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Jean-Baptiste Say

Foundations of France's Free Trade Tradition

Given France's current attitude toward free trade, some might find it surprising that the nation was home to an influential group of pro-free trade political economists from the early 18th to early 19th centuries. Jean-Baptiste Say, a writer who popularized Adam Smith in France, is squarely in that tradition. He is also responsible for one of the great, ongoing macroeconomic controversies—his famous Law of Markets. Say was much more than a Smith follower, and his ideas have always prompted scholarly investigation. We offer readers this issue of Economic Insights *as an introduction to one of France's great free trade advocates.*

—**Richard W. Fisher**
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France is not known today for its vigorous support of free markets, and yet it was France that gave the world the term most used by advocates of free trade: laissez-faire. The development of modern economics included many famous French writers. Among them was the famous classical school economist and Adam Smith enthusiast Jean-Baptiste Say (1767–1832).

Say was born in Lyons. He was well educated in schools there, then sent by his father to London for two years to study business practices. He rejoined his family in 1787 at their new home in Paris. There, he worked for an insurance company run by Etienne Claviere, who played an important role in the French Revolution that eventually cost him his life. Say was luckier. His marriage in 1793 exempted him from France's universal conscription laws. Just prior to his marriage, he did serve briefly in a volunteer battalion, but after marrying he was never again involved with the military. Say first began writing for public consumption during this period of unrest and war, 1789–95. His initial work was a pamphlet on press freedom published in 1789. It had little immediate influence.

Say retreated to the countryside during the height of Robespierre's revolutionary terror, becoming part owner and co-editor of a new philosophical journal, *Decade philosophique, litteraire et politique*. He managed to avoid any serious negative consequences from the revolutionary period's late, murderous frenzy. His first book, *Olbie*, was published in 1800 and addressed the question: "What are the means of establishing moral behavior among a people?" Readers can see in this work the sort of moral arguments that infused early writing in political economy and the germ of Say's famous *A Treatise on Political Economy*. But his first foray into political economy was not well timed.

Jean-Baptiste Say

Between 1800 and 1814, France was ruled by Napoleon Bonaparte, who disliked much of Say's *Treatise* when it first appeared in 1803. For that reason, the book was not reprinted, although German and Spanish editions came out shortly after it was published. Napoleon demanded revisions before the book would be allowed a second printing, and even offered Say employment at court. Say declined his offers and instead went into business by opening a cotton-spinning factory. (Many years later, in 1815, Say would once again deny Napoleon supporters their request for a document that argued that the former emperor—then seeking to

Say's Famous and Controversial Law of Markets

Few propositions in the history of economics have been as widely debated as Say's contention that, in the aggregate and long run, demand cannot be less than supply because to supply is, ultimately, to demand. A single line in John Maynard Keynes' famous 1936 book *The General Theory of Employment, Interest and Money* stated it this way: "From the time of Say and Ricardo the classical economists have taught that supply creates its own demand…."

Keynes' work, which can be viewed as one long anti-Say argument, triggered the second major controversy over Say's ideas (Blaug 1996, pp. 151–60). The first took place in the 19th century among the classical school economists themselves. The arguments over what Say actually meant tended toward confusion and misunderstanding, as much in the 19th century as in the 20th when Keynes resurrected the issue. Say's view of things was first printed in 1803 and is found primarily (but far from only) in Chapter 15, Book 1 of his most famous work, *A Treatise on Political Economy*.[1] He did not call his rejection of the possibility of a general overproduction of commodities a law; that was later attached to Say's argument by James Mill and other London followers of David Ricardo beginning with the 1808 publication of Mill's *Commerce Defended*.

Business owners commonly observe during economic downturns that inventories accumulate and many goods remain unsold. Early theorists sometimes wrote of a glut of commodities that could not be sold due to insufficient demand.[2] Say sought to show that this was not possible as an explanation of the *cause* of depressions and that no general overproduction was possible. It was, therefore, not a sound policy, he argued, to try to stimulate aggregate demand in such circumstances:

> "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." (Say, p.139)

Say's major opponents during the first conflict over his analysis were Thomas Malthus and John Charles Leonard Simonde de Sismondi. The most detailed argument Say ever made for his views and what separated them from those of his critics was in a series of letters he exchanged with Malthus. The letters were later anthologized in book form.

For Say, and those who agree with his analysis, people supply to be able to demand. From this perspective, it simply makes no sense to speak of insufficient demand. What occurs during depressions is, as Mill wrote in his *Commerce Defended*, a mismatch of individual market demands with existing resource allocations. What is required is waiting until the markets work out these long-run imbalances.[3] It is easy to see how this idea could be reduced, as Keynes did, to "supply creates demand," but that formulation is an inaccurate description of Say's position (Rothbard 1995, p. 44, n. 14).

Regardless of the detailed examinations of Say's work by Rothbard, Schumpeter (1954, pp. 738–42), Sowell (1974, pp. 39–52) and others, most macroeconomics students are still taught that Say wrote "supply creates demand" and Keynes refuted him in *The General Theory*. Neither statement is entirely accurate. Part of this ongoing confusion rests with Say and part with his opponents, who often wrote without explicitly stating whether their claims were in terms of comparative statics or dynamics, operating in the short or long run, using prices as costs or vice versa, with repeated confusions over savings and financial intermediation, as they all went about aggregating (theoretically) their macroeconomic variables.

It is seldom noted that Say modified his analysis for the fifth edition (not available in English) of his major work, allowing for macroeconomic disequilibrium conditions and reconciling his prior analysis with those of his critics (Sowell 1987, p. 249). As Sowell (1974) strongly points out (also Thweatt, in Blaug 1991, p. 143), Say's analysis, along with most classical school writing, was oriented toward the causes of long-term economic growth, not the short-term deviations from full employment that obsessed Keynes.

Finally, there is the ongoing debate over who first wrote the substance of Say's Law. Some historians of economic thought have singled out early French Physiocrat writers such as Mercier de la Riviere or others (Sowell 1972, pp. 36–37, and Spengler, in Blaug 1991, pp. 1–50), while different historians argue that it was Mill (Baumol 2003, pp. 39–49), and still others give Say the credit by virtue of the timeline of expositions (Schumpeter 1954, p. 491, n.). This debate, like so many in the history of ideas, is unlikely ever to be completely settled. ■

Notes

[1] Who first stated the idea now attributed to Say? This lies beyond the scope of this essay. If interested in this question, see Blaug's (1991) collection of papers.

[2] Sowell 1974, p. 45.

[3] Keynes' famous aphorism for this view was "In the long run, we are all dead."

return to power after escaping exile on Elba—was fiscally responsible.)

Say pursued his business interests for eight years, all but abandoning hope of being an economist. He was discouraged by what had happened politically to France. Originally a Napoleon supporter, Say became one of his many critics. During this period, the works of France's early 18th century free trade advocates had a declining influence on their nation's trade policies, although their beliefs generally prevailed in places such as Great Britain and America. Schumpeter (1954, pp. 392–93) argues that this forced entrepreneurial period benefited Say because he learned more than economic theoretical abstractions as he dealt with real-world business decisions.

During this time, Say wrote to Thomas Jefferson about possible emigration to America. Say had become a successful factory owner, employing 400 people by 1810. When he wrote Jefferson, the U.S. was at war with Great Britain, so such a move would have been difficult, if not impossible. And slavery was an issue if Say was to be a Virginia planter like Jefferson. Say adamantly opposed slavery (Palmer 1997, pp. 85–87; Say 1971, pp. 206–09). For these reasons, Jefferson sought to dissuade Say from attempting to emigrate. At the same time, Napoleon was suffering his final defeat at Waterloo. With Napoleon's departure, the French monarchy was restored in the person of Louis XVIII, and Say decided to remain in France.

In 1815, he began giving lectures at the Athenaeum that were anthologized into a short book. Say tried to educate the general public, just as he had with his *Treatise* in 1803, about what he considered the "laws of scientific economics." He had revisited England in 1814, commissioned by France's new government to write a report on England's economic and social development.

During the four months he spent in England, Say was conflicted about what he saw, admiring some things while deploring others. But he formed important friendships with such economic notables as Thomas Malthus, James Mill, Jeremy Benthem and David Ricardo. While visiting Glasgow, he sat in Adam Smith's professorial chair, a very emotional moment for Say. His views of England were no doubt affected by the criticisms and observations of his new acquaintances, especially their opinions on the monopoly grant to the East India Company and England's agricultural protectionism through the Corn Laws. Both these problems would eventually end, the former through bankruptcy and the latter through repeal, ushering in England's free trade years during the late 19th century. But Say would not live to see these beneficial changes.

Three editions of his *Treatise* had been published by 1820, and Say was internationally known. He was asked to provide extensive commentaries on Ricardo's *Principles of Political Economy and Taxation* (1817) and Malthus' *Principles of Political Economy* (1820). Given his increasing fame, Say was offered a chair in industrial economy at the Conservatory of Arts and Trades. This name was chosen because some in the French government were afraid that the term "political economy" gave too much prestige to teachers outside the government, creating a platform from which they would criticize state decisions. Say lectured at the conserva-

Demand for Commodities Is Created by Supplying Them

It is common to hear adventurers [entrepreneurs] in the different channels of industry assert that their difficulty lies not in the production, but in the disposal of commodities; that products 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 quicken sales and keep up prices. But ask them what peculiar causes and circumstances facilitate the demand for their products, and you will soon perceive that most of them have extremely vague notions of these matters; that their observation of facts is imperfect, and their explanation still more so; that they treat doubtful points as matter of certainty, often pray for what is directly opposite to their interests, and importunately solicit from authority a protection of the most mischievous tendency….

A man who applies his labor to the investing of objects with value by the creation of utility of some sort, cannot 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.

Should a tradesman say, "I do not want other products for my woollens, I want money," there could be little difficulty in convincing him that his customers could not pay him in money, without having first procured it by the sale of some other commodities of their own….You say, you only want money; I say, you want other commodities and not money. For what, in point of fact, do you want the money? Is it not for the purchase of raw materials or stock for your trade, or victuals for your support? Wherefore, it is products that you want, and not money….

The same principle leads to the conclusion that 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. ■

— *A Treatise on Political Economy*, 132–33, 139

Consumers in All Nations Are Hurt by Trade Protectionism

The subject [is]…the nature of the injury that a community suffers by difficulties thrown in the way of the introduction of foreign commodities. The mischief occasioned to the country that produces the prohibited article is of the same kind and description; it is prevented from turning its capital and industry to the best account. But it is not to be supposed that the foreign nation can by this means be utterly ruined and stripped of all resource, as Napoleon seemed to imagine, when he excluded the products of Britain from the markets of the continent. To say nothing of the impossibility of effecting a complete and actual blockade of a whole country, opposed as it must be by the universal motive of self-interest, the utmost effect of it can only be to drive its production into a different channel. A nation is always competent to the purchase and consumption of the whole of its own products, for products are always bought with other products. Do you think it possible to prevent England from producing value to the amount of a million, by preventing her export of woollens to that amount? You are much mistaken if you do. England will employ the same capital and the same manual labor in the preparation of ardent spirits, by the distillation of grain or other domestic products, that were before occupied in the manufacture of woollens for the French market, and she will then no longer bring her woollens to be bartered for French brandies. A country, in one way or other, direct or indirect, always consumes the values it produces, and can consume nothing more. If it cannot exchange its products with its neighbors, it is compelled to produce values of such kinds only as it can consume at home. This is the utmost effect of prohibitions; both parties are worse provided, and neither is at all the richer. ■

—*A Treatise on Political Economy, 166*

tory for 10 years, coexisting with a government suspicious of academic critics. Some who said things that displeased the state had their courses closed. Finally, a little more than a year before his death, Say was awarded a chair in political economy at the College of France. Say thought his discipline ought to have been called "social economy" because economic laws and economic policies affected all society.

Although in poor health during the final years of his life, Say remained productive with lecturing, writing and overseeing the fifth edition of his *Treatise*, published in 1826. His wife died in 1830, leaving him lonely and depressed. In 1832, at age 65, a few weeks after giving his opening lecture at the College of France for the new term, he followed her in death.

Say has been credited with much more than what came to be called Say's Law of Markets. He was either the first, or among the first, to introduce into the classical school paradigm such concepts as utility, services and entrepreneur. Because he was fluent in English, knew his British classical school contemporaries well and corresponded with them frequently, he was able to facilitate the international flow of ideas. By 1826, his own major work had been translated into German, English, Swedish, Danish, Italian and Spanish.

Unwittingly, John Maynard Keynes might be primarily responsible for the reassessment of Say's place in the history of economic thought. By attacking Say's Law, Keynes forced this reexamination on the profession, although that was probably not his intention. The reassessment has, on balance, enhanced Say's place in history.

— **Robert L. Formaini**
Economic Writer

Say's Anticipation of Modern Debates over Taxation

It may be urged, that the pressure of taxation impels the productive classes to redouble their exertions, and thus tends to enlarge the national production. I answer, that, in the first place, mere exertion cannot alone produce, there must be capital for it to work upon, and capital is but an accumulation of the very products that taxation takes from the subject: that, in the second place, it is evident, that the values, which industry creates expressly to satisfy the demands of taxation, are no increase of wealth; for they are seized on and devoured by taxation. It is a glaring absurdity to pretend that taxation contributes to national wealth, by engrossing part of the national produce, and enriches the nation by consuming part of its wealth….

Hence, it is manifest that, although taxation may be, and often is, productive of good, when the sums it absorbs are properly applied, yet, the act of levying is always attended with mischief in the outset….

Admitting these premises, that taxation is the taking from individuals a part of their property for public purposes; that the value levied by taxation never reverts to the members of the community, after it has once been taken from them; and that taxation is not itself a means of reproduction; it is impossible to deny the conclusion, that the best taxes, or, rather those that are least bad, are

1. Such as are most moderate in their ratio.
2. Such as are least attended with those vexatious circumstances that harass the taxpayer without bringing anything into the public exchequer.
3. Such as press impartially on all classes.
4. Such as are least injurious to production.
5. Such as are rather favorable than otherwise to the national morality; that is to say, to the prevalence of habits, useful and beneficial to society. ■

—*A Treatise on Political Economy*, 447–49

Note

Unless otherwise noted, biographical material in this essay is taken from Palmer (1997).

Photo Credit

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