Posted to the Gilder forum - September 6, 2000

Say - Demand

David (dmg) got this discussion started with a post by Horwitz. This is my third participation in the thread.

Until the recent discussion about Say's Law of Markets I did not really understand "demand." I suspect that there might be some other people who have the same problem so I will comment on my latest interpretation of "demand" as used in economics.

Demand implies a certain power that obliges the other party to give or supply. If you just "ask" for something, the giving party has the power to decide to give or not to give. On the other hand, if you "demand," that has implicit within it your ability to compel the other party into giving what is asked.

Lets look at the transaction of a bird eating fruit. The bird flies up to the tree and takes the fruit. The tree is helpless so the bird is in fact demanding the fruit and the tree is supplying the fruit. That's the bird's eye view of the transaction. But let's look at it from the tree's eye view. The tree is thinking along these lines: "I don't particularly like this neighborhood and I certainly don't want my children to grow up here. But I'm stuck, literally rooted to the ground. OK, I can't move, so how can I get my children to grow up elsewhere?" Then a fact and a brilliant idea hit the tree: "Birds fly! I'll wrap by children in a hard, safe cocoon, and wrap the cocoon in sweet meat that birds love to eat. Then a bird will come and take the 'fruit' -- isn't that a lovely name for the carriage I'm building? -- and drop my kids, hopefully, in a better neighborhood." Now you can interpret the transaction differently. The tree is demanding transport for his kids from the bird and is willing and able to pay for the fare with sweet meat. And most important, notice that the whole thing started with the tree producing a supply of "sweet meat." No amount of "demanding" by the bird would ever have produced "sweet meat" and the bird would have been forced to continue eating defenseless worms.

The dictionary defines economic "demand" as: "the desire for a commodity together with **the ability to pay for it**; also, the amount people are ready and **able to buy** at a certain price (emphasis mine)." If you have the "desire" but not "the ability to pay for it," what you have is a "**want**."

Quite clearly the bird and the tree parable is a one to one relationship of supply and demand. Say is talking about the general case when he says; "Supply creates its own demand." What he is really saying is that supply creates the wherewithal to pay for a want and "want" plus "the ability to pay for it" becomes "demand." The important fact to realize here is that supply starts the virtuous market cycle. When demand starts things, it's highly likely that the cycle will be vicious war.

Liberals and Keynesians, looking at the virtuous market cycle, decide that by adding some "ability to pay for it" they can improve the market cycle. The "ability to pay for it" that does not come from production, from "supply," can only be created in one of two ways: You can print more money and give it away or you can redistribute wealth by taxation and welfare payments.

It is fairly clear to most people today that printing money leads to inflation and not to extra production of goods. The same goods just fetch more money until equilibrium is reinstated.

Redistribution of wealth can work up to a certain point. Beyond that, the producers stop playing sucker. They quit just like they went on strike in Ayn Rand's "Atlas Shrugged." If you want a more modern version, just like predicted by the Laffer curve.

I think I now understand "demand."

Denny
"Demand creates queues. Supply gets rid of them."