IV. Production Versus Consumption—the Macroeconomic Implications of "Scarcity"

A. Scarcity

1. The reasons for postulating a limitless need and desire for wealth.

   a. Reason and the range of knowledge and awareness, hence of action and experience. Wealth the material means of action and experience.
   b. Scope and perfectibility of need satisfactions—based on reason.
   c. Why the desire for wealth always outstrips the ability to produce it: the nature of desires and the nature of production.

2. "Scarcity"—transformation of its nature under capitalism.
3. The scarcity of labor and its ineradicability.
4. Why does unemployment exist?
5. Time preference and the scarcity of capital.

   a. Meaning and foundations of time preference.
   b. Why time preference keeps capital scarce.
   c. What makes time preference high or low.

B. Productionism

1. According to productionism, *the fundamental problem of economic life is how to expand the ability to produce in the face of a limitless need and desire for wealth.*

2. The productionist aggregate demand curve, shown in Figure 13–2 of *Capitalism* on p. 546, is based on the quantity theory of money. It is asymptotic for a constant quantity of money and corresponding constant volume of spending and shows increases in the quantity of output and labor demanded in inverse proportion to the fall in wages and prices.

C. Consumptionism

1. The belief in a fixed aggregate demand in real terms and that *the fundamental problem of economic life is how to expand the need and desire for goods in the face of an ability to produce that exceeds it.*

2. Diagrammatic exposition of the consumptionist view of the relationship between aggregate demand and aggregate supply appears in Figure 13–1 of *Capitalism*, on p. 545.

D. Manifestations of Consumptionism; Productionist Answers

1. The fear of "overproduction."

2. The fear of machinery and automation.

3. The belief in a fixed stock of work to be done in the world.

4. The belief in inherent group conflicts over fixed employment opportunities.

5. The advocacy of make-work and spread-the-work schemes.

6. The belief that the lack of wealth is an asset and the presence of wealth is a liability.

7. The belief in the beneficial effect of war and destruction.

8. The belief that government spending is a source of prosperity.

9. The belief that population growth is a source of prosperity by increasing the number of people who need and desire goods and thus enlarging the supply of consumer desires.

10. The related support for a policy of imperialism.

11. The related belief in the balance of trade/payments doctrine.

12. The belief in parasitism as a source of benefit to its victims.

13. The belief that advertising is inherently fraudulent yet economically necessary.

14. A belief in the purposelessness and irrationality of economic life.

15. The misconception of the value of technological progress.

16. The belief that increases in production are "deflationary" by virtue of tending to cause falling prices.

Consumptionism and Socialism

V. Say's (James Mill's) Law of Markets

A. Monetary Demand and Real Demand

1. Real demand is different than monetary demand, which is simply the monetary expenditure for goods and services. It is the monetary demand adjusted for changes in the price and wage level—*it's the goods and services the monetary demand actually buys.*

2. A smaller monetary demand at one time can constitute a larger real demand than a larger monetary demand at another time, if prices are sufficiently lower. E.g., a 200 monetary demand can constitute a larger real demand than a 400 monetary demand if prices are lower by more than fifty percent.

3. According to productionism, there is no inherent limit to aggregate real demand. *It depends only on the willingness and ability of people to produce.* If they are willing and able to produce more, then, given the quantity of money and the monetary demand, the price level will drop and the real demand will be increased. The actual quantity of output demanded is determined by the aggregate supply curve, which can be shown as a vertical line SS.

4. Determination of aggregate real demand by supply is shown in Figure 13–3 of *Capitalism*, on p. 561.

5. The determination of aggregate real demand by supply—the productionist/classical position—is known as *Say's Law*, after an early 19th century French classical economist, J.B. Say, who was a leading popularizer of the ideas of Adam Smith. It's usually stated as "supply creates its own demand."

6. More output per worker or more people able and willing to work results in more output that forces down prices, thereby increasing the real demand for output. (In the case of more people able and willing to work, the larger supply of labor also forces down wage rates, thereby increasing the real demand for labor as well as the real demand for goods.) In these cases, *supply is creating real demand via its effect on wages and prices in the face of unchanged monetary demands.*

7. Real demand has been defined as *the will combined with the power of purchasing.* On this definition, it's obvious that the only thing which can make possible more real demand is more supply. (The will to purchase can be taken for granted if the power is there—for, as we have seen, our desire for wealth exceeds our ability to produce it as the power of our imaginations exceeds the capacity of our arms.)

> a. More monetary demand without more supply just means higher prices and thus no additional real demand—is not sufficient to create additional real demand.
> b. It takes more supply to make a larger monetary demand into a larger real demand. Thus, more supply is *necessary* for the creation of more real demand.
> c. But it doesn't take more monetary demand to create a larger real demand. More supply will do it with the same monetary demand, by way of reducing prices (and, if it's a larger supply of labor that is in question, wage rates).
> *Thus, more supply is both necessary and sufficient for the creation of more real demand.* Supply, not more money, is what counts for real demand. More money is neither sufficient nor even necessary for more real demand. Only more supply creates more real demand.

B. The Referents of Say's Law

Say's Law refers to *aggregate—economy-wide—demand* in *real* terms. It does *not* mean that if the supply of some product is increased, the larger supply of *that particular product* will necessarily be accompanied by more monetary demand or even by more real demand. That may happen, but need not happen. An increased supply of a particular product can actually be accompanied by a lower monetary demand and by a lower real demand for that particular product. What Say's Law actually means, and which is brought out in such a case, is that the larger supply of a product *itself constitutes a larger real demand in the economic system as a whole.*

C. The Confirmation of Say's Law by Cases Apparently Contradicting It

The potato example in barter and in money. (See Table 13–1, on p. 563.)

D. Say's Law and Economic Adjustment: Partial, Relative Overproduction, But Never General or Absolute Overproduction (see Table 13–2, on p. 565).

E. Rounding Out the Picture: Say's Law and Competition

How those who introduce improvements usually benefit from them even if the industry as a whole loses.

F. Say's Law and the Average Rate of Profit

Aggregate profit equals D_C - D_L—i.e., Net Consumption—and is independent of the rate of increase in production and fall in prices.

Production increases, profitability, and the fallacy of composition (see Table 13–3, on p. 571).

G. Falling Prices Caused by Increased Production Are Not Deflation