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SAY'S LAW, THEORY OF THE RATE OF INTEREST, AND CAPACITY UTILIZATION IN RICARDO

The paper asks whether solid support can be found in Classical economics, and in particular in Ricardo, for Say's Law, which is the basis of Ricardo's approach to growth. The question is considered important in view of the capital-theoretic controversies which have thrown doubt on the later marginalist arguments in support of Say's Law, arguments based on an assumed capacity of the rate of interest to bring investment into equality with savings owing to the negative elasticity of the demand for capital vis-à-vis the rate of interest.

Relative to an opinion, expressed in 1964 by P. Garegnani but reflecting the majority position at the time, that Ricardo, just like his great opponent Malthus, simply "took it as a fact that anyone who had saved would have used his savings to employ productive labourers, or would have lent it to to others who would have so used it" − from which Garegnani derives that in Ricardo (and more generally in the Classical approach to value and distribution) there is no solid support for Say's Law −, the most interesting new development appears to be a little-noticed argument put forward by Caminati in 1981 to the effect that some support in favour of Say's Law was probably more or less consciously derived by the Classical economists from their theory of the rate of interest, and in particular from the assumption that the rate of profit was not affected by variations of the rate of interest, what made it possible for variations of the rate of interest in response to excess supply or demand on the credit market to influence investment by making the difference between rate of profit and rate of interest become greater or smaller than the difference which would have been sufficient to compensate for the "risk and trouble" of entrepreneurship.

The paper re-examines Caminati's reconstruction of the possible defence of Say's Law embedded, so to speak, in the Classical theory of interest, and finds that it needs an assumption of given − more precisely, full − level of utilisation of productive capacity, which is indeed what Ricardo, but not all Classical economists, assumed. The textual evidence shows that Ricardo was unable to admit an elasticity of aggregate production with respect to increases of demand, an elasticity which had been on the contrary perceived by Hume and, with great clarity, by Thornton. It is concluded that within the Classical literature - although not in Ricardo - one does find the premises for admitting the potential role of aggregate demand on growth. A further weakness of the possible defence of Say's Law reconstructed by Caminati is the assumption that variations of the rate of interest will not influence the rate of profits, what cannot easily be defended. It is concluded that Garegnani was right in arguing that in the Classical approach one can find no solid argument in support of Say's Law; thus the resumption of the Classical approach to value and distribution, whose opportunity is suggested by the grave problems of the neoclassical/marginalist approach, does not present any obstacle to the adoption of a Keynesian approach to the determination of outputs and growth.