Say's Law And The Keynesian Revolution

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Steven Kates, *Say's Law and The Keynesian Revolution.* How Macroeconomic Theory Lost its Way, Edward Elgar 1998. Pp ix, 252. ISBN: 1 85898 748 2

The author is an unabashed believer in Say's Law. But his book is not a book about the rights and wrongs of Say's Law. It is a book about John Maynard Keynes' uses and abuses of Say's Law. The book's thesis is that Keynes misused Say's Law to seriously misrepresent classical economists, and thereby discredit the creditable. The thesis is argued with great spirit.

My understanding of the line of argument is as follows. Keynes maintained (i) that Say's Law was critical to classical economics, and (ii) that Says Law was false. In seeking to establish proposition (ii) Keynes was more ingenious than to simply contend Say's Law's falseness. Rather, Keynes argued that by assuming Say's Law the classicals were compelled to affirm an absurdity: the non-existence of unemployment. To demonstrate this Keynes first assumed a premise:

Keynes' Premise: If there is unemployment there is demand failure (i.e. an excess supply of goods at full employment).

Keynes' premise amounts to the assertion that demand failure is the *sine qua non* of unemployment.

This Premise is then combined with Say's Law,

Say's Law: There cannot be demand failure.

A conclusion follows:

Conclusion: There cannot be unemployment.

Thus, to Keynes, the classical adherence to Say's Law meant that the classicals did not even have a theory of unemployment. It was not that the classicals had the wrong explanation of unemployment; they had no explanation at all. This, naturally, was a welcome conclusion to Keynes. To establish that classical theory was unsatisfactory because it was wrong theory would take some work. But to establish that classical theory is unsatisfactory because it has no theory of unemployment: that is an easy task. Little wonder the suggestion that "Classicals economics had no theory of unemployment" became popular maxim with Keynes' popularisers.

I need not tell you that Kates is dissatisfied with Keynes' logic, and with some justice. For the Classical economists would never have accepted the "Keynes' Premise", and would not hold any store by (or be held accountable for) any implications of such a foreign premise. Keynes, Kates suggests, is not hoisting classical economics by its own petard, but was misrepresenting the machinery of classical macroeconomics by inserting a premise that had no place there.

Kates believes that to do justice to classical economists we would present the classicals' logic thus:

Say's Law: There cannot be demand failure.

Implication: Demand failure cannot cause unemployment.

That implication is in Kates' view the critical import of Say's Law to the Classicals: to the Classicals whatever theory we may have of unemployment, it should not be a demand failure theory.

What are we to make of Kates' analysis? The riposte to Keynes that the classicals never assumed "Keynes' Premise" does not entirely dispose of the bite of Keynes' dialectic. If the Keynes' Premise is true, then Keynes would be still serving truth by drawing out the absurd implication of the Premise's conjunction with Say's Law, and as a consequence rejecting any theory (such as the Classical one) which assumed the Law.

So to evaluate Keynes' attempt to dispose of Say's Law (and classical economics) we are led to evaluating the Keynes' Premise. This Premise is surely not universally valid There are obvious cases of models with unemployment without demand failure. For example, the basic one-period neoclassical model (where there can be no saving or investment anyway), with a "too high real" wage.

But even if the Premise is not universally valid this reviewer would venture it characterises all models with a multi-period structure which are commonly used by economists today (such as the IS-LM model). The conclusion, therefore, would be that Keynes' shot against Say's Law is not so bad.

The real reproach to Keynes, in the opinion of this reader, is not that his salvo missed its target, but that it struck a target that was not relevant to the issue at stake. The issue at stake in the Keynesian Revolution was whether a laissez-faire economy would reliably tend to full employment. Critical to the issue was whether demand failure would occur in a laissez-faire economy; that is, would demand failure occur *if there were no interventions by the state in market processes*. The classical position would be justified if it was true that "there is no demand failure if there are no interventions by the state in market processes". But this proposition (right or wrong) is not Say's Law: Say's Law is an unconditional proposition. It asserts, without conditions, "there is no demand failure". The upshot is that Say's Law could be wrong and yet a laissez-faire economy could reliably tend to full employment. This, I suspect, is the attitude of modern neoclassicals. Little wonder that (as Kates notes) modern macro texts don't even mention Say's Law. The battle is somewhere else.

This review has concentrated on Kates' first chapter. It would be delinquent to omit to mention that the first chapter is followed by a scholarly survey of the usage of Say's Law in Ricardo, J.S. Mill, Say himself, and some minor authors; three more chapters on Keynes; and finally an appreciation of Say's Law discussions of the 1950s and later. This is valuable material: my only regret was that attention is not given to the significance (or insignificance) of Say's Law in Hayekian, Wicksellian, and Stockholm School theories of the business cycle.

Steves Kates has written a book of considerable learning. He has written an animated and stimulating book. He has written book that treats with a fresh hand some well known materials. It is a pleasure to read, and a gift to its field.

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