Issue Analysis

Still Stimulating Like It's 1999

Time to Rethink Bipartisan Collusion on Economic Stimulus Packages

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Executive Summary

Facing an economic downturn and an election, politicians of both parties seek to stimulate consumer demand—and some business investment—through political action. If the early 2008 "Stimulus Package" does not succeed, they promise there will be "more to come."

As in recent stimulus campaigns—for example, during the first terms of presidents Bill Clinton and George W. Bush—politicians almost uniformly accept the legitimacy of government stimulus and rarely ponder the future economic harm such intervention may cause.

Genuine stimulus would entail liberalization of the economy from excessive regulations, interventions, and spending, and from political inflation of the money supply. It would maintain the conditions—legal order, minimal regulations, and stable institutions—within which wealth can be created while recognizing that governments do not themselves create wealth.

"Say's Law" in economics holds that supply creates its own demand. A *relative* overproduction of certain goods may occur, implying that too many scarce inputs have gone into the production of unwanted items relative to inputs for desired goods. But *general* overproduction—to which demand stimulus would allegedly provide relief—is not the core economic problem.

Among the prerequisites for economic well being—along with negligible political interference—is low tolerance for special-interest pleadings for resource transfers, no political maintenance of wages or prices above market levels, and a rejection of government-granted monopolies. Indeed, there is a tendency for recession if government does not perform these classical functions of preventing the interest group manipulation that distorts smooth economic enterprise.

Unfortunately in today's world, the opposite of Say's Law—"demand creates supply"—dominates macroeconomics and politics generally. Political expediency induces policy makers to overlook the long run, and to support measures like short-term demand stimulus packages. Such artificial demand distorts the freely determined distribution between consumer and producer goods. Political stimulus sends resources in the wrong direction and the true adjustment that the market actually needs is further postponed.

It may very well be that, while downturns and recessions can be effectively addressed through voluntary, market means—as Say's Law implies and its noninterventionist adherents maintain—our current political framework does not allow for non-governmental resolution as an option. We rarely open the newspaper to read the headline, "Government Decides to Do Nothing about Economic Downturn." Policy prescriptions like the 2008 election-year stimulus package may foster political ends that have little to do with actual economic recovery.

A real test of Say's Law will require changes in what most people expect from government, and in what representatives in government are able— constitutionally—to do in the name of public service. Once it moves beyond performing its "classical" functions of maintaining order and thwarting contrived scarcity, government becomes a transfer mechanism, one inherently limited in what it can contribute to the real economy. It can add little, and subtract much.

One immediate form of "stimulus" is to cut marginal tax rates to facilitate economic activity via increased supply. With returns to enterprise increased and workers and investors certain that present efforts will be penalized less, the economy will begin expanding owing to reduced effective tariffs on the creation of supply. Similarly, a sustained program of reducing governmental regulatory interventions in the economy, and invigorating institutions to keep such interventions minimal, point the way toward prosperity and wealth creation, and to an economy that can finally eschew damaging appeals to political stimulus.

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Introduction

> "[F]airly interpreted, "Say's law of markets" survives as the most fundamental "economic law" in all economic theory. It enunciates the principle that "demands in general" are "supplies in general"—different aspects of one phenomenon." – William H. Hutt, *A Rehabilitation of Say's Law*, 1974.[1]

Facing an economic downturn and an election, politicians of both parties are trying to stimulate consumer demand—and some business investment—through political action. If the early 2008 "stimulus package" does not succeed, they promise there will be "more to come."[2]

As in recent stimulus campaigns—for example, during the first terms of presidents Bill Clinton and George W. Bush—politicians uniformly accept the legitimacy of government stimulus. Despite past failed attempts to "fix" the economy, little dissuades politicians, or causes them to ponder the protracted future economic harm such intervention may cause. Meanwhile, few economists articulate that government is not the source of wealth creation, or that "stimulus" often amounts to moving resources from the left hand to the right, or from the future to the present. The principle of fine tuning—either of the Federal Reserve's monetary policy or of Congress's tax-and-spend policies—remains largely uncontested by either major political party, the academy, or the media. Thus, the view that markets *themselves* are the disruptive element in society becomes prevalent, and the preferred response to disruption—as now—becomes *more* government intervention.

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Such disputes are not new. Academic disciplines often pass through long periods in which they are unified behind or dominated by one particular idea or the pursuit of an almost single-minded goal. Physics, for instance, currently pursues a unification theory to reconcile the exceedingly large in Einstein with the infinitesimally small in quantum mechanics. For more than 70 years, chemistry accepted the existence of a substance called "phlogiston," which was believed to be consumed during the process of combustion, until that idea gave way to the discovery of oxygen.

Economics, like the physical sciences, has its own core animating forces, such as supply and demand and the invisible hand.[3] A more controversial core notion has been "Say's Law," the proposition that "supply creates demand," which has persisted in some form since the birth of the discipline. It is named after its most notable proponents, the French economist Jean-Baptiste Say (1767-1832).[4]

Coming to terms with Say's Law has the utmost relevance for our understanding of the future of governance, globalization, society, and the economy, especially in the context of vastly liberalized trade and the emergence of the developing world.

Whatever Happened to "Supply Creates Its Own Demand"?

Whether treated explicitly or implicitly, Say's Law has been a focal point in economics, sometimes accepted as obvious, while at other times—especially during recessions or depressions—dismissed as self-evidently false. In either case, an assumption of the truth or falsity of Say's Law anchored the economics of the day.

In today's academic climate, which pits Real Business Cycle theories against New Keynesian notions of efficiency wages and credit rationing, Say's Law is rarely mentioned explicitly, much less openly debated. Yet any direction that economics takes in the future will contain some verdict about the validity of Say's Law at its core. A retained interest in "fine tuning" the economy by stimulating demand, for instance, will imply a rejection of Say's Law.

Because Say's Law is a primary premise in economics, its acceptance or rejection underlies any policy conclusion, including the current stimulus policy debate. Had the early 19th century been dominated by a group of economists other than Jean Baptiste Say, David Ricardo, Thomas Malthus, and later John Stuart Mill, some version of the law—and its various refutations—would nevertheless have permeated economic discourse, because such considerations are elemental to the study of the production, distribution, and consumption of goods. The mere existence of Adam Smith's "propensity to truck, barter and exchange"[5] raises the question which Say's Law claims to answer: Where will the demand for these offered goods come from?

Because we are individuals who coexist and interact spontaneously, the truth or falsity of Say's Law reveals something fundamental about our nature and our relationship to the rest of the world.[6] Coming to terms with Say's Law has the utmost relevance for our understanding of the future of governance, globalization, society, and the economy, especially in the context of vastly liberalized trade and the emergence of the developing world.

Microeconomics vs. Macroeconomics: Is the Problem Scarcity—Or Abundance?

Maintaining discussion of Say's Law is appropriate, partly because of a persistent dichotomy in economics, arising from the division of the discipline into micro and macroeconomics. At the micro level, a beginning economics student learns that *scarcity* is the fundamental economic problem, and that the market challenge is to allocate finite resources to their most productive uses. But this premise is abandoned and even reversed at the macro policy level. Instead of the definitive economic problem being one of scarcity, the problem becomes one of *overproduction*, that is, of insufficient demand to absorb all that is produced. In other words, general gluts, which are the *opposite* of scarcity, command the bulk of the economist's attention.

Given this paradigm shift, microeconomics' demands of firm-level efficiency ring hollow or at best seem less compelling. Inefficiency at the micro level—failure to put resources to their most productive uses—seems like a minor detail once attention is shifted to the macro level, where there will be an eventual overproduction anyway. Why be efficient at the plant level simply so that the government can stimulate demand to buy off the excess production sooner rather than later? The urgency of efficiency at the company level falls flat if the government must act as consumer of last resort regardless, as standard and even much of cutting-edge macroeconomics holds.

The distinction raises an important conceptual point. Say's Law holds that supply creates its own demand. If that tenet is invalid and the economy is chronically prone to "overproduction" or gluts, the fundamental, overriding economic problem that must be explored, understood, and monitored in market economies is not scarcity, but abundance. This is obviously not true, and no economist says it, but given how the science is now defined, the implication seems inescapable. A *relative* overproduction of certain goods is compatible with broader scarcity, since this merely implies that too many scarce inputs have gone into the production of unwanted goods relative to inputs for desired goods. But *general* overproduction is not compatible with scarcity as the core economic problem.

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The Depth of Keynes's Keynesianism and Its Legacy

A tacit acceptance of Say's Law and recognition of the impossibility of general overproduction characterized much of economics after Mill's *Principles of Political Economy*, until the attack by John Maynard Keynes faulting the Law's denial of an equilibrium income: "The classical theory assumes...that the aggregate demand price always accommodates itself to the aggregate supply price,"[7] and that "effective demand, instead of having a unique equilibrium value, is an infinite range of values, all equally admissible."[8] Keynes disagreed with the classical theory that there was no upper boundary on potential employment except that which may be imposed by disutility of labor.[9]

For Keynes, government must assume the role of stabilizing employment, a function necessitated by the "unemployment disequilibrium" of the market.[10] Keynes believed that our primary existence is the present, in the here-and-now, and thus held that full employment should be the main objective of policy whatever the long term truth or falsity of Say's Law. But Keynes reached his conclusion during the heavy unemployment period of the 1930s,[11] so projecting our knowledge of the pitfalls of government intervention on the past may not be an entirely appropriate criticism. Care must also be taken to distinguish Keynes's views from those of his disciples; for as Friedrich Hayek observed, had Keynes lived longer, he probably would have been at the forefront of the fight against inflation even if he knew that his own policies were in part responsible.[12] In this regard, we can better see how Keynes could hold the view, in his 1930s context, that government policy should promote full employment whether or not he accepted Say's Law as a long-term condition.

This tolerance, of course, leaves aside whether one ought to forgive Keynes (and today's "stimulators") for advocating taxation and government activism as tools that effectively treat people as means to governmental ends rather than ends in themselves. Value-free economics is typically mute on the ethics of such manipulation.

If Say's Law is perceived not to apply even over the long term, the case for government intervention gains massive political credibility (indeed certain views of the nature of man and individualism and freedom would appear to yield). Even if Keynes did accept Say's Law, in his view the full-employment equilibrium did not arrive fast enough in a system characterized by a politically controlled money supply rather than the elastic money supply presumed in classical economics. This seems to be the view of modern policy makers.

Politically, the case for intervention today seems entrenched in a world of Keynesian nearsightedness, dominated by a "tendency to spurn the learnt discipline of the long view,"[13] as Hayek characterized Keynes's belief in the management of the market on a short-term basis. Even if Keynes had accepted Say's Law, he clearly did not oppose attempts to help it along. Such a qualified acceptance may be closer to Keynes's actual view, for as Thomas Sowell pointed out, Keynes did not show or argue that unemployment would persist indefinitely, but only for an extended period of time given certain conditions.[14] This raises important questions concerning truth versus expediency even if Say's Law were shown to hold in the long run. As we witness today, political expediency may induce policy makers to overlook the long run and support short-term stimulus measures that ultimately have a deleterious effect. Only rights-based political philosophy that spurns manipulating individuals through fiscal and monetary policy can remedy that situation.

Policy makers should recognize the role of government-sanctioned coercive power as a chief economic destabilizing factor. That coercive power prevents market clearing and delays economic recoveries.

"Rehabilitating" Say's Law and Repudiating Contrived Scarcity

One of Keynes's most ardent critics was the late economist William H. Hutt, who spent a substantial portion of his career disputing Keynes's theories and formulations, which he blamed on "defective thinking." A core of Hutt's critique is what he considered Keynes's inappropriate application of mathematical techniques to economics, a discipline that is not mathematical in its basic foundations.[15] Hutt's work, though not widely known, presents one of the most riveting reworkings and defenses of Say's Law in print. Hutt regarded Say's Law as the most fundamental truth in economics, and faulted what he considered Keynes' "disparaging" dismissal of Say's Law without analyzing or explaining its workings. Hutt rebukes Keynes for failing to name private use of government-sanctioned coercive power as a chief economic destabilizing factor.[16] The effect of that coercive power is to keep input prices artificially high and delay economic recovery.

In coping with recessions and economic cycles, Hutt holds that the explicit policy objective ought not to be to dictate to the market what its valuation of labor (or inventories, or capital goods, whatever the case may be) should to be, but to free the market from constraints that prevent the necessary changes and adjustments in valuation.[17] While recognizing some exceptions, Hutt points to the reluctance by Keynes and his disciples to promulgate policies aimed at unleashing market forces which would force reductions in prices and wage rates that had been driven above

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market-clearing levels (presumably by economic interest groups). In addressing unemployment, Hutt asserts that the Keynesians at times appeared not to have recognized that overpricing was displacing persons in affected occupations.[18]

Unfortunately, even pre-Keynesian economists, because of a tacit acceptance of Say's Law, failed to aggressively illustrate the power of markets to "correct any non-use of *valuable* (and hence *demanded*) resources of men or assets"[19] (Emphasis in original). Keynes's potential classical opposition was not so much disarmed as it was careless. Today the reverse of Say's Law—"demand creates its own supply"—dominates macroeconomics and politics generally, and the rhetoric of both parties in the debates surrounding the 2008 stimulus campaign. As articulated by Donald Moffat in the *Economics Dictionary*:

> The more modern view [of Say's Law] is closer to "demand creates its own supply." Welfare and various other programs in many countries provide purchasing power to consumers; that power results in demand for goods and services. Industry will see that those items are produced and in so doing will continue the cycle by putting more spending power in the hands of the public. [20]

Despite the emergence of stagflation (the breakdown of the Phillips Curve tradeoff between inflation and unemployment) and other unexpected economic predicaments, this reversal has yet to be "expunged from the textbooks" and replaced with "an exposition of the dynamic implications of Say's Law,"[21] as Hutt believes these lingering Keynesian views should be.

Indeed, Hutt regards the various "refutations" of Say's Law as actually glorious illustrations of the Law at work. He argues that the source of demand for any input or output is the flow of inputs and outputs of all things which do not compete: Supply *is* the demand for whatever the supplier intends to exchange a given good for.[22] He counters the Keynesian argument that the introduction of money alters the balance by claiming that J. B. Say's real meaning was that one buys not with money, but with "money's worth"—the price at which something sells at any given moment[23]—and therefore that any output can be priced for market clearance.

Hutt parts company with mainstream economists in an important way. Where a producer cannot sell goods in a downturn, Hutt posits that not overproduction, but an *inadvertent net consumption* and a reduction in the producer's power to supply have taken place. In other words, if the output

has no value it is not a product, since any desired product can be priced for clearance.[24] This extermination of value actually constitutes a *failure to supply*, not a glut or excess supply as generally held, and automatically results in a *contraction of some part of the previous power to demand***.** Such effects, which are indeed depressive on the economy, illustrate rather than refute Say's Law, according to Hutt.[25] Supply and demand are still equal, because to actually supply or produce is to offer at prices which induce sale: An extermination of this supply through accidental net consumption correspondingly eliminates a part of the power to demand.

Hutt believes the above condition is self-correcting as long as no artificial barriers prevent prices of both inputs and outputs from adjusting to market-clearing levels. This means that a prerequisite for economic well being is a society governed with minimal regulation, negligible political interference, and low tolerance for special-interest pleadings for wealth transfers. He therefore reserves his harshest criticism for forced or politically enabled withholding of capacity, such as above-market wages secured by unions and government-granted monopolistic abuses. Such forced withholding of supply aggravates a tendency toward depression in a modern economy. Any contraction of supply caused by deliberate, government-backed mis-pricing of inputs or outputs at above market-clearing levels leads to *further* contractions of supply in non-competing markets, as the inputs and outputs in these markets tend to become overpriced due to the reduced demand for them. And the infection spreads.[26]

A prerequisite for economic well being is a society governed with minimal regulation, negligible political interference, and low tolerance for special-interest pleadings for wealth transfers.

According to Hutt, "Say's Law explains the periodic tendency toward unemployment as long as governments are allowed to act for the private benefit of vote-controlling interests and neglect their 'classical' function of preventing the depressive consequences of scarcity contrivance through private coercion or collusion."[27] For Hutt, the real vitality of Say's Law as a way out of downturns is that, as long as market adjustments are allowed to operate, every price cut sets in motion a *real* multiplier effect that may allow other inputs to become profitable even if they are still priced above actual clearing levels[28] (The lessons for the stimulus debate are notable; in the Keynesian model these price cuts result in an aggravation of the problem).

Regarding unemployment in the context of policymaking, for Hutt, an excess supply of labor means that some of it has been priced into unemployment. In describing the path to recovery, he emphasizes that

market-clearing wage rates may actually be well *below* what employers would be willing to pay in order to remain profitable, if it were not for the fact that some sectors of the labor force can hold out for above-market wages.[29] So in reality, a genuine "excess supply" of labor should never occur.

The willingness to consume what is produced will always exceed the willingness to produce, since the desire to consume requires only an act of imagination, while production requires physical effort.

Similarly, Pepperdine University economist George Reisman argues that there exists a fundamental, *ineradicable* scarcity of labor and a limitless amount of work to be done: As productivity reaches the level at which everyone can have a Rolls Royce, it becomes desirable to have two, or a fleet of them. Next everyone wants his own airplane, jet, swimming pool, and so on. Even if the production of everything currently produced could be magically doubled, there still could not be a *general* overproduction: Those items which are luxuries would still be relatively underproduced, while necessities would be relatively overproduced. The willingness to consume what is produced will always exceed the willingness to produce, since the desire to consume requires only an act of imagination, while production requires physical effort.[30]

Like Hutt, Reisman stresses the necessity of price flexibility for market clearing. As distinct from the current stimulus strategy and credit manipulation, he holds that the Keynesian remedy of injecting money into the economy does not affect real demand, but only monetary demand; money does not affect real demand unless accompanied by *more production*. Any given amount of money can represent any amount of real demand—that is, it can buy any amount of goods or labor, given price and wage flexibility.[31] For example, $100 can just as easily buy 10 items at $10 each as $1,000 can buy the same items at $100 each. Assuming that people are not tricked, real demand—10 items—has not changed. This helps isolate Hutt's point that even as wages and prices adjust downward to market-clearing levels, real economic activity can increase.

The Interventionist's Error: The Belief That an Artificial Increase in Consumer Demand is a Harmless Stimulant

Friedrich Hayek's arguments against government intervention might not appear to rest on an explicit defense of Say's Law, but such a defense seems implicit in some writings. Emphasized instead is the futility, impossibility, and even deadly consequences of government interference. He urges abandonment of the words "full employment," in favor of the preservation of a "high and stable level of employment," which can be established only through a "properly functioning market which, by free play of prices and wages, secures in each sector a correspondence of

supply and demand."[32] Hayek's micro focus naturally led to an inclination to "throw overboard the concept of general price level."[33] Hayek cautions that a change in the quantity of money—an injection of inflation—must always affect *relative* prices, and thereby production, regardless of the effect on the general price level.

The point at which the new money enters the economic system alters the relative prices and the resource composition. For instance, an increase in consumer spending will shift resources to lower stages of production, and the new demand raises relative prices at the lower stages. At first, production will shrink to "fewer stages" than will actually be necessary after equilibrium prices are established: The longer process becomes unprofitable, and the result is that the non-specific inputs (the workmen) of earlier stages are no longer profitable and will be thrown out of jobs.[34]

The interventionist's error, according to Hayek, is the belief that simply because there is unused productive capacity in the economy, an artificial increase in consumer demand is a harmless stimulant. In reality, every increase in consumption requires previous saving if it is not to disturb the productive process. Hayek points out that the durable means of production do not encompass all of the capital needed for an expanded output, and that the existence of unused capacity is by no means an indicator that consumer demand is insufficient. In fact, the situation could be the exact opposite: Producers may simply have not yet had the opportunity to adjust their manufacturing processes.[35] A classical thinker might look at unused capacity as a major positive given the unyielding desire to do more with less; unused capacity can result from producers using their capital more wisely while looking for new ways to utilize that which efficiency has shut down.

A classical thinker might look at unused capacity as a major positive given the unyielding desire to do more with less; unused capacity can result from producers using their capital more wisely while looking for new ways to utilize that which efficiency has shut down.

The moral here is that artificial demand distorts the freely determined distribution between consumer and producer goods. With political "stimulus," resources will be led in the wrong direction and the true adjustment that the market actually needs will again be postponed. Only time will enable a permanent cure and restore what is truly needed: the adaptation "of the structure of production to the proportion between the demand for consumers' goods and the demand for producers' goods as determined by voluntary saving and spending."[36] Any single increase in demand will not be enough, Hayek warns, and the longer the intervention lasts, the more participants in the market there will be whose jobs depend on its continuance.[37] People at large must come to understand that it is

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simply not within government's power to maintain full employment.[38] Though Hayek's insights appear to adhere to some version of Say's Law (if the market is left free to monitor and correct itself), the last statement may not satisfy the Law's advocates. It only implies that *whether or not* Say's Law is true, the government's ability to help is limited.

Sowell and Hutt both dispute Keynes's claim that the classical economists assumed an automatic tendency toward full employment. Sowell calls the Keynesian "classical economist" a straw man and argues that the classics never made the claim that there is an automatic restoration of full employment (Sowell granted, however, that the classics had no unified theory of *un*employment).[39] Hutt held that there is a tendency for *recession* if government does not perform its "classical" function of preventing the interest group manipulation that holds prices at above-market levels; he further held that the classics recognized this tendency, and believed that economic policy could consciously aim at facilitating the working of the price system.[40]

Conclusion: Unstimulating Prospects

What are the prospects for renewed allegiance to Say's Law and its lessons given the enduring enthusiasm for political stimulus packages? We rarely open the newspaper to read the headline, "Government Decides to Do Nothing about Economic Downturn"—an unimaginable prospect given today's economics textbooks and training. The continuation of policies deemed Keynesian seems considerably more likely than a revival of Say's Law.[41] Moreover, "New-Keynesian" economics is a powerful economic sub-discipline, intent on showing why free markets cannot clear without government intervention.

Institutional opposition to policies that incorporate Say's Law—the assorted special interests who benefit from an interventionist, mixed economy—remains entrenched, making attempts at fundamental free-market reform extremely difficult. Yet, as maintained earlier in this essay, the truth or falsity of Say's Law, if it were to be established conclusively, would tell us something extremely important about our nature and that of the world around us. Few are probably willing to believe, upon serious reflection, that voluntary human action leads to ill, and that only manipulation by active government force creates harmony and wealth.

For his part, Hutt held that "Say's Law explains the fundamental reality upon which an economic science relevant to an advanced division of labor has to be erected," and that an understanding of it by policy

makers and opinion leaders could bring about an unprecedented material improvement in the quality of life.[42] In the bargain, a proper understanding of the Law would help do away with the dichotomy between macro and microeconomics described at the outset. If Hutt is correct that depression is caused not by insufficient demand or overproduction, but rather by *failure to supply*, the dichotomy addressed earlier—general overproduction versus scarcity—vanishes.

But as Richard Wagner of the Center for the Study of Public Choice at George Mason University explains, truth or falsity of an idea may have little to do with its political feasibility. Without institutional constraints, a democracy has a built-in bias toward deficit finance, so policy prescriptions based on Keynesian principles may have survival value even if they are clearly false.[43] Policy prescriptions like the 2008 election-year stimulus package may foster political ends that have little or nothing to do with actual economic recovery, and it pays to keep this political reality in mind.

Without institutional constraints, a democracy has a built-in bias toward deficit finance, so policy prescriptions based on Keynesian principles may have survival value even if they are clearly false.

It may very well be that while recessions can be effectively addressed through voluntary, market means, as Say's Law implies and its noninterventionist adherents maintain, our political framework does not permit non-governmental resolution as an option. A real test of Say's Law will require epochal changes in what people at large expect from government, and in what representatives in government are able—constitutionally—to do in the name of public service. The short-term political price may simply be too high for many lawmakers, especially before elections. As Hayek pointed out, the politicians blamed during a transition to something closer to laissez-faire and non-interventionism—a transition that could be accompanied by upheaval—will be the ones who *stop* interest-group benefits or inflation, not the ones who started those costly processes years earlier. Politicians therefore operate on the maxim, to paraphrase Keynes on the inevitability of death, that "in the long run we are all out of office."[44]

Yet even if political reality prevents our validating Say's Law in the marketplace and using its insights to avoid the mistakes and damage of artificial stimulation, we at least know that the law fully applies to government programs, services, and wealth transfers like the stimulus package. Stimulating demand for the burgeoning supply of government never seems to be a particularly thorny problem, unfortunately.

But one hesitates to conclude on such a negative note. This essay did, after all, open with the affirmation that genuine "stimulus" requires

Politicians operate on the maxim, that "in the long run we are all out of office."

liberalization of the world's largest economy from excessive regulations, interventions, high spending, and political money creation—all of which hinder private enterprise. If policy makers can increasingly accept the notion that in many ways supply *is* demand in the *private* economy, and that governments are merely a transfer mechanism in the *political* economy, the way is clear for Congress to acknowledge the limitations to what it can actually contribute to the real economy.

One immediate form of "stimulus" is to cut marginal tax rates to facilitate economic activity via increased supply. Such changes can take time to have an impact but a partial workaround is to make plain that any tax cuts will be retroactive to an earlier point in time.[45] With workers and investors certain that present efforts will be penalized less, the economy will begin expanding right away owing to reduced tariffs on the creation of supply. Similarly, as noted, a sustained program of reducing governmental regulatory interventions in the economy, and establishing institutions to keep such interventions minimal, point the way toward prosperity and wealth creation and to an economy that can finally eschew appeals to political stimulus.

Notes

1 William H. Hutt, *A Rehabilitation of Say's Law,* Athens, Ohio: Ohio University Press, 1974.
2 See, for instance, Jonathan Weisman and Peter Baker, "Bush, House Hammer Out $150 Billion Stimulus Bill," *Washington Post*, January 25, 2008, p. A1. http://www.washingtonpost.com/wp-dyn/content/article/2008/01/24/AR2008012400532_pf.html.
3 Of course, economics is not quite like the "hard" physical sciences. Economics is a "softer" science since its subject matter, man, possesses a will and consciousness rivaling that of the researcher.
4 For more on Jean-Baptiste Say, see his entry in Liberty Fund's online Concise Encyclopedia of Economics, http://www.econlib.org/library/Enc/bios/Say.html.
5 Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Indianapolis: Liberty Classics, 1981, p. 25.
6 If false, it seems that somehow we, as beings who produce and exchange, are categorically different from the non-conscious non-choosing rest of nature. How can it be that our own natural, uncoerced behavior—while beneficial at the individual level given the evidenced preferences of voluntarily exchanging parties—is responsible for generalized, self-induced hardship?
7 John Maynard Keynes, *The General Theory of Employment, Interest, and Money*, New York: Harcourt Brace Jovanovich, 1964, p. 26.
8 *Ibid*.
9 *Ibid*.
10 Thomas Sowell, *Say's Law: An Historical Analysis,* Princeton: Princeton University Press, 1972, p. 206. It is worth noting that dispute exists; Keynes's disciples may be more responsible than Keynes himself for the explicit philosophical rejection of Say's Law. Keynes himself believed that the market could eventually correct itself: The unemployment equilibrium was not necessarily a permanent state of affairs, merely one of some duration. Nonetheless this very fact of prolonged unemployment mattered most to Keynes from a social policy perspective

11 Gordon A. Fletcher, *The Keynesian Revolution and its Critics,* New York: St. Martin's Press, 1987, p. 304.
12 Friedrich A. Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas,* Chicago: The University of Chicago Press, 1978, p. 200.
13 Friedrich A. Hayek, *The Fatal Conceit,* Chicago: The University of Chicago Press, 1988, p. 57.
14 Thomas Sowell, 1972, p. 206.
15 William H. Hutt, *The Keynesian Episode: A Reassessment,* Indianapolis: Liberty Press, 1979, p. 26.
16 *Ibid*., p. 67.
17 *Ibid*., p. 172.
18 *Ibid*., p. 80.
19 *Ibid*., p. 53.
20 Donald W. Moffat, *Economics Dictionary*, 1983.
21 Hutt, 1979, p. 401.
22 Hutt, 1974, p. 5.
23 *Ibid*., pp. 19 and 25.
24 *Ibid*., p. 35.
25 *Ibid*., p. 27.
26 *Ibid*., p. 28.
27 *Ibid*., p. 111.
28 *Ibid*., p. 54.
29 *Ibid*., p. 83.
30 George Reisman, *An Introduction to Pro-Capitalist "Macroeconomics,"* Jefferson School Seminar Lecture, Summer 1985.
31 *Ibid*.
32 Hayek, 1978, p. 207.
33 Friedrich A. Hayek, *Prices and Production,* New York: Augustus M. Kelley, 1967, p. 29.
34 *Ibid*., p. 92.
35 *Ibid*., pp. 95-96.
36 *Ibid*., p. 98.
37 Hayek, 1978, p. 204.
38 *Ibid*., p. 196.
39 Sowell, p. 210.
40 Hutt, 1974, p. 121.
41 Despite his many criticisms of Keynes, Thomas Sowell argues that the greater part of the policies followed during the New Deal and in the postwar period were distinctly *non*-Keynesian: After Keynes's death, Keynesian "talk" became popular among official circles, and indefensible policies were often rationalized on Keynesian grounds. The result is that it is difficult to separate what Keynes's real influence is or would have been from that of those simply appropriating Keynesian terminology.
42 Hutt, 1974, p. 147.
43 Richard E. Wagner, "Liability Rules, Fiscal Institutions, and the Debt," p. 201 in *Deficits*. ed. by J. M. Buchanan, C. K. Rowley, and R. D. Tollison.
44 Hayek, 1978, p. 223.
45 John Tamny, "Washington Embraces Keynes, Investors Shrug," RealClearMarkets, January 23, 2008, http://www.realclearmarkets.com/articles/2008/01/washington_embraces_keynes_and.html.

About the Author

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