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Say's Law—Supply Creates Demand

Many have generally accepted President Nixon's comment that 'We're all Keynesians now', believing that the economy is purely demand-driven, and that by substituting government spending for private activity, recessions could be curtailed. In spite of its acceptance, this may not be true. [1]

An old contrary idea from the French economist Jean Baptiste Say (1803) is that supply creates its own demand. [2]

In early-stage economies commodities can dominate trade. Those countries who are agricultural producers sell excess food production, those with copper, oil, or iron ore deposits utilize or sell them to those who lack them. Those that have forests sell lumber or use it to build ships that can trade and explore. Some developing countries have cheap labor, when they sell or use to their advantage.

In later-stage economies, producers add intellectual capital to their commodities, producing finished or value-added goods where their expertise is rewarded as well.

Combine this with British economist David Ricardo's (1772-1823) view of comparative advantage, that one should produce and sell whatever one is good at producing and the result is an economy that can be described as market driven free trade. [3]

Since the turmoil created by the recent Covid epidemic and the various methods used to cope with it, many things have changed.

We have watched supply chains go from free flowing and competitive to frozen or interrupted as politically motivated reshoring and oil sanctions were mandated.

Shipping costs have come back to pre-covid levels. Shipping an intermodal sea-container during the Epidemic cost $17,000, now it is only $1700. [4]

Logistics reorganization, transport reconfiguration, warehouse relocation and inventory cost reevaluation may now have increased influence over many business decisions.

Estimating the effect on future business of the high but potentially long-lasting finance costs may be important if the Fed indeed waits until we have achieved their goal of a 2% inflation rate before they lower the fed funds rate.

I think attempting to invest in those companies who take advantage of these changes may be rewarding in the coming year.

Please call to discuss which of these may be appropriate for your investment objectives.

Sincerely,

James P Dretler

James P Dretler
Senior Portfolio Management Director
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1. 'We're All Keynesians Now-, Brian Westbury, Robert Stein, First Trust Advisors, 9/16/19, www.advisorperspectives.com/commentaries/2019/09/16/were-all-keynesians-now
2. Say's Law and Keynes' Law-Principles of Macroeconomics, https://fscj.pressbooks.pub>macroeconomics>chapter
3. Ricardo's Theory of Comparative Advantage, MIT Economics, https://economics.mit.edu>files>publications PDF
4. 'Container Shipping Rates Drop 90% Since Early 2022', PYMNTS, October 9, 2023, www. pymnts.com/shipping/2023/container-shipping-rates-drop-90percent-since-early-2022/

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