

DISCUSSION PAPER SERIES

Discussion paper No.05

THE ECONOMIC THOUGHT OF J.B.CLARK: AN INTERPRETATION OF 'THE CLARK PROBLEM'

Toshihiro Tanaka
Kwansei Gakuin University

March 1988



SCHOOL OF ECONOMICS
KWANSEI GAKUIN UNIVERSITY

1-155 Uegahara Ichiban-cho
Nishinomiya 662-8501, Japan

ABSTRACT

THE ECONOMIC THOUGHT OF J. B. CLARK: AN INTERPRETATION OF 'THE CLARK PROBLEM'

Toshihiro Tanaka

Kwansei Gakuin Univeristy

In this paper four points have been claimed: (1) J.B.Clark's 'transformation' was not 'a mere change of emphasis', but a radical change; (2) The early Clark as a Christian socialist regarded a co-operative system as an ideal economic system, and it was not necessary to be within the capitalistic framework; (3) The later Clark's 'transformation' to the justification of a capitalist competitive system was brought about by the establishment of his specific productivity theory of distribution. The formation process of this theory involves the confusion of an ethical approach and a theoretical approach at three levels: stating a problem, construction of the theory itself, and the social implicaiton of it; (4) The later Clark as an anti-monopoly policy proposer recognized trusts without monopolistic power as being necessary to harmonize efficiency and justice. His final reformist position was well shown in his Social Justice without Socialism.

THE ECONOMIC THOUGHT OF J.B.CLARK: AN INTERPRETATION OF
'THE CLARK PROBLEM'

Toshihiro Tanaka
Kwansei Gakuin Univeristy

I Introduction

The purpose of this paper is to shed light on the characteristics of John Bates Clark's economic thought through the re-examination of the so-called 'The J.B.Clark Problem'. By the 'the Clark Problem' it is meant the transformation from the early Clark who had repudiated the competitive system to the support and defence of it in his later period.

There are at least two points in the interpretation of this transformation. One is whether it is taken as only 'a change of emphasis' or 'a radical transformation' in his basic social view. The other is what are the important forces which brought on this transformation.

P.T.Homan, J.M.Clark, and J.Dorfman,¹⁾ for example, interpreted it as 'a change of emphasis' or 'a drift in the point of view', although with different explanations. But J.Jalladeau²⁾ and the present writer have pointed out that it was a radical change of view. Jalladeau put emphasis on 'a conjunction of two profound motivations'.³⁾ We might call it a conjunction of a purely theoretical approach which is the theory of final (specific) productivity, and an ethical approach for the social justice in distribution. The real problem, however, is not just a conjunction of two approaches, but the structure of the conjunction, because even in the early Clark we easily find a different form of conjunction.

Lately J.F.Henry⁴⁾ denied that it was a radical transformation. He sees the conversion as one from the support of small farmers and small businesses who struggled against monopoly to support of monopoly capitalists, and that, he calimed, was a transformation always within a capitalist framework.

In this case, however, the early Clark's 'socialism' or Christian socialism was essentially taken as backward-looking populism. He stressed

the aspect that Clark did not propose 'a change in the production relations in society'.⁵⁾ This under-evaluation of the early Clark's socialism seems to be the essential feature of his interpretation.

II The Early Clark

Needless to say, the early Clark's economic thought can be seen in his Philosophy of Wealth (1886) which is based on the articles published in The New Englander from 1877 to 1883. We might call the time from 1877 through the publication of Philosophy of Wealth to the definitive article, 'Capital and its Earnings' in 1888 his early period.

The central theme of the early Clark's economics was social justice, especially justice in distribution. He was groping for a new industrial system and a new political economy that were different from the present economic system and the old traditional laissez-faire economics. His greatest interest was to resolve the new economic problems resulting from the rise of business combinations and monopolies in the 1870's. He re-examined the theoretical assumptions of Classical political economy, such as the conceptions of wealth, labor, economic man, the atomistic view of society, and especially the concept of competition. He pointed out their defects and their inconsistencies with the contemporary industrial facts. In particular as to the concept of competition, he posed a question to the traditional economists' view that competition is the essential principle to co-ordinate economic activities.

He distinguished 'true competition' or 'rivalry in giving'⁶⁾ from 'destructive competition' or 'predatory competition', and repudiated the latter, while he did not generally lose hope for the working of the former. He claimed that the progress of moral force was necessary to get back the equity of exchange and distributive justice:

Individual competition, the great regulator of the former era, had, in important fields, practically disappeared. It ought to disappear; it was in its latter days, incapable of working justice. The alternative regu-

lator is moral force, and this was already in action. (Philosophy of Wealth, p.148.)

Thus he repudiated the principle of competition and emphasized on moral force in place of it. Although he was not necessarily consistent in his judgment of the practical working of the competitive principle,⁷⁾ his fundamental approach to 'the transitional and chaotic state of industrial society' (Ibid. p.148.) could be found in his denial of the competitive principle as the regulator that can not secure justice in distribution, and his expectation that moral force would work in the different forms.

In the process of abandoning the competitive principle and groping toward a new economic system based on moral force, Clark went on with the examination of arbitration, profit-sharing, and economic systems based on the principle of co-operative production system (not the Rochdale form of the co-operative store) as an ideal economic system, which could remove the fundamental causes of conflict between capitalists and laborers, regarding arbitration and profit-sharing as 'partial co-operation'. He wrote that:

Coöperation works in an opposite way in both respects. It concentrates the thought and energy of all on production, the process in which the interests of different classes are identical; and it develops harmony of feeling, which securing a large product for distribution. (Ibid., p.178.)

Insisting on the survival of these four systems (competition, arbitration, profit-sharing, and co-operative production system), Clark expected that the co-operative system would be the ultimate survivor. He stressed that:

Coöperation will, by this process, have a fair chance in the industrial world. If, in the comparison with other systems, it is shown that it ought to survive, it will do so, and that regardless of initial failures. (Ibid., p.189.)

His support of a co-operative system in place of a competitive system was 'the Christian socialism of Maurice, Kingsley, Hughes, and their

worthey co-laborers'. (Ibid., p. 198.)⁸⁾ He had great expectation for the development of Christian socialism:

It meets an imperative human need, and must grow surely, though not, as reformers are wont to estimate progress, rapidly. (Ibid., p.198.)

He also highly evaluated the thought and opinions of Christian socialists in the U.S. such as W.Gladden,⁹⁾ R.T.Ely¹⁰⁾ and others, and wrote book reviews of J.Cook, J.P.Thompson, and T.D.Woolsey.¹¹⁾

Clark's position of Christian socialism can not be properly described as being within the capitalist production relation. It pointed to an economic system beyond capitalist system. We might say that Clark was in the process of groping for an ideal economic system beyond the capitalist system. On this point Henry's interpretation that Clark's Christian socialism was essentially identical with the backward-looking populism which supported small farmers and small businesses struggling against monopolies, and that it did not go beyond the capitalist system, can not be agreed to. It is true that Clark criticized monopoly and supported small farmers and small businesses to bring back justice in distribution, and evaluated the movement of Farmers' Alliance as a progressive political activities for democracy.¹²⁾ However, he clearly recognized that the competitive system of small businesses was past. He did seek a new industrial system in place of the old competitive system. It is almost impossible to find in his early thought any backward-looking attitude to try to revive the competitive system of small businesses of former times.

III The Later Clark

Against the background of the stagnancy of the co-operative movement in the U. S. after the publication of Philosophy of Wealth, Clark shifted his stress from the co-operative system to arbitration and profit-sharing. He wrote for compulsory arbitration in 1889¹³⁾ and claimed the necessity of arbitration frequently from 1896 to 1908.¹⁴⁾ On the other hand Christian socialism

in the U.S. (Social Gospel) itself changed partly and produced in a group who supported the American Socialist Party representing political (Marxian) socialism. Clark was critical of this, and his Christian socialist stand gradually faded.¹⁵⁾

At the same time Marxian socialism and agrarian socialism of Henry George became more threatening, at least Clark felt so, his criticism of these gradually strengthened and came to the front in contrast with the early Clark. Corresponding to this, Clark's social reformist thought with expectations beyond the capitalist framework weakened by degrees, and his insistence on Christian socialism centered on the co-operative system gradually drew backward. Distinct references to it disappeared from his writings.

In this situation, recognizing distributive justice as the rule that a laborer gets what he creates, Clark began to seek for the proof that the distributive justice in this sense was secured in the economic system. This pursuit of 'a natural law' in distribution became his primary interest.

Introducing the concepts of competition and economic man as the assumptions of theory, he constructed the final productivity theory of distribution as a static law of distribution under the condition of perfect competition. It was basically formulated first in his 1888 article 'Capital and its Earnings',¹⁶⁾ then developed in 'Possibility of a Scientific Law of Wages' (March 1889),¹⁷⁾ 'The Law of Wages and Interest' (1890),¹⁸⁾ and 'Distribution as determined by a Law of Rent' (April 1891).^{19) · 20)} These articles and others needless to say resulted in the Distribution of Wealth (1899).²¹⁾

In the formulation process of Clark's distribution theory, we find three most important points. They are the confusion of theoretical approach and ethical approach at three levels: stating a problem, construction process of the theory itself, and the social implication of it.

First, the formulation process by Clark was led by his distinctive ideology, the criticism of 'agrarian and state socialism'.²²⁾ His way of stating a problem is most clearly shown as follows:

Does society, under natural law, take from laborer a product that is distinctly attributable to it? This is one of the most important questions in economics.²³⁾

He wanted to object to socialism which had pointed out the institutional injustice in distribution in the capitalist system, i.e. exploitation. We find here his basic position in the later period, the moral justification of private property and free competition. In the case of Clark the combination of marginalism and anti-socialistic ideology was his characteristic feature.

Secondly, led by the anti-socialistic ideology, Clark was not satisfied with the final productivity theory such as Von Thünen's theory of wage that could not deny the logical possibility of exploitation. Clark felt he had to criticize it as an imperfect final productivity theory, and tried to construct a perfect theory which could distinctly repudiate exploitation theory. His way of stating the problem naturally led him to the next question:

What needs to be known is what part of the composite result of industry is distinctly due to labor itself.²⁴⁾

To Clark who wants to deny exploitation, final productivity theory 'needs to become, in addition, a specific productivity theory, which makes the pay of each unit of labor conform to its own specific product'. (Distribution of Wealth, p.324.) Specific productivity theory was the conceptual contrivance constructed to distinguish what capital created and what labor created in the joint product of capital and labor. Final productivity should have been specific productivity.

Thirdly, after establishing the specific productivity theory, Clark drew his ethical and ideological implications from its conclusion. According to him, it was proved scientifically that:

free competition tends to give to labor what labor creates, to capitalists what capital creates, and to entrepreneurs what the coördinating function creates. (Ibid., p.3.)

Since the rule 'to each what he creates' (Ibid., p.9.) is observed in capi-

talist society, it is an honest society and had the right to exist in its current form. And also the current system had the probability that it would continue to exist, he insisted, because it promoted economic progress. Socialism then that insists on the existence of 'exploiting labor' and seeks to revolutionize society, should be resisted. This social criticism drawn from his specific productivity theory was most plainly stated in his contribution, 'Distribution, ethics of' and 'that, law of' in Palgrave's Dictionary of Political Economy (1894). This specific productivity theory and its social implication were the most important aspects to Clark himself, as J.M. Clark pointed out.²⁵⁾

Clark's Distribution was the justification of justice and efficiency in the capitalist system, and his criticism of socialism. It can hardly be said that Distribution is the book of the marginal productivity theory of distribution as a 'pure theory'.

The transformation therefore from the early Clark to the later Clark was nothing but a radical transformation in his basic social view from Christian socialism that repudiated the competitive system and supported a co-operative system as an ideal system, to the sophisticated justification and defence of the competitive capitalist system.

IV Clark as an Anti-monopoly Policy Proposer

After concluding that a competitive system has the right to exist from the viewpoints of justice and productive efficiency, Clark shifted the emphasis of his early social reform mainly to anti-monopoly policy and competition maintaining policy. In 1870's and 1880's Clark showed his great interest in monopoly, but the monopoly problem in the U.S. entered into a new stage in the 1890's. At this stage in his later period, Clark proposed to prevent and remove the evils of monopoly, and tried to maintain both distributive justice and productive efficiency within the capitalist system. After March, 1890 when he wrote his first essay on trusts, he developed his anti-monopoly policy through the publication of the Control of Trusts(1901),

The Problem of Monopoly (1904)²⁶⁾, and the second edition of the Control of Trusts (1912 with J.M.Clark).

In The Control of Trusts (1901), Clark distinguished three things: 'first, capital as such; secondly, centralization, and thirdly, monopoly' (p.6.). Of course he criticized the attack on capital as such. Stressing the utilization of the economy of scale of trusts on the one hand and criticising monopoly on the other hand, because it exercises its monopolistic power, excludes competition, reduces production, sets the monopoly price, and gets monopoly profits. He proposed anti-monopoly policy to remove monopolistic power from trusts. His policy is 'the policy which welcomes centralization, but represses monopoly' (Ibid., p.81.). He wanted to have 'concentration without having monopoly' (Ibid., p.8.)²⁷⁾. He claimed: 'Its purpose is to blend efficiency in production with equality in distribution' (Ibid., p.81.). This co-ordination between efficiency and equity was, he thought, secured by competition:

It is the policy that relies wholly on competition as the regulator of prices and wages and as the general protector of the interests of the public. (Ibid., p. v.)

According to him, through the policy to remove monopolistic action, 'residual' and 'latent' competition are secured, and this secures the increase of production, and improves the wages of laborers. In any case Clark's anti-monopoly policy was based on the revival of the competitive principle, and therefore it was a monopoly regulation policy within the capitalist system. His anti-monopoly policy was not intended to 'crush the trusts' (Ibid., p.5.), nor it destroy the productive efficiency of them. In relation to this point, he criticised the populists in the South and West, because they 'undervalued their productive power' (Ibid., p.3.), although he praised their zeal against monopoly. He was also against the 'letting them alone' policy (Ibid., p.5.)²⁸⁾ that could not prevent the evils of monopoly. He aimed at monopoly regulation policy. He pointed out:

There are two small classes who are predisposed to favor trusts, even though they shall prove to be real monopolies. These are, first, the revolutionary classes--socialists, anarchists, communists and the like; and secondly, the workmen in a few highly organized trades'. (Ibid., pp.4-5.)

Clark understood socialism and anarchism as a sort of let-alone policy with respect to monopoly, because he thought that they welcomed monopolization, because it would eventually lead to the possibility of nationalization of whole industries.

Seen from the point of view of the formulation of his anti-monopoly policy, the radical transformation in Clark's attitude toward the competitive system and the principle of competition, corresponds to the beginning of the formulation of his specific productivity theory, say in 1887-1888.

In the article 'The limits of competition' (1887)²⁹, we find the later Clark's basic views of trusts and monopolies. Here he clearly relies on the principle of competition and proposes to preserve residual and latent competition and to remove monopolistic action from trusts. We find the distinct revival of the competitive principle as a regulating force.

With the background of the new development of trusts and monopolies on the one hand, and the corresponding active movement of 'the revolutionary classes' on the other hand, he justified and defended justice and efficiency in the competitive capitalist system, and at the same time proposed anti-monopoly policy led by the theory of distribution under the industrial combination system. The gradual reformism centering on the anti-monopoly policy within the capitalistic framework was a feature of his fundamental ideas.

The point that the later Clark finally reached was his small book, Social Justice without Socialism (1914) in which we find the essentials of his final position with regard to socialism and social reforms. They are the following: 1. criticism of state socialism, agrarian socialism, anarchism, communism, etc. because of their main defect in economic progress; 2. the

justification of distributive justice in the capitalist system drawn from the theoretical conclusion of the specific productivity theory, and the defence, of economic progress based on competition in that system; 3. Removal of defects and evils from the capitalist system centered on the anti-monopoly policy; 4. gradual social reformism with a religious optimistic prospect.

V Summary

In this paper the following four points have been claimed: (1) Clark's 'transformation' in his basic social view was not 'a mere change of emphasis', but a radical change or conversion; (2) As a Christian socialist the early Clark regarded the co-operative system as an ideal economic system, not necessarily within the capitalist framework, and in fact repudiated the competitive system from the viewpoint of social justice; (3) The later Clark's 'transformation' to the justification and defence of the capitalist competitive system was brought about by the establishment of his specific productivity theory of distribution as a natural law. The construction process of this theory involves the confusion of the ethical approach and the theoretical approach on three levels: the way of stating a problem, construction of the theory itself, and the social implication of it; (4) The later Clark as an anti-monopoly policy proposer approved trusts without monopolistic power in order to harmonize productive efficiency and social justice. His gradual and optimistic reformist position centering on this anti-monopoly policy was finally shown clearly in his Social Justice without Socialism.

Notes:

This paper is based on the following 6 papers published in Japanese by the author: 'The Economic Doctrines of J. B. Clark. In particular on his Philosophy of Wealth', Keizaigaku Ronkyu (Journal of Economics of Kwansai

Gakuin University, abbreviated JEKGU) 20-3, Oct. 1966: 'The Formation of J.B.Clark's Views on Marginal Utility. Social Utility Theory of Value', JEKGU, 22-4, Jan. 1969; 'J. B. Clark's Theory of Marginal Productivity and its Ethical Implication', JEKGU, 24-2, July 1970; 'John Bates Clark and Marginalism: The Formation of Marginal Productivity Theory of Distribution', Konan Keizaigaku Ronshu (Konan Economic Papers), 14-2, September 1973; 'John Bates Clark on Competition and Monopoly with regard to "The J.B.Clark Problem"', JEKGU, 33-3, September 1979; 'J.B.Clark on the Anti-monopoly Policy: A Theory of Effective Competition', JEKGU, 34-1, June 1980.

- 1) Paul T. Homan, Contemporary Economic Thought (New York and London, 1928). J.M.Clark, 'On J.B.Clark', H.W.Spiegel (ed.), The Development of Economic Thought. Great Economists in Perspective (New York and London, 1952). Ditto, 'Clark, John Bates' International Encyclopedia of the Social Sciences edited by D.L.Sills (1968), vol.2. Joseph Dorfman, the Economic Mind in American Civilization, vol.III (New York, 1949). Ditto 'John Bates and John Maurice Clark on Monopoly and Competition', Introductory Essay to J.B. Clark and J.M. Clark, The Control of Trusts (1912), Kelley's reprint edition, (New York, 1971),
- 2) Joël Jalladeau, 'The Methodological Conversion of John Bates Clark', History of Political Economy, 7-2, 1975.
- 3) Jalladeau, ibid., p. 223.
- 4) John F.Henry, 'The tranformation of John Bates Clark: an essay in interpretation', History of Political Economy, 14-2, 1982.
- 5) Henry, ibid., p. 177.
- 6) J.B.Clark, The Philosophy of Wealth. Economic Principles Newly Formulated (Boston, 1886), 2nd edition, 1887, p.155.
- 7) He wrote in the other chapter: 'Society does not and will not completely abandon the competitive principle; it is still needed as an agent of distribution, and it is the sole means on which we can rely for the securing of a large product to distribute' (Ibid., p.207.).
- 8) The names of the Christian socialists were not in the article of 1879, but added in the first edition of Philosophy of Wealth.
- 9) Clark supported Christian socialist, Washington Gladden's thought in the essay 'Christianity and Modern Economics', The New Englander and Yale Review, 47, July 1887.
- 10) Book review of The Labor Movement in America (1886), by Richard T.Ely, The New Englander, Dec., 1886.
- 11) Reviewed by Clark in The New Englander. Socialism. With preludes on current events (Boston, 1889) by Joseph Cook, Sept., 1880; The Workingman: His False Friends and his True Friends (New Haven, 1880) by Rev. Joseph P Thompson, May 1880; Communism and Socialism in their History and Theory. A Sketch (New York, 1880) by Theodore D.Woolsey, May 1880.

- 12) 'The Present Aspect of the Farmers' Movement', The Congregationalist, 16 March 1893. He says: 'It is the protection of the growing American democracy from really dangerous encroachments'. 'The Farmers' Alliance is the best organization now existing for asserting the people's right to dictate legislation', But in this essay he criticised the free silver movement of the populists.
- 13) 'Arbitration and how to prevent strikes', The Christian Union, Feb. 21, 1889.
- 14) See the essays in The Century Magazine, The Independent, Political Science Quarterly, The National Magazine, Public Policy, Public Opinion, and The Report of the Lake Mohonk Conference on Arbitration, 1908.
- 15) In May 1910, Clark criticised J.Spargo, a leader of Christian Socialist Fellowship, and developed his criticism of political socialism. See the Christian Endeavor World, May 5, 1910.
- 16) Publications of the American Economic Association, vol.III, no.2, May 1888.
- 17) Publications of the American Economic Association, vol.IV, no.1, March 1889.
- 18) Annals of the American Academy of Political and Social Science, vol.I, no.1, 1890.
- 19) The Quarterly Journal of Economics, vol.V, no.3, April 1891.
- 20) As an excellent analysis of the formation of Clark's final productivity theory written in English, see John F. Heny 'John Bates Clark and the marginal product: an historical inquiry into the origins of value-free economic theory', History of Political Economy, 15-3, 1983.
- 21) J.B.Clark, The Distribution of Wealth. A Theory of Wages, Interest and Profits, (New York, 1899), Kelley's reprint edition (New York, 1956).
- 22) 'Capital and its Earnings', op. cit., p.12.
- 23) 'Distribution, Ethics of', Palgrave's Dictionary of Political Economy, p.599.
- 24) Ibid., p.599.
- 25) H.W.Spiegel (ed.).op.cit., p.610.
- 26) The Control of Trusts: An Argument in favor of curbing the power of monopoly by a natural method, New York, 1901. The Problem of Monopoly: A study of a grave danger and of the natural mode of averting it, New York and London, 1904.
- 27) Clark maintained: 'Monopoly is that monopoly does' (The Control of Trusts, p.73.).
- 28) This position was represented by economists such as Von Halle and J.W. Jenk.
- 29) Political Science Quarterly, vol.II, no.1, March 1887.