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B.A. Part-1
Paper-1 (Microeconomics)
Topic- Say's Law of Market (Basic introduction)
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Say's Law of Market : (In 1803)

Say's law of market was given by a French economist Jean - Beptiste Say in the chapter xv , of the Demand or Market for Products in his book **Treatise on Political Economy.**

Say’s law of markets is the core of the classical theory of employment.

J.B. Say, enunciated the proposition that **“supply creates its own demand.”**

Therefore, there cannot be general overproduction and the problem of unemployment in the economy.

On the other hand, *if there is general overproduction in the economy, then some labourers may be asked to leave their jobs. There may be the problem of unemployment in the economy for some time. In the long-run, the economy will automatically tend toward full employment.*

In Say’s words, **“It is production which creates markets for goods. 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. Nothing is more favourable to the demand of one product, than the supply of another.”**

This definition explains the following important facts about the law :-

Production Creates Market (Demand) for Goods:

When producers obtain the various inputs to be used in the production process, they generate the necessary income. For example, producers give wages to labourers for producing goods. The labourers will purchase the goods from the market for their own use. This, in turn, causes the demand for goods produced. In this way, supply creates its own demand.

Barter System as its Basis:

In its original form, the law is applicable to a barter economy where goods are ultimately sold for goods. Therefore, whatever is produced is ultimately consumed in the economy. In other words, people produce goods for their own use to sustain their consumption levels.

Say’s law, in a very broad way, is, as **Prof. Hansen** has said, “**a description of a free-exchange economy. So conceived, it illuminates the truth that the main source of demand is the flow of factor income generated from the process of production itself. Thus, the existence of money does not alter the basic law."**

General Overproduction Impossible:

If the production process is continued under normal conditions, then there will be no difficulty for the producers to sell their products in the market. According to Say, work being unpleasant, no person will work to make a product unless he wants to exchange it for some other product which he desires. Therefore, the very act of supplying goods implies a demand for them.

In such a situation, *there cannot be general overproduction because supply of goods will not exceed demand as a whole. But a particular good may be over produced because the producer incorrectly estimates the quantity of the product which others want. But this is a temporary phenomenon, for the excess production of a particular product can be corrected in time by reducing its production.*

Saving-Investment Equality:

Income accruing to the factor owners in the form of rent, wages and interest is not spent on consumption but some proportion out of it is saved which is automatically invested for further production. Therefore, investment in production is a saving which helps to create demand for goods in the market. Further, saving-investment equality is maintained to avoid general overproduction.

Rate of Interest as a Determinant Factor:

Say’s law of markets regards the rate of interest as a determinant factor in maintaining the equality between saving and investment. If there is any divergence between the two, the equality is maintained through the mechanism of the rate of interest.

If at any given time investment exceeds saving, the rate of interest will rise to maintain the equality, saving will increase and investment will decline. On the contrary, when saving is more than investment, the rate of interest falls, investment increases and saving declines till the two are equal at the new interest rate.

Labour Market:

Prof. Pigou formulated Say’s law in terms of labour market. By giving minimum wages to labourers, according to Pigou, more labourers can be employed. In this way, there will be more demand for labour. As pointed out by Pigou, “**with perfectly free competition…there will always be at work a strong tendency for wage rates to be so related to demand that everybody is employed.”**

Unemployment results from rigidity in the wage structure and interferences in the working of the free market economy. Direct interference comes in the form of minimum wage laws passed by the state.