

## Two Truisms and the 'Price' Inflation

By ELGIN WILLIAMS

THERE ARE TWO DIFFICULTIES arising in current economic discourse which could be obviated by the application of two hoary economic truisms. The first is Say's Law of Markets and the second is the dictum: want is not demand.

There are other problems involved in some statements of Say's Law on which economists are still in disagreement but they are all in agreement on one thing: Say's Law says that all prices are income to somebody. In other words, "supply" and "demand" are the same transactions looked at from two angles.

The arena in which recalling Say's Law would help understanding of economic problems is that of the present (postwar) price situation. Economists are, many of them, referring to this situation as one of "high prices." But, since all prices are income to somebody, the national income is high in exact proportion to prices. This truism indicates that the problem of "high prices" is not one of prices at all but one of distribution of income. Recognition of this fact would focus attention on the current distribution of income instead of on the level of prices. Say's Law says in effect: the level of prices is unimportant; what matters is the distribution of income.

It is not the purpose of this communication to go into the reasons for the mistake made by economists in treating the current situation as a price situation instead of as an "income situation," which Say's Law tells them to do. Nor is it to the point here to indicate the sort of reform proposals which stem from such treatment. It is probable that economists are concerned over "high prices" because their own families fall into that proportion of the population adversely affected by the present distribution of income—the 75 per cent of the nation's families which receive less than \$4,000 per year. They are also concerned over the fact that 40 per cent of the national income goes to those families in the \$5,000-a-year-and-above bracket, and they are concerned, not because these people have more income than they themselves do (sour grapes), but because these people, unable to spend their large incomes, are "investing" them. This process of "investment" (speculation) threatens to wreck the economy through its inflationary results and will accomplish this wrecking job very soon. That is, it will do so unless it is checked by eliminating the income tax discrimina-

tion in favor of "capital gains" and by qualitative credit control, together with measures to increase the buying power of the lower 75 per cent in order to provide a field for productive investment, a field which is lacking today and therefore forcing funds into speculation.

But it is not my present purpose to go into these matters. The purpose is to call theoretical attention to the rôle of Say's Law in present economic analysis and to indicate the bad logic in describing the present situation as one of "high prices." Prices are not high for the 4 per cent of the population receiving more than \$7,500 a year. Or, to put it the other way, depression prices are too high for the 35 per cent of our families receiving less than \$2,000 in 1946, much less the 15 per cent of our families receiving less than \$1,000 per year. *Any* price prices some people out of the market.

A similar mistake in terminology, and therefore in analysis, has been made with reference to the present demand situation. Economists are accustomed to speak of the current (postwar) situation as one of "unsatisfied demand." This formulation overlooks the fundamental dictum of economics that want does not constitute a demand. It is only when wants are backed up by purchasing power that a real demand in the economic sense can be said to exist. When economists, who teach this in their elementary classes, recall this they will realize that economically speaking there is no such thing as "unsatisfied demand."

By definition a demand which is not satisfied is not a demand at all, but a "want" or desire. Surely no economist would speak of the case of a man walking into an automobile showroom and offering one dollar for a new automobile and being refused as a case of "unsatisfied demand." Yet they speak of comparable cases—where men offer \$1,500 or \$2,000 or \$2,500 for new automobiles and are refused—as cases of "unsatisfied demand." Such men are not *demanding* automobiles, they merely *want* automobiles, and it is their wants which are unsatisfied. If they *really* demanded automobiles, they would get them; the fact that they do not get automobiles is *prima facie* evidence of their not demanding them in the economic sense.

It is not my purpose here to suggest reasons why economists have allowed themselves to misuse the concept of demand in this fashion. It is probable that they have done so because their own wants in the matter of automobiles and so on are unsatisfied and they have felt the need for dignifying these mere wishes and desires with the name of "demands." Under such a delusion they have found it easy to speak of the situation in other markets as situations where "people stand ready to buy, but supplies to satisfy them

are not forthcoming." But such statements overlook the fact that people who *really* stand ready to buy materials—such as steel and paper, for instance—are getting their supplies. We hear reports, for instance, that automobile companies are buying rolling mills and the big newspapers are buying pulp factories and paper mills. In these markets *these* demands are the only *real* demands, just as real demands for automobiles are demands which take home the cars. Everybody knows this. Everybody knows, again, that for some time to get an apartment you had to buy an apartment house, and that houses are for sale not for rent. In neither the market for houses and automobiles nor in those for steel and paper are there unsatisfied demands.

If what the economist means when he says "unsatisfied demand" is "unsatisfied wants," he should recognize that these exist all the time for most people. Many of us are sufficiently concerned over this fact to recommend measures for the distribution of income to bring people with such "unsatisfied wants" into the market. But the point here is a purely theoretical one aiming at a closer adherence to elementary economic truth. This tells us that a demand for which a supply is not forthcoming is not a demand at all. After all, this is just a truism.

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