Introduction:
An important element of classical economics is Say's Law of Markets, after J.B. Say, a French economist who first stated the law in a systematic form.

Briefly stated, this law means that 'supply always creates its own demand.' In other words, according to J.B. Say, there cannot be general overproduction or general unemployment on account of the excess of supply over demand because whatever is supplied or produced is automatically exchanged for money.

In an exchange economy whatever is produced represents the demand for another product because whatever is produced is easily sold.

Whenever additional production takes place in the economy, necessary purchasing power is also generated at the same time to absorb the additional supply; hence, there is no scope of supply exceeding demand and causing unemployment. This law was the basis of their assumption of full employment in the economy which rested on the plea that income is spent automatically at a rate which will always keep the resources fully employed.

Savings, according to classical are just another form of spending; all income, they believed, is partly spent on consumption and partly on investment. There is no ground to fear a break in the flow of income stream in the economy. Hence there cannot be any general over-production or unemployment.

The classical economists always assumed a state of employment in the economy. The normal situation in an economy, according to them was full employment equilibrium. Less than full employment, they believed, was an abnormal situation. Classical always held that there are no lapses from full employment equilibrium and even if there are any, there is always a tendency to return to full employment. This belief of the classical economists was based on the views of a French economist, J.B. Say (1767-1832).

J.B. Say made popular the ideas of Adam Smith in France and on the European continent. His law of markets which Galbraith described as having had the status of an article of faith with classical economists for over a hundred years is the formal expression of the idea that widespread and involuntary unemployment because of general over-production is impossible. In other words, there cannot be any involuntary unemployment because of a deficiency of effective demand or total demand.

In his analysis of the market mechanism, J.B. Say noted down: "…a product is no sooner created, than it from that instant, affords a market for other products to the full extent of its value. When the producer has put the finishing hand to his product, he is most anxious to sell it immediately, lest the value should vanish in his hands. Nor is he less anxious to dispose of the money he may get for it; for the value of money is also perishable. But the only way of getting rid of money is the purchase of some product or other. Thus, the mere circumstance of the creation of one product immediately opens a vent for other products."

Briefly stated, it means that "supply creates its own demand". He asserted that there cannot be any general over-production or general unemployment in the economy as whatever is produced is automatically consumed. In other words, every producer who brings goods lo the market does so only to exchange them for other goods.

Say believed that people did not work for its own sake but to obtain other goods and services that go to satisfy their wants. To be employed simply meant to work in a field or to start a shop and to sell one's own product in the market. The organisation of the economy was simple under which people spent on tools and consumer goods. Saving and investment were not separate processes.

Implications of Say's Law:

1. According to Say's Law of markets there is automatic adjustment in the economy as whatever is produced is consumed. In other words, every output brings along with it the necessary purchasing power in circulation which will lead to its sale, so that there is no over-production. Hence, there is no necessity on the part of the government to intervene in business matters as that will come in conflict with the automatic adjustment mechanism of Say's Law of Markets.

2. Since supply creates its own demand, hence general unemployment and over-production are impossible.

3. Again according to Say's Law of Markets as long as there are unemployed resources in the economy it is profitable to employ them because they can pay their own way. In other words, when the unemployed resources are used, they lead to more production so as to cover their own costs.

4. Another important implication is the mechanism of flexibility in the rate of interest, which brings about equality between savings and investment. To classicals, saving is another form of spending. Therefore, whatever is saved is necessarily invested. Hence, there is no possibility of the deficiency of aggregate demand and the mechanism through which it is maintained is the rate of interest.

5. Further implication of Say's Law of Markets flows from the Pigovian formulation, i.e., wage rate is the mechanism which helps to bring automatic adjustment, i.e., a lowering of the wage rate will lead to full employment under free and perfect competition. The government should, as far as possible, ensure a free market and there should be absolutely no regulation of wage rates.

6. Because goods are exchanged for goods, money acts as a veil and has no independent role to play. Money is only a medium of exchange to facilitate transactions.

Is Say's Law Still Valid?

From the points enumerated above, it is clear beyond doubt that whatever force Say's Law had during barter economy, it certainly does hold true of modern conditions. It has been completely given up by modern economists in their theoretical and practical work on money and business cycles. Under barter economy where production was primarily for consumption i.e., whatever was produced was exchanged for goods and services. Say's Law had some meaning. But today, when the production is based on future expectations and anticipations of demand, it has little validity, as there is bound to be some over-production, resulting in some type of glut in the market.

Viewed, however, as a broad generalization in micro context, Say's Law presents in a greater measure a picture of the exchange economy, wherein new firms and workers find their way into the productive process by offering their own products in exchange. In J.A. Schumpeter's view, Say never presented the law in the form in which we find it today. What he actually meant was that a good deal of production is always meant to be consumed and the rest which is saved is likely to be invested generally.

This law is not as meaningless as some assume, under the influence of Keynes. Say's Law is still held to be valid. In principle, the economy would always absorb all the commodities, it. was capable of producing. The periodic unemployment associated with the trade cycle was an aberration, a consequence of the unbalanced structure of production caused by too rapid an expansion of the capital goods industries.

Say's Law forms a good argument against the pessimism of those who see a general increase in production leading to a slump. For example, many fear expansion of production in the underdeveloped countries. They apprehend that the world will be flooded with products but they forget and overlook the fact that this greater production automatically leads to a greater money income which provided that it is spent in the right way, creates the market for greater flow of goods, this does not mean that disturbances cannot occur, but these are anything but a necessary consequence of the expansion of productive capacity. Supply does, in fact, tend to create its own demand.

Even today, we know that the law is true to the extent production creates its own demand via payment to the factors of production and their resulting consumption. The very fact that there cannot be any stable equilibrium in the economy unless $Y = C + I$ shows the validity of Say's Law even under modern conditions and manifests its inherent accuracy. In other words, the sum of expenditures on consumption and investment demand must be high enough as to be equal to income generated (supply). Hence, in a sense $Y = C + I$, is nothing but an elaboration and application of Say's Law in the long run. In their fondness for the law, people gave misleading and conflicting interpretations.

Implications of Say's Law

The implications of the law are as follow

- **Full employment in the economy**

  According to Say's law there is full employment in the economy. It is because increase in production means increase in employment and production continues until the full employment is reached. In such a condition production will be maximum.

- **Proper utilization of resources**

  This law is based on full employment in the economy. According to which the proper utilization of idle resources are ensured which will further help to produce more and also generate more income.

- **No general overproduction**

  There is no general overproduction and no unemployment. Increase in production generates income for inputs and further demand is created for the produce.

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