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Laws, definitions, and an axiom in economics

av Vegard Martinsen

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Dette nummer av AERA inneholder en artikkel om lovene i sosialøkonomien. Forfatteren har dette å si om bakgrunnen for artikkelen: «Mens jeg skrev kapitlet om økonomiens lover i *Saysiansk økonomi* tenkte jeg grundig igjennom hvilken status de hadde, og om forholdet mellom Says lov og de andre lovene. Jeg fortsatte å tenke på dette etter at boken kom ut, og jeg kom etter hvert til at Says lov har en helt annen status enn de andre lovene — men at dette avhenger av hvordan faget sosialøkonomi er definert! Jeg la frem mine synspunkter på et møte i FSO 27. august 2018, fikk der enkelte nyttige innspill, og skrev deretter artikkelen som blir publisert i dette nummer av AERA.»

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Laws, definitions, and an axiom in economics

av Vegard Martinsen

Say's[1] Law, when not ignored, is in the literature usually treated as one of a number of laws in economics. In this essay, I will try to show that with a proper definition of the science of economics, Say's law is more fundamental than the other laws, that it is a basic, inescapable truth that sets the limits for everything that properly belongs to the science of economics—i.e. I will try to show that Say's Law is an axiom.

As in many other sciences, there are laws in economics. Wikipedia[2] lists a staggering 34 laws[3], although some of them are clearly errors, misunderstandings or based upon incorrect theories. One of the laws included[4] by Wikipedia is "the iron law of wages", a law claiming that under capitalism, the worker's wages over time will decline and reach a level where it only will make the worker able to barely survive and procreate. This, of course, is not a law of economics, it is a lie commonly associated with Marxism (although it was first stated by Lasalle, before Marx). However, that such an idea is regarded as a law by some economists shows that the science of economics has yet to reach a level of explanatory power that sciences like physics, medicine, biology, and many others, properly enjoy.

The main reason that economics has not yet reached the status that many other sciences have achieved is that the science of economics, as it is practiced in academia today, does not yet have the tight connection to reality that any proper science must have. In order to have a tight and secure connection to reality, the fundamental concepts of the science must be correctly defined, and the starting point(s) must be explicitly stated. In the following, I will try to provide this.

LAWS OF ECONOMICS

Among the most important laws are the law of supply and demand, the law of diminishing marginal utility, the law of comparative advantage, and Gresham's law. (Strangely, some authors claim there are no laws in economics. An example is Z. Karbell, who in an article in respected popular magazine *The Atlantic* claims that "The 'Laws of Economics' Don't Exist"[5]). In order to illustrate the fundamental difference between Say's Law and the other laws, I will briefly discuss two of these laws.

Gresham's law says that "bad money drives out good money": in a society where the state has introduced legal tender laws saying that coins made of gold and copper ("bad money") shall have the same face value and purchasing power as pure gold coins ("good money"), the good money will disappear from circulation; people will melt them down and sell them as pure gold and receive

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[1] Much of what I know about Saysian economics I have learned from Per Arne Karlsen and Richard Salsman. In a workshop where we discussed the subject of this article, I received valuable suggestions from Andreas Aure, Lars-Erik Bruce, Martin Johansen and Per Arne Karlsen. I wish to thank Richard Salsman, who read an earlier version of this article and made numerous suggestions, some of which I have included in this final version. I wish to thank Hong Phuc Ho Chung for several good suggestions, and proofreading.

[2] I regard Wikipedia as a reliable source when dealing with totally uncontroversial topics.

[3] https://en.wikipedia.org/wiki/Category:Economics_laws Retrieved September 2018

[4] Wikipedia says that it is a "proposed law".

[5] https://www.theatlantic.com/business/archive/2013/04/the-laws-of-economics-dont-exist/274901/ Retrieved September 2018

more than the face value of the melted coins. The law of supply and demand says that when the price of a product increases, the demand falls. As I see it, these and the other valid laws of economics, have the same status as laws in other sciences.

One may get the impression that there sometimes are exceptions to the laws of economics. A citizen who is very loyal to the state and will submit to the intention of the state's decrees no matter what, may continue to regard pure gold coins and gold-and-copper coins as having the same value, and use them interchangeably. A Coca-Cola aficionado will not reduce the number of times he enjoys a Coca-Cola after a price increase; for him, an increase in price will not reduce his demand. Does this show that there are exceptions to these laws, and are they therefore fundamentally different from the laws of, say, physics? No, there may also seem to be exceptions to the laws of physics. Two examples: Newton's second law, F = ma, is as stated valid only when the mass of the accelerated object is constant, but mass increases with velocity; Ohm's law, V = RI, is only valid when the temperature is constant, but when an electric current runs through a metallic object, temperature increases. However, when one understands and applies the laws in context, one sees that the laws are valid. The same point applies to the laws of economics. They do not apply to individuals, they apply to groups. **The laws of economics describe how groups react to incentives** (by the action of a group I mean the sum of the actions of the individuals in the group).

Let me interject that incentives is an important topic in economics. In their book *Freakonomics*, authors Steven D. Levitt and Stephen J. Dubner say that "Economics is, at root, the study of incentives; how people get what they want, or need, especially when other people want or need the same thing. Economists love incentives. ... An incentive is a bullet, a lever, a key [that makes people do things] ... " (Levitt and Dubner 2006, p. 24). However, not all kinds of incentives belong to economics: if you dress up before a date in order make yourself more attractive, you are giving the people you meet an incentive to get to know you, but this phenomenon is clearly outside the science of economics. So, to say that economics is about the study of (all kinds of) incentives is incorrect

When applied to groups, the laws of economics have the same status as the laws of the other sciences. But with regard to individuals and not groups, one may say that there are exceptions to these laws—as in some contexts one may say that there are exceptions to the laws of physics. So, there are some contexts where there seems to be exceptions to the laws of science, and there are some contexts where there seems to be exceptions to the laws of economics. But there are no exceptions to Say's Law—there are no contexts where it does not hold. Therefore, Say's Law is essentially different from the other laws of economics.

SAY'S LAW

The principle that later became known as Say's Law was first stated by James Mill in 1808: "The production of commodities creates, and is the one and universal cause which creates a market for the commodities produced" (quoted from Reisman 1996, p. 560).

Say regarded this as an obvious, uncontroversial truth, and stated this principle in his *A Treatise* (1823): "It is worthwhile to remark, that 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 ..." (Say 2001, p. 134–35).

In William Hutt's book *A Rehabilitation of Say's Law,* one finds several telling evaluations of Say's law: "Say's Law is the most fundamental 'economic' law in all economic theory" (Hutt 1974, p. 3), "Say regarded Says's Law as accepted doctrine ... explaining what he believed to be unchallengeable" (Hutt 1974, p. 4). Interestingly, according to Hutt, "[influential economist John Maynard] Keynes regarded Say's Law as a truism of no useful application" (Hutt 1974, p. 10), and Marxist economist Paul Sweezy thought that "all the arguments of Keynes' *General Theory* fall to the ground if the validity of Say's Law is assumed" (Hutt 1974, p. 10).

The respect economists had for Say's Law disappeared almost overnight after the publication of John Maynard Keynes's *General Theory* in 1936. World famous Harvard economist John Kenneth Galbraith wrote: "Until Keynes, Say's Law had ruled in economics for more than a century. And the rule was no casual thing; to a remarkable degree, acceptance of Say's Law was the test by which reputable economists were distinguished from the crackpots" (quoted in Kates 2013).

This is how Keynes presents Say's Law in *General Theory:* "From the time of Say and Ricardo the classical economists have taught that supply creates its own demand;—meaning by this in some significant, but not clearly defined sense, that the whole of the costs of production must necessarily be spent in the aggregate, directly or indirectly, on purchasing the product" (Keynes 1936, Chap. 2). This is at best a complete misunderstanding of Say's Law, and what Keynes claims—that the whole of the costs of production must necessarily be spent in the aggregate on purchasing the product—is incorrect. After the publication of *General Theory*, almost every economist jumped on the Keynesian bandwagon and thought that Keynes had refuted Say's Law, and the law has been ignored by almost every economist since then.

My view is that Say's Law states an undeniable fact, and that any theory in economics that is not consistent with it, is wrong. If we draw a parallel to philosophy: any philosophic idea that is not consistent with the primacy of existence, is wrong (more on this later).

In order to continue, we have to have the correct definition of the science of economics.

ECONOMICS DEFINED

There are in essence two kinds of definitions of the science of economics, and they have vastly different implications and will lead the development and applications of the science in different directions. One type of definitions focuses on the so-called "problem of scarcity", while the other type focuses on production and trade.

In the textbook *Introduction to Economics,* authors Dobson and Palfreman provide this definition: "Economics is the science of making choices ... choices have to be made because resources are limited ... economics is about making choices under conditions of scarcity"[6] (Dobson, Palfreman, p. 3). Lionel Robbins gives essentially the same definition: "Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses"[7]. The Mises Institute's Percy Greaves defines economics thus: "Economics is the science which studies human behavior as a relationship between ends and scarce means that have alternative uses. Economics is a striving for efficiency in the use of means to attain selected ends and is essentially the theory of free enterprise"[8].

The other type of definitions focuses on production and trade. Economist George Reisman: "I define economics as the science that studies the production of wealth under a system of division of labor, that is, under a system in which the individual lives by producing, or helping to

[6] Most types of choices fall outside of economics. If you have to choose between studying for an important exam and attending a concert by your favorite singer, the science which helps you decide is ethics, not economics.

[7] https://en.wikipedia.org/wiki/Lionel_Robbins

[8] https://mises.org/library/what-economics

produce, just one thing or at most a very few things, and is supplied by the labor of others for the far greater part of his needs" (Reisman 1996, p. 15), and finance professor Yaron Brook has, in one of his podcasts, given the following definition: "Economics is the science that studies production and trade". Another definition one may come across mentions neither scarcity nor trade but says that economics is "the science of wealth": "Economics has been defined in a variety of ways. In the nineteenth century it was typically defined as the science of wealth or of exchangeable wealth" (Reisman 1996, p. 15).

SCARCITY

There are problems with these two types of definitions: "scarcity" and "trade". The economists who include "scarcity" in their definition believe that scarcity is a problem. On a website aimed at students of economics, one finds the following:

"Scarcity, or limited resources, is one of the most basic economic problems we face. We run into scarcity because while resources are limited, we are a society with unlimited wants. Therefore, we have to choose. We have to make trade-offs. We have to efficiently allocate resources. We have to do those things because resources are limited and cannot meet our own unlimited demands. Without scarcity, the science of economics would not exist. Economics is the study of production, distribution, and consumption of goods and services. If society did not have to make choices about what to produce, distribute, and consume, the study of those actions would be relatively boring. Society would produce, distribute, and consume an infinite amount of everything to satisfy the unlimited wants and needs of humans. Everyone would get everything they wanted, and it would all be free. But we all know that is not the case. The decisions and trade-offs society makes due to scarcity is what economists study. Why are certain decisions made and what is the next best alternative that was forgone?"[9].

However, the term "scarcity" is unclear. Economist M. Northrup Buechner says that "typically, economists do not bother to define scarcity". To make this less unclear, Buechner makes a distinction between "absolute scarcity" and "relative scarcity", and rejects "absolute scarcity", which is the concept that dominates the science of economics. He says that "the concept of absolute scarcity rules modern economics ... Modern economics hold that [absolute] scarcity is the fundamental fact of the economy. All economic phenomena, they say, depend on the existence of [absolute] scarcity; if nothing were scarce, there would be no need to economize and an economic system would be superfluous. Consequently, economists say, [absolute] scarcity is the fundamental cause of economics as a science and every economy as such is an economy of scarcity" (Buechner 2011, p. 236).

The definitions I have quoted above confirm professor Buechner's view that most economists believe that "scarcity is the fundamental cause of economics as a science". Let me interject here that professor Buechner is of the opinion that it is strange to talk about scarcity in a society where almost everything one can possibly need is available for purchase: "...modern industrial economies are economies of abundance, not scarcity. It is absurd on its face, in light of the unprecedented explosion of goods and services created by the semi-capitalist countries of the modern world to hold that [absolute] scarcity is their fundamental characteristic.... Absolute scarcity is a deficiency; it implies that there is something wrong. Something certainly is wrong in third world countries where people die of famine ... Third world countries ... are economics of scarcity" (Buechner 2011, p. 236-7). I share professor Buechner's view on scarcity.

[9] https://study.com/academy/lesson/what-is-the-basic-economic-problem-of-scarcity-lesson-quiz.html

One must, however, not confuse "shortage" and "scarcity". You experience a shortage when you ask for a bestselling book in a bookstore and the clerk says "Sorry, we are sold out. But we will get more copies in by Monday". Something like this happen from time to time, and is not a major issue at all, just a minor inconvenience. Scarcity, however, is completely different—it is, according to most economists, the fundamental problem in economics.

But when something is described as a problem, one presupposes that there is a solution, or at least that an alternative is possible (if you are out of bread, that may be a problem, but you can buy more bread—problem solved; if it rains on the 4th of July and you have to cancel your garden barbecue, that is a problem with no easy solution, but there have been previous 4th of Julys when it has been sunny). However, according to modern economics, the scarcity problem cannot be solved, and this is supposedly a fundamental premise of economics. It is true that reality is limited, the infinite does not exist. This is a fact that we must accept and adhere to. But to describe this as a problem is to have wishful thinking as the standard for evaluating facts—and this is a result of subjectivism, not rationality. "Wishful thinking is the formation of beliefs and making decisions according to what might be pleasing to imagine instead of by appealing to evidence, rationality, or reality", is Wikipedia's[10] correct description of wishful thinking. However, the method of any science is, or should be, the use of facts and logic, i.e. a rational method. This wishful-thinking method is often found in modern economics; one well known example is the pure-and-perfect-competition-model. We have already seen it in a quote I gave above: "we are a society with unlimited wants".

If we try to interpret "scarcity" in the most benevolent way possible, and do our best to connect it to reality, we end up with the more proper term "relative scarcity", a term introduced, as far as I have seen, by professor Buechner. He writes: "The concept of relative scarcity is like the concept of price. ... every individual price ... depends on its relation to the network of other prices ... relative scarcity is the demand relative to the supply of one good compared to the demand relative to the supply of another good". A discussion of this concept is outside the scope of this article, and interested readers should read chapter 12 "Scarcity and price" in Buechner's book *Objective Economics*[11].

According to Ayn Rand, definitions connect concepts to reality. Therefore, if one uses an incorrect definition of a science, the connection between the science and reality will be weak or, in some aspects, non-existent, i.e., some aspects of the science will consist of floating abstractions. Quoting Rand: "To know the exact meaning of the concepts one is using, one must know their correct definitions ... and one must be able to demonstrate their connection to their base in perceptual reality" (Rand 1990, p. 51).

If the definition of a science, then, is incorrect, it will lead the development of the science in directions that are wrong, even dangerous. Here is Ludwig von Mises describing how Karl Marx viewed the problem of scarcity: "Scarcity is an artificial product of established practices [private property, free markets]. The abolition of such practices would result in abundance. In the doctrine of Karl Marx and his followers, scarcity is a historical category only. It is the feature of the primeval history of mankind which will be forever liquidated by the abolition of private property" (Mises 1966, p. 235). I.e.: Marx's view is that communism solves the alleged problem of

[10] https://en.wikipedia.org/wiki/Wishful_thinking Retrieved September 2018

[11] I agree with Richard Salsman's criticisms of this book in *The Objective Standard*, Vol 7 No 1, but I find Buechner's views on scarcity close to the truth.

scarcity; under communism there is no scarcity and everything one wants can be gotten for free! Yes, when something is not "scarce", the price is zero.

There is one resource we all use all the time that cannot be viewed as scarce: the (oxygen in the) air that we breathe. We breathe air in and we use it up —consumption is destruction—but plants produce new air (oxygen) all the time. This resource functions as if it is not scarce. What do we pay for it? Nothing. The price of something that is not scarce is zero. Then there would be no money to be made by producing it. And if there is no money to be made by producing something, it will not be produced. So, if the (alleged) problem of scarcity is solved, nothing will be produced. But practically all the things we use must be produced, so this is a contradiction. (In a manned station in outer space or under water, air would be limited, and will have a price because it has to be produced there or transported there from earth.)

As mentioned above, Marx's view is that communism solves the problem of scarcity. Can this be the reason that in welfare states, who are based upon the Marxist ideology, the supply of important services are transferred from the free market, where one has to buy for a price what one wants, to the state, which provides these services to the public for free?

To conclude this section: to base the science of economics on "scarcity" is wrong and leads to harmful consequences.

TRADE

Let us look at the other important concept in the definitions: "trade". Is it necessary to include this concept in the definition? Is there a need for a science of economics if there is no trade? Sometimes, it is useful to look at the origin of words, and etymologically, the word "economy" comes from the Latin *economia,* meaning "household management"[12]. If one understands a household as a family unit that produces everything it consumes, there is no trade and the original concept of "economy" should therefore apply to contexts where there is no trade. However, from about 1650, the meaning of the concept "economy" changed to mean the "wealth and resources of a country", and if we look closely at this description, we see that trade appears—that there exists wealth and resources *in a country* must imply that trade between the citizens of the country do occur.

My view is that the appearance of trade changes the whole landscape, that trade raises an enormous amount of problems and challenges, and that trade should be one of the defining characteristic of economics. In other words: without trade, there is no science of economics. **Economics studies how actors/producers adapt their supply and demand to the real or anticipated demand and supply of other actors**. This is trade. Another indicator that a proper definition of economics should include trade is that if there is no trade, the laws of economics do not apply.

To define economics as "the science of wealth" is, as I see it, too broad. A science of wealth should include not only a discussion of why wealth is good (it makes man's life better) and what the source of wealth is (it is man's reasoning mind), but also things that would be surprising if found in an economics textbook. It must include topics like why some people may not be able to handle too much wealth (the saying "idleness is the root of all evil" is well known), but this topic belongs to fields like ethics and psychology. I would say that "the science of wealth" is a wider field than economics, since it also includes elements from ethics and psychology.

A proper definition shall identify the essential characteristics of the concept to be defined, and the essential characteristics of economics are the coordination of production, trade and

[12] https://www.etymonline.com/word/economy Retrieved September 2018

consumption. Therefore, I define **economics** as: **the science that studies the coordination of production, trade and consumption of wealth in a division of labor society.** The laws of economics, then, describe how groups react to incentives regarding production, trade and consumption.

This is similar to Reisman's definition, but I have added the concept "coordination". Wealth consists of all the things we use that makes our lives better and more enjoyable: good food, fine houses, great coffee, beer and wine, nice clothes, comfortable cars, gadgets, vacations, etc. But economics does not study how these things are produced—economics study how individuals (and firms) coordinate their production and trade with what other individuals produce so that the sum of everything that is produced satisfies as many needs and wants as realistically possible for everyone involved. Therefore, the *coordination* of production, trade and consumption is an essential point.

To conclude: definitions of economics that are based upon the problem of scarcity are wrong; and definitions that include barter-societies and persons producing only for their own use without trade, are also wrong—barter societies and people living alone have no need for a science of economics. But then one must answer the following important question:

ECONOMICS: WHO NEEDS IT?

Economics studies the coordination of production, trade and consumption in a division-of-labor society. But who needs to know about this? Do only economists need to know about this field, or do ordinary people need to know something about this? Among the subjects that belong to the science of economics are competition (between producers), money, inflation, unemployment, taxes, capital, productivity, foreign trade, entrepreneurship, etc. Let us look at four types of actors in the economy—worker, businessman, banker, politician—and see whether they need to know some economics or not. (In the following, we presuppose that everybody wants prosperity, although in the world today, many people do not—religionists, environmentalists, ascetics.)

Do ordinary workers—people who are doing their jobs; buying the things they need, want and can afford, and consuming what they buy; and saving and investing for a rainy day or for their retirement—do they need to know economics? Yes, they need to know some economics.

If a worker wants higher income, should he make his union demand a wage increase (above the market value), or should he learn new skills and thereby increase his human capital and so become more productive? Economics will tell him to do the latter, if the goal is to increase the wealth in society for everybody—including him. Economics will tell him that if he tries to make the union raise his (and his co-worker's) pay above the market level, it may be good for them in the short run, but everybody, including them, will lose in the long run. If his employer introduces new technology that will make the firm more efficient but will lead to reduction of staff, should he fight it or welcome it? Economics will tell him to do the latter. What if he can't get a job? Economics will tell him it may be because nobody is interested in paying him for the skills he has, or because he demands too much money, or because the culture is not sufficiently supportive of the entrepreneurial spirit.

The owner of a shop discovers that a competitor will set up shop a few blocks away. Should he go to the government, say that opening a new shop so close to his is a waste of society's resources and demand that the government stops his competitor, or should he do his best to improve his own shop in order to keep and attract more customers? Economics will tell him to do the latter. A businessman knows that the income of his firm varies—should he ask for support from the government in the slower periods or should he save and make sure that he always has enough to pay his expenses? Economics will tell him to do the latter.

A banker wants to run a solid, reliable money-issuing bank that makes a good profit. Economics and the history of banking will tell him that he must base his money on a gold standard, and it will provide him with the principles he needs in order to run his bank with a profit.

What about the politician? If his goal is a peaceful, prosperous society, economics will tell him that the only way to achieve this is to work for a system with full recognition of individual rights, including property rights, in which all property is privately owned, i.e., a system where people produce and trade in order to better their lives, and do so voluntarily.

It is a fact, then, that economics will not tell one what to value, but if one values freedom and prosperity, economics will show that laissez-faire capitalism, i.e., a system with full recognition of individual rights, is the only way to achieve it.

So, everyone who values peace and prosperity needs to know some economics. But are most of these questions mentioned above dealing with ethical problems? Some of the alternatives suggested above implies initiation of force, and this is banned by a rational ethics. But economics shows that the ethical principle that bans initiation of force and respects individual rights leads to increased prosperity for all. Economics, then, supports a rational ethics.

AXIOMS

"An **axiom...** is a statement that is taken to be true, to serve as a premise or starting point for further reasoning and arguments. The word comes from the Greek axíōma (ἀξίωμα) 'that which is thought worthy or fit' or 'that which commends itself as evident.' The term has subtle differences in definition when used in the context of different fields of study. As defined in classical philosophy, **an axiom is a statement that is so evident or well-established, that it is accepted without controversy or question.** As used in modern logic, an axiom is simply a premise or starting point for reasoning"[13] (emphasis mine).

Ayn Rand elaborates on the classical understanding of "axiom", which is the one I am using: "An axiom is a statement that identifies the base of knowledge and of any further statement pertaining to that knowledge, a statement necessarily contained in all others, whether any particular speaker chooses to identify it or not. An axiom is a proposition that defeats its opponents by the fact that they have to accept it and use it in the process of any attempt to deny it" (Rand 1957, p. 1040). She also wrote: "Axioms are usually considered to be propositions identifying a fundamental, self-evident truth" (Rand 1990, p. 55).

At the base of the philosophy of Objectivism, one finds the metaphysical axiom "existence exists". This identifies an obvious fact that no one can reasonably deny—it is obvious that something exists. But the statement "'existence exists' *is an axiom"*, says or implies that there is a reality, that reality is independent of any consciousness, that reality is primary, that we must adhere to it, that everything we do must be based upon what we have observed and analyzed. Reality exists and is what it is—we must not ignore it, and we must not pretend or believe that fantasies about things that do not exist, do exist. As Leonard Peikoff put it, "Existence exists, and only existence exists" (Peikoff, in Rand 1990, p. 109). This axiom implies that all our concepts, principles, ideas, values, habits, theories, etc., must be based on observation and rational, logical analysis of what we observe.

[13] https://en.wikipedia.org/wiki/Axiom Retrieved September 2018

Rand was not the first philosopher who recognized this, but she was the first to see the necessity to state explicitly what she called the “primacy of existence” approach (PoE), and she did it by formulating the axiom “existence exists”. Some philosophers did not take reality as their starting point, and she described this as having a “primacy of consciousness” approach (PoC). Earlier philosophers had essentially been in one camp or the other. The most typical expression of PoC is Descartes’ “Cogito, ergo sum” or “I think, therefore I am”. A perfect expression of the PoE approach is Francis Bacon’s “Nature, to be commanded, must be obeyed”.

If we do not base everything on the fact that existence exists and accept that existence is primary, we are really adopting wishful thinking as a method of thinking, planning and acting. Wishful thinking, as defined above by Wikipedia “is the formation of beliefs and making decisions according to what might be pleasing to imagine instead of by appealing to evidence, rationality, or reality”. What we do when we do not have “existence exists” firmly as our base is to put “I wish” above “it is”. Any philosophy, any philosophic system, any principle that is not explicitly or implicitly based upon the primacy of existence, on the axiom “existence exists”, is, at best, worthless, and at worst, lethal.

Still, even if an axiom identifies an obvious, self-evident truth and says that we must adhere to what the axiom implies, some people do not understand the point of an axiom. Philosopher Sydney Hook claimed that “saying ‘existence exists’ is very much like saying that the law of gravitation is heavy and the formula for sugar is sweet” (quoted in Byrd, p. 10)—in other words, his view is that the axiom “existence exists” is totally worthless.

So, even a prominent philosopher may not be able to understand an important axiom in his own field. The point is not that Professor Hook disagrees with the axiom; as we can see from the quote, he does not understand it and its implications at all.

SAY’S LAW AS AN AXIOM

As indicated above, Say’s Law is a fundamental, inescapable fact of economics. It has no exceptions, and cannot have any exceptions (if the science of economics is properly defined). Every idea in economics, properly understood, must be consistent with Say’s Law. A theory in economics that is not consistent with Say’s Law, is incorrect. That Keynes’s economic theories are wrong has been shown both in theory and in practice, and to paraphrase a quote given above: “If Say’s Law is correct, then Keynesian theory is incorrect”.

Say’s Law, therefore, does not have the same status as the other laws in economics—it is more basic and fundamental. Say’s Law says that “it is worthwhile to remark, that 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 ...”.

The whole of the science of economics, correctly defined (with trade, without scarcity), presupposes this fact, a fact that should be obvious.

As Rand said: “An axiom is a statement that identifies the base of knowledge and of any further statement pertaining to that knowledge, a statement necessarily contained in all others... Axioms are ... considered to be propositions identifying a fundamental, self-evident truth”.

I would therefore say that Say’s law is an axiom for the science of economics, and I will formulate it like this: **Products trade for products.** This is very close to one of Say’s own formulations: “Products are paid for with products” (quoted from Salsman 2003).

“Product” means anything that is produced for exchange or sale. It includes both material objects and non-material objects, such as services; it includes bread and shoes and cars and lectures and concerts and therapy and mowing the lawn. It does not include things one creates with no intention of selling or exchanging: a bread you bake for yourself is not a product in this sense, neither is painting your own house or mowing your friend's lawn as a favor.

It is, of course, true that in the West today, few people trade products for products directly—this only happens in barter societies. Today, people produce and then receive wages; but what they really do is sell what they have produced for the money they receive as wages. For the wages they receive, they buy things they need or want—things that others have produced. (If they save or invest, what they are really doing is postponing the buying of products to the future.) Thus, they are really trading products for products.

I must add that, as far as I have seen, the first economist who suggested that Say's law is an axiom was Richard Salsman; He wrote the following in the article "Economics in *Atlas Shrugged*": "Say's Law ... identified the economic axiom that all demand comes from supply" (Salsman 2011). However, this point was not central to theme of that article, so he did not elaborate.

(If one defines economics in a way that does not presuppose trade, Say's Law is not an axiom. If one defines economics as the science of wealth, then Robinson Crusoe needs economics in order to construct a cabin and grow food, but since there is no trade on his desert island, he does not need Say's Law.)

WHY?

Why is it a good thing to regard Say's law as an axiom? An axiom explicitly states a starting point, identifying a fundamental and inescapable fact in a field of study. In philosophy, this is the fact that there exists a reality independent of any consciousness, and that we must adhere to it in everything we think and everything we do, i.e., in how we think and how we act. In economics, the fundamental starting point is that in order to consume, one must first produce, and that one also can produce with the aim of exchanging something one has produced for something someone else has produced. It is with this inescapable fact that economics as a science begins: production and trade. Any economic theory that is not consistent with this, is wrong.

This axiom says that the primary fact of economics is production (not for oneself, but for exchange). This is not the dominant view among economists today—many economists will say that the primary fact is consumption (which shows the influence of Keynes) or that the primary fact is distribution (which shows the influence of Marx).

This axiom has a host of implications. It is individualistic: only individuals produce (they may, of course, cooperate in various types of firms). The axiom will not welcome formulations such as "aggregate demand" into economic science. The axiom says that when people work to make money, they are really producing something, and when they buy something for the money they have earned, they are exchanging what they produced for something others have produced. (This should be obvious, but it must be stated explicitly; many people often ignore or forget the obvious.) This implies that one cannot make people wealthy by just giving them money, and that one cannot increase wealth by manipulating the value of money or credit or interest rates—wealth is all about production. Also, the axiom implies that one cannot increase wealth by restricting production, and it implies that the road to prosperity is the removal of obstacles for the producers. As Say himself said: "Produce, produce, produce ... that is the whole thing!" (quoted from Salsman 2003).

The axiom implies that if the government takes money from A and gives to B, they are really taking what A has produced in order to exchange it for something, and giving it to B. Money makes this transaction—or theft—seem less obvious; it looks worse to take an object (not necessarily a physical one) from the producer than to take his money. The axiom says that what the state is really taking are the items produced.

This axiom then eliminates invalid concepts, propositions, principles and theories from the science of economics, just as the axiom “existence exists” eliminates invalid concepts, propositions, principles and theories from the science of philosophy. In an economic science based upon a Saysian foundation, there will not be much use for terms like “aggregate demand”, “gross national product”, “consumer price index”, etc.

Say regarded the law that bears his name as an obvious, uncontroversial truth, but Keynes, Say’s main opponent in today’s economics, regarded Say’s Law, if we use Hutt’s formulation, as at best a truism of no useful application. But this is how some people express their lack of understanding of axioms—we remember philosopher Sydney Hook’s view that the axiom “existence exists” is totally worthless.

The truth is, however, that axioms are not worthless, they are invaluable. They identify obvious truths that set the limits for everything that belongs to a science. They say that everything that is not consistent with the axiom is not part of the science.

Some sciences are very concrete and have a close connection to reality; if you go astray in one of these sciences, reality will (more or less) immediately let you know. But some sciences are very abstract, and the connection to reality is often difficult both to gain and keep. In these sciences, an axiom that clearly identifies the reality-connection, is invaluable. One of these sciences is philosophy. Another is economics. In the science of economics, one needs the axiom “products trade for products” as a foundation for everything else in order to make sure that every concept, every principle, every theory, is firmly connected to reality. Richard Salsman sums this up very eloquently: “For an economist to deny Say’s Law is the equivalent of a physicist denying the Law of Gravity or a philosopher denying the Law of Identity” (Salsman 2011). But it is even more fundamental than that: an economist who denies Say’s Law denies economic science as such.

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Nyheter

Bøker

Det kommer stadig ut Objektivist-relaterte bøker, og her vil vi kort nevne noen av de siste viktige utgivelsene.

Alle bøkene kan bestilles fra www.amazon.com.

I år utkom boken *A New Textbook of Americanism: The Politics of Ayn Rand* redigert av Jonathan Hoenig.

Som kjent skrev Ayn Rand en artikkel med tittelen «Textbook of Americanism» hvor hun tok for seg 12 viktige punkter i politisk filosofi. Den ble publisert i magasinet *The Vigil* i 1946. Imidlertid hadde hun planer om å skrive om flere enn de 12 punktene som denne artikkelen inneholdt, men hun gjorde aldri dette.

Nå har en rekke Objektivister skrevet om de punktene Rand ikke skrev om, og dette materialet er nå publisert i boken *A New Textbook of Americanism*. Blant de andre forfatterne er Leonard Peikoff, Richard Salsman, Harry Binswanger, Yaron Brook, Andrew Bernstein, Onkar Ghate, Elan Journo, Gregory Salmieri, Don Watkins, Jonathan Hoenig og Stuart Hayashi.

Boken inneholder også noe tidligere upublisert materiale fra Ayn Rand om politisk filosofi; dette materialet er hentet fra noen av de seminarene hun ga.

I en årrekke hadde Leonard Peikoff en serie podcasts hvor han besvarte innsendte spørsmål. Disse podcastene kan man finne på hans nettside www.peikoff.com. Nå er et utvalg av de svarene han ga utgitt i en bok med tittelen *Keeping It Real: Bringing Ideas Down to Earth*. I den finner man altså Peikoffs svar på spørsmål hentet fra en rekke forskjellige temaer: personlige forhold, karrierevalg, filosofi, religion, Ayn Rands romaner, mm. Boken gir Peikoffs syn på hvordan anvende filosofiske prinsipper i konkrete situasjoner man kommer ut for. En kommentator på amazon.com sa bla. følgende om boken: «There are a ton of valuable insights, as well as numerous funny responses and amusing questions. You are bound to come across more than a few that you yourself have wondered.»

A Companion to Ayn Rand: A Companion to Her Works and Thought ble utgitt i 2016 i serien Blackwell Companions to Philosophy. Grunnen til at vi nevner den her er at den er gjenstand for en god omtale i det norske tidsskriftet *Filosofisk Supplement*. Anmeldelsen, som er skrevet av Carl Wegner Korsnes, har den passende tittelen «A Rebel Enters Academia», og er å finne her:

https://filosofisksupplement.no/wp-content/uploads/relativisme-korsnes.pdf

Siden boken er skrevet av to Objektivister nevner vi også *Creating Christ: How Roman Emperors Invented Christianity* av James Valliant og Warren Fahy. Forfatterne legger frem en helt ny teori om hvordan kristendommen oppstod. Boken er omtalt på gullstandard.no:

https://www.gullstandard.no/2019/08/07/ble-kristendommen-skapt-av-romerske-keisere-for-a-svekke-opprorere/

Konferanser

Neste års sommerkonferanse i USA blir avholdt i Austin, Texas, i perioden 17. - 21. juni. I USA er det blitt arrangert konferanser hver sommer siden 1983 (dog ikke i 1984 og 1986). Nytt av året er at det blir arrangert tilsvarende konferanser i Europa. I år var konferansen i Praha i Tsjekkia helgen 15. – 17. februar. Denne konferansen hadde om lag 350 deltagere fra hele Europa, og det var stor deltagelse fra Norge, om lag 10 personer. Neste år vil konferansen i Europa finne sted i Warszawa, Polen, fra 14. til 16. februar.

På denne nettsiden finner man info om alle tidligere og kommende konferanser:

https://objectivistconferences.info

Annet

15. august ble det publisert et intervju med Vegard Martinsen om Ayn Rands estetikk på nettstedet Cave of Apelles. Intervjuer var kitsch-maleren Jan-Ove Tuv. Cave of Apelles er oppkalt etter Apelles, som var en av de fremste malerne i antikkens Hellas.

På Cave of Apelles er det hittil publisert om lag et dusin intervjuer med ulike personer om temaer innen kunst og estetikk. Intervjuene er å finne her: caveofapelles.com

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ARI arrangerer ukentlige seminarer i en serie de kaller «Philosophy for Living on Earth». Man kan delta over Internet og registreringen gjøres her: http://courses.aynrand.org/webinars/register

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