Money as a Store of Value: Jean-Baptiste Say on Hoarding and Idle Balances

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The French classical economist Jean-Baptiste Say has been one of the most influential authors in the economic discipline. A major intellectual figure of the first part of the nineteenth century, his ideas are still debated today. The creation of the Jean-Baptiste Say International Society in 2012, and the publication of Say's first full-length biography in English (Schoorl 2013) show that interest in Say's political economy remains vibrant. One must recognize, however, that Say's thinking has been misconstrued on several issues, particularly on money.

The common narrative about Say's treatment of money holdings is that he denied the possibility of hoarding, defined as the accumulation of idle money balances. For instance, Joseph Alois Schumpeter (1954: 590) mistakenly alleges that "Say . . . did not consider the problem of hoarding" and concludes "that Say, neglected the store-of-value function of money." In another instance, Pascal Bridel (1987: 246) erroneously states that "Say . . . *always identified decisions to save with decisions to invest* . . . the question of a possible divergence between saving and investment was never asked" (emphasis in original). These misrepresentations are not limited to the scholarly literature. Economic textbooks often distort Say's

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true thinking. Thus, Harry Landreth and David Colander (2001: 148) incorrectly assert that Say "denied the possibility of hoarding. . . . Money was only a medium of exchange in [his] system." In reality, not only did Say analyze hoarding, but more generally, Say admitted that monetary changes could affect expenditures, output, and the distribution of wealth (Jacoud 2017; Béraud and Numa 2018a).

These misrepresentations can be explained by two shortcomings. First, most studies on Say published in English have assessed Say's monetary views through the narrow lens of the so-called Say's Law. Second, they have failed to analyze Say's writings in their entirety. This is particularly true for *Traité d'économie politique* (henceforth *Traité*), which was published in six editions with significant changes from one edition to the next. Only the fourth edition published in 1819, however, was translated into English. Studies published in the English language, and more broadly English-speaking readers, are thus missing out on crucial aspects of Say's thinking, particularly regarding monetary matters. Moreover, many analysts have neglected *Cours complet d'économie politique pratique* (henceforth *Cours*), his second magnum opus, and other lesser-known texts such as *Leçons d'économie politique* (henceforth *Leçons*) which have never been translated into English. These limitations in existing studies mean that contemporary scholars are missing the important, nuanced ideas that Say developed in his writings. The present essay aims to correct these shortcomings.

Despite the recent publication of studies devoted to Say's monetary theory, Say's views on hoarding have not received enough attention. The topic is overlooked in Jacoud 2017,[1] and relatively condensed in Béraud and Numa 2018a. There are also very limited accounts in Jonsson 1998: 82 and Tiran 2003: 430.[2] Similarly, other general studies on Say and classical political economy such as Béraud 1992: 481–82; Forget 1999: 172; and Hollander 2005a: 193, 202, 207, 210; provide only scattered and incomplete discussions. The present essay analyzes Say's views on hoarding and idle balances in a more comprehensive and detailed fashion. Drawing upon the various editions of *Traité* and *Cours*, his two major pub-

1. The author briefly mentions "eventual hoarding phases that are not intended to last" (Jacoud 2017: 70). In fact, Say studied the possibility that hoarding could last a long time as shown in this essay.

2. Tiran (2003: 430) incorrectly asserts that for Say "money cannot be demanded for itself. . . . The effects of the store-of-value function are strictly limited to the short run." In fact, several passages in Say's writings clearly indicate that individuals could conceive of money as a value to hold. Moreover, hoarding could take place over the very long run as demonstrated in this essay.

lications, and other lesser-known texts such as *Leçons*, I provide substantial evidence to refute the widespread but erroneous view that, for Say, money was *only* a medium of exchange. In reality, not only did Say analyze long-term and short-term hoarding, but more generally, Say envisaged that money could serve as a store of value. In particular, three motives could lead individuals to keep idle balances in times of uncertainty: a precautionary motive, the lack of good investment opportunities, and the lack of information. For Say, the demand for money for the precautionary motive rose during depressions, indicating that hoarding was a *symptom* rather than a cause of disturbance. Hoarding was an integral part of Say's economic system that did not invalidate his law of outlets.

The text corrects the historical record of one of the most influential authors in the economic discipline. Among the various monetary topics discussed in Say's writings, hoarding is of key importance. Hoarding entails that money income is not immediately spent or invested, which leads to an excess supply of goods (an excess demand for money). Thus, hoarding can prevent the proper adjustment between supply and demand on the market for goods, and cause saving to exceed investment (Gootzeit 2003: 168, 170). Thus, the present text addresses the issue of the coexistence of the law of outlets and hoarding in Say's work. In particular, the essay seeks to answer three questions: did Say really reject hoarding? If not, what are the role and the significance of hoarding in his overall system? What conclusion can be drawn with regard to the role of money in the economy in general?

1. Outlets and Money Holdings

This section starts by stressing the importance of money in Say's life and in his works. It is shown that Say was very familiar with monetary, financial, and banking matters. I then address the coexistence of Say's law and Say's treatment of money holdings, a controversial topic in the literature. I analyze the passages that led some commentators to believe that Say thought that money was only a medium of exchange. Finally, I turn to those in which he explained how and why money could be demanded for itself. The reasons for this apparently inconsistent treatment of money are discussed.

The Importance of Money in Say's Life

Through his training and his professional experience, Say became interested in monetary questions before publishing his main economic writings.

Moreover, he wrote a great deal about money. Thus, given his intimate knowledge of monetary and financial matters, it is hard to believe that Say could have overlooked the issue of hoarding.

Owing to his family background and his training, some of the positions he occupied, and his readings and influences, Say was very well acquainted with monetary and banking issues. Say was trained in the family business (his father was a banker and currency trader), and he worked for Étienne Clavière's insurance company.[3] As a legislator and member of the *Tribunat*, his expertise with financial and monetary matters led him to author a report concerning the bill for the recoinage of the French money stock (Say 1803). Say had an intimate knowledge of several authorities who wrote on money. According to Tiran (1995: 36), besides Adam Smith, Say quoted Pietro Verri, Ferdinando Galiani, John Locke, François Quesnay, A. R. Jacques Turgot, David Hume, and Henry Thornton. To these names, one must add Thomas Tooke and David Ricardo who was viewed by Say ([1817] 2006: 666) as the "the man who best comprehends the theory and practice of monies in Europe."[4]

In 1814, when preparing for his second trip to Britain, this time as a public official for the French government, Say asked his printer/publisher, Crapelet, for a copy of Alexander Hamilton's *Sinking Fund*, William Huskisson's *Paper Currency*, the *Report of the Bullion Committee*, and Charles Bosanquet's *Practical Observations* (Schoorl 2013: 73, 173). But the monetary authority who was undoubtedly the most influential on Say's thinking was Tooke, for he played an important role in Say's understanding of the expansionary effects of money. Indeed, following the publication of Tooke's *Considerations*, Say recognized in the fifth edition of *Traité* and in *Cours* the stimulating effects of an increase in the quantity of circulating medium (Say [1826] 2006: 507n1; [1828–29] 2010: 479). Say forcefully admitted that "despite the principles that teach us that money plays only the role of a simple intermediary, and that products can ultimately be purchased only with products, more abundant money fosters all sales and the reproduction of new values" (Say [1828–29] 2010: 479). Tooke also played a crucial role in Say's explanation of the 1825 crisis in

3. A former minister of finances, Étienne Clavière (1735–1793) contributed to the creation of *assignats*. Initially issued as treasury bonds in 1790, *assignats* circulated as inconvertible paper money from 1791 to 1796.

4. In the fifth edition of *Traité*, Say ([1826] 2006: 808) admitted that "the ideas of David Ricardo allowed me to revise several parts of this *Treatise*, especially with regard to monetary matters." Translations of Say's writings are mine, unless noted otherwise.

England. In a letter addressed to Tooke dated May 14, 1825, Say thanked him for enhancing his understanding of the crisis and of its monetary causes (Say 1848; 525–26). Say later developed a monetary theory of crises, which blamed the decisions of banking institutions (Say 1826; [1826] 2006: 586n1; [1828–29] 2010: 430, 487–88).

Say's strong interest in monetary issues is reflected in the fact that their study formed a large part of his editorial work (Jacoud 2017: 59). In the first edition of *Traité*, divided into five books, money is the subject of book 2. In subsequent editions, the chapters devoted to monetary questions represent a third of book 1. In *Catéchisme d'économie politique*, three chapters deal with monetary matters. The theme of money is also covered at length in *Cours*. The third part of the book is devoted to exchange and monies. Say also wrote several articles and reports dealing with monetary questions.

With such importance given to monetary questions in his personal and professional life, and considering the equally significant place given to money in his writings, it is in fact not surprising to see that Say turned his attention to the accumulation of money balances in numerous passages (section 2).

Say's Law of Outlets

Say's core message was that production was the source of demand. It was not that the supply of commodities was necessarily equal to demand. For Say ([1814] 2006: 250), "a product is no sooner created than it opens, from that instant, an outlet for other products to the full extent of its own value." Say explained that the creation of a good did not necessarily create a demand because the good could remain unsold or could be sold at a price that was less than its production cost. Once a product was sold, a *potential* demand was created so that the individual who sold it could use the proceeds of the sale to demand other products or financial assets. The individual could also keep all or part of the money proceeds. Therefore, assertions implying that demand deficiency could not cause crises, that products were exchanged for products, and that money was only a lubricant were merely propositions derived from Say's law of outlets (Béraud and Numa 2018b). Say defended his law without considering these propositions irrefutable. He thus took into account the secular record and the reality of economic life of his time, which involved general gluts and the hoarding of cash. In other words, Say essentially conceived of his law as a long-term principle that should be compared with the secular record.

The question of whether Say was the first to formulate Say's law in its clearest form deserves a few comments. Some commentators have argued that Say was the first (Lambert 1956: 13; Schumpeter 1954: 491n3; Spengler 1945: 342; Sowell 1987: 250), while others have claimed that James Mill deserves priority (Hollander 1928: lxxix; Thweatt 1979: 92–93; Baumol 1999: 203). I contend that Say was undoubtedly the originator of the law that bears his name for several reasons. First, the law is indeed clearly articulated in the first edition of *Traité* for anyone who reads Say's book entirely and carefully. In fact, there are more references to the law than just in the chapter on outlets (book 1, chapter 22). Thus, Say ([1803] 2006: 688) stated that "contrary to what many people thought*, the scope of the total demand for means of production,* does not depend upon *the scope of consumption.* Consumption is not a cause: it is an effect. One must buy in order to consume; yet one can buy only what has been produced. The quantity of products demanded is therefore determined by the quantity of products created? Undoubtedly so. . . . The total demand for products is therefore always equal to the sum of products" (emphasis in original). When these passages and those contained in the next two pages are taken into consideration, it is clear that priority should be ascribed to Say over Mill (1808). Second, Mill (1805) cited Say's relevant chapters of the first edition of Say's *Traité*, and also explicitly acknowledged Say's priority (Winch 1966: 34). Moreover, Ricardo explicitly credited Say with the idea and thus recognized Say's priority in several instances (Hollander 2005a: 223). Mill and Ricardo criticized Say for his defense of the law—he was more flexible in his approach, but that is a separate issue from the question of priority. Finally, Say did claim credit for being the originator of the law (Schoorl 2006: 503). The Say papers contain some notes suggesting that he claimed the authorship of its clearest statement (Potier and Tiran 2009: 164–65). This transpires in the final sentences of *Cours* (Say [1828–29] 2010: 1273), which confirm his belief in long-term industrial growth and in the validity of his law.

Hoarding as a Cornerstone of Say's Law

In his discussions of outlets for goods, Say opposed the views of economists such as François Véron de Forbonnais (1754) and James Steuart (1767) who hypothesized that international trade played a pivotal role in economic development by opening up new markets, and by increasing the quantity of specie in circulation within a country. Say argued that the abundance of money did not affect trade. In light of that fact, he then concluded that it was pointless to favor a trade surplus in order to enhance the stock of gold and silver. This idea was articulated in a way that seemed to convey what Gary Becker and William Baumol (1952: 357) call Say's identity:

> Money is used [for trading] almost like posters and handbills that, in a large city, facilitate the intercourse of people who may want to do business together. At the end of the year, each producer used a very large amount of money, but except for a few insignificant balances, generally there is no more money in his hands at the end of the year than he had at the beginning. What matters is what he purchases with this money, in other words the products sold by others that he traded for his. . . . In the end, [when] the exchanges have been completed, it turns out that one has paid for products with products. (Say [1803] 2006: 244–46)

Thus, in 1803 the absence of hoarding appeared to be the cornerstone of Say's law of outlets. Say seemed to assume that individuals spent their money income promptly. In fact, Say noticed that, *in general*, the extent of hoarding and dishoarding would in no way affect the extent of outlets. He did not enunciate a logical rule, however.[5] The qualification is important as we will see that, in his mind, hoarding was particularly significant during political and/or economic downturns (section 2). In the third edition of *Traité*, Say ([1817] 2006: 251) reiterated that producers spent their money proceeds promptly because the value of any sum of money could lose its purchasing power.

How can we explain Say's position in these passages? The answer is that context matters. In the chapter on outlets, Say sought to refute mercantilist monetary fallacies. He made a point to show that, *in general* the production of goods rather than the supply of money stimulated the demand for goods (Baumol 1977: 154). Indeed, Say ([1803] 2006: 244) maintained that "it is not the abundance of money but the abundance of other products in general that facilitates sales." In doing so, it can be argued that he only assumed barter for pedagogical purposes (Hollander 2005b: 384). Indeed, Say's position targeted the ideas defended by government officials such as François Ferrier (1777–1861), a customs administrator and advocate of the balance-of-trade doctrine. Ferrier (1805: 39, 227) believed that money was not only an instrument of circulation, but also an instrument that allowed wealth reproduction. As a result, France's economic policy should be aimed at preserving and increasing the quantity of

5. Two remarks must be made. In Say's mind, some agents could deal with changes in nominal money holdings. Also, the real value of the agents' holdings could change (Béraud and Numa 2018a: 220–21).

the metallic currency within the country. Say countered that view and contended that, in general, money was a means not an end. However, Say's views on money holdings should not be based on the narrow lens of his discussion of outlets for goods. In his monetary writings, Say clearly underscored the utility of money and maintained that money could be demanded for itself.

Money as a Value to Hold

For Say, money was not only a value for purposes of circulation but also represented a value to hold. Cash balances represented a stream of utility to their owners and should be considered part of the national wealth (Cowen 1982: 168). Thus, Say wrote:

> It would be wrong to subscribe to the opinion of Garnier, who lays it down as a maxim that "*so long as silver remains in the shape of money, it is not an item of actual wealth in the strict sense of the word; for it does not directly and immediately satisfy a want or procure an enjoyment*." There is an abundance of values incapable of satisfying a want, or procuring an enjoyment, in their present existing shape. A merchant may have his warehouse full of indigo, which is of no use in its actual state, either as food or as clothing; yet it is nevertheless an item of wealth, and one that can be converted, at will, into another value fit for immediate use. Silver, in the shape of crown pieces, is, therefore, equally an article of wealth with indigo in chests. Besides, is not the utility of money an object of desire in civilized society? . . . I hope what I have said is quite sufficient to show the complete analogy of specie to all other items of wealth. (Say [1826] 2006: 475; emphasis in original)

Furthermore, Say conceded that, for an individual, holding money was preferable to holding merchandise: in the latter case, two transactions were required to obtain another piece of merchandise (selling then buying) while a single transaction sufficed in the former (buying only). At the national level, however, the argument was no longer valid. In the end, what mattered was the potential gain derived from exchange as products were ultimately paid for with products (Say [1803] 2006: 284; [1814] 2006: 288; [1819] 2006: 291, 293).[6] The essential point was that Say understood that money could be demanded for itself. This means that individuals could hoard cash for various motives.

6. See also Say ([1828–29] 2010: 582).

2. Say's Analysis of Hoarding

Several commentators have argued that Say dismissed hoarding.[7] This view is erroneous and misrepresents Say's thinking. In fact, Say did address hoarding in several instances in every edition of *Traité* and *Cours*. This section provides a thorough and systematic analysis of Say's approach to hoarding in the various editions of *Traité*. I also explore his discussion of the topic in *Cours*, in *Lettres à M. Malthus*, and in *Leçons*. The conclusion is that Say did recognize that money could serve as a store of value, and that hoarding could significantly hinder capital accumulation.

Precaution, Lack of Investment Opportunity, and Lack of Information

For Say, the quantity of money holdings depended on the amount of sales and purchases planned and made by an individual. Thus, from the first edition of *Traité*, Say ([1803] 2006: 284, 575) argued that the quantity of money depended on the needs of circulation. In general, the quantity of metal money was always enough for monetary and nonmonetary uses, and there was no excess supply of money. In short, individuals had to consider the opportunity cost of keeping sums of money idle as this would entail losing interest.[8] Hoarding entailed keeping a portion of money income out of circulation so that it was not profitable to anyone. In that sense, it constituted unproductive capital: "Money kept in a coffer or buried underground, the commodities accumulated beyond what is needed, the treasure stored on altars for superstitious reasons, and in general all the products that could be kept without being used for consumption and without being used to create other products, are unproductive capital" (Say [1803] 2006: 208). The use of the term "unproductive" meant that hoards remained idle: "When a sum of money is kept in the merchant's coffer, it is a portion of his capital that remains idle, so does the portion of his capital that can be found in his store in the form of merchandise ready to be sold" (Say [1803] 2006: 267). However, the term "unproductive" did not mean that the funds could not become productive in the future (more on that later). Hoards were temporarily sterile though they could remain

7. Forget (1999: 172) and Hollander (2005a: 193, 202, 207, 210) are two exceptions.

8. In an undated manuscript contained in the Say papers, Say defined interest not simply as "the profit derived from lent money," but as "the profit derived from any lent value. One earns interest from any sort of value" (NAF 26237 Sur l'économie politique II. "Notes pour un projet de Dictionnaire d'Économie politique" G 387, folio 12).

that way for a very long time. Because in Say's mind, saving was the prerequisite to lending/investment (productive or reproductive consumption in Say's language), hoarding, not saving, was a leakage.[9] Finally, though it was costly to hoard, it was not an irrational phenomenon. If the current market environment was too uncertain and/or risky,[10] it made sense to hold on to cash balances.[11] This is evident in the following passage:

> When industry was at an early stage, an unprofitable capital was almost nothing but a treasure kept in a coffer or buried underground . . . in case of a need; significant or not, this treasure did not generate more or less profit, because it gave none; it was nothing but some sort of precaution. But when the treasure generated a profit commensurate with its mass then people became incentivized to make it grow. And this was not motivated by a loose interest, based on a precautionary motive, but based on a true interest, that could be felt anytime, because the profit generated by the capital could be spent and allow new uses without being destroyed. (Say [1803] 2006: 204)

Two remarks can be made from this quotation. First, Say explicitly referred to two motives for keeping money idle: a precautionary motive, and the absence of good investment opportunities. The latter case refers to the temporary absence of potential usage of the funds (for a specific objective), which explains why an individual would temporarily retain the earnings in monetary form. Second, the passage suggests an inverse relationship between the level of economic development and the quantity of hoards. Thus, hoarding could involve large amounts in poor countries as individuals kept money idle because of a lack of investment opportunities. It was perfectly rational to wait until the expected profit was greater than the amount of cash hoarded.

Say reiterated the lack of good investment opportunities as a cause of hoarding in *Leçons* (sixth lecture at the Collège de France): "The individuals who receive their income in the form of money such as landowners who rent out their property, capitalists who receive interest, servants who receive a fixed income, workers who receive wage, when they decide to

9. Say ([1814] 2006: 267n1) defined productive or reproductive consumption as "the employment of saved capital."

10. Individuals could keep money income idle: "An individual could have an interest in keeping his wealth in a form that allows him to use it promptly depending on the circumstance or based on his wishes" (Say [1803] 2006: 284). See also Say ([1828–29] 2010: 401).

11. This reasoning constitutes a definite rejection of the so-called Say's identity (Hagemann and Kurz 1997: 598).

save, ordinarily keep the saved value in monetary form, which is the most convenient, until the sum, increased by successive accumulations, is large enough to be invested. In every country, this is how many small portions of capital whose use is delayed and whose total amount, in a large, active and thrifty people, form significant unproductive capital for some time" (Say [1831–32] 2003: 471).[12]

Drawing upon the example of countries under domination of the Ottoman Empire, Say ([1803] 2006: 208, 210) described a positive relationship between hoarding for a precautionary motive and political and economic turmoil: "When one is aware of the indispensable necessity of capital for production, there are reasons to be distressed by the quantity of [capital funds] that could be used to the benefit of humanity and that the negligence, fear or prejudice keep idle. The productions of countries under domination of the Ottoman Empire would be greater if people did not hide some of their goods and if the Pachas did not keep their treasure idle in order to use it when needed."[13] As noted by Forget (1999: 172), Say ([1803] 2006: 267–68) recognized that fear and uncertainty could cause capitalists to hoard rather than to invest, either because of too much uncertainty surrounding production or because producers anticipated price increases as a result of political crises:

> The greatest of the encouragements for the useful circulation is the desire everyone has, especially producers, to lose as little interest as possible on the funds engaged in the exercise of their industry. Circulation slows more due to the obstructions it faces than due to an absence of encouragements it might have received. Wars, embargos, onerous fees to discharge, the danger or difficulty of communication obstruct it. It is also slow in periods of fear and uncertainty, when public order is threatened and all types of enterprise hazardous. It is slow when one expects arbitrary taxation, and is forced to hide one's resources. It is slow in periods of speculation when sudden variations caused by wagering on commodities causes some people to hope for a sudden windfall caused by a simple variation in prices. Consequently, merchandise awaits a rise in price and money a fall; and both reflect idle capital, useless to production.

The important point is that the demand for money for the precautionary motive rose during political and/or economic crises, indicating that hoarding was a *symptom* rather than a cause of disturbance, contrary to what

12. See also Say ([1828–29] 2010: 152–53).

13. Ibn Khaldun ([1377] 1967, 2: 339) made a similar argument.

Sowell (1974: 65; 2006: 42) has argued. Say's arguments seem to suggest that hoarding was a factor that aggravated or prolonged crises. In normal circumstances, however, hoarding was negligible, and any treasure would eventually get spent: "As to values accumulated, without being consumed reproductively, such as the sums amassed in the miser's coffers, neither Smith nor I, nor anyone, undertakes their defense; but they cause very little alarm; first, because they are always very inconsiderable, compared with the productive capital of a nation; and second, because their consumption is only suspended. Any treasure ends up being spent, productively or otherwise" (Say 1820: 76–77). In *Cours*, Say paid greater attention to manufacturing instability and depressions. He ([1828–29] 2010: 401) reiterated that hoarding made perfect sense, but in this case hoarding arose as a result of a lack of information: "If some individuals hoard, we can consider that they strive to keep a treasure in reserve as a result of a need; and it can be argued that these individuals usually feel the need to keep with them a certain amount of [money] that better-advised individuals can employ to a better use." For Say, there could be more remunerative alternatives than holding money, but ill-informed individuals lacked the capacity to take advantage of them. It indicates that, with more or better information, the agents would have opted for more profitable ways to use their funds.

Say ([1803] 2006: 764) also envisaged a positive relationship between the quantity of hoarded funds and the interest rate. In other words, a rise in the amount of idle reserves led to a higher interest rate: individuals kept money in reserve, which reduced the quantity of capital funds available, and thus led to a rise in the interest rate. The argument suggested a reasoning in closed economy. However, in footnote 2 on the same page, Say intimated that overall the interest rate would not rise in an open economy: a reduction of available funds consecutive to hoarding would push the interest rate up, but the resulting rise in value of scarcer funds on the domestic market would provoke an inflow of funds from abroad and drive the interest rate back down. Consequently, hoarding would leave the interest rate unchanged in the long run. These passages disappeared from later editions of *Traité*. It should be noted that, in these passages, Say failed to indicate that banks could serve as purveyors of cash and credit to make up for the funds withdrawn from circulation (hoarded). The statement should be qualified, however. In the second edition of *Traité*, Say ([1814] 2006: 248) explained that market forces would respond to any excess demand for money by making available monetary substitutes—banknotes, bills of exchange or other credit instruments. But this was not automatic. Periods of downturns marked by high uncertainty could lead banks to be more cautious and to refrain from lending. Thus, following the 1813 recession, "the Bank of France alone has 223 million in cash in its vaults, an amount that is more than twice as much as the sum of its bills in circulation, and six times greater than what prudence would recommend to face potential demand of redemption/reimbursement" (Say 1820: 102n1).

Say developed his analysis of hoarding in connection with his views on saving. The main thrust of his argument was that savings enhanced the productive capacities, increased the national income, and therefore increased the extent of outlets. In the second edition of *Traité*, Say said that "any saving, *provided it is invested*, does not reduce consumption and, to the contrary, gives rise to a type of consumption that reproduces itself and perpetually renews itself whereas unproductive consumption does not" (Say [1814] 2006: 193; emphasis in original). The passage suggests that for Say, savings were not necessarily invested. He pointed out that "the form in which the value is saved, is not what constituted saving; it is how one uses this value that determines it. When one decides to make new advances to production, it is a new capital that is formed, no matter how the saved value is invested" (Say [1828–29] 2010: 152, see also 156). Say reiterated that hoarding was equivalent to unproductive capital, but in an explicit reference to the store-of-value function, he also pointed out that hoarded funds could be put to use at a later date: "the values kept idle and subtracted to any kind of use are dead values, this is *unproductive capital*. If these values do not depreciate while they are kept idle, they can be useful when needed; but as long as they are not consumed they do not produce additional values" (Say [1814] 2006: 209; emphasis in original). In the same spirit, Say ([1814] 2006: 210) added: "The only use of a buried treasure that could truly benefit society, and of unproductive capital in general, is when it is used reproductively or put in the hands of those who can use it this way; only then they mobilize new productive human faculties, which provide men with new enjoyment or new wealth."

Not All Savings Were Necessarily Invested

Starting with the third edition of *Traité*, Say refined his analysis and explained that production (money or commodities) could be spent in unproductive consumption, lent out to others/invested, or hoarded: savings did include hoards of cash; put differently, an increase in hoarding was the consequence of saving (figure 1).[14] He sought to pinpoint the harmful effects of hoarding not only at the level of the individual, but also at the collective level. He indicated that hoarding deprived the owner of the funds of potential interest, but it also deprived other individuals of funds that could be put to productive uses:

> We saw that the values produced could be either used to satisfy the pleasure of those who acquired them or directed to a new production. Another possibility is that, after being subtracted from unproductive consumption, they may not be used for reproductive consumption, and remained hidden, buried. The owner of these values, after depriving himself while saving, from gaining pleasure and satisfaction derived from consuming them, also deprives himself from the profits that he could receive from the productive service of his saved capital. He also deprives industrious people from profits that they could receive while employing it. (Say [1817] 2006: 210)

In other words, not all savings were necessarily invested, they could be hoarded. This aspect would become more explicit in his feud with Ricardo.

In his analysis of the effects of accumulating money reserves, Say ([1817] 2006: 666n1) addressed a situation where a buyer could not find a seller (unintended hoarding) or a good investment opportunity, a motive previously analyzed by Say: "In a poor country, the merchant who just concluded the sale sometimes stays without being able to repurchase the goods required for his industry for quite a while. Meanwhile, the sum (proceeds of the sale) remains idle in his hands. In poor countries, investment opportunities are scarce. People slowly save small amounts that they sometimes cannot put to productive use until several years later; which always leaves important quantities of commodity-money idle." In *Cours*, Say ([1828–29] 2010: 149–50) made a similar reasoning, but he was a bit more precise. It was not the total quantity of idle capital that increased; instead, the relative proportion of idle capital was higher. A peaceful and well-managed country gave greater security in business, and thus minimized the proportion of idle capital.

In the fourth edition of *Traité*, Say ([1819] 2006: 247n1) considered long-term hoarding. Thus, a miser could hoard money during his entire lifetime, Say pointed out, but it would eventually get spent by his heir. A similar argument was made in *Leçons* (third lecture at the Athénée and second

14. Say ([1828–29] 2010: 1231, 1233) also used the term "sterile consumption."

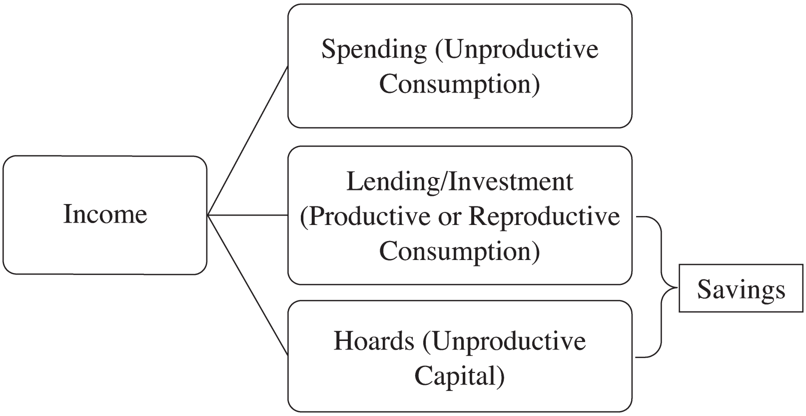

Figure 1. The relationship between income, savings, and hoarding according to Jean-Baptiste Say

lecture at the Collège de France) and in *Cours* (Say [1819] 2003: 95; [1831–32] 2003: 405; [1828–29] 2010: 75). But the highlight of the fourth edition was the increasing hostility toward Ricardo (Steiner 2006: xviii, xxxii–xxxiii). The focal point of Say's criticisms pertained to value and price. However, this topic was not the only source of contention. In *Cours*, Say argued that, contrary to what Ricardo asserted, production was not *strictly* bounded (and thus proportional) to the quantity of capital. In other words, unused money reserves could hinder capital accumulation (Say [1828–29] 2010: 761, 1128). In *Lettres à M. Malthus*, Say refuted Ricardo's claim that "there is always as much industry as capital employed, and that all saved capital is always employed" (Say 1820: 101n1). Drawing upon the experience of the 1813 recession in France, Say contended that many savings were not invested, not all capital was employed, and many workers were jobless. In other words, for Say the economy was not always operating up to its full capacity, thereby admitting that a general glut was possible:

> On the contrary, many savings are not invested when it is difficult to find employment for them, and many which are employed are dissipated in ill-calculated undertakings. Besides, Mr. Ricardo is completely refuted, not only by what happened to us in 1813, when the errors of Government ruined all commerce, and when the interest of money fell very low, for want of good opportunities of employing it; but by our present circumstances, when some funds are sleeping in the coffers of capitalists. (Say 1820: 101n1)

It is important to note that Say did not allude that wage and price flexibility would make up for deficient total spending.[15] For Say, saving was the main source of investment, but contrary to Ricardo he did not regard saving and investment as identical decisions. Although Say believed in the merits of saving as the engine of capital accumulation, he was cautious not to overstate its role. Thus, Say (1820: 72) warned that, "contrary to Smith, one ought not to preach parsimony."[16] Capital accumulation, Say (1820: 73–75) insisted, was a slow process that would not disturb industry.[17] Most individuals sought to fulfill their basic needs first, which led them to spend the entirety of their incomes leaving no possibility to save. Yearly savings represented only a tiny portion of the national capital. Only very wealthy individuals could allow great savings, but very great fortunes were rare in all countries. Say essentially thought that high-income individuals had a higher marginal propensity to save than the average person. Interestingly, Say believed that capital accumulation was not desirable at all costs. In the first edition of *Traité*, while reiterating that only very wealthy individuals could save and accumulate significant amounts, he explained that he saw moral limits to capital accumulation. Capital accumulation could lead to growing inequities in the distribution of income, and thereby spur social unrest:

> One could raise a singular objection to capital accumulation. What is the type of individual capital that can be accumulated very easily? Certainly, large capital; because it is easier to constitute reserves drawn from earned profit when profits are high. Money attracts money. Encouraging very wealthy individuals to save, means confirming, increasing the inequality of fortunes and immoral behavior, [and] the evils that could happen. (Say [1803] 2006: 205)

15. This does not mean that Say did not believe in price flexibility. His reasoning suggests, however, that in circumstances where hoarding was on the rise—during political and/or economic downturns—price flexibility could be impaired.

16. Say criticized Smith for arguing that savings were immediately and entirely invested. He did not give any specific reference, but Say had probably in mind the following passage of the *Wealth of Nations*: "Parsimony . . . is the immediate cause of the increase of capital. . . . What is annually saved is as regularly consumed as what is annually spent, and nearly in the same time too; but it is consumed by a different set of people. That portion of his revenue which a rich man annually spends is in most cases consumed by idle guests and menial servants, who leave nothing behind them in return for their consumption. That portion which he annually saves, as for the sake of the profit it is immediately employed as a capital, is consumed in the same manner, and nearly in the same time too, but by a different set of people" (Smith [1776] 1976: 337–38). As Blaug (1997: 55) rightly argues, Smith's phraseology implies that saving was tantamount to investment.

17. The argument was made in response to Malthus and Sismondi who believed that crises resulted from too rapid capital accumulation.

This passage disappeared in the subsequent editions. It may contradict his view that "the interests of the rich and the poor . . . are not opposed to each other, and that all rivalries are mere vanity" (Say [1817] 2006: 48). But remember that Say referred to the very rich—the 1 percent of today?—who were said to be very rare, as mentioned above. Therefore, he referred to rare exceptions that did not call into question his profound conviction that social harmony was the natural outcome of an industrial society. All in all, what we have here is an illustration of Say's practical political economy (Say [1814] 2006: 12n2; [1826] 2006: 43, 261; Steiner 1990; Potier 2010: xxx–xxxi; Numa 2019). He first laid out a general rule or a "law" then he mentioned some qualifications after analyzing how the rule applied to the reality of economic life, considering its effects both in the private and public spheres. He thus reproached Ricardo of applying principles in a rigid and unqualified fashion. Applying principles abruptly without confronting them with experience led to vague and inconclusive results (Say [1828–29] 2010: 762).

In *Cours*, Say explained that individuals often did not immediately spend their income: "Individuals who received their part of the products created in money form . . . generally save it for a while in a form that is the most convenient, until the amount, which grows by several successive accumulations, is large enough to be invested. Thus, in every country there are many small portions of capital funds, whose employment is delayed and whose total amount . . . form a very significant [part of] unproductive capital" (Say [1828–29] 2010: 152–53). In his discussion of unproductive capital, Say ([1828–29] 2010: 149) stated that "the lack of security and confidence often leads owners of capital funds to refrain from investing for fear of compromising them. They prefer to lose interest instead of risking the principal." Say explained that owners of idle capital funds factored risk and return in their decision making. The riskier and the less profitable the investment, the more capitalists would be incentivized to hoard. The takeaway was that hoarding could involve large amounts, depending on the expected return and the level of risk. The bottom line is that, for Say, the interest rate not only affected the decision to hold bills of exchange and promissory notes, but also determined how long individuals held such assets. This clearly shows that Say described a form of money demand in which money was also a store of value, not *just* a medium of exchange.

Contrary to what Gootzeit (2003: 169n2) seems to suggest, Say did recognize savings as a money flow. Thus, Say established a relationship between monetary savings and hoarding. As his criticism of Ricardo's thesis suggests, there could be a lag before savings turned into investment.

However, Say ([1828–29] 2010: 401n1) still embraced his view of savings as a real concept: "this proposition is not in contradiction with the one that instructs that money is not the same thing as capital," intimating that he did not recant his conception of the rate of interest as the price formed by the supply of, and the demand for loanable funds. Say ([1803] 2006: 764) initially posited: "when the quantity of money grows, its exchange value drops compared to that of other goods and does not affect the interest rate." Yet, toward the end of his life, Say ([1828–29] 2010: 479) adopted Tooke's views (Tooke 1826: 22–24). Like Tooke, Say believed that money temporarily affected the interest rate. A growing quantity of money in the economy generated more lending, and this resulted in a larger amount of capital funds that drove the interest rate down and subsequently lowered production costs. Prices then climbed because of the abundance of money, but this effect took place after the fall of the interest rate. Considering that producers bought their inputs before prices rose, they took advantage of a low cost of borrowing. As they sold their products when prices increased, they ended up making large profits.

3. Concluding Remarks

Say did consider both short term and long-term hoarding and both intended and unintended hoarding. In his framework, hoarding was more frequent in poor, underdeveloped countries where the economic activity was slow. He viewed the total quantity of idle balances as unproductive capital. His using of the term "unproductive" was not aimed to minimize its importance, but to underline the fact that it could hinder capital accumulation by not being put to productive use. Though he deemed hoarding irrelevant at times, Say recognized that the phenomenon existed and could create significant impediment to capital accumulation. What transpires from Say's writings is the fact that hoarding did not reflect the normal state of economic affairs. It was associated with uncertainty and political and/or economic disturbance. Hoarding was inevitable in times of crises; this reinforces the idea that hoarding did not cause crises, but it was just a symptom. This probably explains why Say did not suggest any remedy to deal with the problem, nor did he suggest any form of intervention such as a discretionary monetary policy, but it was nonetheless something that was very real, and a phenomenon that should be taken into account. Say identified three motives that could lead individuals to keep idle balances: a precautionary motive, the lack of good investment opportunities, and the lack of information. It is clear that the conventional narrative on the role and the effects of hoarding in Say's work has been misguided. All of this goes on to show that nothing can replace a thorough and careful scrutiny of the primary sources—especially when they are published—to have an accurate account of Say's views on hoarding and other monetary issues.

The crucial question concerns the coexistence of Say's law of outlets and the issue of hoarding in Say's writings. Does hoarding invalidate Say's law of outlets? The answer is no for two reasons. First, hoarding did not reflect the normal state of the economy as mentioned above. In normal economic conditions, hoarding was negligible and did not impact capital accumulation. In Say's words, "the only [form of] money that is not circulating is the one that is hoarded; and it is withdrawn from circulation only for some time" (Say [1803] 2006: 662). Hoarded funds would sooner or later be dishoarded, which included the possibility that idle balances could be accumulated over the very long run before being spent by future generations. Second, as time went on, and in debating Thomas Robert Malthus, David Ricardo, and Jean Charles Léonard de Sismondi, Say moved away from a rigid interpretation of his law, which prompted him to concede some "restrictions" in the fifth edition of *Traité* and in *Cours* (Sowell 1972: 77, 140). Hoarding should also be considered a restriction. However, hoarding was not a restriction added ex post to signal a revision or an evolution of Say's ideas. Say discussed hoarding in several passages from the first edition of *Traité* (which features his first formulation of the law of outlets), and the issue is also analyzed in all the subsequent editions, and in other major and lesser-known texts. In other words, hoarding was an integral part of his economic system. All in all, this confirms that Say was flexible in his approach to economic phenomena. He embraced a practical political economy, a discipline which took into account the reality of economic life and the secular record.

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