

# Mill, McCracken and the Modern Interpretation of Say's Law

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**Abstract:** This article deals with three overlapping issues. The first is the enormous role played by the American economist, Harlan McCracken, in the development of the ideas underlying the General Theory and in particular his role as the source of the phrase 'supply creates its own demand'. The paper then looks at the genealogy of this phrase, beginning with John Stuart Mill, and tracing its evolution from Mill to James Bonar to McCracken and then on to Keynes. Finally, the article looks at John Stuart Mill's own short statement on Say's Law, which has been overlooked in the economic literature until now. Mill's short statement is used to develop a proper understanding of the law of markets, demonstrating, amongst other things, the inadequacies of the phrase 'supply creates its own demand' as a proper definition of this crucial classical concept.

## 1 Introduction

Two parallel papers on the origins of the phrase 'supply creates its own demand' were published in this journal in 2006. In a paper of my own it was argued that Keynes' phrase 'supply creates its own demand' was likely to have had its origins in the works of John Stuart Mill, but that it was unlikely Keynes would have found those words himself. A conduit between Mill and Keynes was therefore needed. Richard Kent (2006) suggested two different possible conduits, either in the work of James Bonar or Harlan McCracken, favouring McCracken as the more likely. Both papers discussed the adequacy of Keynes' interpretation of Say's Law.

Using Kent's paper as the point of departure, this paper will discuss three closely related issues. It will firstly examine the hugely significant role of Harlan McCracken in shaping the *General Theory* as an attack on classical economic thought and Say's Law in particular. McCracken has been virtually ignored as an influence on the shaping of Keynes' ideas. It will, however, be argued that no chronology between the *Treatise* and the *General Theory* can ignore the immense role McCracken played in shaping the ideas found in the *General Theory*.

The second issue raised is the genealogy between Mill's original form of words to describe this classical principle, which originated with Say's *Théorie des débouchés*, and the final phrase that would appear in the *General Theory* as the definition of Say's Law. It will be shown that the relationship between Mill and Keynes may have been filtered through the works of both Bonar and McCracken.

Finally, there will be further discussion of the adequacy of the phrase 'supply creates its own demand' as a definition of the underlying classical principle. This discussion will focus on an entirely different short-form statement penned by Mill, this one taken from the contents page of his *Principles of Political Economy*. It is a statement that has, until now, not been recognised in the literature, yet it is an important means through which to understand the actual meaning and implications of Say's Law amongst classical economists.

## 2 The Crucial Influence of Harlan McCracken

Kent in his discussion of Keynes and Say's Law is completely right where he notes that 'it seems difficult to exaggerate the importance of Say's Law to Keynes as he wrote the *General Theory*' (Kent 2006, p. 62). The question therefore is: how did Keynes find his way to focusing his work on what he specifically referred to as Say's Law and defined as 'supply creates its own demand'?

I have previously discussed the crucial role of Malthus in creating an acute awareness in Keynes of the issues related to deficient effective demand (see Kates 1994, 1998). But while the basic framework of the debate over effective demand is evident in the correspondence between Malthus and Ricardo, there was a second somewhat coincidental occurrence that was able to establish in Keynes' mind the crucial significance of these issues and to provide additional depth and structure to the matters initially raised by Malthus. This was Keynes' coming upon Harlan McCracken's *Value Theory and Business Cycles* which was published in 1933, the same year as Keynes' *Essays in Biography*.<sup>1</sup>

That Keynes read McCracken's book during the early stages of work on the *General Theory* is not in doubt. There is a footnote reference to McCracken in what Moggridge describes as 'a typed fragment of the chapter on Capital of the second 1933 draft table of contents' (1979, p. 73; McCracken is directly referred to in n. 81). In a previous article it had already been noted that Keynes may have taken the phrase 'Say's Law' from McCracken (Kates 1995), but that the linking of the phrase 'supply creates its own demand' to that same work makes its role in shaping the *General Theory* of the highest order of significance.

Also shown in this earlier discussion, from his reading of McCracken, Keynes was able to:

- deepen his understanding of the law of markets
- absorb an extended criticism of this economic principle
- come to believe that the acceptance of the law of markets had been the basis for fundamental errors in Ricardo's approach to macroeconomic theorising
- adopt the term 'classical' to refer to economists who had followed in the Ricardian tradition, and
- take the term 'Say's Law' for his own.

These have been major landmarks in the development of macroeconomic theory and in the history of economic thought, which retain their imprint to this day.

## 3 'Supply Creates its own Demand'

But what makes McCracken's role so clearly crucial is that, as shown by Kent, it was from McCracken that Keynes took the phrase 'supply creates its own demand'. As discussed in Kates (2006), the origins of these words within English classical political economy are to be found in the writings of John Stuart Mill, but it had also been argued that it was unlikely that Keynes would have personally found those words himself. It was conjectured that some medium between their origins, in Mill, and their appearance in the *General Theory* was required, and it was suggested that a possible conduit might have been Piero Sraffa. But what was important was that someone familiar with Mill needed to be in a position to convey those words to Keynes. It now turns out that that person was Harlan Linneus McCracken.

Kent in his paper had suggested two possible sources for the phrase: McCracken and James Bonar. Both use phrases very near to Mill and both were read by Keynes.<sup>2</sup> Mill had written, 'every increase of production ... creates ... its own demand' with the key set of words being the final three. The three words 'its own demand' are a marker that associates Keynes' choice of words with Mill.

The phrase is found in Mill's highly influential article on the law of markets, which constituted the second of his *Essays on Some Unsettled Questions of Political Economy* (1874 [1974] with the first edition published in 1844). Both McCracken and Bonar would almost certainly have read this article and, given their own scholarly interests, would have read it with close attention.

Thus, to find in both writers statements that include the word 'creates' and the phrase 'its own demand' makes it plausible that this is a phrase whose origins stretch back to Mill. Moreover, because Bonar uses the term 'supply' while Mill does not, there is even a possibility that Bonar took the phrase 'creates ... its own demand' from Mill, added the word 'supply' to the front and had this entire phrase, with minor variations, taken up by McCracken. The evolution would be from Mill to Bonar, then from Bonar to McCracken, and finally from McCracken to Keynes. Thus:

Mill (1844): 'every increase of production ... creates ... its own demand'

Bonar (1885/1924): 'supply to create its own demand'

McCracken (1933): 'supply created its own demand'

Keynes (1936): 'supply creates its own demand'.

From this, it is possible to imagine a line of descent from Mill to Keynes via Bonar and McCracken. Mill is almost certainly the original point of departure for the definition of Say's Law found in the *General Theory*, but it was in McCracken's work that Keynes first found those words himself, and it was possibly in Bonar's work that McCracken found those words. Mill and McCracken are, however, the two essentials in the evolution of this phrase.

#### **4 Brief Biographical Background on McCracken**

As to who McCracken was, some of the basic biographical facts are known. He was at the University of Minnesota when he wrote *Value Theory and Business Cycles*, but moved to Louisiana State University where he was Chairman of the Department of Economics and eventually professor emeritus. He had been the President of the Southern Economic Association in 1945-46. At LSU, interestingly, he led a seminar on Keynesian economics aimed at graduate students, which was eventually turned into a publication, *Keynesian Economics in the Stream of Economic Thought* (McCracken 1961). In a very insightful review of the book in the *American Economic Review*, Lev E. Dobriansky wrote:

Summarizing with exceptional clarity and insight both the essentials of Keynesianism and the cumulative results of this intensive critical analysis ... he effectively combines in this study an analytical grasp of Keynes' thought, the perspectives of general theory and business cycle research, and a rich background in the history of modern economic thought. (Dobriansky 1962, pp. 226-7)

McCracken's ability to understand and explain Keynes' analysis was, no doubt, in part due to him having played a major formative role in creating that analysis. There is some irony, therefore, given Keynes' reliance on McCracken in coming to understand Say's Law, Ricardo and classical theory, in Dobriansky's

further comment that 'some of McCracken's observations and generalizations regarding Say's law of markets, Ricardo's thought, and the presumed sterility of classical economic logic can be easily refuted' (*ibid.*, p. 228).

A far greater appreciation of McCracken's role in shaping the Keynesian Revolution and in forming our contemporary view of classical economic theory is unquestionably in order. No chronology between the *Treatise* and the *General Theory* is complete without an extended appreciation of the role of Harlan McCracken, not just in the formation of Keynes' ideas but also in the shaping of contemporary economic theory into the twenty-first century.

Given the pivotal role that McCracken played in quickening Keynes' mind around the issues that would become core features not only of the history of economics but of economic theory itself, the absence of a deeper understanding of who McCracken was and the nature of his contribution to Keynes' understanding is a serious shortcoming within the History of Thought.<sup>3</sup>

## 5 Supply Never Exceeds the Inclination to Consume

But beyond the question of the origins of the words 'supply creates its own demand' is the more significant issue, which has always been whether these words adequately explain the accepted meaning of the law of markets amongst economists prior to the publication of the *General Theory*.

Say's Law could be summarised in the statement that while partial gluts were frequent, indeed continuous, a general glut was impossible. The self-adjustment to equilibrium, Kent's interpretation of Keynes' interpretation of Say's Law (Kent 2006, p. 63), cannot be reshaped as a denial of general gluts, which was the common phrase used during classical times to explain the meaning of the law of markets. While there were innumerable causes of recessions and unemployment recognised and discussed by classical economists, the meaning of Say's Law was that demand deficiency or overproduction would never be amongst them.

And to understand this issue, one may go to another short statement of Mill's, this one found in the *Principles* but one which has not previously been cited in the literature. This is his statement, found in the table of contents, that attempts to summarise the section in the *Principles*, 'Of Excess of Supply' (Book III, Chapter XIV, Section 3). This is the section that deals with the issues surrounding Say's Law. There, as a summary of Section 3, is found the following statement: 'the supply of commodities in general never does exceed the inclination to consume' (Mill 1848 [1921], p. xlv). The emphasis in this short statement should be placed on the word 'never'.

It is therefore of interest to look at the four contents headings for the chapter (*ibid.*, pp. xliii-xlv) which will put the issues into context and make clear what Mill was trying to argue. Emphasis will, however, be placed on the third of these summary statements, the statement which is the closest attempt to capture the central meaning of Say's Law in a single phrase.

The first of the summary statements made by Mill is the rhetorical question that frames the central issue: 'can there be an oversupply of commodities generally?' (*ibid.*, p. xliii). That is, even given the existence of frequent recessions is it possible that the right explanation would be aggregate demand in excess of aggregate supply? To this possibility Mill replies that such an outcome is not possible. He does so by firstly pointing out, as stated in the second of the summary statements, that 'the supply of commodities in general cannot exceed the power of

purchase' (*ibid.*), a conclusion that remains accepted within economic theory to this day. The principle that supply automatically creates the purchasing power needed to buy back what has been produced has not been contested amongst mainstream economists since Mill.

The third of the summary statements is the classical equivalent to 'supply creates its own demand' and states: 'the supply of commodities in general never does exceed the inclination to consume' (*ibid.*, p. xlv). It is Mill's attempt to explain the errors, as he saw it, in what we might today describe as the Keynesian case. That is, the supply of any one commodity might be produced in excess of the desire to buy at cost-covering prices but the supply of all goods taken together (that is, 'commodities in general') would 'never' exceed the willingness of a community to buy everything it is capable of producing. What is produced must, it was always understood, comprise just those goods and services that those with incomes to spend wish to buy, but the principle of deficient aggregate demand is specifically denied.

The final section is summarised as containing the 'origins and explanation of the notion of general oversupply' (*ibid.*, p. xlv). That is, Mill asks how it was that the possibility of oversupply and demand deficiency had come to be believed. Those who did so, Mill argued, were driven to such explanations to account for the existence of recession, but were misled by appearances without forming a deeper understanding of the underlying processes taking place.<sup>4</sup>

I conceive them to have been deceived by a mistaken interpretation of certain mercantile facts. They imagined that the possibility of a general over-supply of commodities was proved by experience. They believed that they saw this phenomenon in certain conditions of the markets, the true explanation of which is totally different. (*ibid.*, p. 560)

Mill's conclusion in regard to the possibility of over-production was 'that there is no fact in commercial affairs which, in order to its explanation, stands in need of that chimerical supposition' (*ibid.*, p. 562). The 'mercantile facts' to which Mill referred were commercial crises which he saw as typically due to over-trading or speculation and in which the consequences were 'a derangement of markets' (*ibid.*, p. 561). Thus, the phenomena which might give rise to the belief that general demand deficiency was taking place were evident to all; it was only the explanation for such recessions that was in dispute. Recessions occurred, but so far as classical economists were concerned, aggregate demand falling short of aggregate supply was never the reason.

It is important to recognise that one does not have to agree with Mill's conclusions to understand what conclusions he was trying to reach.

## 6 Conclusion

Keynes appears to have taken the phrase 'supply creates its own demand' from his reading of Harlan McCracken as well as much else. It is this phrase that has become the standard short-form statement on this set of classical principles, which wound its way from the writings of Say, amongst others, into the mainstream of classical economic thought. Yet the classical principle that was defended from the time of James Mill through to the publication of the *General Theory* did not suggest that supplying of itself would guarantee that the goods produced would be bought.

The actual point was something entirely different. The classical conclusion that derived from the general glut debates was this: that whatever might cause

recessions to occur, it was never due to overproduction or deficient demand; in Mill's short phrase, 'the supply of commodities *never* does exceed the inclination to consume' (italics added).

But in terms of this paper, what is of possibly greatest significance is the recognition of the singular importance of Harlan McCracken as a major influence on the arguments of the *General Theory* and thus on the macroeconomic theory that has dominated economic thought since the 1930s. No chronology on the development of the *General Theory* can ignore the immense role of McCracken, which has included, but is by no means restricted to, his bequest to economic thought of the phrase 'supply creates its own demand'.

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## Notes

- 1 For an earlier discussion of the pivotal role of McCracken in the development of Keynes' thought see Kates (1995, 1998).
- 2 For evidence see Kates (1998).
- 3 A forthcoming article will detail the contents of an unpublished letter from Keynes to McCracken, written in August 1933, in which Keynes specifically notes the importance of Malthusian economic theory in analysing the nature of the modern business cycle.
- 4 It was, of course, Keynes' argument that recessions were precluded by their acceptance of Say's Law.

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