The Monetary Economics of Jean-Baptiste Say: Intellectual Predecessor of the Austrian School

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The French Liberal School represents a group of economic thinkers, who, in contemporary economic thought, are often neglected despite their revolutionary advancements in economic theory. Their framework would best be described as proto-Austrian, according to their deductive method, value theory, and pseudo-methodologically individualist nature. The subjective value and price theory implemented by the French Liberal School were adopted from the Salamancan school, leading to an economic core that anticipated many of the elements of the Mengerian tradition. The founder of the French Liberal School, Jean-Baptiste Say, embodies the elements of deductive economics in his *magnum opus*, *Treatise on Political Economy*. Say's *Treatise* is a masterful expropriation of economic ideas, building a foundation of economics on deductive logic, as opposed to mathematizing the discipline, and his proto-Austrian framework led him to the anticipation of later Austrian developments, especially his monetary theory[1]. In fact, a thorough examination of Say's monetary theory provides an inaugural Austrian understanding of the emergence and nature of money, monetary phenomena, the relationship between money and the state, banking practices, and the foundation of the business cycle.

Background

Say's foundational intellectual framework and economic thought were predominantly influenced by Adam Smith, so much so that he "explicitly [represented] his work as being mainly an elaboration and popularization of Adam Smith's *Wealth of Nations* for the benefit of continental European readers. Taking Say at his word, many economists seem never to have bothered to investigate more closely" (Sechrest 2000). Keeping with the Smithian tradition, Say stresses the importance of the right to private property: "It is to be observed that the right of property is equally invaded, by obstructing the free employment of the means of production, as

[1] Notably Jevons, Walras, Dupuit, and Cournot failed to follow in Say's footsteps and contributed to the increasing mathematization of the discipline

by violently depriving the proprietor of the product of his land, capital, or industry …" (2001, 54)[2]. The basis of an economy is rooted in private property, which similarly rests as a prerequisite for exchange and production. Private property, production, exchange, and subsequently the division of labor, allow for greater production and thus greater levels of wealth. Like Smith, Say recognizes money is not a measure of wealth, for money cannot directly satisfy an end or be used in consumption, but rather facilitates exchange within the economy. Say therefore echoes the Smithian developments of the laissez-faire economy before beginning his discussion on the role of money; however, "although Say frequently praises Smith, he also departs from Smithian doctrine on a number of important points" (Sechrest 2000)[3]. For example, Smith divided commodities and services into productive and unproductive labor respectively, as Smith felt that tangible objects themselves were of more value than intangible. However, Say corrects this notion and recognizes that services and commodities are both valuable, as value itself is subjective. Say's subjective value theory forms the core of his economic framework, and it allows for a correction of various false teachings regarding money within the British Classical School[4].

Methodology

The British Classical School, of which Smith is patriarch, clung to at best a cost of production theory of value and at worst a pure labor theory of value. However, unlike Smith's labor theory of value, Say "adopted a subjective value theory, since he believed that value rests on acts of valuation by the consumers. In addition to being subjective, these degrees of valuation

[2] Say's *Treatise* is hereafter referred to only by the page number in parentheses.
[3] Some economists still view Say as largely espousing Smithian and Ricardian ideas; For reference see "Jean-Baptiste Say and the Classical Canon in Economics: The British Connection in French Classicism" by Samuel Hollander
[4] Most notably the quantity theory of money

are relative, since the value of one good or service is always being compared to another" (Rothbard 1995, 18-19). Say was on the precipice of an economic breakthrough, as he "went up to the edge of discovering the marginal utility concept, without ever quite doing so" (Rothbard 1995, 19). Despite Say's seeming progress on his way to a modern Austrian understanding of subjective value, he faults in is his misapprehension that trade is for equal value, rather than both parties in exchange mutually benefitting, which "is inconsistent with much of his own position on utility" (Rothbard 1995, 20). Thus, Say lays the Smithian groundwork of laissez-faire influences and private property, but he stumbles with his utility theory which substantively opposes his theory of exchange; however, "[he] pointed the way to the eventual integration of a utility theory of goods with money" (Rothbard 1995, 38). While Say neglects the basis of a complete introduction of money by recognizing mutually beneficial exchange, he nonetheless begins his monetary theory with an explanation of barter.

Money as a Medium of Exchange

In the development of civilization, wants and desires are numerous and in fact unlimited, so individuals begin to engage in production and exchange to form what is known as the barter economy. In a barter economy, goods are traded exclusively for other goods. An autarkic society can produce wealth, but the advent of exchange and the division of labor are responsible for the formation of greater wealth and economic expansion. However, Say acknowledges that there exist issues within a purely barter economy, for producers can produce a good or service, yet to engage in exchange, both parties must value what the other party has to offer (equally): "This forces producers to exchange precisely what I say, what difficulty must ensue, were every one obliged to exchange his own products specifically for those he may want; and were the whole of this process carried on by a barter in kind" (91). Say acknowledges the issue of the of the double coincidence of wants, and that within a barter economy, parties wishing to engage in exchange would seek to find the commodity that the other party values and engage in exchanges *ad infinitum* to acquire the specific commodity necessary to exchange for the good or service they desired in the first place. The inefficiencies presented by copious intermediate exchange are resolved by a commodity whose value is rooted in exchange:

> If there exist in the society any specific commodity that is in general request, not merely on account of its inherent utility, but likewise on account of the readiness with which it is received in exchange for the necessary articles of consumption, and the facility of proportionate subdivision, that commodity is precisely what the cutler will try to barter his knives for; because he has learnt from experience, that its possession will procure him without any difficulty, by a second act of exchange, bread or any other article he may wish for. Now, money is precisely that commodity (91).

Thus, Say recognizes that money develops as a commodity with exchange value until it becomes the general medium of exchange. Additionally, while not explicitly acknowledging the indivisibility problem of lumpy goods, Say anticipates the solution by recognizing that money itself must be divisible to make exchanges with precise portions. Money must also be an object of desire within a community and is subject to confidence as a medium of exchange. Say's value theory complements his views on the emergence of money, as he recognizes that subjective valuation by the public ultimately determines what commodity serves as the general medium of exchange. Therefore, money would originate as a commodity with a value in exchange and sufficient public confidence, and over time this commodity would cement itself as the general medium of exchange. As such, money is chosen due to its inherent ability to satisfy as the medium of exchange as opposed to by government decree: "custom, therefore, and not the mandate of authority, designates the specific product that shall pass exclusively as money, whether crown pieces or any other commodity whatever" (92).

Characteristics of Money

Say continues by outlining the characteristics of a commodity that make it more likely to be useful as a medium of exchange, specifically recognizing the suitability of precious metals. Money must be highly divisible to ensure the ability to dole out exact amounts in purchases, for trading commodities that can't be divided leads directly back to the issues prevalent in barter economies. Money must also be durable, so as to maintain quality through numerous transactions, a quality especially ascribed to gold and silver. Additionally, the soundness of quality is irrespective of location; for example, gold and silver have the same level of quality throughout the world. Say also notes the distinction between monetary gold and nonmonetary gold, though he doesn't necessarily note high initial demand as a characteristic of money. He does, however, seemingly anticipate Rothbard on the point that any quantity of money will do, for its value fluctuates due to supply and demand: "A less quantity of bread will less satisfy the cravings of hunger; but a less quantity of money may possess an equal amount of utility; for its value augments with the diminution of its volume, and its value is the sole ground of its employment" (139). Additionally, paper money is only given value by the public for it is representative of real money, as paper money on its own is "destitute of intrinsic value" (95).

Say's discussion on the characteristics of money leads him to the conclusion that hard money best serves as the medium of exchange: "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" (108)[5]. However, Say importantly points out that it is still subjective value that determines the medium of exchange, for various commodities in various locations have served as money over time. Lastly, Say recognizes that money is not a measure of value, often a point unfortunately forgotten or simply

[5] Say's discussion further serves as an explanation as to why the precious metals have been utilized as a medium of exchange throughout history

ignored by the economics profession: “Money or specie has with more plausibility, but in reality with no better ground of truth, been pronounced to be a measure of value. Value may be estimated in the way of price; but it can not be measured, that is to say, compared with a known and invariable measure of intensity, for no such measure has yet been discovered” (102)[6]. As such, it is incomparable to equate value in terms of prices. Prices are reflections of subjective valuations and as such are constantly changing over time.

Money and the State

Say additionally provides thorough commentary on the relationship between money and the state; he begins by reiterating that “money is in-debted for its currency, not to the authority of the government, but to its being a commodity bearing a peculiar and intrinsic value” (94). Throughout history, governments have attempted to introduce paper money or other mediums of exchange by fiat decree, only to realize that citizens still prefer private coinage. The public will reject the government decreed money to continue with the general medium of exchange, for it was the public that chose the general medium of exchange due to its inherent exchange value in the first place, while the government money lacks said valuation. Say does however, ascribe the process of stamping and defining coinage to the state. Due to perceived issues associated with fraud in private coinage, namely stamping counterfeit weights and mixing of alloys, Say concedes that the government should serve the purpose of minting and assaying the coin. This monopoly granted to the state on stamping coinage is largely antithetical to Say’s framework, though he reasons that the cases of fraud and counterfeiting that would result from private coinage would be harmful, and the government would have a limited and purely legal role in the money supply. The government would be tasked with charging for their service due to the laws

[6] This reinforces Rothbard’s notion that equality of value in trade is largely antithetical to Say’s Framework. One can only “estimate” value as an individual values what is gained in exchange greater than what is given up

of supply and demand, but that it would still be the decision of individuals whether they wanted to utilize the service of assaying gold and silver. Say concedes the role of stamping the weight of coinage to the state, but definitively states that “Thus far, then, and no further, should the public authority intermeddle with the business of money” (108).

Despite Say’s concession, he nevertheless holds to the position that complete government control of the monetary system would in theory, and has empirically, lead to disaster. Say warns that debasement is an easy way for rulers to pay off debts. In fact, Say believes it “is comparable to bankruptcy of the government;” further, it “destroys lenders’ trust, upsets the allocation of capital to productive uses and thus penalises production.” (Jacoud 2017, 66). Debasement serves as a method of inflating the money supply and Say ultimately “believed that the expansionary effects would sooner or later evaporate. He also underscored the harmful effects of inflation characterized by relative price imbalances and misallocation of resources.” (Béraud and Numa 2018, 231). While he doesn’t espouse a completely Rothbardian analysis, Say does recognize that the “variation in the quantity of money has an impact on its value, but this impact cannot be reduced, in a simplistic way, to a variation in the same proportions,” breaking from the proportional price increases embraced by the British Classical School (Jacoud 2017, 63). Likewise, Say recognizes that “Money's purchasing power ‘rises and falls in proportion to the relative demand and supply’” (Sechrest 2000). Say therefore develops a rudimentary theory of changes in the supply and demand for money and the corresponding changes in purchasing power, explicitly noting the harms and perils that result from increases in the money supply by the state.

Fixed Values

Say further examines the relationship between the state and money by examining bimetallism and legal tender laws. The value of money is determined subjectively, and as such changes and varies over time. Since the value of money is constantly fluctuating, Say recognizes that the fixation of value is reckless, as it assigns an arbitrary value to money apart from its actual value: “The value of a piece of silver is arbitrary and is established by a kind of mutual accord on every act of dealing between one individual and another, or between the government and an individual. Why, therefore, attempt to fix its value beforehand?” (108). Therefore, the ratio of the value between gold and silver will fluctuate with one another, due to the relative changes in supply and demand, and the subjective valuation placed on money. Say points out that in 1728 in England, the government established a fixed ratio between gold and silver, which lead to an overvaluing of gold, and an undervaluing of silver. Say notes that there would be “a profit on melting down the silver, and a loss on payments in that metal; for which reason, thenceforward, until the parliamentary suspension of specie payments by the Bank of England in 1797, payments of course were commonly made in gold.” (107). The departure of silver from the economy and the reliance on gold stems from the respective fixed ratios placed on the currencies by the government; and it is the process by which the artificially overvalued currency drives out the artificially undervalued currency that would later be known as Gresham’s Law. Say then concludes by stating that “the government attempted permanently to fix a ratio, that is, in the nature of things, perpetually varying” (107).

Fiat Money

Say then expands his monetary theory to encompass an analysis of paper money. The complete break from the gold standard occurred centuries after his writings, yet that his musings of a fiat paper system still have explanatory power is a testament to his economic prowess.

Money emerges as the general medium of exchange due the subjective value placed upon it through its use in exchange; however, paper money develops due to the authority of the state and derives its value due to its ability to pay off debts: “In the first place, a paper, wherewith debts can be legally, though fraudulently, discharged, derives a kind of value from that single circumstance” (120). Hard money possesses characteristics which preclude its emergence as a medium of exchange, whereas paper money derives value from its ability to be used as fraud. Once injected into the economy, paper money deteriorates the money supply, as the paper itself is destitute of value, and the only reason the public accepts the paper money is due to coercion by the state. The paper may be stated to be backed up by precious metals, but often the paper money is tampered with or simply not redeemed. Say recognizes that paper can be used to redeem either a fixed quantity of money on the day, or as was the case with French livres. The paper money promised to pay the value of the livre, which allows for the tampering and meddling of the livre by the state. The value of the livre could be artificially redefined or simply altered due to debasement. In essence, this gave the state the ability to significantly decrease the value of the paper money and break the paper from a fixed redemption, allowing for further deterioration as the state continued its reckless inflationary and spending habits, while the public were forced to endure the consequences of the state’s monetary malfeasance.

Historically, governments most often introduced paper money to pay for wars and debts. Rather than acquiring commensurate capital to engage in warfare, governments tend to issue paper to pay for the war with the promise of redemption. Say recognizes that paper issued with the promise of redemption offered some hope as long it was redeemed, but this rarely happened, especially in wartime. Additionally, paper broken from the redemption of gold fared far worse at possibly being used as a medium of exchange. The regency government of France issued paper-money that consisted of little-to-no value despite the promise of redemption, due to the previous debasement and deterioration of the silver coin. The *assignats* issued by the following revolutionary government in France were even more worthless, as originally, they were at least stated to be redeemable, though Say notes they were never actually redeemed. The following round of assignats didn't even offer the false promise of redemption and their value understandably dwindled. Say concludes his section on fiat paper by remarking that "the sum expressed in an assignat presented the idea of no definite value whatever; and those securities could not but have fallen to nothing, even had the government inspired all the confidence, of which it was so eminently destitute" (121).

Banking

Say concludes his chapter on money by discussing banking, a vital part of the monetary system. Banks can serve as depository institutions by which depositors can drop off gold or silver; banks then transfer credit from customer to customer, or give bank notes, which are redeemable on demand. Banks that engage in sound banking practices are preferable to those who engage in fractional reserve banking, for banks need to remain fully backed as otherwise they will become insolvent for being unable to fulfill their obligations. Likewise, banks are able make a profit by charging for their services: either a fee for depositing or a fee for redemption. Likewise, Say prefers a system of competitive banks that issue redemption notes, as opposed to a monopoly bank. Say then transitions into discussing the role of "banks of circulation." Banks of circulation in Say's analysis are representative of loan banking and he believes these banks function as financial intermediaries. Additionally, banks have the opportunity to make a profit by lending out money for a shorter duration than is required for obligations to be due; however, Say does not explicitly recognize the full inflationary potential of fractional reserve banking, a weak point in his analysis[7]. Overall, Say recommends a system of competitive deposit banks relying solely on redemption, who make money by charging for their storage services. Additionally, fully backed and thus solvent banks are preferred to fractional reserve banking practices. Say likens insolvency to fraud, and he recognizes that banks provide productive services, despite his faults regarding the allowance of fractional reserve banking practices for loan banks.

Say's Law: Malthus' Theory of General Gluts

While Say's exhaustive monetary theory is underappreciated, his concept of what would later be known as "Say's Law" represents his most well-known contribution to economic thought. In fact, Say's Law plays an important role within Say's monetary theory and similarly contributes to Austrian Business Cycle Theory. However, it is important to understand Say's Law as it was originally presented and within its historical context before delving into the various critiques, implications, and interpretations associated with it. Say's Law is the answer or counter to the question of whether there can exist a general glut of goods. The position that within an economy there can be a general glut of goods was predominantly put forth by Thomas Malthus. Malthus, like Adam Smith, was a member of the British Classical school of thought and he put forth the idea that that "the recessions experienced by England at the end of the Napoleonic Wars had been caused by oversaving and demand deficiency. And so a debate was commenced across the whole of the economics community of the time, with a raft of books on economic theory published over the next few years in which much of the argument centered on a discussion of what Malthus had written" (Kates 2010, 11). Malthus believed that when consumers begin to consume less due to oversaving, there is insufficient (aggregate) demand,

[7] He still recommends that banks of circulation must be run with a tendency towards solvency and safety, despite his seeming allowance of fractional reserve banking

which in turn spurs decreases in profits and thus investments for producers[8]. Now there exists a general glut of goods and producers have no incentive to produce due to the lower investments and profits because of the lack of consumption; thus, a recession[9]. Malthus then postulated that the government would be effective in solving the issue of the general glut of goods, as the government is an entity which consumes without producing and would be vital as an agent to fight against recession by "eating up" the general glut of goods. However, Say put forth an alternative position that argues that there cannot exist a general glut of goods within a free market.

Say's Law

Say's explicit detailing of what would later be formalized as Say's Law in the *Treatise* is as follows:

> A man who applies his labour 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 (56).

Say's Law can then mostly aptly be interpreted as production opens the door for demand. Say is recognizing producers don't just produce to produce; rather, producers engage in production in order obtain utility[10]. Say's Law defies Malthus's postulation and suggests an alternative reality to endogenous cycles of overproduction or demand deficiency. On the free market, man's wants are unlimited and as such, individuals produce to fulfil those wants by demanding other products; therefore, there cannot be a *general* glut of goods. However, Say

[8] Malthus also distinguished between goods of necessity and luxury; "luxuries" would not be bought and thus a glut of goods would remain

[9] It is important to recognize there would be a "general" glut of goods, not just "excess supply" of a good

[10] In other words, a producer produces to gain income to then demand other products

points out that an excess supply of one good represents excess demand for another, so there can be relative imbalances within the market at any given time, but markets will eventually clear. Say recognizes these facts and posits that the very nature of production invalidates the possibility of a general glut and thus Malthus' theory of overproduction.

Critiques of Say's Law: "Supply Creates Its Own Demand"

Classical economists largely supported Say's Law and believed that "Demand deficiency is never a correct explanation for recession[11]. Production of more goods and services than will be demanded is an impossibility" (Kates 1998, 75). Despite this, later economists remained skeptical of the ability of Say's Law to accurately reflect the real economic order. Critics of Say's Law argue over what exactly the law states and its implications, and whether Say's comprehensive monetary theory is consistent with the Law. Ignorance of Say's Law has led to disastrous bouts in theory and policy conclusions, which is particularly the case in Keynesianism and Marxism. In fact, "Sowell (1985) writes that the most virulent attack came from Karl Marx, who declared Say's Law to be 'preposterous,' 'childish babble,' 'pitiful claptrap,' 'a paltry evasion,' and Say, himself, to be 'dull,' 'inane,' 'miserable,' 'thoughtless,' and a 'humbug.'" (Anderson 2000, 3). The implications (and misuse) of Say's Law are a part of the analysis by which "Marx deduced what he considered the inevitability of capitalist breakdown" (Should 1957, 626). However, "Marx's critique and rejection of Say's Law are based on analytical concepts that in fact bring him very close to Keynes," (Sardoni 2000, 113) who provides perhaps the most (in)famous refutation and misinterpretation of Say's Law.

Keynes' *General Theory* first coined the law as "supply creates its own demand," and unfortunately his work was so influential as to mold generations of economists into improperly

[11] Say's Law largely went by "The Law of Markets" at the time

understanding Say's Law. Keynes notably outright rejects the validity of Say's Law as he simply "argued that acceptance of Say's Law meant that one assumed recessions and involuntary employment were impossible" (Kates 1998, 74). In other words, Keynes believed that because recessions have occurred in the past Say's Law must be invalid. If Say's Law were truly "supply creates its own demand," then the economy therefore would always be at full employment, yet Keynes recognizes that this is not true, and therefore, rejects Say's Law. Keynes' policy prescriptions thus require the visible hand of the government to step in when there is a perceived decrease in aggregate demand (or oversaving) to bring the economy out of a recession. However, Keynes' interpretation of Say's Law as merely "supply creates its own demand" is as grievous a mischaracterization as claiming *The Rings of Power* is celebratory and faithful to Tolkien's work.

Keynes was no doubt inspired (at least in part) by Malthus as his theory of recession shares many similarities: oversaving, demand deficiency, and the necessity of the government to step in and correct market imperfections that give rise to recessions. Keynes sought to create a new economic paradigm, free from the "shackles" of classical thought and his *General Theory* necessitated the rejection of Say's Law, for his entire work was predicated on the idea that demand deficiency was a determinant of recession. Following Keynes, it was understood "An insufficient level of aggregate demand is held generally responsible for high levels of unemployment and it is almost universally accepted that deficit financed public spending can permanently raise the level of output and thereby lower the rate of unemployment" (Kates 2010, 8). However, "Keynesian economics, that is all of modern macroeconomics with its focus on aggregate demand, must collapse if the attack on Say's Law turns out to be wrong," and unfortunately for Keynes, there wasn't too much he got correct (Kates 2010, 9).

A proper understanding of Say's Law serves as a complete refutation for the Keynesianism disease; for, "Say's Law is not about the denial of recessions or even *a partial overproduction* of goods relative to demand; it is about dealing with the claims that a recession occurs because of a *general* overproduction of goods." (Anderson 2009, 53)[12]. Say Law *does not* insinuate that all supply is met with commensurate demand and that the economy is always at full employment, rather that producers produce to gain income to demand other products thus preventing a general glut: "We must in the first place have bought this money itself by the sale of productions of our own" (Say 1967, 2). At any given time within the market, there can be relative imbalances of goods as part of the market process, but there can never necessarily be a general glut and therefore, recession is not the result of demand deficiency (Say 1967, 5). Thus, the unraveling of "supply creates its own demand": "If Say's Law stated that way were true, we would never see gluts or shortages. The problem with this interpretation is, as Say himself recognised, that it ignores that mediating role of money" (Horowitz 2003, 93).

Money and Say's Law

Critics of Say's Law misinterpret the role of money in Say's Law, in the same way Say's Law itself is misinterpreted as "supply creates its own demand." Detractors mistakenly believe that Say's Law outlines a barter economy, where commodities are traded solely for other commodities, which is only a partial truth at best. Oscar Lange, a market socialist, commits the sin of believing that supply creates its own demand, and ignores the role of money to justify his dangerous Walrasian dogmatics:

> Oscar Lange ([1942] 1970, pp. 149, 164) argues that if the total value of the demand for commodities is identically equal to the total value of supply, it is possible to determine the equilibrium values of the relative prices of commodities, but not the monetary prices. This scenario precludes any substitution of money for commodities or vice versa. In other words, according to Lange, Say's Law depicted a barter economy in which money was

[12] Keynes clearly did not properly understand Say's Law

> merely a medium of exchange. In reality… Say moved away from such thinking, as it was inconsistent with his monetary theory (Béraud and Numa 2018, 219).

Unfortunately, Say does contribute to this misunderstanding, as "[i]n the famous chapter of the [*Treatise]* in which he presents this law, he explains that 'the purchase of a product can only be made with the value of another' (Say [1814] 2006, vol. 1, p. 249) and that money plays only a passing role in this double exchange." (Jacoud 2017, 76). However, Say reconciles his seemingly contradictory position by noting: "after all, money is but the agent of the transfer of values. Its whole utility has consisted in conveying to your hands the value of the commodities, which your customer has sold, for the purpose of buying again from you; and the very next purchase you make, it will again convey to a third person the value of the products you may have sold to others" (56). Therefore, "By associating his name with a law which seems to deny money a role, Say no doubt contributed himself to minimising the importance of his writings on money" (Jacoud 2017, 76) Yet, while Say seemingly minimized his importance of writings on money, he did not minimize the role of money. Producers gain utility in the form of money: a commodity whose value is derived from its use in exchange[13]. For Say, "[Money] is a product, therefore, it forms a part of the real economy. When it is first effectively produced (i.e., exchanged for), it opens a market, its value fluctuates with its relative supply and demand, and so on, just like all other products (Israelsen and Sanders 1996, 16). As such, the meddling in monetary affairs, which Say condemns throughout the treatise, has real economic consequences and contributes to the true cause of business cycles, which was completely ignored by Keynes in his fervor to invalidate Say's Law and prop up his own dangerous policy prescriptions[14].

[13] In Say's analysis he explains that producers produce to demand goods that will ultimately be purchased, hence his position that products can only be purchased by another. However, he still believes in simply holding money. See *Money as a Store of Value: Jean-Baptiste Say on Hoarding and Idle Balances* by Guy Numa

[14] Say recognized monetary inflation could upset capital allocation, but he doesn't seem to fully grasp the relationship between monetary inflation and the production structure, with respect to the "Law of Markets"

Say's Law and Austrian Business Cycle Theory

The perversion of the monetary system via bank credit inflation serves as the catalyst of business cycles in Austrian Business Cycle Theory. Say's Law complements Austrian Business Cycle Theory, which serves to invalidate Keynes' unwarranted rejection only further. Keynes felt that business cycles and recessions were endogenous to the market and that Say's Law can't hold true due to the mere existence of recessions; however, Say's Law disputes that claim and is vital in explaining the imbalances within the market that are caused by exogenous governmental factors. Say's refutation of Malthusian doctrine means that there must be a differing cause for general gluts and recession, and Say recommends the role of government intervention in the spawning of the general gluts:

> It is because the production of some commodities has declined, that other commodities are super-abundant. To use a more hackneyed phrase, people 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.
>
> It is observable, moreover, that precisely at the same time that one commodity makes a loss, anoth-er commodity is making excessive profit. And, since such profits must operate as a powerful stimulus to the cultivation of that particular kind of products, there must needs be some violent means, or some extraordinary cause, a political or natural convulsion, or the avarice or ignorance of authority, to perpetuate this scarcity on the one hand, and consequent glut on the other. *No sooner is the cause of this political disease removed, than the means of production feel a natural impulse to-wards the vacant channels, the replenishment of which restores activity to all the others*. One kind of production would seldom outstrip every other, and its products be disproportionately cheapened, were production left entirely free (57, emphasis added).

William H. Hutt furthers Say's notion and similarly recognizes that the distortion of the market is responsible for business cycle: "[d]epression is, indeed, the consequence of cumulatively induced refusals to sell at prices consistent with the coordination of the economy. This is the truth which Say's law ruthlessly exposes. Discoordination in one sector of the economy will, if there are price rigidities in other sectors, bring about these successively aggravating reactions, one decline in the flow of services inducing another" (Hutt 1974, 37-38)[15]. Hutt's explanation expresses that discoordination within the economy is responsible for business cycles, and he powerfully notes the role Say's Law plays in keeping the market in check until exogenous factors creep in. Austrian Business Cycle Theory then fills in the gap of how exactly production becomes distorted, as the general overproduction of goods cannot occur when Say's Law holds.[16] Rothbard explains the nature of the business cycle thusly:

> In sum, businessmen were misled by bank credit inflation to invest too much in higher-order capital goods, which could only be prosperously sustained through lower time preferences and greater savings and investment; as soon as the inflation permeates to the mass of the people, the old consumption–investment proportion is reestablished, and business investments in the higher orders are seen to have been wasteful (1963, 57).

Simply put, entrepreneurs engage in malinvestments as they are misled by artificially low interest rates against rates of return, which results in a distortion of the production structure and a variety of unprofitable and wasteful ventures are revealed. Keynesian economists blame a fall in demand, and conveniently ignore the role of government credit expansion. Thus, "the entire Austrian theory of the economic cycle explains why, under certain circumstances, and as a consequence of credit expansion, Say's Law repeatedly fails to hold true" (Huerta de Soto 2020, 545). Keynes failed to recognize that Say's Law establishes that general overproduction is not possible, and that the existence of recessions was not proof that Say's Law must be invalid, rather, another factor contributed to the existence of recessions. This factor is the precisely the changes in the money supply that distort production as Rothbard noted:

> As a result, changes in money can affect the entire economy in systemic ways. Excesses and deficiencies in the money supply will distort the money prices that guide economic activity by influencing, from the 'money side,' the exchanges that create those prices. The link to Say's Law is that these acts of monetary exchange are what bring together acts of production with acts of demand (Horowitz 92).

[15] Hutt considered himself a classical economist rather than a fully-fledged Austrian, yet his work is methodologically very similar to an Austrian approach.
[16] There can only be relative over or underproduction of goods, which are ironed out by the market over time.

Say recognized the coordinating role of money between the acts of production and demand, and that while relative acts of over or underproduction are possible, the market works to correct those imbalances. Recessions, or the business cycle, result from monetary mismanagement that distorts the relationship between production and demand through the conduit of money. As such, Austrian Business Cycle Theory utilizes Say's Law as a prerequisite to explain how credit expansion is responsible for business cycles as opposed to inherent market phenomena. Therefore, only a joint understanding of Say's Law and Austrian Business Cycle Theory leads to the conclusion that "the problem with the economy is one of incorrect proportions of production, as opposed to being a general fall in consumption," contrary to Keynesian doctrine (Anderson 2009, 56). As such, economist Kenneth Sanders was correct when he stated: "A complete understanding of Say's own Law of Markets, which is based on exchange and subjective value, would be of great theoretical and practical value to the Austrian school of economics" (2005, 143).

Conclusion

Jean-Baptiste Say represents an important chapter in the story of economic thought. His systematized, subjectivist framework led him to depart from the rigidity of the British Classical School and as a result, provided economic insights and discoveries that were anticipatory of later Austrian developments. Much of his work outside of Say's Law has been both underappreciated and understudied; however, perhaps his most underappreciated contribution is his monetary theory. Say presents a detailed and decidedly Austrian approach in his monetary theory, which is grounded in his subjectivist methodology. Beginning with the nature of private property and a barter economy, Say pivots to a comprehensive analysis on the origin and characteristics of money, the value of money, desirable characteristics of money, banking practices, fiat paper, and the role of the government in the money supply. Additionally, “Say’s Law” as it was originally intended is a powerful part of the free market but has largely deviated from its original intention. Unfortunately, Keynes’ defamation contorted Say’s brilliant contribution into a convenient strawman that allowed for his desecration of economic discipline. Despite Keynes’ destructive misnomer, Say’s Law is not simply “supply creates its own demand;” likewise, Say’s Law does not necessitate a purely barter economy, and is in fact consistent with his monetary theory provided a full understanding of both. Say’s Law inherently refutes Keynesian and Malthusian criticisms and notions of demand deficiency or general overproduction as a true determinant for business cycles. Instead, Say’s Law works in tandem with Austrian Business Cycle Theory to recognize that forces outside of the market are responsible for distortion of the production structure which truly give rise to recessions. Ultimately then, Say’s work on money represents an incomplete, yet fully recognizable praxeological framework, and further serves as a call to examine broader economic history, as it provides insights and resonates into later Austrian developments in monetary theory.

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