

ACCESS TO MARKET: SAY WHAT?

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In response to our previous blog post: [Access to market – an inconvenient truth](#), we were asked this question:

What if Say's Law still holds some elements of truth? Supply creates its own demand

https://en.m.wikipedia.org/wiki/Say%27s_law

What did Say say? That aggregate supply will always equal in aggregate demand in the long run. Or, as Kate and I put it in our last blog, 'build it and they shall come.'

Many people who are far smarter than I have criticised Say's Law. Most notably John Maynard Keynes, who observed that (a) in the long run we are all dead, and (b) if Say's Law held in the real world, we would not experience supply gluts, including unemployment, and other such economic phenomena.

But it's worth exploring the concept in more practical terms and in an economic development context, with the caveat that I think it can be risky to try to apply macroeconomic theory too literally to the microeconomic work that most programmes tend to undertake.

Say's Law is often explained most simply in terms of barter. Let's say Zack has grown 10 pineapples. He eats all of them. Supply = 10, demand = 10. Or he trades 8 of them for 2 chickens from Judy and eats the remainder, rather than letting them to rot. Supply = 10, demand = 10.

Let's add some complexity - or dare I say, reality - to the example. As the pineapple season draws to an end, Zack goes back to Judy to buy more chickens. Judy sees that Zack's pineapples are quite ripe. She reckons that if she holds out for a few days Zack will be desperate to sell his pineapples before they turn to mush. She's in no rush, so holds out on Zack. Fed up with Judy – and his all-chicken diet – Zack visits Wario to buy a goat instead, but Wario says his goat is worth 20 pineapples. Zack is stuck unless he can persuade Wario to sell him half a goat. Wario doesn't know where he could sell the other half quickly before it starts get whiffy and the 'price' goes down. No deal. So, Zack reluctantly goes back to Judy and trades 7 pineapples for 1 chicken and eats the remaining 3 pineapples. He is unaware that Judy is going to a big festival in the neighbouring village that evening, where she sells all the pineapples and gets 2 chickens in return. Next pineapple harvest Zack has 20 pineapples, so he heads off with a full basket to buy a goat from Wario. On the way he encounters the village head, who 'suggests' that Zack should make a donation to the village benevolent fund: 4 pineapples, please. Zack hopes he can strike a 16 pineapple-1 goat deal with Wario, but Wario now wants 25 pineapples because there has been a bumper harvest this season – pineapples are everywhere. There goes the goat again. Back to chickens, with pineapples for dessert.

In this example, supply has indeed equalled demand – after a fashion. Say's Law holds. But it has done so in a way that has reduced Zack's 'welfare' because the 'price' he gets for his pineapples has been affected by perishability (and lack of refrigeration), seasonality, weather, rent seeking and lack of information. Zack was forced to make distressed sales: bad for Zack, good for pineapple consumers. You might imagine other scenarios where pineapple consumers lose out and pineapple producers gain.

We know barter has its limitations: it restricts choice, it's inconvenient and it's inefficient. Hence the emergence of money as a medium of exchange. And it's in the more complex world of money-based transactions where Say's Law really struggles to help us make sense of what we observe. The assumptions needed to make Say's Law hold – perfect competition, many well-informed and willing sellers and buyers, frictionless transactions and barriers to entry, money only used as a medium of exchange rather than as an asset in its own right, etc – are less common on Planet Earth than they are on Planet Macroeconomist. Demand is affected by exogenous factors. Prices and wages are sticky. Sellers are not prepared to sell at

any price. Buyers are far from rational. Transactions costs are real. Substitutes abound. Markets get saturated. Supply very frequently does not create its own demand. This isn't a theoretical or ideological position; it's based on 25 years of witnessing supply-push initiatives end unhappily – usually for the people they were intended to benefit.

But what about innovation? Innovators always put a product out there ahead of demand, right? If that wasn't the case, we wouldn't have iPods (remember them?) or Crocs (I can't believe there was ever demand for them...). True. But I think it is important to consider (a) what generally happens to innovators, and (b) who's doing the innovating, where. Far more innovators fail than succeed. That's market forces – but it's their money, their choice! In a wealthy setting, with ample resources, information and infrastructure, high levels of discretionary spending, bankruptcy protections and generous social safety nets, failure is generally not life threatening. The risks of innovation are more daunting if you are a farmer, 5 hours from the nearest market, without your own transport, limited savings and dependent on price-sensitive traders. Or a member of a poor community on a beautiful but remote island with rudimentary infrastructure, hoping to make a livelihood from maritime tourism, which is organised by international operators with a host of similar destinations to choose from.

Which brings me to the development intervention part of the puzzle. As development professionals we can have a persuasive influence. We encourage people to innovate, invest and take risks with their effort and resources. If it doesn't work out, we don't lose anything – and they do. This is true even if we have underwritten financial risks for a pilot phase experiment. Pilots are expected to fail fairly often; the cost to development actors is nowhere near as substantial as the investment of time, social capital and other resources made by people who changed their business model or livelihood activities to pilot the new idea. So, I'd argue that we have a moral – as well as pragmatic – duty to look brutally hard at the feasibility of any innovation we decide to promote. That means examining its likely return on investment, rate of return, time to benefit, and so on – and that requires making a realistic assessment of demand.

I'm not saying that we can't promote innovation and work on the supply side – we do that all the time – and we also work to build demand. I am suggesting that a good deal of caution is required if we're pushing supply too far ahead of real demand. Iterative or incremental improvement – several small bets, rather than one big bet – is often the best way to start, particularly when the livelihoods of vulnerable people are at stake. I am sure we have all [seen our share](#) of government or development-supported 'white elephants' crumble to dust in the absence of customer footfall. I spent about a decade looking at such failures in the tourism sector alone! (If only we spent as much time doing 'pre-mortems' of proposed initiatives as we spend doing post-mortems of failed initiatives.)

What about something like M-Pesa? Isn't that a good example of a 'big bet' innovation creating its own demand? Sure. But who made the investment? I suspect that they weren't all that poor or vulnerable, and more importantly, I am fairly certain that investment decisions were made on the basis of understanding the inefficiency of existing banking services, assessing the unbanked population and their transaction habits, the availability of potential agents, and the take up of electronic financial or transaction services elsewhere, as well as some judicious product and market testing. In other words, feasibility of opportunity was thoroughly assessed. That's a very different scenario to just boosting someone's capacity to grow more pineapples and hoping that somebody, somewhere will buy them. If only they had access to market...