] See Muslims like Osamma bin Laden and eco-terrorists like Theodore Kozsynski, who have millions of sympathizers.

"entrepreneurial studies" after a decade (1970s) of animosity toward business and businessmen. But in the history of economic thought Say was the *first* to write extensively (and, for the most part, accurately[12]) about the role of the entrepreneur. Since Say's time few advances have been made in entrepreneurial theory.[13] By the late 1980s there was again a *retreat* to the post-Marxian, neo-classical myth that entrepreneurs ("robber barons!") were *dispensable* while under "perfect" competition and "ideal" conditions their profits were "competed away."[14]

For Say, in contrast, entrepreneurs are *indispensable* to wealth-creation – in fact, in *scarce supply* – and high-income is their just reward. The income or profits of those entrepreneurs of great ability don't "disappear" but instead grow and persist. Say would be appalled at the hatred felt today toward CEOs and CEO compensation; he would realize that CEOs (entrepreneurs) are paid well because they contribute most to shareholder wealth. He would also recognize that the average tenure of CEOs is short precisely because it's difficult to maintain superior performance for prolonged periods and because a bad CEO can waste or destroy shareholder wealth.

**_One of the talents of a producer, and a talent his own interest obliges him assiduously to cultivate, is not the mere knowledge, but the fore-knowledge._**

We said previously that Say viewed *intelligence* as the main source of wealth-creation and consequently, why the entrepreneur (or in today's terms, the CEO and his "management team") contributes most to the success (or failure) of any firm. In one passage Say contrasts "the mere manual laborer" who produces little more than what he consumes, with the entrepreneur: the laborer's "intelligent superior," who creates surplus value (profit). (*Treatise*, pp. 332)

Elsewhere Say notes that "The labor of the entrepreneur, or master-manufacturer, is productive, although he performs no actual manual work . . . " (*Treatise*, p. 85) Later Say observes that "One of the talents of a producer, and a talent his own interest obliges him assiduously to cultivate, is not the mere knowledge, but the fore-knowledge, of human wants." (*Treatise*, p. 145) Thus not only is the superior businessman or capitalist intelligent in his current affairs; he also exercises *forethought*, plans long-range and develops new commercial opportunities.

Say's description of the entrepreneur was so revolutionary in the early 1800s – and remains so unheralded even today, despite decades of great entrepreneurial stories – that it deserves the following lengthy excerpt (from the *Treatise*, pp. 328-332):

> [The entrepreneur] is necessary for the setting in motion of every class of industry whatever; that is to say, the application of acquired knowledge to the creation of a product for human consumption. . . . Such application is equally necessary in agricultural, manufacturing, and commercial industry . . . The price of [his] labor is regulated, like that of all other objects, by the ratio of the supply, or quantity of that labor thrown into circulation, to the demand or desire for it. There are two principal causes operating to limit the supply, which, consequently, maintain at a high rate the price of this superior kind of labor. . . . [He] must at least be solvent, and have the reputation of intelligence, prudence, probity, and regularity; and he must be able, by the nature of his connections, to procure the loan of capital he may happen himself not to possess. These requisites shut out a great many competitors.
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> In the second place, this kind of labor requires a combination of moral qualities that are not often found together: judgment, perseverance, and a knowledge of the world, as well as of business. He is called upon to

[12] We say "for the most part" because Say usually attributed profits to entrepreneurs, whereas in fact profits are earned and owned by capitalists (known today as shareholders or investors). Say described capitalists as earning income, but he called their income *interest* (which, in fact, is the income earned by bankers and bondholders, not by shareholders). But Say at least recognized entrepreneurs as *productive* and deserving of high incomes. He *also* knew that *capitalists* (in the sense he understood them) were productive and earned *their* incomes. But in Say's era (1800-1830), when the function of the capitalist (the financier and *owner* of the means of production) and that of the entrepreneur (the *manager* of the means of production) often were performed by the *same person*, a fine line could not be easily drawn between the owners and managers of enterprises. Not even a great economist like Say could easily distinguish, between these two, between who earned what (and how).
[13] One exception was Joseph Schumpeter (see his 1924 book, *The Theory of Economic Development*). The main defect in Schumpeter is his contradictory notion that productive entrepreneurs are somehow *destructive* (see his view of competition as entailing "gales of creative destruction").
[14] See Humbarto Barreto, *The Entrepreneur in Economic Theory: Disappearance and Explanation* (New York: Routledge, 1989).

estimate, with tolerable accuracy, the importance of the specific product, the probable amount of the demand, and the means of its production: at one time he must employ a great number of hands; at another, buy or order the raw material, collect laborers, find consumers, and give at all times a rigid attention to order and economy; in a word, he must possess the art of superintendence and administration.

He must have a ready knack of calculation, to compare the charges of production with the probable value of the product when completed and brought to market. In the course of such complex operations, there are an abundance of obstacles to be surmounted, of anxieties to be repressed, of misfortunes to be repaired, and of expedients to be devised. Those who are not possessed of a combination of these necessary qualities are unsuccessful in their undertakings; their concerns soon fall to the ground, and their labor is quickly withdrawn from the stock in circulation; leaving such only, as is successfully, that is to say, skillfully directed. Thus, the requisite capacity and talent limit the number of competitors for the business of adventurers. Nor is this all: there is always a degree of risk attending such undertakings; however well they may be conducted, there is a chance of failure; the entrepreneur may, without any fault of his own, sink his fortune, and in some measure his character; which is another check to the number of competitors, that also tends to make their agency so much the dearer.

[In commerce] it is necessary to be well versed, not only in the nature and quality of the merchandise in which the adventure is made, but likewise to have some notion of the extent of demand, and of the markets whither it is consigned for sale. For this purpose, the trader must be constantly informed of the price-current of every commodity in different parts of the world. To form a correct estimate of these prices, he must be acquainted with the different national currencies and their relative value, or, as it is termed, the rate of exchange. He must know the means of transport, its risk and expense, the custom and laws of the people he corresponds with; in addition to all which, he must possess sufficient knowledge of mankind to preserve him from the dangers of misplaced confidence in his agents, correspondents, and connections . . .
In reviewing presently the profit of mere manual labor, we shall see the peculiar advantage, which his character of master gives to the entrepreneur over the laborer; but it may be useful to observe, by the way, the other advantages within reach of an intelligent superior. He is the link of communication, as well between the various classes of producers, one with another, as between the producer and the consumer. He directs the business of production, and is the center of many bearings and relations; he profits by the knowledge and by the ignorance of other people, and by every accidental advantage of production. Thus, it is this class of producers, which accumulates the largest fortunes, whenever productive exertion is crowned by unusual success.

**The growing wealth of an individual, when honestly acquired and reproductively employed, far from being viewed with jealous eyes, ought to be hailed as a source of general prosperity.**

If Say were alive today we suspect he'd be even *more* impressed by the ability of entrepreneurs and CEOs to manage large-scale, multinational firms. We also suspect he'd appreciate the ability of *professional investors* (capitalists) to discover where in the world to commit capital and to which asset classes, sectors, firms and entrepreneurs. For if entrepreneurs at smaller companies must possess the extensive intellectual skills and foresight described above by Say, then it is even *more* the case for those entrepreneurs running very large firms – and *still more* the case for investment professionals, who must decide where and how capital is to be allocated globally.

After Say it was claimed (by Marx and others) that businessmen and capitalists were "robber barons" deserving expropriation. Vestiges of this barbaric view remain with us today: observe the blistering, unrelenting criticism of CEOs and their pay and the onerous taxation of corporate profits. Say believed entrepreneurs and investors deserved broad praise, not ridicule or expropriation. Here's how he concluded his discussion of those who were inventing and building steam engines, canals and railroads:

> Let us then be thankful to those patriotic capitalists who are turning their attention to these useful speculations. May they find, under a protective government, in the products of their enterprise and in public approval, a just reward for their sacrifices! (cited in Palmer, p. 132) The growing wealth of an individual, when honestly acquired and reproductively employed, far from being viewed with jealous eyes, ought to be hailed as a source of general prosperity. (*Treatise*, p.

117)

**The primacy of production.** Saysian economics embodies the principle that *production is the main issue* in a proper science of economics. Production is the most complex aspect of the field; it deserves primary consideration and attention; it must be the main area of concern. Equally then, the main focus of a good economist should be on *the conditions necessary for the producers to operate and flourish* – the most crucial producers being the entrepreneurs, the savers and the capitalists (investors), for they alone are the main drivers of any economy. Say understood that policies which disrespect, tax and regulate the producers can only undermine an economy.

> Whatever renders the condition of the producer, the essential party in every society, more painful, tends to destroy the vital principle of the social body; to reduce a civilized people to a savage state; to introduce a state of things in which less is produced and less is consumed; to destroy civilization, which is extended in proportion to the increases of the quantity of production and consumption. (*Letters to Malthus*, p. 50)

It is significant that Say's *Treatise*, which is roughly 500 pages in length, is devoted primarily to an extended discussion of *production*. Book I ("Of the Production of Wealth"), which treats production, represents *nearly half* the length of Say's entire *Treatise*. The balance of the *Treatise* is taken up by Book II ("Of the Distribution of Wealth") and Book III ("Of the Consumption of Wealth"). Here we can see Say's principle of the *primacy of production*.
The *order* of topics in the *Treatise* is also significant: Say has production *preceding* distribution (which covers the *exchange* of wealth and the determinants of incomes) and *both of them* preceding the consumption of wealth – just as occurs in reality. Say's book was so well-reasoned and well-organized that it became *the leading textbook in America* (including Harvard) and Europe for *five decades* in the 19th Century (until the 1870s).[15] Early in the 1800s, when Thomas Jefferson was asked his view of the best book in political economy, he said: Say's *Treatise*.[16]

In contrast to Say's *Treatise*, *today's* economics textbooks (most of which are Keynesian) are *dominated by interminable discussions of consumption* and more often than not *begin* with treatments of consumption, while relegating production to later chapters (making sure to insist that it "depends" on robust consumption). Say would find this *preposterous*, since, as we'll see (page 11), he recognized consumption as *the destruction of wealth*. How odd, he'd say today, that students of economics are schooled in all the ways wealth can be *extinguished* – and yet such students then try in vain to become good businessmen, politicians, investment advisors or journalists.

**Utility theory.** As mentioned, Say rejected the labor theory of value of Smith, Ricardo, Malthus and pioneered *utility theory*[17] – more than six decades before that theory (now widely accepted) was more fully propounded by neo-classical economists (in the 1870s). Say observed that matter itself cannot be created or destroyed; production consists of intelligent producers ingeniously *re-arranging the earth's elements* in the form of goods and services that then constitute *exchangable values* to men. These goods and services generate satisfaction in the users – a *utility*. From such values come prices, as goods,

[15] See William J. Barber, editor, *Breaking the American Mould: Economists and America Higher Learning in the Nineteenth Century* (New York: Harper & Row, 1988). Whenever Say's *Treatise* was *not* adopted the usual reason given was Say's steadfast opposition to slavery and to protectionist measures in trade. Say wrote of slavery as "the frightful trade in human flesh" conducted by "greedy speculators." In time he expected slavery to be abolished in America, because it was inconsistent with the principles of her founding. In 1824 Say wrote: "Slavery is nonsense in a nation that regards all men as equal, a nation that honors labor, and where all political powers come from the people and have no object except the general welfare." (cited in Palmer, p., 135).

[16] In a letter to Joseph Milligan in 1816 Jefferson wrote: "In France, Jean-Baptiste Say has the merit of producing a very superior work on the subject of Political Economy. His arrangement is luminous, ideas clear, style perspicuous, and the whole subject brought within half the volume of [Adam] Smith's work. Add to this its considerable advances in correctness and extension of principles." (cited in http://www.friesian.com/sayslaw.htm)

[17] Say wrote: "The value that mankind attach to objects originates in the use it can make of them . . . It is universally true that when men attribute value to any thing, it is in consideration of its useful properties; what is good for nothing they can set no price upon. To this inherent fitness or capability of certain things to satisfy the various wants of mankind, I shall take leave to affix the name utility. And I will go on to say that to create objects which have any kind of utility is to create wealth; for the utility of things is the groundwork of their value, and their value contributes to wealth. . . . Exchangeable value, or price, is an index of the utility of a thing . . .There is no actual production of wealth without a creation or augmentation of utility." (*Treatise*, pp. 62-63)

services and money are exchanged and consumed.

> Man cannot create matter; he cannot make the laws which regulate nature; but with existing matter and the laws of nature such as they are, he can give a value to certain things and consequently can create wealth. . . . To produce is to give utility to things. (*Catechism*, pp. 7-8) To create a thing which no one wanted would be to create a thing without value; it would not be to produce. (*Letters to Malthus*, p. 31)

**Profit as net production.** In rejecting the labor theory of value Say demonstrated that a wide variety of people are actually productive (which most other economists denied at the time and still do today) – not *only* farmers and manual laborers but *also* (and *more* so) entrepreneurs, capitalists, bankers, merchants, importers, retailers and speculators.[18]

Since Say denied that wealth could be created without *utility* being created – and a utility not merely *asserted* by the seller but one objectively *recognized* by a willing *purchaser* – he also recognized that *profit represented the net creation of wealth* (utility): that is, wealth produced and sold at a value that exceeds the wealth that's necessarily *used up* in the process of production (the costs of goods sold and related costs of production, such as wages and interest).

*Profit*, in essence, *is production*, since a *break-even* condition means *no* net production of value has occurred, while a loss entails a net *destruction* of wealth.

> There can be no production of new value, consequently no increase in wealth, where the product of a productive concern does not exceed the cost of production. . . . [Profit] is the creation of a value . . . superior in amount to that consumed. (*Treatise*, pp. 199, 391)

**[Profit] is the creation of a value . . . superior in amount to that consumed.**

As we know today, profit is often considered a *dirty word*. As such profits are taxed heavily and/or cited as a pretext for trust-busting – *especially* if a firm's profits are both *large* and *persistent*. Say would be amazed at today's general hostility toward profit-making; he'd assume that it meant people no longer welcomed economy prosperity. He'd be confused to find people simultaneously seeking to "boost the economy" while penalizing the profit makers. He'd be shocked to find, in economics textbooks, an alleged "ideal" of "perfect competition" in which firms are supposed to set price equal to marginal cost – hence to create *no profit*.[19] He'd be appalled to find firms being *trust-busted* for creating "too large a market share" or not price-setting in a bizarre manner.

**Savings as positive.** Say surely would be troubled, as well, by how modern (Keynesian) textbooks (and hence most of today's economists) *deride savings* as a "leakage" from the spending stream and claim that savings allegedly sap economic growth. Say knew that savings – usually by the *wealthy*[20] – fueled capital accumulation and made possible investments in plant, equipment and technology that boost productivity, lower unit labor costs and expand profits while lowering the prices paid by customers.

Here is Say writing on technology and productivity, which saving makes possible:

> Progress in commercial industry, as in other industries, consists in obtaining the same benefits at less cost, or what is the same thing, greater benefits at the same cost. Products become less dear, and so are more widely consumed and more actively multiplied. (cited in Palmer, p. 130) [Incomes are increased when] by a better employment of production the products are multiplied without increasing the charges of production. Then the prices products falls and incomes remain the same. This is what takes place when a new and ingenious machine has been brought into use. (*Catechism*, p. 34)

How then can saving be detrimental to growth? In fact, saving can *never* be so, Say argues.

> Do we do any wrong to society by the savings which

[18] "There is a further branch of commerce, called the trade of speculation, which consists in the purchase of goods at one time, to be re-sold in the same place and condition at another time, when they are expected to be dearer. Even this trade is productive . . ." (*Treatise*, p. 103)
[19] See John Eatwell, "The Zero Profit Condition," in *The New Palgrave Dictionary of Economics* (London: Macmillan, 1987), Volume IV, pp. 941-942.
[20] "None but very great fortunes, of whatever nature, can allow great savings; and very great fortunes are rare in all countries." (*Letters to Malthus*, p. 36).

> are made from unproductive consumption? On the contrary, capitals, accumulated by individuals add so much to the total capital of society; and as a capital is placed, that is, employed reproductively, is indispensably necessary to give activity to industry, every person who spares his revenue adds to his capital, procures, to a certain number of persons, who have nothing but their industry, the means of deriving a revenue from their talents. (*Catechism*, p. 56)

**The holders of the notes of a bank issuing convertible money run little or no risk, so long as the bank is well administered, and independent of the government.**

Say knew that it was difficult enough for most people to save, that the wealthy save the most, but that in any event it was never possible that society as a whole could save "too much." The interest rate, he showed, equilibrates the supply and demand of savings, or loanable/investable capital. If savings were "excessive" the interest rate would adjust.

> The excess carries its remedy along with it. Whenever capital becomes too abundant, the interest which capitalists derive from it becomes too small to balance the privations which they impose upon themselves by their economy. It becomes more and more difficult to find securities for investing money, which is then placed in foreign securities. (*Letters to Malthus*, p. 40)

Today it is widely believed that there can be "too much saving," that savings might drain the economy of vitality and that interest rates are the "price of money." But this is *Keynesian* mythology, which carries the message that *interest rates can be lowered by printing more money*. In contrast, Say argued that

> It is a great abuse of words to talk of the interest of money; and probably this erroneous expression has lead to the false inference, that the abundance or scarcity of money regulates the rate of interest. . . . [The interest rate] at all times and places, depends on the relative supply and demand of capital lent . . . (*Treatise*, pp. 353-354)

Say understood that interest is the price of loanable capital, that interest rates can rise due to greater risk, lending at longer durations or government policies that violate security of property. Excessive money issuance (inflation) only raises interest rates.

**The gold standard and free banking.** Say knew that the price (or value) of money was *not* the interest rate but rather money's *purchasing power* – what any sum of it can buy in terms of real goods and services. Other than ensuring that coinage is minted honestly (that is, stamped with the relevant weight and fineness of the precious metals contained in any coin), Say argued that *government should have no role in money and banking*. He wrote that "thus far then [coinage], and no further, should the public authority intermeddle with the business of money." (*Treatise*, p. 256) Thus he opposed central banking.

Say was well aware of the harmful effects of what today is called "inflation" (but what he called, more accurately, a *debasement* or *depreciation* of money[21]) and he also knew that only government caused it. A general rise in prices, he realized, was due to a *government-sponsored decline in the value of money*. Say denied that stable or falling prices deterred production, since *costs* could decline *faster* than *selling* prices, thereby preserving profits. He argued that the best monetary system deployed an objective standard based on gold or silver and fully-private banking (the issuance of specie-convertible currency).

> Money is the more requisite, the more civilized a nation is, and the further it has carried the division of labor . . . I have referred to custom, and not to the authority of government, the choice of the particular article that is to act as money in preference to every other: for though a government may coin what it pleases to call crowns, it does not oblige the subject to give his goods in exchange for these crowns, at least not where property is at all respected. . . . The precious metals are so well adapted for the purposes of money, as to have gained a preference almost universal; and, as no other material has so many recommendations, no change in this particular is desirable. (*Treatise*, pp. 219, 256)
> The indispensable requisite of credit-paper is its instant convertibility into species . . . The notes issued by a bank of circulation, even if it have no funds of its

[21] In his lifetime Say observed the French assignat hyperinflation that occurred during and after the French Revolution (1789-1793) and also the period (1797-1821) when the Bank of England went off the gold standard and the bank's currency depreciated in value against commodities. In his Treatise Say further discussed the monetary debasements of ancient times.

> own, are never issued gratuitously; and, therefore, of course, imply the existence, in the coffers of the bank, of a value of like amount, either in the shape of specie, or of securities, bearing interest . . . Should the paper-issues of a bank at any time exceed the demands of circulation, and the credit enjoyed by the establishment, there follows a perpetual reflux of its notes, and it is put to the expense of collecting specie, which is absorbed as fast as collected . . . The holders of the notes of a bank issuing convertible money run little or no risk, so long as the bank is well administered, and independent of the government. (*Treatise*, pp. 276-278)

As mentioned, Say recognized that governments often debase money, allow private banks to suspend convertibility with impunity, establish central banks and issue fiat paper money. This only brings a general rise in prices and harms production. Say suspected (correctly) that government intervenes in money and banking to gain access to wealth (beyond taxation) and reduce the value of its debt (rob government bondholders). He opposed such interventions – as well as the issuance of fiat paper money by central banks.

> ***The only true consumers are those who on their side produce, because they alone can buy the produce of others.***

> Our troubles do not come from our paper money not showing itself. It shows itself all too much. Its superfluous circulation, caused by the enormous expense of the government, is in part the cause of the very high price of all necessary goods. These necessary goods exist in no greater quantity than in the past; it is the sign that represents them that has tripled. The more the government or private persons put these signs into circulation, the more they fall in value. What we need is more goods in circulation, not more paper money . . . It is therefore false to say that whoever holds on to his money robs the worker and the state and that we need more buyers, not more hands. (cited in Palmer, p. 20)

Today, of course, most economists and government officials believe, due to Keynesian dogma, that inflation is caused by an economy that "grows too fast" or "overheats" - or by an unemployment rate that's "too low" (the Keynesian Phillips curve). Today fast-growing economies aren't applauded and encouraged (except by Saysians); instead they elicit punitive interest-rate hikes by central banks (the true generators of inflation). Say knew that inflation was strictly a monetary phenomenon, since he knew it involved a *debasement of money*. Depreciating money was not caused by "excessive output" but by an excessive issuance of fiat paper money.

What few economists noticed in the 1830s, but a remarkable fact noted by Say in his *Treatise*, is that *the real purchasing power of gold and silver* – what an ounce of each buys in terms of real goods and services – is *relatively constant over extended periods* of time.[22] But Say did not fully appreciate the significance of this fascinating pattern: that a rise in the currency-price of metals constitutes a *depreciation in the paper currency*. This is an invaluable tool (used by IFI) for measuring inflation and forecasting financial asset returns.

**Consumption as the destruction of wealth.** It is well known that most economists today are preoccupied (we would say *irrationally obsessed*) with the state of the *consumer*: his job prospects, income, debt capacity and confidence level. Keynesian economics, we know, stresses the *consumption* of wealth. But Saysian economics stresses *production* and is focused on the state of the *producers*: entrepreneurs, savers and investors. For Say, just as *production* entails the *creation* of utility (value), so consumption entails the *destruction* (extinguishing) of utility (value).

> To consume is not to destroy the matter of a product; we can no more destroy the matter than we can create it. To consume is to destroy its value by destroying its utility . . . The thing thus consumed . . . no longer

[22] Say discusses, for example, the fact that the purchasing power of an ounce of silver remained relatively stable in the two centuries up to 1830 (see the Treatise, pp. 248-253). More extensive empirical work, published by a Berkeley professor in 1977, documented this same remarkable fact. See Roy W. Jastram, *The Golden Constant: The English and American Experience, 1560-1976* (New York: Wiley & Sons, 1977).

[23] See "The Almighty Consumer is Depressed – and That's *Bullish*," *Investment Focus*, InterMarket Forecasting, Inc., November 6, 2002. At that time the U.S. consumer confidence index had reached a multi-year low; that made many economists *bearish* on the economy and stock market. In contrast, we saw a depressed consumer as *less likely to consume* (unproductively) and *more likely to save* (for productive investment); for this reason (and others) we were *bullish* on the U.S. economy and stocks in November 2002. In the following year the economy grew rapidly and the S&P 500 increased by 14.5%, after a decline of 17% in the prior year (which began with *higher* consumer confidence). Notably, the confidence index reached an *all-time high* in March 2000 – just prior to the prolonged U.S. *bear market* in stocks.

> forms any portion of wealth. (*Catechism*, p. 46) The only true consumers are those who on their side produce, because they alone can buy the produce of others. Unproductive consumers can buy nothing, unless by means of the value created by those who produce. (*Letters to Malthus*, p. 4)

Say understood that we produce in order to consume and to live well on what we've created. But he advised people to consume with discretion. He distinguished *unproductive consumption* and *productive consumption*. The first involves consuming goods and services for the sake of immediate enjoyment and satisfaction; while legitimate, this *does not add to our wealth* (in fact, it reduces it). The second form – *productive* consumption – is consumption (usually by business firms) *for the purpose of producing*; it is the necessary process of *using up* (consuming) materials, including the depreciation of tools and machinery, *in the process of producing* profitable goods and services. Say said a nation grows more prosperous the more it engages in *productive* (not unproductive) consumption.

Of course modern (Keynesian) economics endorses *unproductive* consumption, while claiming that *productive* consumption (which occurs when one *saves* and *invests*) *detracts* from prosperity. Thus today we have the spectacle of "consumer confidence" reports[23] and economists claiming that "the consumer represents two-thirds of the economy" (as if *destroyers* of wealth could possibly "represent" any measure of *produced* wealth). Whenever there's a production slowdown or economic recession economists call for policies to *boost consumption*. Say knew that such advice is patently harmful.

> The encouragement of mere consumption is no benefit to commerce; for the difficulty lies in supplying the means, not in stimulating the desire of consumption; and we have seen that production alone furnishes those means. Thus it is the aim of good government to stimulate production, of bad government to encourage consumption. For the same reason that the creation of a new product is the opening of a new market for other products, the consumption or destruction of a product is the stoppage of a demand for them. (*Treatise*, p. 139) It is not through the unproductive consumer that sales are promoted, but by the productions of those who provide the means of their expenditure. Even should all the unproductive consumers vanish, there would not be a penny worth the less sold. (*Letters to Malthus*, p. 15)

**_Thus it is the aim of good government to stimulate production, of bad government to encourage consumption._**

Some Keynesian economists insist that it's not consumption *per se* that they seek to encourage but "consumer spending" (on homes, cars, appliances, etc). But this is a smokescreen that obscures their basic myth: that wealth can be created "in excess" and that consumption (the *destruction* of wealth) is needed to "work off the excess." Keynesians also reverse cause and effect by claiming that unproductive consumption somehow *causes* production; in fact only the *prospect of profit* causes production.

According to Saysian economics there's no reason to believe the production and sale of "consumer goods" is inherently more beneficial to economic growth than the production of capital goods; at least the latter allows for further production, which is *not* true of "consumer goods" (the main reason that Keynesians prefer spending on consumer goods). Say knew that consumer goods are *not* truly consumed when *bought* but only when *used up*. Either way, consumer goods are not the goods that propel additional production.

> When one buys a product, we exchange the value we are willing to give up for one of which we are in want . . . We are still as rich when we have made the purchase as we were before . . . We don't begin to lose this value until we use it . . . It is not in the buying, then, that we dissipate our property. (*Catechism*, p. 46)

Say also stressed that government is *no producer of wealth*, that it's *only a consumer* – and an *unproductive* one at that. Moreover, government is usually the *largest* unproductive consumer in any economic system. Thus Say understood how government taxing,

[24] Cited in Kates, *Two Hundred Years of Say's Law: Essays on Economic Theory's Most Controversial Principle* (Northampton, MA: Edward Elgar, 2003), p. 120.

spending and borrowing could inflict great harm on production – far *more* harm than could *ever* be instigated by market participants operating freely and rationally. In contrast, of course, we observe Keynesians in modern times claiming that free markets are prone to failure, that they can "produce too much" and cause inflation, that recession and unemployment can be "cured" by greater government spending, and that such spending should be *added* to a national measure of economic output (such as GDP). Say would find all of this utterly ridiculous and at odds with the facts of reality (as we do).

**Benefits of saving.** In contrast to the consumptionism pushed by mercantilists in the 18th Century and Keynesians in the past century, Saysian economics recognizes the crucial, wealth-promoting effects of saving. On this view saving is no "leakage" from an economy's spending stream but merely a *different form* of spending – not on goods to be consumed for immediate, personal satisfaction but on *producer's* goods used in the process of production. Here's how Say described the process:

> As for a nation that does not expend its entire income [on unproductive consumption], and annually augments its capital, that is the one and the only one that provides the greatest annual markets for its products. . . . The public interest is consequently not served by consumption, but is served and served prodigiously by *saving*, and though it seems extraordinary to many persons, not being any the less true as a consequence, the laboring class is served by it more than anyone else. These persons think, perhaps, that the values which the wealthy save out of outlays on their personal pleasures in order to add to their capitals are not consumed. They are consumed: they furnish markets for many producers; but they are consumed reproductively and furnish markets for the useful goods that are capable of engendering still others, instead of being evaporated in frivolous consumption.[24]

According to Keynesian economics an economy stagnates or degenerates into recession due to insufficient consumption and too much saving; but Saysian economics shows that recessions are due to too much frivolous (unproductive) consumption and too *little* productive consumption (saving). The two doctrines – and their policy implications – could not be more opposite. The Keynesian "prescription" for avoiding or solving recession is to have government promote frivolous consumption – that is, the destruction of wealth; it implies, against all logic, that the cure for less wealth is the encouragement of behavior that *destroys* wealth. Saysisan economics, in contrast, offers the only genuine remedy for stagnation and less wealth creation – and it's a fully *logical* remedy: more saving, which is the precondition for creating more wealth.

**Say's law of markets.** Say's most significant contribution to the science of political economy was his formulation of what (later) came to be called Say's Law. In essence, it holds that *the value of products and services created constitute the demand for other goods and services.* In other words, unless one produces something of value – or earns an income from doing so – one cannot legitimately be described as capable of demanding (paying for) other goods (unless he is subsidized by producers, in which case supply is still necessary to generate demand). A mere *desire* for wealth is not nearly sufficient to obtain it; one must come to markets with a *capacity* to demand (pay for) goods – and that capacity can arise only from one's prior *production* of value.

> It is with the rent, interest and wages which form the profits resulting from production, that the producers buy the objects of their consumption. The producers are at the same time consumers. (*Letters to Malthus*, p. 15)

Saysian economics confirms that *markets are made by the producers*, that production is the *precondition* of consumption (and not caused by it), that only *saving and productive consumption* (investment) make possible the purchase of materials and the creation of capital goods which in turn give rise to more consumer goods *and* capital goods. Consumers – strictly *as consumers* – add nothing to wealth and only *deplete* it.

**Business slumps.** What gave rise to Say's formulation of this law? In the few decades prior to his 1803 *Treatise* there had been a vast rise in output in Britain and Europe. But there also occurred occasional business slumps. This led the mercantilists of the time to argue for government policies that would boost consumption and inflation.

Like today's Keynesians, the mercantilists claimed that business slumps were due to "excess production," "deficient consumption," or shortages of money. They advised high taxes on the wealthy (who produced and saved the most), government deficit spending and inflationism. Say considered all such advice to be bogus. His analysis is worth citing at length, given its direct relevance to similar myths pushed in modern times by Keynesians.

> It is common to hear entrepreneurs in the different channels of industry assert that their difficulty lies not in production, but in the disposal of the commodities; that production would always be abundant if there were but a ready demand or market for them. When the demand for their commodities is slow, difficult and productive of little advantage, they pronounce money to be scarce; the grand object of their desire is a consumption brisk enough to quickens sales and keep up prices. (*Treatise*, p. 132)

> A man who applies his labor 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. . . . Sales cannot be said to be dull because money is scarce, but because other products are so. There is always money enough to conduct the circulation and mutual interchange of other values when those values really exist.

> 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. . . . The creation of one product immediately opens a demand for other products . . . The success of one branch of commerce supplies more ample means of purchase and consequently opens a market for the products of all the other branches; on the other hand, the stagnation of one channel of manufacturing or of commerce is felt in all the rest. . . . (*Treatise*, pp. 133-135)

> How then does it happen that there is at times so great a glut of commodities in the market and so much difficulty in finding a demand for them? Why cannot one of these superabundant commodities be exchanged for another? I answer that the 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. It is because the production of some commodities has declined that other commodities are superabundant. . . . [P]eople have bought less because they have made less profit and they have made less profit for one or two causes: either they have found difficulties in the employment of their productive means or these means have themselves been deficient. . . . There must be some violent means, or some extraordinary cause, a political or natural convulsion, or the avarice or ignorance of government to perpetuate this scarcity on the one hand and consequent glut on the other . . . One kind of production would seldom outstrip every other and its products be disproportionately cheapened, were production left entirely free. (*Treatise*, pp. 135)

> The extent of demand for means of production in general does not depend, as too many have imagined, on the extent of consumption. Consumption is not a cause; it is an effect. To consume, one must buy; but one can only buy with what one has produced . . . But, someone will say, if there is merchandise that cannot be sold there must necessarily be more means of production employed than there are capabilities for consuming the product. Not at all; overproduction occurs only when too many means of production are applied to one kind of production and not enough to another. . . . What does a shortage of sales really mean? It means the difficulty in obtaining some other merchandise (in goods or money) in exchange for what one offers. The means of production are insufficient for the former while they are superabundant for the latter. . . . Shortage of sales thus comes not from superabundance but from deficient use of the means of production. . . . (cited in Palmer, pp. 75-76)

Thus Say did not deny that *particular* products couldn't be produced in excess, at least in the short run. What he denied was the possibility of a *general* excess (or deficiency) of aggregate supply relative to aggregate demand. In Saysian economics these two aggregates are *always equal* (a proposition that Keynesian economics specifically denies).[25] As for "gluts" of *specific* commodities, Say argued that in a free market the prices of such "superabundant" products decline, along with the profit margin in producing them; production of the commodity is thereby reduced and the economy's internal, sec-

[25] As we wrote nearly four years ago: "Say's Law is to economics what the Law of Gravity is the physics: a basic truth, upon which many other truths rest. An economist's position on Say's Law should serve as a litmus test for judging his authority and credibility. If an economist cannot identify Say's Law or recognize its truth – or worse, if he's ignorant of Say's Law or, worse still, if he actively rejects it – that *disqualifies* him as an economist. The opponent of Say's Law is an economic charlatan." ("Why Greenspan Trashes the Markets," *The Capitalist Advisor*, InterMarket Forecasting, Inc., February 22, 2000, p. 3).

toral balance is restored. Likewise, products in short supply (which must exist if there are, in fact, other products alleged to exist in relative "superabundance") necessarily rise in value and become more profitable; as a result, they are produced in greater quantity and balance is (again) restored.

> I can see that circulation can be obstructed by superabundance of certain products, but that can only be a passing evil, for people will soon cease to engage in a line of production whose products exceed the need for them and lose their value and they will turn to the production of goods more in demand. But I do not see how the products of a nation in general can ever be too abundant. For each such product provides the means for purchasing another. The mass of products composes the mass of a nation's wealth and wealth is no more inconvenient to nations than it is to private persons. It is clearly possible for a particular thing to be produced in grater quantity than what is needed . . . But it is also evident that this inconvenience would arise not from producing too much, but from not producing exactly what is wanted. (cited in Palmer, pp. 76-77)

**Government-induced gluts.** In his writings and lectures Say always stressed that such adjustments are possible *when markets are left free to function*, that only government intervention (such as price controls and taxes) can impede, delay or wreck the adjustment process; but then the problem is not "too much output" but too much (or any) *state intervention*. Even at much-reduced *levels* of production, only to the *extent* production occurs can demand occur – and the two are, necessarily, equal.

> In every community the more numerous are the producers and the more various their productions, the more prompt, numerous and extensive are the markets for those productions; and, by a natural consequence, the more profitable are they to the producers, for prices rise with the demand. But this advantage is to be derived from real production alone and not from a forced circulation of products; for a value once created is not augmented in its passage from one hand to another, nor by being seized and expended by the government, instead of by an individual. The man that lives upon the productions of other people originates no demand or those productions; he merely puts himself in the place of the producer, to the great injury of production . . . (*Treatise*, pp. 137)

Most of Say's mercantilist contemporaries (and later, all Keynesians) argued that while Say's Law *might* be valid in a purely *barter* setting, with goods exchanging against goods, somehow it became *invalid* in a *monetary* economy and the more advanced case in which *saving and investment* did not occur *simultaneously*. It is repeatedly claimed by Say's critics that he denied the possibility of money hoarding or the refusal to invest capital that had been saved.

But Say didn't deny any of this. He simply recognized that hoarding did not in any way invalidate the law of markets. He knew that money itself is a commodity subject to supply and demand (and that this is also true of paper money).[26] Nevertheless, the *aggregate supply* of produced values (including money) always *constitutes* (and equals) the aggregate *demand* for them. If goods are in excess relative to money, then money is deficient relative to goods – and private banks respond by creating more money. Yet if banks face regulatory restrictions (or if a central bank dominates the system), their adjustment is impeded; the problem isn't excess goods but insufficient money due to government intervention. Say also shows that in a free market saving and investment are equalized by shifts in the interest rate – unless of course government intervenes in setting this crucial price, in which case the *real* trouble lies not in the credit or capital markets but in government barriers to efficient market *clearing*.

**Recessions: causes and cures.** Say also knew that government policies could become so hostile to wealth-owners that they'd *rationally* hoard their money or refuse to invest their capital; still, their demand to hold their *own* wealth *equaled* that wealth and the defect was not "markets" but state policies *inimical* to market-makers. This brings us to the Saysian theory of the causes of recessions: government

[26] History shows that in the late stages of barter money began to appear, in the form of gold and silver. But these are commodities just as (say) beef and shoes are commodities. Upon exchange, the prices of beef and shoes are reckoned (say) in gold (instead of against each other). The gold producer sells his product for beef and shoes; his production of gold *constitutes* his demand for beef and shoes. The production of beef and shoes simultaneously constitutes the demand for gold. The introduction of money does not invalidate Say's Law, nor does greater, subsequent complexity invalidate it – as when many more products are exchanged or when gold comes to be represented by gold-convertible currency, checking accounts, electronic blips or fiat paper currency.

policies that punish producers and market-makers.

Recessions (or depressions) signify a *broad decline* in all (or most) areas of production and entail widespread *idle resources* (plant, equipment and labor). Say's law tells us that while *some* firms or sectors may decline, *all* of them can't do so simultaneously *unless some political factor interferes* which harms *all* modes of production. Political intervention can affect, for example, the quality of money, the degree of taxation, the extent of regulation or the magnitude (and duration) of destructive wars. Only government can impose economy-wide harm.

**_In times of political confusion and under arbitrary government, many will prefer to keep their capital inactive, concealed and unproductive, either of profit or gratification, rather than run the risk of its display. This latter evil is never felt under good government._**

Contrary to the claims of critics, Say never denied that there could be recessions, unemployment or the hoarding of "idle" money and capital. What Say denied is that such maladies are due to "excess" production, "deficient consumption" or money that was insufficiently debased; he knew they were due to an excess government role in the economy.

In fact, *only* Say's Law can help explain recessions. One begins by *knowing where to look* and by recognizing the absurdity of adopting the blatant contradiction that poverty (recession) somehow can be "explained' in terms of "excessive prosperity."

One must look to *factors that tend directly to curb production and profits* (hence demand). Recessions, idle (or fleeing) capital and unemployment, Say argues, necessarily result from government taxation, regulation, a failure to protect property rights – and wars.

> Mr. Ricardo insists that, notwithstanding taxes and other charges . . . that all capital saved is always employed, because the interest is not suffered to be lost. On the contrary, many savings are not invested, when it is difficult to find employment for them and many which are employed and dissipated in ill-calculated undertakings. . . . Besides, Mr. Ricardo is completely refuted, not only by what happened to [France] in 1813, when the errors of government ruined all commerce, and when the interest of money fell very low for want of good opportunities for employing it, but by our present circumstances [in 1821], when capitals are quietly sleeping in the coffers of their proprietors. (*Letters to Malthus*, p. 49)
>
> In times of political confusion and under arbitrary government, many will prefer to keep their capital inactive, concealed and unproductive, either of profit or gratification, rather than run the risk of its display. This latter evil is never felt under good government. The interference of authority is not the road to affluence, which results from activity of production, seconded by the spirit of frugality and of frugality tending to accumulation of capital. (*Treatise*, pp. 389, 399) . . . The benefit which [a producer] might derive from his production would not indemnify him for its expenses; and whatever he might buy with this production would be of no great value. . . . The manufacturer, unable to live on his profits, would renounce his business. He would buy annuities, or go abroad in search of a better situation, a more lucrative employment. (*Letters to Malthus*, p. 49)

**Capital on strike.** Say is clearly cognizant of the possibility of capital "quietly sleeping in the coffers of their proprietors" (a lack of willingness to invest) and of capitalists who "prefer to keep their capitals inactive" (unemployed). Say describes what amounts to an *internal capital flight* (to safety); but he also describes capital flight *abroad* – "in search of a better situation." In modern times the phenomena of "capital flight" is well-known; Say saw it early.

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[27] John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace Jovanovich, 1936), p. 26. In the next sentence Keynes writes that since Say and the classical economists have no theory of unemployment and depression, he (Keynes) will provide one (together with the remedies) – allegedly for the first time *ever* in economics (Keynes writes that "there is a vitally important chapter of economic theory which remains to be written"). His allegedly "new" theory was that depressions and poverty are caused by an *excess of goods* – ain effect, "*excess prosperity*." The solution, he said, was for government to adopt programs to *promote consumption* (that is, the destruction of wealth). Thus Keynes – the alleged "revolutionary" – adopted the 18th Century mercantilist interpretation of slumps and the mercantilist "remedy" too. But that false chapter had been written already, *a century-and-a-half before* Keynes wrote *his* "vitally important" (and equally false) chapter.

Say logically seeks the cause of less *production* in policies that impinge on the actions and motives of *producers*. The wealth-makers don't refuse to invest or produce because consumers fail to extinguish their capital and wealth; they refuse because profitable uses of their capital are less achievable. The problem isn't "excess production" or "too much capital" but *too few* attractive investments and too great a political risk that capital employed will be lost. For Say, the cause of this is "errors of government," "arbitrary government," "the interference of authority" and "political confusion." It's not the *market* system but the *political* system – rife with errors, arbitrariness and confusion – that harms markets. Say recognizes that an economy may shift from prosperity to depression – and sees *why* it can:

> In a nation, that produces abundantly, and adds every moment to the sum of its products, almost all the branches of commerce, manufacture, and generally of industry, yield handsome profits, because the demand is great, and because there is always a large quantity of products in the market, ready to bid for new productive services. And, vice versa, wherever, by reason of the blunders of the nation or its government, production is stationary, or does not keep pace with consumption, the demand gradually declines, the value of the product is less than the charges of its production; no productive exertion is properly rewarded; profits and wages decrease; the employment of capital becomes less advantageous and more hazardous; it is consumed piecemeal, not through extravagance, but through necessity, and because the sources of profit are dried up. The laboring classes experience a want of work; families before in tolerable circumstances, are more cramped and confined; and those before in difficulties are left altogether destitute. Depopulation, misery, and returning barbarism, occupy the place of abundance and happiness. Such are the concomitants of declining production, which are only to be remedied by frugality, intelligence, activity, and freedom. (*Treatise*, p. 140)

Given that Say here has begun to describe and explain capital flight, recession, depression, unemployed resources and *destitution*, it becomes utterly fantastic that John Maynard Keynes could later lie – as he did in his 1936 book – when he wrote that "Say's Law . . . is equivalent to the proposition that there is no obstacle to full employment."[27] No obstacle? Say has not even *begun* to list all the obstacles yet, for there are *numerous* ways that *government intervention* and *state-sponsored consumption* can diminish free-market production and hamper job creation.

> There is no act of government but what has some influence upon production. . . . The object of governments, in their attempts to influence production, is either to prescribe the raising of particular kinds of produce which they judge more advantageous than others, or to prescribe methods of production, which they imagine preferable to other methods. . . . The grand mischiefs of authoritative interference proceed not from occasional exceptions to establish maxims, but from false ideas of the nature of things, and the false maxims built upon them. It is then that mischief is done by wholesale, and evil pursued upon system . . . When authority throws itself in the way of this natural course of things, and says, the product you are about to create, that which yields the greatest profit, and is consequently the most in request, is by no means the most suitable to your circumstances, you must undertake some other, it evidently directs a portion of the productive energies of the nation towards an object of less desire, at the expense of another of more urgent desire. (*Treatise*, pp. 143-144)

**Capitalists as patriots.** Say makes clear that capitalists simply *will not stand still* and be sheared like sheep – or prodded and poked like cattle – by the government interveners and tax collectors. As Say describes the pattern below, he says it may be more difficult for *landowners* to escape government burdens, but their attempts are caused by those burdens (not by "excess output") and the *best escape artists* (thankfully) are the *capitalists* – the main drivers of the economy whom Say describes as true *patriots*[28] because they are unwilling to be robbed:

> A landowner, especially when he has made his land highly productive, is always vulnerable to authority; he cannot escape it. The landowner cannot pick up his field and take it away; like a slave he is attached to the soil, obligated to bear the yoke of government, whether it be light or heavy. The capitalist or merchant, on the contrary, can send funds elsewhere and follow them if necessary. Independence of their persons gives them independence of thought; it is here that we find more dignity and true patriotism; and

[28] In spring 2002 Congress cracked down on U.S. firms seeking to avoid oppressive taxation by incorporating in foreign tax havens; the firms were accused of not being "patriotic." But IFI, like Say, applauded and encouraged them. See "Capital on Strike: The Tax Haven Controversy," *The Capitalist Advisor*, InterMarket Forecasting, Inc., Part One (May 21, 2002) and Part Two (May 28, 2002).

[29] John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace Jovanovich, 1936), pp. 128-129.

> authority is in general obliged to deal with them carefully or at least with justice. The tax collector can ravage the land, which is always there to yield tribute, while capital and industry depart when exactions become excessive, and the tax authorities, so as not to lose all, are obliged to moderate their rapacity. (cited in Palmer, p. 127)

> Capital naturally flows to those places that hold out security and lucrative employment, and gradually retires from countries offering no such advantages: but it may easily enough retire, without being ever converted into specie. (*Treatise*, p. 156) Value or wealth, is by nature fugitive and independent. Incapable of all restraint, it is sure to vanish from the fetters that are contrived to confine it, and to expand and flourish under the influence of liberty. (*Treatise*, p. 370)

In the above passages we observe not only the outlines of the Saysian theory of recession (it is caused by government intervention) but also the necessary *remedies*: "frugality, intelligence, activity, and freedom," as well as security of property, minimal taxation (or tax cuts) and no state-sponsored consumption. Recessions mean less wealth - and consumption only diminishes wealth; so declining wealth certainly can't be "solved" by policies aimed at *diminishing it*. The Keynesian "cure" for recessions and depressions, in contrast, positively *welcomes* wealth-destruction (recession) by encouraging senseless consumption and make-work (the production of no value). According to Keynes

**_Value or wealth, is by nature fugitive and independent. Incapable of all restraint, it is sure to vanish from the fetters that are contrived to confine it, and to expand and flourish under the influence of liberty._**

> Wasteful loan expenditure may nevertheless enrich the community on balance. Pyramid-building, earthquakes, even wars may serve to increase wealth, if the education of our statesman on the principles of the classical economics stands in the way of anything better. . . . If the Treasury were to fill up old bottles with banknotes, bury them at suitable depths in disused coal mines, which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of *laissez-faire* to dig the notes up again, . . . there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is.[29]

This rubbish is what passes for "economics" in the allegedly "modern" world. This is the barbarism that modern economists have codified in economics textbooks foisted on millions of students over the past six decades. This is the "economics" which, if *rejected* today, exposes the critic to the charge of quackery. This is what "informs" today's government policy-makers, as they seek to "cure" the recessions they have caused with their pro-consumption policies. Here is Say's view of it:

> What must be thought of a system, the tendency of which is to consume for the sole purpose of favoring production? That which must be thought of a system which should propose to burn down a city, for the purpose of benefiting the builders, by employing them to restore it. (*Catechism*, p. 47)

**Taxes destroy output.** In 1932 (under Hoover) and 1936 (under FDR), the U.S. federal government *more than tripled* the tax rate on America's top income earners, from 25% to 79%. The tax-rate hikes were aimed at reducing "excess" production and "excess savings," while providing government revenues for *transfer* to those *more likely to consume* and for "make-work" (wealth-destroying) projects. A century earlier, Say had shown how onerous taxation only *destroys wealth* – yet another obstacle to full employment Keynesians seemed to have missed. In a letter answering his critic Thomas Malthus, who claimed he could not see how Say's law of markets could be compatible with a depressed economy, Say facetiously alerts the obtuse Malthus to the new guy in town:

> Is there some unsoundness, some concealed disease, which preys upon the [industrious]? . . . I already perceive one – immense – fatal – and deserving the most serious attention. Suppose some collector of public revenue . . . were to take up residence in the neighborhood of each commercial, manufacturing and agricultural establishment? . . . [What if] this man, without increasing the goodness of the produce, its utility or the quality by which it becomes an object of desire and demand, were nevertheless to increase the costs of its

> production? What, I ask, would be the consequence? The means of acquisition are the profits which each individual derives from his industry, his capital and his lands. . . . Taxes do not augment the profits of the producer, although they increases the price of every production. . . . The incomes of the producers become insufficient to purchase the produce, the moment its price is raised. (*Letters to Malthus*, pp. 45-46)

If Say lived a *century later* (in the 1930s) he would have been amazed to see Washington officials, egged-on by Keynesian advisors, *tripling* the top tax rate in order to "get the economy moving again." He might have thought that the nation's leaders had gone crazy. Had Say read Keynes, his suspicions certainly would have been confirmed. Say realized that onerous taxes destroy wealth, not only because they punish the producers by robbing them of their earnings (and of their incentive to create more wealth), but because most taxes also are imposed arbitrarily. Again, the result is *capital flight* – the flight of the all-important (to Say at least) *capitalists*:

> The temporary dread of taxation, arbitrary exaction, or violence will deter numbers from exposing their persons or their property. Undertakings, however promising and well-planned, become too hazardous; new ones are altogether discouraged; old ones feel a diminution of profit; merchants contract their operations and consumption in general falls off, in consequence of the decline and the uncertainty of individual revenue. (*Treatise*, p. 420)

***The temporary dread of taxation, arbitrary exaction, or violence will deter numbers from exposing their persons or their property.***

> The change in values which take from a man that property which he did not deserve to lose to give it to another who did not deserve to gain, are nevertheless mischievous to the general prosperity. They inflict more evil on him who loses than they confer benefit on him who gains; they disappoint the wisest calculations; they discourage the most useful speculations; they divert capitals which were in full productive activity. (*Catechism*, p. 87) When we seize upon goods created by others, we rob them at the same time of the means of contributing to create new ones and we can only enjoy them once, as when we cut down a tree to get at its fruit. (*Catechism*, p. 123)

Notice how Say views entrepreneurs and capitalists, metaphorically, as mighty trees bearing fruit. They are productive. Treat them well, Say advises; don't punish them for their virtues. In contrast, classical economists such as Smith, Ricardo and Mill, plus the Marxists and the Keynesians, characterized entrepreneurs and capitalists as extraneous and/or exploitative; so their removal could do no real harm (and perhaps some good). Say knew otherwise – because he knew that *intelligence is the source of wealth* and that the entrepreneurs and capitalists exercise it to the highest degree possible in free markets. Whenever government policies cause a brain drain, the wealth of a nation necessarily drains away too.

**International trade.** We've seen that Keynesian economics is warmed-over *mercantilist dogma* from the 18th Century, with its claim that markets can produce too much, that almighty consumers drive production, that consumption requires a boost if the economy is to escape recession and that policy can "stimulate" an economy by promoting consumption, tax policy, deficit spending and inflation.

For similar reasons modern-day mercantilists also fear imports and trade deficits; to curb each they advise tariffs, quotas and a depreciating currency. Why? Since Keynesians believe an economy can be threatened by "excess" production, they also believe imports make the situation worse; thus they try to promote exports so business can rid itself of its alleged "excesses." Imbedded in this view is the myth that poverty-ridden nations with huge populations (see China), *regardless* of ability to produce or trade, can be an "outlet" for our "excess" domestic production; the more these nations need our exports, it is alleged, the more they are "beneficial" to us.

Finally, just as the Keynesian-mercantilists have concocted a misleading national income accounting system (GDP) which *adds* government spending in allegedly summing up national *production*, so they also *subtract* imports and *add* exports to that measure; this approach assumes, falsely, that imports somehow detract from a nation's total income.

**Bullish trade deficits.** Saysian economics rejects these mercantilist-Keynesian myths. In a recent report we showed how a widening U.S. trade deficit is usually a bullish sign for the U.S. economy and stock market. We've also quantified the damage done to the economy and investment portfolios by a depreciating dollar.[30] In 1815 Say explained that

> It is no injury to the internal or national industry and production to buy and import commodities from abroad; for nothing can be bought from strangers, except with native products, which find a vent in this external traffic. (*Treatise*, p. 139) Import duties, without augmenting the income of a nation, cause it to pay dearer for the objects it consumes; which is equivalent to a real diminution of wealth. (*Catechism*, p. 115) Do I comprehend in the consumption of a nation the merchandise she exports to other countries? Yes. And I comprehend in its products whatever it receives in return; in the same manner that I comprehend in its consumption the value of the wool it uses for the manufacture of cloth and in its production the value of the cloth which results from it. (*Catechism*, p. 49)

Thus Say found trade *uniformly beneficial* and argued that, if anything, *imports should be added* to national income, while *exports* should *subtracted* from it. Apart from the accounting, Say knew that nations which become terrified of trade deficits (as the U.S. has become in modern times, due to the influence of Keynesian-mercantilist dogmas)[31] are prone to initiating *trade wars* which can only destroy wealth.

> If nations had not been, and were not even now, infatuated by the balance of trade, and the idea that one nation can only prosper by detriment to another, fifty years of wars in the last two centuries could have been avoided, and our various peoples would not be shut up, each in its pen, by armies, police agents and customs collectors, as if the intelligent, active and peaceful element in the nations had no other aim than to do wrong. (*Treatise*, pp. 16, 18)

If international trade is beneficial - if we should welcome imports and the wider international peace that comes from trade with foreigners - what then motivates governments to adopt protectionist policies? Say knew the answer two centuries ago; the sources of protection haven't changed much since then. He recognized that protectionism is based on ignorance of economics (to which today's Keynesian dogmas contribute, as mercantilist dogmas did in Say's time) and on ill-informed, favor-seeking businessmen who are unwilling to compete:

> To what good purpose, then, do governments labor to turn the balance of commerce in favor of their respective nations? To none whatever; unless, perhaps, to exhibit the show of financial advantages, unsupported by fact or experience. . . . To speak the truth, it is because the first principles of political economy are as yet but little known; because ingenious systems and reasonings have been built upon hollow foundations, and taken advantage of, on the one hand, by interested rulers, who employ prohibition as a weapon of offence or an instrument of revenue; and, on the other, by the personal avarice of merchants and manufacturers, who have a private interest in exclusive measures, and take but little pains to inquire, whether their profits arise from actual production, or from a simultaneous loss thrown upon other classes of the community. . . . The day will come, sooner or later, when people will wonder at the necessity of taking all this trouble to expose the folly of a system, so childish and absurd, and yet so often enforced at the point of the bayonet. (*Treatise*, pp. 158-159)

Say would have recognized why the Smoot-Hawley Tariff of 1930 contributed to the world's Great Depression, just as he would have seen a stark similarity between the Keynesians of the 1920s and 1930s (who recommended tariffs) and the mercantilists with which he was so familiar and so opposed.

**Unilateral free trade.** But what might Say conclude about the so-called "free trade agreements" which have become so common in recent decades? How would he view NAFTA or the interminable, multi-year "GATT rounds" attended by scores of government "trade officials" who (eventually) write treaties that are thousands of pages long?

Say would *oppose* them, *not* because he wasn't a free-trader but *because* he was a free trader without compromise. He would scoff at today's whining appeals to "fair trade" and would see that phrase as a euphemism for protectionism. Say knew that *all* voluntary trade is fair trade, that *injustice* arises only when government *impedes* trade or *taxes* it. Thus Say

[30] "A Widening Trade Deficit: Bearish, Neutral or Bullish?" *The Capitalist Advisor*, InterMarket Forecasting, Inc., December 5, 2003.

[31] See "Protectionism and the Dollar: Investment Implications of State Support for the 'Steal' Industry," *Investor Alert*, InterMarket Forecasting, Inc., March 12, 2002.

advocated *unilateral* free trade, with no interminable and "multi-lateral" negotiations. For Say a nation simply adopts free trade: it removes its quotas, its tariffs and its subsidies – even if other nations do not do so in turn. He knew that a nation *gains* from doing this, while protectionist nations fail to do so.

> These points should never be lost sight of in the framing of commercial treaties, which are really good for nothing but to protect industry and capital, diverted into improper channels by the blunders of legislation. These it would be far wiser to remedy than to perpetuate. The healthy state of industry and wealth is the state of absolute liberty, in which each interest is left to take care of itself. The only useful protection authority can afford them is that against fraud or violence. Taxes and restrictive measures never can be a benefit: they are at the best a necessary evil; to suppose them useful to the subjects at large, is to mistake the foundation of national prosperity, and to set at naught the principles of political economy. (*Treatise*, p. 168)

**The healthy state of industry and wealth is the state of absolute liberty, in which each interest is left to take care of itself. The only useful protection authority can afford them is that against fraud or violence.**

Here Say observes that "commercial treaties" most often degenerate into still *more* protectionism. Notice also how he deploys the word "protection" in his argument: instead of "protecting" trade, Say advises, states should simply *protect producers against fraud and violence*. In doing this, trade will flourish – because it is free of *protectionist* schemes.

**Rational market analysis – and forecasting.** Economics today is in a sorry state, not only in its *content* (which is Keynesian) but also in its *method* (which is haphazard). Modern economics is unscientific, arbitrary, pockmarked with unreal concepts, infested with bizarre theories and laced with a prevailing skepticism which claims that what's true "in theory" isn't necessarily true in *practice*. This kind of "economics" (if it can be called that) offers no help to investment managers (capitalists); in fact, it is positively *misleading* and *harmful*. Saysian economics, in contrast, offers clearly-defined and fact-based concepts, a rational (scientific method) and a framework for focusing on the *causes and effects* in the historical timeline of market phenomenon.

In Say's time economics was in a *similarly* sorry state despite the generally positive influence of Adam Smith. Say was surrounded by those who claimed that only *farmers* were productive (the physiocrats), or those who insisted that only *manual laborers* were productive (Smith *et al*) or by *mercantilists* who pushed such myths as "excess production" and "deficient consumption" and such "cures" as government deficit-spending, regulation, taxation, inflationism and protectionism. "In political economy," Say wrote while observing economists around him, "systems have been formed before facts have been established; the place of the latter being supplied by gratuitous assertions." (*Treatise*, p. 17)

Say lamented that economists then (as now) were unwilling to unite theory and practice, to reconcile their ideas with the economic facts. He wrote:

> Nothing can be more idle than the opposition of theory to practice! What is theory, if it not be a knowledge of the laws which connect effects with their causes, or facts with facts? And who can be better acquainted with facts than the theorist who surveys them all under all their aspects and comprehends their relation to each other? (*Treatise*, p. 21) [32]

Here is how Say argues, in his *Treatise*, for a rational, scientific and fact-based economics:

> A science only advances with certainty when the plan of inquiry and the object of our researches have been clearly defined . . . Political economy unfolds the manner in which wealth is produced, distributed and consumed. . . . The manner in which things exist and take place constitutes what is called the nature of things; and a careful observation of the nature of things is the sole foundation of all truth. . . . Political economy,

[32] Say's view on the necessity of integrating theory and practice no doubt was in response to Napoleon's view that economists were "mere systematizers, whose principles were correct in theory but erroneous in practice."

> from facts always carefully observed, makes known to us the nature of wealth. (*Treatise*, pp. 16, 18)
>
> Political economy has solid foundations when its basic principles are rigorous deductions from incontestable general facts. Such general facts are based on the observation of particular facts, when results are found to be constant each time a particular fact is observed . . . Political economy, like the exact sciences, is composed of a small number of fundamental principles and a great many corollaries that follow from these principles . . . These principles are not the work of men; they derive from the nature of things. They are not established; they are found. They govern lawmakers and princes, who never violate them with impunity. (cited in Palmer, pp. 53-54)
>
> The inductive method of Bacon has so much contributed to the advancement of every other science and [now] has been applied to researches such as this. The excellence of this method is that is consists in only admitting facts carefully observed and the consequences rigorously deduced from them. (*Treatise*, p. 17)

**Facts and certainty.** Say was no skeptic; he knew that economics must be *fact-based* and *scientific* and that therefore it can ultimately achieve *certainty*. Unlike the moderns, Say never concocted arbitrary concepts divorced from reality. He knew that sound economics must consult the *facts*, hew to the *scientific* method and uncover *causal connections*.

In this regard it is worth examining, briefly, Say's view of the use of *data and statistics* – a key concern of today's business economists and market practitioners. Many economists today tend to "miss the forest for the trees" as they myopically dissect the latest "data release" from Washington or from some industry association; they are usually ill-equipped to relate all this data, to use it to better interpret the past and to forecast. Say tells us that

> The study of statistics may gratify the curiosity, but it can never be productive of advantage when it does not indicate the origin and consequences of the facts it has collected; and by indicating their origin and consequences, it at once becomes the science of political economy. . . . A knowledge of facts, without knowledge of their mutual relations, without being able to show why one is the cause and the other the consequence, is really no better than the crude information of an office-clerk. (*Treatise*, p. 19)

Unfortunately, many economists today are no better than the mere "office-clerk" that Say described. They dutifully regurgitate the latest data releases, while presuming that such data are relevant simply because Washington has released them. They usually don't bother to connect such data (even if they *could* be connected) to broader trends or investment strategy. In a special essay on the use of statistics Say argued that raw data devoid of causal connections or historical perspective are useless:

> Almost no conclusion can be drawn from a [statistical] document made known only once haphazardly . . . To be useful, such information and the presentation of accompanying circumstances must be related for several successive years. . . . We are then in a position to infer cause and effect. . . . We must restrict ourselves to essential points of information. . . . But who will tell us what the essential points of information are, the facts that are important or from which important deductions can be made, those that help us foresee events, or can instruct us on our wishes and our fears?
>
> To identify such facts it is indispensably necessary to know the physiology of that living and complex being called *society* and to understand the organs by which it acts and preserves itself. Now the physiology of society is *political economy* . . . We know by analysis the nature of different organs of the social body; experience shows the results of their action; hence we can decide on the points to which we should direct our observations so that consequences can be drawn. Statistics can announce a fact, but cannot explain it.
>
> Statistics does not reveal the connection between facts, but by letting us see the successive course of several phenomena it can throw light on their reciprocal action; it can help confirm truths of which the proof results from our study of the nature of each thing.[33]

What is needed, according to Say, is not mere data or "information" *per se* but rather *processed* information – *knowledge*, which entails the rational recognition of how market facts *interrelate*, how *patterns* develop over time and how certain economic phenomena *cause* others (and why). None of this is

[33] From Say's 1827 essay, "On the Object and Utility of Statistics" (cited in Palmer, pp. 139-140).

[34] Cited in Palmer, p. 100 (from Say's 1815 report on economic conditions in England). "Pythonesses," in Greek mythology, were woman possessed of allegedly mystical powers.

possible unless one can develop a firm grasp of the "big picture," of the entire economy and its interrelated workings. Such a grasp is best achieved by a full understanding of Say's law of markets and of its numerous implications and applications.

**The science of market prices.** We've seen how Say was a revolutionary in economics due to his rejection of the labor theory of value and his substitution and development of the *utility theory* of market value and price. By this method Say focuses our attention, not on such arcane and irrelevant issues as the *quantity* of manual labor (or any other input) that might go into the making of a good, but rather on *market prices* – what he calls "exchangeable values." For Say it is essentially irrelevant what some producer or trader, on his own and in isolation, "thinks" his product is "really" worth; in fact, for Say, it is worth only what others are willing to pay for it in voluntary exchange. And what *is* paid for any product is *a fact not open to question* – at least not to the *rational* economist.

***There is no other price in political economy than market price. This is the foundation of a science.***

Say took *market prices as the basic facts to be examined* in economic-market analysis; he *respected* market prices and sought to learn what they meant and signaled. He would scoff at those economists today who impose their arbitrary theories or sentiments on how assets (like equities) "should" be priced and who declare that markets are "mistaken" or "irrational" for pricing assets *differently*. In writing on exchangeable values (market prices) Say observed that

> *There is no other value* in political economy; *that alone is subject to fixed laws*; that alone can be created, distributed and destroyed, according to rules which are invariable and which are capable of becoming an object of scientific inquiry. It is a necessary consequence, *the price of everything being its exchangeable value* estimated in money, that *there is no other price in political economy than market price* . . . This then serves as a basis for all comparisons; what enables us to measure an increase or a diminution; in a word, *this is the foundation of a science.* Political economy is nothing without it; it is this consideration alone which has taken it out of the dominion of fancy. (*Letters to Malthus*, pp. 78, 80) *Among facts, prices furnish the most light* on the condition of a people. I know that prices are significant only when the value of money, or of precious metals, is known; but the price of many objects, especially those of general consumption, offers one of the best means of knowing the value of the precious metals themselves. (emphasis added)[34]

Thus Saysian economics – and the rational market analysis that it makes possible – counts heavily on *the facts and science of market prices*; it dispenses with arbitrary opinion or what Say refers to as "gratuitous assertion." Not only do market prices reflect the exchangeable value of goods, services, money and securities, but prices *themselves* logically interrelate. An obvious example of this is *profit* – the difference (or margin) between two sets of prices.

**Rational forecasting.** Say also provides hints for the optimal forecasting of markets, based on everything he has taught. Mere data gathering (even *market-price* data) is not enough. One must know the laws of political economy, specifically Say's law of markets, the primacy of production, the nature of (objective) prices and the *causal connections* that exist among real market phenomena.

> Knowledge of political economy has other advantages for those who possess it, quite apart from relations with the public. In many cases *this knowledge supplements one's own experience*, which can be costly and is often acquired at a time of life when it is no longer needed . . . *The consequence of circumstances* in which we live, which ordinary people cannot suspect, *are easily foreseen by whoever knows how to relate effects to causes.* In any occupation *it is a great advantage to have a more or less perfect, more or less accurate anticipation of the future.* (cited in Palmer, pp. 149) For common minds events only follow one another; for the thinking man they are connected. Sometimes he may see some of the links in *a chain that joins the present to the future.* He will then know of the future what is permitted to be known, since pythonesses and judicial astrology have gone out of fashion.[35] (emphasis added)

Say believes knowledge of political economy is crucial for entrepreneurs and capitalists who want to maximize success and minimize failure. Prior to embarking on his first teaching position (at the Conservatory of Arts and Trades in Paris[36]), Say outlined his views on this issue in a letter to the school's administrator. His references to entrepreneurs are also applicable to capitalists (investors).

> Have we not often seen intelligent and assiduous men [entrepreneurs] who understand the theory and practice of the arts nevertheless struggle against fortune without success, multiply their sacrifices to sustain enterprises that ought to succumb and lose not only their own capital but also sometimes the capital entrusted to them by others?
>
> Hence there may be distrust on the part of possessors of capital [investors] when it is a question of advances for industrial enterprise. Or an exaggerated confidence may be equally harmful, when it is not realized that the honesty, activity and talent of the entrepreneurs are not sufficient guarantees of success. Brilliant but chimerical expectations may be seductive and the most extravagant ideas find support and win public favor, while more commendable arts languish indefinitely. It is to avoid these failings that the useful arts taught . . . include Industrial Economy.
>
> There is something to be learned other than the best practices in the arts. It is to know how and in what way the arts contribute to the formation of values, which are the true constituents of wealth. The entrepreneur is the one who combines the efforts with the results, the means with the ends, the advances with the products. If some such men are successful without instruction it is because they routinely follow the right direction, but it is always safer to know why this direction is the right one. This is what political economy teaches.
>
> But we do not ask of any study more than it can promise. Industrial economy will tell you how wealth is formed and distributed, but if you wish to produce wealth it is not enough to know this science; you must practice its precepts. It does not give you the instruments for making your fortune, but it tells you what these instruments are. That is not everything, but it is something. . . . Be assured that when active in industry you will be working at the same time for morality and happiness, for the public as well as the private good. (cited in Palmer, pp. 118-124)

Say wrote and taught a *rational* system of economics. As such, he knew the system was *practical* – that it could assist the efforts of the economy's most productive members (entrepreneurs and capitalists). Say wasn't averse to educating the general public or political leaders; in fact he considered this an important audience. But given his era, he was too often disappointed about the willingness of people and politicians to endorse and adopt sound doctrines and policies. Although Say corresponded with other economists of his time, his work was not primarily addressed to other economists. He wrote most (and best) for genuine, intelligent producers.

**The life and work: a summary.** Jean-Baptiste Say was an extraordinary economist – in our view the best of all time – and the author of what we consider to be the greatest book ever written on political economy. Precisely *because* political economy is a *broader* term than "economics" it is a better term – and a superior way of comprehending markets. Business and investment activity necessarily occur in some *political context*, whether favorable or not to markets; to be successful one must know the *nexus* between politics and economic activity.

***If you wish to produce wealth it is not enough to know this science; you must practice its precepts.***

In the history of economic thought Say is the most intelligent examiner of market activity and the most consistent, sophisticated defender of *laissez-faire capitalism*. As such, he is also the most perceptive in identifying factors which suppress or wreck market activity and transform prosperity into poverty.

Say first read Adam Smith's *Wealth of Nations* (in English) in 1789 (the year of the French Revolution) at the age of 22, while working at an insurance firm. In that year he published a defense of freedom of the press that also derided irresponsible journalism. From 1794 to 1799 he and some partners founded and wrote a political magazine (*Decade Philosophique*). In it he consistently advocated republican government and rational political economy.

[35] Cited in Palmer, p. 100 (from Say's 1815 report on economic conditions in England). "Pythonesses," in Greek mythology, were woman possessed of allegedly mystical powers.

[36] For a few years starting in 1820 Say became an instructor at the Conservatory – the same institution that he had attended for a brief period in 1804, prior to his becoming an entrepreneur of a cotton-spinning factory in Northern France.

**Man of integrity.** Given Say's growing credibility and reputation, in 1799 Napoleon, newly in power, appointed him to the Tribunat, a chamber of the French legislature which advised the Senate on the constitutionality of proposed laws. But by 1802 Say and a dozen others were purged from the Tribunat by Napoleon, for opposing the dictator's efforts to expand state power. Soon thereafter Napoleon lobbied Say and tried to get him to join his government's tax office. Say declined. He was an economist of utmost integrity, who never surrendered his principles to secure the approval of political leaders.

During his time in the Tribunat, Say was writing the first edition of his *Treatise*. When it was published in 1803 it became an immediate success and was soon translated across Europe.

**"Produce, produce - that is the whole thing."**

Napoleon, by now accumulating dictatorial power, despised Say's book (for obvious reasons) and worked to have its pending reprints suppressed. Say stopped writing for publication and decided to leave Paris in 1804 to start a cotton-spinning factory in an abandoned church north of the city.

Say became a successful entrepreneur for most of the next decade; at one point he and his "silent partner" employed 400 people. Say sold the business in 1813, not only because trade restrictions had made it difficult for his factory to import low-cost cotton, but also because it was becoming apparent that Napoleon was losing his war with Britain and would soon lose his power as well.

Say returned to Paris in 1814, having prepared a second (and less-lengthy) edition of his *Treatise*. Napoleon abdicated in April of that year; the second edition of the *Treatise* was published just two months later. In the following two decades the *Treatise* went through five editions. As mentioned, from 1830 to 1880 it became leading textbook used in courses in political economy in American colleges and a favorite of Thomas Jefferson. In the early 1800s Say and Jefferson corresponded a half-dozen times. Later, while planning his new University of Virginia, Jefferson wanted Say to become its first professor of political economy. But by this time Say was more willing to remain in Napoleon-free France. He lived out his days in that country.

Not until late in his life (in 1830, at the age of 63) was Say appointed a professor of political economy (at the College of France). He died two years later. The following is an excerpt of an obituary written of Say, published in London soon after his passing.

> France this week lost another of her most distinguished writers and citizens, the celebrated political economist, Mr. Say. . . . [He] was one of the most accomplished minds of his age and country. Though he had given his chief attention to one particular aspect of human affairs, all their aspects were interesting to him; not one was excluded from his survey. His private life was a model of the domestic virtues.
>
> From the time he co-founded the *Decade Philosophique*, the first work which attempted to revive literary and scientific pursuits during the storms of the French Revolution – alike when courted by Napoleon and when persecuted by him (he was expelled from the Tribunat for presuming to have an independent opinion); unchanged equally during the sixteen years of the Bourbons and two of Louis Philippe – he passed unsullied through all the trials and temptations which have left a stain on every man of feeble virtue among his conspicuous contemporaries.
>
> He kept aloof from public life, but was the friend and trusted advisor of some of its brightest ornaments; and few have contributed more, though in a private station, to keep alive in the hearts and in the contemplation of men, a lofty standard of public virtue.[37]

There is a single sentence that summarizes, succinctly, the extraordinary life and profound doctrines of Jean-Baptiste Say. It is the last sentence he ever wrote, in the final published work of his life:

> Produce, produce – that is the whole thing![38]

[37] M. Fonblanque, "Obituary of Say," *London Political Examiner*, November 25, 1832; cited by Clement Biddle in the 1834 preface to the fifth edition of Say's *Treatise* (pp. 6-7).
[38] *Cours Complet d'Economie Politique Pratique* (1829-1830).

# Saysian Economics:
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# Saysian Economics:
## A Chronology of Say's Life and Work

| | |
|---|---|
| 1767 | Born in Lyon, France |
| 1787 | Moves to Paris with parents; occasional travel to Britain |
| 1789 | Reads Adam Smith's *Wealth of Nations* in English while working at Etienne Claviere's insurance company |
| | First published work (a pamphlet): "On the Freedom of the Press" |
| 1792 | Serves briefly in a French battalion of volunteers amid war with Britain |
| 1793 | Marries Julie de Loche, daughter of a successful lawyer; eventually has four children |
| 1793 | Say's patron Etienne Claviere commits suicide in prison; jailed as a political dissident |
| 1794-99 | Publishes and writes for the journal, *Decade Philosophique* – becomes one of the "Republican Ideologues" |
| | With colleagues at *Decade Philosophique*, translates and publishes Ben Franklin's *Poor Richard's Almanac* |
| 1799 | Napoleon takes over the French government |
| | Say appointed to the Tribunat (a chamber of the French legislature); member of the finance committee |
| | Publishes *Olbie: An Essay on the Means of Improving the Morals of a Nation* |
| 1802 | Say purged from the Tribunat, along with others, by Napoleon; turns down offer to join the tax office |
| 1803 | First edition of the *Treatise* published; in two volumes, nearly1000 pages; Napoleon blocks reprints |
| 1804 | Receives letter from Thomas Jefferson in response to his sending Jefferson the *Treatise* in 1803. |
| | Studies at the *Conservatory of Arts and Trades* (*Conservatoire des Arts et Me'tiers*) to prepare to become entrepreneur |
| 1804-14 | Say becomes an entrepreneur (cotton-spinning factory) in an abandoned church in northern France |
| 1814 | Second edition of the *Treatise* published |
| | Sends letter to Thomas Jefferson, expressing an interest in emigrating to America |
| | Sent by French government on a mission to Britain, to report on the causes of its economic prowess |
| | While in England meets and visits with David Ricardo, Thomas Malthus, Jeremy Bentham and James Mill |
| 1815 | Publication of *A Catechism of Political Economy* |
| | Gives for-fee public lectures on political economy at the *Athenee*, a private institution |
| | Publishes *de l'Angeleterre et des Anglais* – his 56-page report on economic conditions in Britain |
| 1817 | English edition of *A Catechism of Political Economy* published in America by Matthew Cary |
| | Third edition of the *Treatise* published |
| | Ricardo's *Principles* published; translated into French, with critical notes by Say |
| 1820 | Malthus publishes his *Principles of Political Economy*; Say begins to craft and send critical letters to Malthus |
| | Becomes first teacher of academic economics ("industrial economy") at the *Conservatoire des Arts et Me'tiers* |
| 1821 | Fourth edition of the *Treatise;* first English translation, in London by C.R. Prinsep (without the introduction) |
| | *Treatise* published in America, with Say's introduction added back and a preface by free-trader Clement Biddle |
| | Say's *Letters to Mr. Malthus* published and immediately translated into English by John Richter |
| 1821-81 | Twenty-eight reprints of the English version of the *Treatise*; widely used in America and Europe |
| 1824 | Essay in *Revue Encyclopedique* on Britain's sovereignty in India; critical of the British East India Trading Co. |
| 1827 | Essay in *Revue Encyclopedique* "On the Object and Utility of Statistics" |
| 1828 | Essay in *Revue Encyclopedique* : "Absenteeism: Or, What Will Become of Ireland?" |
| 1828-29 | Publication in French of *Cours Complet d'Economie Politique Pratique*, in 6 volumes. |
| 1830 | Say's wife dies; they had been married for thirty-seven years |
| 1831 | Appointed the first professor of political economy at the *College de France* in Paris |
| 1832 | First American edition of the fifth edition of the *Treatise* published by Clement Biddle |
| 1832 | Dies in Paris at age 65 |
| 1834 | Sixth edition (and final one) of the *Treatise* published in America by Clement Biddle |

Note: Soon after its release in 1803 Say's *Treatise* was translated into Italian, German, Spanish, Russian, Swedish and Danish