"A Certain Rude Honesty": John Bates Clark as a Pioneering Neoclassical Economist

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John Bates Clark (1847–1938), the most eminent American economist of a century ago, was, in his own day, caricatured as an apologist for laissez-faire capitalism (Veblen 1908).[1] The caricature has shown staying power, a measure, perhaps, of the relative paucity of scholarship on Clark and his work. Recent Clark research signals a welcome attempt at a more accurate portrait (Morgan 1994; Henry 1995; Persky 2000). But some revisionists would remake Clark the apologist for capital into Clark the Progressive exemplar. Robert Prasch (1998, 2000), for example, depicts Clark as a Progressive paragon, which groups him with the great reformers of Progressive-Era political economy—Social Gospelers such as Richard T. Ely and his protégé John R. Commons, labor legislation activists such as Clark's junior colleague Henry Rogers Seager

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1. All successful caricatures contain an element of truth, and Clark surely invited controversy when he argued that workers paid their marginal product get what they deserve. George Stigler (1941, 297) charges that Clark's "naive productivity ethics" had "afforded some grounds for the popular and superficial allegation that neo-classical economics was essentially an apologetic for the existing economic order," making Clark "a made-to-order foil for the diatribes of Veblen." Joseph Schumpeter (1954, 869–70) likewise indicts Clark for permitting critics to associate marginalist thinking with "capital apologetics." Joan Robinson (1962, 53) qualifies as one such critic, when she writes, "The whole point of *utility* was to justify *laissez faire*."

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and Commons's student John B. Andrews, and Fabian socialists such as Sidney Webb.

This essay argues that John Bates Clark was neither a partisan of Capital, as the caricature had it, nor a partisan of Labor, as were the Progressives. Especially with respect to the leading issues of the day—labor relations and trust regulation—Clark is better regarded as a nascent American neoclassical, that is, as a partisan of what came to be called efficiency. In particular, Clark celebrates the competitive markets his Progressive peers regard as morally and economically destructive. Clark ultimately judges market structures, market organizations (e.g., labor unions), and regulation by their efficacy in promoting competitive prices and wages, which for Clark are what distributive justice requires.

First, a disclaimer. I consider only the mature Clark, defined as his work from the period when he consolidates his early marginal productivity statements into *The Distribution of Wealth* (1899) until the end of his published research in economics, an interval that spans the Progressive Era, from about 1890 to the outbreak of the First World War in the summer of 1914.[2] This emphasis, by design, leaves untouched a central interest among Clark scholars: whether the younger Clark's *New Englander* papers (gathered in *The Philosophy of Wealth* [1886]), with their organicist and Social Christian sentiments, can be made coherent with the mature Clark's work, especially his strong defense in his magnum opus (1899) of the marginal productivity theory of factor pricing and distribution, and his famously controversial view that a Clarkian distribution is necessarily just.[3]

We first present Clark's theory of wages and his view of legal minimum wages. Second, we take up Clark on labor arbitration and trade

2. In Clark's development of marginal productivity theory, the major papers are "Capital and Its Earnings" (1888) and "The Possibility of a Scientific Law of Wages" (1889), both published in the *Publications of the American Economic Association*; "The Law of Wages and Interest" (1890), published in the *Annals of the American Academy of Political and Social Science*; and "Distribution as Determined by a Law of Rent" (1891), published in the *Quarterly Journal of Economics*. The germ of Clark's marginal productivity ideas is visible far earlier than in these well-developed statements, which form the backbone of his *Distribution of Wealth*.

3. For a view that there is indeed a "J. B. Clark problem," see Tobin 1985. For an opposing view, that the "two Clarks" can be reconciled, see Henry 1995. Some historians in the "two Clarks" camp regard Clark as an apostate. In this view, the younger Clark's Christian socialist leanings—fully commensurate with those of Richard T. Ely, for example—are wholly and rapidly abandoned in the aftermath of the May 1886 Chicago Haymarket violence, a bloody watershed in U.S. labor relations, and of the reaction to it. In this account, the inflection point in Clark's thought is marked by Arthur T. Hadley's post-Haymarket baiting of Clark for spreading the "crudest socialist fallacies" (Dorfman 1949, 195).

unions. Clark on goods-market monopoly and trust regulation is third. Fourth, given the distance between the American economy and Clark's idealized competitive model, I consider Clark's policy positions in practice. Fifth is Progressive American political economy's commitment to social activism, as represented by the American Association for Labor Legislation, an American Economic Association (AEA) offshoot. We conclude with a summary appraisal of Clark's Progressive and neoclassical credentials.

1. "Footing in delusion": Clark's Wage Theory and His View of Legal Minimum Wages

Clark is best known for his marginal productivity theory of distribution, which famously says that "the distribution of the income of society is controlled by a natural law, and that this law, if it worked without friction, would give to every agent of production the amount of wealth which that agent creates" (1899, v). Labor's wage, which Clark interchangeably calls "standard," "normal," "natural," and "competitive," is thus determined by the value of its marginal product (what Clark ordinarily terms "specific product").[4] Clark conceives of dynamic changes ("frictions") as perturbations to the equilibrating forces of the static model. Dynamic change brought on by technological innovation, for example, increases labor productivity, so that wages lag for a time before rising toward the new marginal product.

Clark's essential statement on minimum wages is a short essay in the *Atlantic Monthly* (1913). Although some have argued differently (Prasch 2000), Clark's *Atlantic Monthly* article cannot accurately be read as a defense of legal minimum wages. Clark certainly had a more nuanced view of when state-determined minima are justified than the laissez-faire caricature permits. But it is difficult to read Clark's essay as a defense of minimum wages, still less to regard Clark's position as similar to that of Ely, Commons, Webb, or Seager. A synopsis helps show why.

4. Clark's static model (1899, 56) explicitly holds constant population, capital, technology, firm organization, and consumer demand. It also requires competition on the supply and demand sides of goods and factor markets, perfect labor and capital mobility, and full employment of factors. Clark's marginal productivity theory is primarily a theory of labor (factor) demand rather than of wage (factor price) determination. Wages are determinate only with a theory of labor supply, which is mostly implicit in Clark (although see 1899, 90–94) and assumed to be infinitely elastic, so that the wage represents the marginal cost of labor to the firm.

Clark (1913) opposes minimum wages, and in pungent language, except for the case of workers accepting wages below their contribution to output. Even for this one exception, Clark asserts that the "legitimacy of such a [minimum wage] policy depends on the rate of pay that the law requires" (292). In particular, he argues that legal minima should be set no higher than labor's marginal product. When fixed above marginal product, minimum wages are "risky" (297) at best, and "inhumane" (297) should the state fail to provide the unprecedentedly "new and elaborate system of [public] relief"(294) that will be required to "relieve the evil" (293) of laws that "we can be sure, without further testing" (290) will "sacrif[ice] . . . the less capable" (297) and create a "helpless class" of workers involuntarily "throw[n] . . . out of employment" (294).

Moreover, Clark argues, public employment for those disemployed by legal minima "would depart from all American precedents," and would be opposed by organized labor (294). Even more seriously, public employment can serve as an "emergency measure" (292) only, since the only long-term hope for "rescuing the workers who lose their places in consequence of the minimum-wage law" (297) lies in increased labor productivity via technological progress.

Technological progress, Clark makes clear, comes uniquely from competition. "The sole hope for the future comfort and modest luxury for the working class," he asserts, "is dependence on the law of survival of productive methods and efficient managers" (297). Concluding, Clark sees a "certain grim humor" (296) in reformers, who denounce the law of survival as "a particularly cruel feature of the competitive system" (296), being obliged to "[resume] an orthodox attitude and appeal from the state to a natural economic tendency, which they hope will turn the tide of unplaced labor toward the private shops" (296).

In sum, then, Clark's (1913) position on minimum wages is as follows: (1) binding minimum wages are a "grave danger" (297) and therefore legislation should be considered only in market circumstances where workers are paid wages below marginal product; (2) decency requires public relief for workers discharged by minimum wages, relief that is politically unprecedented and that can reduce incentives to work; (3) public relief for discharged workers is only a temporary palliative, ultimately untenable, since, in the long run, wages can advance only with increased productivity, which comes uniquely from the technological progress induced by competition (Johnson 1938, 428).

This is not much of a defense of minimum wages, and still less is it a Progressive defense. It surely does not argue for the conclusion that "Clark . . . did not consider the marginal product theory of wages to be a telling argument against minimum wage legislation" (Prasch 2000, 260). Clark's wage theory is precisely what leads him to reject binding legal minima, granting an exception only where market circumstances do not comport with the theory's assumptions. Clark carefully explains to the *Atlantic* reader why the marginal productivity of labor ("labor employed in connection with a fixed amount of capital") diminishes as the number of workers increases (291). He regards it as a "basic fact" that the "[wage] which can be paid is limited by the specific productivity of labor" (292). Clark argues over and over again for the certainty that workers will be disemployed by binding minimum wages, and that "the higher the obligatory rate of pay, the larger will be the number of persons remanded to idleness" (292). Should minimum wages be set at the level some advocates were demanding, roughly ten dollars per week, it would, says Clark, "have an effect akin to that of a tornado or a Mexican revolution on the businesses immediately affected" (290).[5] In nine pages, Clark again and again argues that minimum wages will idle workers, allocating two paragraphs to the narrow circumstances where minima could be justified. It is difficult to imagine Progressives such as Richard T. Ely or John R. Commons or Sidney Webb or Henry Rogers Seager issuing such a "defense" of minimum wages, and indeed they didn't.

Clark's position is non-Progressive in a threefold sense: (1) in its conspicuous echo of its late-classical, early-marginalist antecedents, (2) in its marginal productivity theory of wage determination, and (3) in its limited, market-failure-based rationale for policy intervention.[6] First, Clark's minimum-wage argument echoes the late-classical, early-marginalist position, while simultaneously presaging the full-blown neoclassical position. The late-classical argument goes as follows:

1. Deplore the conditions suffered by the working poor, especially "sweated" workers;

5. Inflating using the urban consumer series of the Consumer Price Index, $10 per week in 1913 has purchasing power of approximately $173 per week in 2000. A fifty-hour work week thus implies an hourly wage of $3.46; a forty-hour week implies an hourly wage of $4.33.

6. The terms *marginalist* and *marginalism* are somewhat anachronistic here. According to Howey 1973, the term *marginalism* was coined by John A. Hobson in 1914 to describe the views of economists who endorsed both marginal utility and marginal productivity theories. Hobson in 1909 used the term *marginalists* to apply to economists accepting marginal analysis. "Marginalism," says Howey, was used infrequently in the twenty-five years following Hobson's coinage.

2. announce sympathy with well-intended attempts to assist them;
3. yet insist that binding minimum wages will do more harm than good (owing to disemployment) and that, perversely, the greatest harm will come to the least productive;
4. insist further that public relief is morally demanded for those disemployed by minimum wages; and
5. worry about the perverse incentive effects upon current workers of adequate public relief.

A long roster of prominent Anglo-American political economists offer some variant of this argument in the Progressive Era, all of them instancing the most famous claim, that minimum wages disemploy workers.[7] (For more on the history of minimum-wage economics, see Leonard 2000.) The template here is John Stuart Mill's (1848) discussion of "low-wage remedies"—the very orthodoxy that American Progressive economists saw as the enemy, the "English" political economy that their interventionist and ethically minded economics meant to supplant.

There were theoretical changes in the sixty-five years that intervened between Mill and Clark, not least that Mill's wages-fund account was replaced with a recognizably marginalist account. But Progressive critics emphasized the continuities of thought—disemployment effects, and the just-stand-there policy recommendation—and seized upon these similarities in rejecting marginal productivity theory as old laissez-faire wine in new marginalist bottles. "The [labor] problem will not approach solution," judged reformer A. B. Wolfe, "if left to a neo-classical theory which in effect perpetuates the old laissez-faire, do-nothing negativism" ("Some Phases" 1917, 275).

The second sense in which Clark is non-Progressive pertains to his marginalist commitment. Progressive-Era U.S. political economy is theoretically eclectic to begin with. Marginalist and historicist ideas coexist, sometimes in the same person, as they are not regarded as necessarily incompatible (Rutherford 1997; Morgan and Rutherford 1998). Theories of wage determination are especially plural, with marginalist elements only partly incorporated into textbook and journal presentations. Ely and Wicker's *Elementary Principles of Economics*, for example, offers

7. Among them are Bonamy Price (1879), Henry Sidgwick (1886), William Smart (1895), J. Shield Nicholson (1896), Alfred Marshall (1897), H. B. Lees Smith (1907), Sidney J. Chapman (1908), Arthur Cecil Pigou (1913), Philip H. Wicksteed (1913), J. Laurence Laughlin (1913), David Kinley (1914), and Frank W. Taussig (1916).

a quasi-bargaining theory of wage determination, arguing for a range of indeterminacy. "Between the lower limit set by the standard of subsistence or by the standard of life, and the upper limit, set by the value of the laborer's contribution to product, wages will fluctuate according to the relative bargaining strength of the two parties to the wage contract" (1904, 27).[8]

The example of Clark's Progressive colleague Henry Rogers Seager is instructive here. In some places, Seager, like other reformers, argues for minimum wages on grounds that they would end exploitation of especially vulnerable classes of workers. But elsewhere, Seager argues—using marginal reasoning—for higher minima on grounds that the *very same* classes of workers would be expelled from the labor force. In later editions of his successful textbook, for example, Seager endorses binding minima, while acknowledging they will tend to disemploy some workers (e.g., Seager 1923, 615–16).[9] What's striking, and what immediately distinguishes him from Clark, is that Seager tends to regard this induced disemployment as a social *benefit*.

Seager (1913c, 82–83) regards competition as destructive when low wages are caused by the labor-supply effects of "too many" low-productivity workers. In this view, it is not so much that workers are unfairly paid wages below their marginal products, but that wages as determined by the marginal products of the lowest-skill workers unfairly drag down the wages of more deserving higher-productivity workers. Wage earners, says Seager (1913a, 12), need protection from the "wearing competition of the casual worker and the drifter." Sidney Webb offers the same view of low-skill workers, using the pejorative "parasite." "Of all ways of dealing with these unfortunate parasites," Webb (1912, 992) argues,

8. Ely produced several textbooks. In the second edition of *Introduction to Political Economy*, first published in 1889, Ely (1901, 230) puts it as follows: "A productivity theory of wages has also found advocates, and this contains important elements of truth. As subsistence sets the lowest possible limit [to wages], productivity in excess of cost sets the highest limit." His *Outlines of Economics* was first published in 1893. Three coauthors joined for the subsequent four revised editions—Thomas S. Adams, Max O. Lorenz, and Allyn A. Young. *Outlines* began as a revision of Ely's *Introduction*, but evolved into a distinct book. Ely describes *Outlines* as systematic and theoretical, and *Introduction* as historical and descriptive. The *Introduction* was quite successful, in part because Ely sold the book at Chautauqua and other religious camps. It didn't hurt sales when the bishops of the Methodist Episcopal Church made it required reading for their preachers studying for the ministry (Ely 1901, vi).

9. Seager's text was first published in 1904 and called *Introduction to Economics*. With the fourth edition (Seager 1913b), he changed the name to *Principles of Economics*. Subsequent revisions to his *Principles* treat the 1913 edition as a "first edition," so that the 1917 and 1923 revisions of *Principles* are referred to as second and third editions, respectively.

"the most ruinous to the community is to allow them to unrestrainedly compete as wage earners."

Seager, Webb, and other Progressives thus object to the labor market participation of undeserving, low-productivity workers, calling them "unemployables" (Seager 1913c, 85) and "incapables," to note some of the gentler labels. The Orwellian term *unemployable* is defined by Seager as referring to all workers whose marginal product is insufficient for a "living wage," by which he means a wage sufficient to meet all living expenses of a worker living independently. Webb (1912, 992) refers to "unemployables" as "physical and moral weaklings" and "degenerates [who] must somehow be maintained at the expense of other persons."

By disemploying workers, minimum-wage legislation thus has the virtue for Seager of identifying low-productivity workers, enabling the state to segregate the "unemployables" outside the labor force: "The operation of the minimum wage requirement would merely extend the definition of defectives to embrace all individuals, who even after having received special training, remain incapable of adequate self-support" (Seager 1913a, 9).

Seager and Webb were not anomalous. Segregation theory—the notion that society benefits *because* labor legislation excludes economically marginal groups (rather than *in spite* of this fact)—was widespread among Progressives. Progressives routinely argued that society is better off when "unemployables" are removed from the labor force. Royal Meeker, a Princeton Progressive appointed to be the third U.S. Commissioner of Labor by Woodrow Wilson (himself a noted Progressive academic and former student then colleague of Richard T. Ely's), makes the same argument. The man who soon became the leading U.S. labor official goes so far as to reject the idea of subsidizing the wages of poor workers because he prefers the disemployment a minimum wage would induce—an efficient means of culling out the least productive workers (Meeker 1910). A. B. Wolfe, another reformer, also promotes the "virtues" of disemployment. "If the inefficient entrepreneurs would be eliminated [by minimum wages] so would the ineffective workers," says Wolfe. "I am not disposed to waste much sympathy with either class. The elimination of the inefficient is in line with our traditional emphasis on free competition, and also with the spirit and trend of modern social economics. . . . [These incompetents] are a burden upon society" ("Some Phases" 1917, 278). And Paul Kellogg, editor of the *Survey*, an influential organ of Progressive ideas, proposes legislation that would

deny new immigrants industrial employment (via a high minimum wage), instead quarantining them in open farming country and villages:

> No corporation would hire Angelo Lucca and Alexis Spivak for $3 [per day] as long as they could get John Smith and Michael Murphy and Carl Sneider for less. It would be the intent and result of such legislation to exclude Lucca and Spivak and other "greeners" from our congregate industries, which beckon to them now. (1913, 75)[10]

So even here, where Progressive economists make use of marginalist reasoning—employment declines with binding legal minima—they do so in a nonneoclassical way. The reason that "Seager did not consider the marginal product theory of wages to be a telling argument against minimum wage legislation" (Prasch 2000, 260) is that Seager, unlike Clark, regarded the disemployment of economically marginal workers *as a good thing*. Clark (as did Alfred Marshall) takes the neoclassical view that disemployment of poor workers is the greatest cost of minimum wages, not a putative benefit.

Regarding what should be done when the "unemployable" were actually made unemployed by legal minimum wages, Progressive policies ranged from public assistance, to public employment, to training and schooling, to relocation to rural areas, to labor camps (a.k.a. industrial colonies), to compulsory reproductive sterilization. Progressives who advocate a eugenic solution to the problem of "too many workers"—generally compulsory sterilization for "defectives"—include Seager (1913a), Webb (1912), and Meeker (1910). (On the relationship between eugenic thought and American political economy in the Progressive Era, see Leonard 2003).

There is also nothing in Clark of nonmarginalist wage theories that Progressives and other reformers advanced. There is, in particular, no whiff of efficiency wages, an old idea in political economy, wherein greater labor productivity is not a cause but an effect of higher wages. High-wage theories were popular in the Progressive Era; see for example,

10. Progressives defined *unemployables* rather broadly. Arthur Holcombe, a Harvard academic and active minimum wager, refers approvingly to the racist intent of the minimum-wage law in Victoria, Australia: "There was a further purpose to protect the white Australian's standard of living from the invidious competition of the colored races, particularly of the Chinese" (1912, 21). Florence Kelley, perhaps the most politically influential U.S. minimum wager, likewise says: "Minimum-wage laws were introduced into Australasia about eighteen years ago for the purpose of redeeming the sweated trades [where] . . . women, children, and Chinese were reducing all the employees to starvation by their unbridled competition" (1911, 304).

Brentano 1894. Webb (1912, 990) offers an efficiency-wage account in the context of minimum wages: "if the employers paid more, the labor would be worth more."[11] Frank Taussig's 1916 article on minimum wages, for example, feels compelled to consider efficiency-wage theory, if only to largely dismiss it.

Nor does Clark consider "shock therapy" explanations, wherein slack firms are induced to become more efficient by the impetus of higher labor costs from minimum wages. Webb, who is nothing if not theoretically flexible, also proposes a shock-therapy rationale for higher minima (1912, 985).[12] Excepting wages below subsistence, Clark did not believe that higher pay could induce greater labor productivity.[13] "The question of rising wages," says Clark (1897, 595), "is a question of increasing productive power on the worker's part." According to Alvin Johnson (1938, 428), a Clark student and founder and first president of the New School, Clark regarded high-wage theories as the intellectual equivalent of a perpetual motion machine.

Clark's controversial claim that marginal product is what labor deserves obviously departs from the Progressive view. The difference between Clark and the Progressives is revealed in the practical question of how to set the appropriate legal minimum. Minimum-wage advocates believed that minimum wages should be determined not by the value of a worker's output but by the worker's cost of living, typically some form of a "living wage." "Living wage" is a vague term, and meant different things to different advocates. State minimum-wage boards in the teens routinely argued for minima sufficient to enable a working woman to live independently, that is, in her own quarters, not living at home with a husband or parents or other family, and with the "necessary comforts of life" (see, for example, Evans 1915 and "Public Regulation" 1915). When considering male workers, a living wage was ordinarily defined to include support for several dependents, the so-called family wage. Clark, in contrast, insists on marginal product, explicitly rejecting a "living wage." Employers, for Clark (1913, 293), owe poor workers

11. Although both make productivity endogenous, Progressive-Era efficiency-wage accounts differ from today's versions, which, among other things, assume maximization.

12. Clark (1913, 293) argues that higher wages will also mean higher output prices and thus lower output quantity demanded, whereas Webb (1912, 990) is prepared to argue that even with higher prices, "the community [consumers] would willingly pay much more for it, and yet consume as much or nearly as much of it, as it now does."

13. A number of economists countenanced, with Clark, legal minimum wages only in the case of wages below product or below subsistence. David Kinley's AEA presidential address of December 1913 takes precisely this position (1914, 9). See also Chapman 1908.

their contribution to output, not "the radical policy of . . . a life of modest comfort."

More generally, Progressive-Era reformers are hostile to neoclassical accounts of wage determination because these "natural law" (Clark 1902, 566) explanations leave far less scope for state influence in labor markets. Progressive economists, like their intellectual successors, the institutionalists, commonly regarded wages as determined not by the operation of natural laws—which might resist or at least mitigate the effects of state regulation—but by "social norms and conventions that changed (and could be changed) over time" (Rutherford 1997, 184). Natural-law explanations, in Clark's day as before, clearly narrow the prospects for reform, the very heart of the Progressive enterprise.

The third sense in which Clark's position on legal minimum wages is non-Progressive is its narrow conception of the circumstances under which state interventions can be justified. Clark's theory of wages departs from the late-classical theory of wages in its more determinate view of when wages and prices are socially good—competitive wages and prices offer a *normative benchmark* by which market and policy outcomes can be judged. When wages are determined by labor productivity, as opposed to "fixed" at something like subsistence by Malthusian checks that make working-class fertility vary positively with wages, then, at least in theory, there are better and worse outcomes for workers, not merely outcomes. One can readily quarrel with Clark's claim that a Clarkian distribution is a just distribution, and many economists of the era did just that—Veblen is only the most conspicuous interlocutor.[14] Clark was unmoved. He persisted in his belief that wages equal to marginal product are socially best and are fair, and, consequently, that anything less was socially inferior and unfair to workers. Thus, for Clark, labor markets are functioning imperfectly when workers are not paid their marginal products, and it is this failure that opens the door for state intervention.

So, if we may use an anachronistic term advisedly, Clark's position is that market failure justifies state remedy. Workers are exploited only when competitive conditions do not obtain.[15] If the markets are competitive, minimum wages are indefensible for Clark, since workers are

14. Clark was roundly and widely criticized for purportedly deriving a normative "ought" from a positive "is" (see note 1). Frank Fetter, for example, calls Clark's conclusion "a non-sequitur" ("Control of Wealth" 1918, 233). See also Taussig 1912 and Carver 1901.

15. A number of Clark's contemporaries argued that Clark's marginal productivity theory of wages entailed the exploitation of inframarginal workers—that is, if all workers are paid a wage

already getting what they deserve, and higher wages entail disemployment. Clark closely studied his era's monopolies of capital and of labor, and he well understood that his product-determines-pay theory holds only "with labor ideally mobile and with competition ideally free" (1902, 560). Competition, Clark (1903b, 600) argues, "has tended to give each laborer what he is personally worth, and where it has not actually given it, the reason has been that the natural tendency has been thwarted by adverse influences." And, while "there is a limit to the deviations from the standard [wage]," all economic laws encounter "disturbances," and it is the economist's duty, having determined the efficient wage, to study the "obstructions" that create deviations from it (1902, 560).

Clark's careful recognition of "adverse influences" and "disturbances" and "obstructions" supports the view that Clark was more pragmatic than dogmatic. But Clark's emphasis is less the Progressive's goal of enhancing labor's position per se, than it is, I suggest, an early, groping attempt to understand what happens to marginal productivity theory when ideally competitive conditions are not present, and to suggest tentative remedies. In this sense, Clark is grappling with the challenges that markets increasingly characterized by trusts and by large labor unions present for his greatest theoretical creation, marginal productivity theory. Clark does not regard evidence of workers paid less than their marginal product as vitiating his marginal productivity theory of wages. But he clearly regards the market forces that push wages below product as restricting or modifying its application.

Alvin Johnson (1938, 428) summarizes Clark's narrow scope for legal minimum wages compactly: "Raise wages if the laborer is being robbed of the product economically imputable to his efforts. Raise wages if a better fed, better housed, happier laborer will produce enough more to justify the additional outlay on wages. Any other reason for raising wages foots in delusion."

What other evidence is there for my argument that Clark is more concerned with ensuring competitive outcomes than with improving labor's position per se? I offer two arguments. First, because Clark's ultimate goal is wages equal to marginal product, for him the social value of

equal to the marginal worker's marginal product, then, given diminishing marginal productivity, the more productive "earlier" workers are being robbed of their greater individual output. Clark replied that, for a class of homogenous workers, diminishing labor productivity results from a fixed capital stock, so that inframarginal workers are more productive not owing to greater individual contribution, but to greater capital per worker. In *The Distribution of Wealth*, Clark (1899, 321 n. 1) offered a three-page footnote dedicated to refuting von Thünen, who likely recorded the first exploitation theory in the context of diminishing productivity, on this point.

unions resides not in the bargaining power they offer workers per se, but in the ability of unions to prevent unfair wages. To the extent that unions have market power and force wages above what is fair, Clark regards them as socially detrimental. Indeed, Clark (1902, 1903b) advocates labor arbitration largely because he believes that monopolistic unions have, in collusion with the trusts, unfairly forced union wages *above* marginal product, to the detriment of nonunion workers and the public interest more generally.

Second, although Clark lacks a systematic marginalist explanation of how wages can be below marginal product, his account is plausible only when hiring firms have monopsony power. Clark does not present a neoclassical monopsony story to explain wages below marginal product. Economics would lack a full-blown monopsony account until Joan Robinson's (1933) landmark diagrammatic exposition, with the marginal labor cost curve above the average labor cost curve. Nonetheless, Clark's account not only implies monopsony; it also ordinarily invokes monopsony explicitly. We take up both of these arguments for Clark as partisan of competition by examining Clark on unions and labor arbitration.

2. Clark on Unions and Labor Arbitration

Clark's "Monopoly and the Struggles of Classes" (1903b) announces plainly his concern and regard for the ordinary worker, while emphasizing his opposition to organized labor with monopoly power. "Radical socialism," Clark (1903b, 603) says dryly, "has been defined by one of its leaders as 'the political economy of the suffering classes,' but that does not necessarily mean the political economy of the working classes." Why? Because, according to Clark (1902, 565), monopoly unions are nothing more than "the quasi-robbery of one part of the working class by another."

Clark (1903b, 600) takes another rhetorical swipe: "When the enemies of the present order gleefully remark the departure of competition, they in reality pay to it a posthumous tribute. 'Now that it has gone,' they say, 'the social state is becoming too bad to be endured. *Ergo* socialism.'" Clark then returns to the theme that competition tends to award labor its marginal product:

> There is now little disposition to deny that the neck-and-neck rivalry of producers who are striving to undersell each other has cheapened

> production, which is the same thing as making labor fruitful. . . . It has worked, moreover, with a certain rude honesty—though not everyone will admit this—since it has tended to give each laborer what he is personally worth. (600)

and,

> So much of fairness is there in the more general results of free competition. Actual wages vary now more and now less from this ideal standard, but deep acting influences cause them to hover about it. (1902, 558)

Also characteristically, Clark (1903b, 600) is careful to recognize limits of the theory's application: "Competition has never worked in a perfectly free and unhindered way; but so far as it has worked, it has tended towards wealth, progress and a rude approach to honesty in the sharing of the fruits of progress."

Having celebrated competition, and having agreed that "a system of business founded on private monopoly is intolerable" (1903b, 600), Clark (1903b, 608) argues that monopoly unions would likely oppose socialism because their current "monopoly is more profitable than democracy," and "socialism is nothing if not ultra-democratic." Would it not require, Clark asks rhetorically, a heroic altruism for the union man to say "yes" to the questions, "'Will you share your gains with the mass of more needy men? Will you make common cause with the cheap labor which immigration has given us in abundance?" (608).[16]

Clark proceeds to argue that unions with market power are monopolists. As such they "cause some workingmen to thrive *partly at the expense of others*" (603; emphasis in original). "The opposition of interest between labor in a unionized trade and other labor is irrepressible," says Clark, "and does not by any means confine itself to cases in which free laborers take strikers' places" (605). Monopoly trade unions "will disturb the natural law of wages in a new and disastrous way" (1902, 566) and, Clark (1903b, 603) argues, are "contrary not only to the public interest, but to the interest of the remainder of the working class itself."

So Clark neither supports nor opposes unions as a matter of principle. Clark regards unions instrumentally: socially beneficial when they promote competitive wages, thereby securing for labor a fair wage (1913, 292), and socially detrimental when they acquire, via closed-shop or closed-union exclusion of other workers, monopoly power. Unions with

16. In 1910, 22 percent of the U.S. labor force was foreign-born (Goldin and Katz 2001).

monopoly power, especially when allied with monopoly capital, unfairly increase union wages (and consumer prices) and, moreover, accomplish this only by reducing the wages and employment of nonunion workers. It is this market failure, in part, that leads Clark (1903b, 605) to support state-sponsored—though not compulsory—labor arbitration. Clark intervenes not to defend trade unions but to defend competitive wages for all workers.[17]

Clark's opposition to monopoly unions is neoclassical in spirit. American welfare economics is still in utero at this time, and Clark does not conceive of allocational efficiency in the sense of maximizing the sum of consumer and producer surplus. But neither is Clark's advocacy of competitive wages argued on grounds of fairness alone. Clark objects to monopoly labor because it reduces output. Monopoly unions create adverse employment and wage effects for nonunion workers, and restrictive hiring enables monopoly firms to restrict output and charge consumers supracompetitive prices (1903a, 139).[18]

Clark's account is decidedly non-Progressive in emphasizing that unions can be monopolies, and that unions' monopoly power has its basis in the entry barriers of closed-shop and closed-union exclusion. Progressives, in contrast, were loath to treat monopoly labor and monopoly capital symmetrically. They regarded big unions as usefully countervailing the trusts' economic and political power, rather than as worsening monopoly with still more monopoly. Progressives also generally defended unions' restrictive hiring practices, on lump-of-labor grounds. John R. Commons (1932, 685), for example, argued that "although opponents charge that they aim to restrict output, many union policies are designed to ration among the members the limited amount of work. Most restrictive union rules look toward the elimination of job scarcity and the creation of job opportunity and security of tenure."

17. Organized labor, especially Samuel Gompers of the AFL, routinely opposed arbitration legislation. Clark (1904, 84) read organized labor's opposition as evidence of union wages above marginal product: "A [monopolistic] union fears that it might get less by arbitration than it can get without it." Isaac M. Rubinow, the brilliant physician turned statistician and socialist reformer, agreed: "With certain reservations it is largely true that compulsory arbitration, or any approach to it, often is due to the desire to nullify the strength of the organized labor movement" ("Public Regulation" 1915, 287).

18. Clark (1914, 8) appeals to allocational efficiency indirectly: "While it is clearly wrong for one party to plunder another, it is almost as clearly wrong for one party to reduce the general income and so, in a sense, rob everybody. A party that should systematically hinder production and reduce its fruits would rob a myriad of honest laborers who are ill prepared to stand this loss."

Clark's nuanced view of the competing rights of union workers to strike and of independent workers to work also points to his priority of competitive wages over labor's position per se. Clark (1902, 556) deplores union violence against replacement workers as "obvious defiance of the law" and reserves special scorn for craven politicians who refuse to protect the legal right of independent workers to work, turning a blind eye to union intimidation.[19]

Clark recognizes that a union's ability to strike is its ultimate bargaining weapon, and he vigorously defends the legal right to strike. But Clark denies union workers a *permanent* property right over their jobs—a circumstance that he regards as anarchic (1902, 556). Instead, Clark proposes, let striking workers hold vacated jobs, but only contingent on their willingness to accept fair wages as determined by a court of arbitration. "If the strikers demand more than is fair, announce a fair rate and let them have the option of taking it. If they reject this, open the field to anyone who will come into it and work" (1902, 557). If unions have a right to strike contingent on accepting fair wages, so would firms have a right to break strikes, but for strike breaking's tendency to undermine fair wages. Clark asks, "Why is there any injustice done by the freest possible strike breaking? Why should we not bring men from any section of the country to fill places that stand vacant because of the strike?" Clark's answer again makes recourse to market failure: "If there is any sound reason for objecting to this, it is because there is a fair standard of wages, and strike breaking might force the actual pay of workmen below that standard" (1902, 558).

Clark's consistent theme is that workers are entitled to their share of product and no more. His position on trade unions and labor arbitration follows straightforwardly from the application of this guiding principle. Unions are socially useful insofar as they work to promote fair wages, and they are socially detrimental when they acquire the market power to get more than fair wages. The freest possible strike-breaking is objectionable only to the extent that it promotes unfair wages, and the striking union's claim on vacated jobs ends the moment they refuse fair wages. Relative bargaining strength, like labor organizations themselves, matters for Clark only insofar as it works to promote (or to undermine) fair wages and prices.

19. "The non-union man who is on the point of accepting the job that is offered to him finds presented to him such encouragers of hesitancy as boycotts and personal abuse, followed, at need, by courses of brickbats and cudgels, if not of bombs and rifles" (Clark 1902, 556).

Clark's dilemma—how to "concede to unions all that they can gain without becoming monopolies . . . [while] deny[ing] to them whatever can be had only through the principle of exclusion and extortion" (1902, 565)—arises because he lacks a theoretically consistent account of how wages can fall below product. Clark's view of market failure arising from market power is developed largely on the supply side, where he offers a very subtle account of monopoly pricing power. Clark clearly recognizes the importance of competition among buyers, but he has only the sketchiest treatment of monopsony.[20]

With respect to goods-market monopolies, Clark's goal is to get economies of scale while avoiding market power (see the regulation-of-trusts discussion, in section 3 below). Clark thus emphasizes the virtues of what he called "potential competition," the threat of entry from sellers currently outside the market in disciplining the pricing power of incumbents. He applies the potential-competition logic of free entry and nonexclusive dealings to monopoly unions in a limited way. Trade unions, Clark (1902, 566) contends, should be made open to all "workers competent to practice the craft." He even goes so far as to warn that "a genuine proletariat, living on the brink of starvation, is the natural result of allowing many trades, after completing their organizations and extending them over the whole country, to put arbitrary limits on the number of men who are allowed to learn and practice the crafts" (566).

But Clark does not treat goods and labor markets symmetrically. In particular, he does not fully pursue his logic of potential competition in labor markets. Monopoly unions, like monopoly trusts, have their pricing power checked by potential competitors—socially good (1907, 487–88). But too much competition—"the smallest amounts that would be

20. Monopsony was a hard problem, as illustrated by the example of Paul Douglas, considered by some to be the preeminent labor economist of the first half of the twentieth century. Douglas's monumental *Theory of Wages* (1934) has no systematic theoretical accounting for wages differing from marginal product. Douglas was a student of Clark's and of Seager's, and perhaps reflecting the dual influence of his two teachers, was both a thoroughgoing marginalist and a reform-minded advocate. Douglas's marginalist credentials are impeccable: he was a leading figure in industrial relations, a field then dominated by institutionalist and other reform-minded thinkers, who were then (and for many years thereafter) indifferent or hostile to the marginal productivity theory of income distribution, the very theory the Cobb-Douglas production function was designed to empirically buttress. Douglas did not believe that workers are always paid their marginal product. To the contrary, he carefully and evenhandedly scrutinized the accuracy of the theory's assumptions (1934, 68–94). But like Clark, Douglas regarded admittedly unrealistic assumptions as modifying rather than vitiating the application of marginal productivity theory, even as Douglas lacked, more than twenty years after Clark (1913), and contemporaneously with Robinson (1933), a theory that could systematically account for the modifications.

accepted by destitute men" (1902, 567)—can lead to wages *below* marginal product: socially bad. Unfair wages result not solely from too little competition on the demand side, but also from too much competition on the supply side.

Clark's account of wages below marginal product goes as follows: hiring firms exploit the unemployed, who, made desperate by hunger, accept unfair wages. If there is a permanent reserve force of desperate unemployed workers, they can continually be rotated into the factories (1913, 292), and "if the employment of these men displaces others who were better paid, the newly displaced may go through a similar discipline" (1902, 561). This rotation account can be interpreted as a Progressive take on the way in which competition is destructive, continually driving wages below marginal product.

A neoclassical query—what prevents exploited workers from seeking employment at rival firms who should be happy to pay a wage closer to their marginal product?—suggests an alternative reading. Clark (1902, 562) believed that if an employer "must hire on their terms men who have other employments open to them, he must pay something that is near to the natural rate of wages." And, intriguingly, Clark's rotation story nearly always invokes monopsony, arising from the company town or from the effective monopsony caused by labor immobility. The account in Clark 1902, for example, makes use of company-town monopsony: "With one corporation owning the industrial capital of a village, and with labor unorganized, the men may compete with each other for employment, while the capital cannot compete with itself, but acts as a local monopoly" (561). (Clark here uses *monopoly* to also refer to buyer's monopoly.) Clark's *The Problem of Monopoly* (1904) also uses the company-town scenario in setting out the rotation account. Clark is also alert to the monopsony effects created when workers are immobile. "There is, in fact," he says, "always a trace of monopoly in the condition of an industry to which labor and capital tend to move, but cannot move with absolute freedom" (1899, 78).

Because of its ambiguity, both Progressive and neoclassical readings of Clark's explanation of wages below marginal product are defensible. But it is well to remember that, nearly everywhere else—with numbing repetition—Clark (1897, 595) insists upon the "momentous proposition" that competition gives labor a fair wage (and consumers a fair price), while impediments to competition are what prevent fair wages. If workers fail to get their fair share, says Clark, "it is because competition

sometimes fails to do its work. Upon the obstacles in the way of competition, not upon competition, are we prepared to charge the dishonesty that attends modern industry" (595).

In any event, neither reading of Clark's rotation story is sufficient to relocate Clark among his Progressive contemporaries, who mostly opposed Clark's willingness to push marginal analysis into labor markets. The field of industrial relations remained a stronghold of institutionalist thought (intellectually descended from the Progressives) until well past mid-century (Freeman 1989, chap. 16).

Because Clark's emphasis on the virtues of competition distinguishes him from most Progressives, and because there are quite different meanings of the term at the beginning of the twentieth century, we should briefly sort out the competing senses of the term before proceeding to the next section (see Morgan 1993 for a more expansive sorting out). Clark uses the term *competition* in at least five senses, most prominently to mean rivalry among sellers, on the basis of price, to serve consumers. "Competition is called a war," says Clark (1897, 593), "but it is a rivalry in serving the public." Competition for consumers has the paramount virtue for Clark, in a static setting, of forcing prices toward their "natural" or "normal" or "standard" levels—all synonyms for a competitive price—which is also the just price for Clark.[21] In a dynamic setting, competition among rival producers drives them to make technological advances, which, in turn, increase labor productivity and (eventually) workers' wages, even while lowering total costs. Dynamic competition is rivalry that continually pushes costs lower—call this dynamic efficiency. Static competition is rivalry that pushes output prices toward cost.

Clark also uses *competition* in a third sense: latent or potential competition, as distinct from actual competition. Here, the threat of entry by potential entrants disciplines the incumbent to price at or close to the competitive price, and thereby helps prevent monopoly pricing.

The fourth sense in which Clark uses the term is "destructive competition." These are the anticompetitive practices of trusts with monopoly power—especially predatory pricing and exclusionary contracts—also called "unfair" competition and "foul play" by Clark. Clark refers here to monopoly tactics that *reduce* price competition, by undermining

21. Present-day neoclassical economists use the term *competition* to denote market conditions under which maximizing buyers and sellers behave as price takers. With no missing markets, this is sufficient to ensure efficient wages and prices. Collusion is desirable to agents but precluded by the (known) fact that no sustainable coalition of sellers (or buyers) can control a large enough share of the market to affect price.

current competitors (predatory pricing) or potential competitors (exclusionary contracts). These four uses of the term are neoclassical in spirit. Price and latent competition promote competitive pricing, and dynamic competition promotes productivity gains, which enable lower costs and higher wages.

Clark does not name his fifth sense of the term—the rotation process by which the hunger-disciplined unemployed accept unfair wages. Progressives sometimes use the term *destructive competition* to refer to the way in which the unemployed compete with employed workers, although, as we have seen, the class of workers they deem "unemployable" extended well beyond the unemployed.

Political economists of Clark's day use *competition* to refer to phenomena other than the five varieties of the term that the mature Clark employed. There is, sixth, *wasteful competition*, which refers to an inefficiently high number of firms in an industry seen as a natural monopoly, such as railroads.

There is, seventh, *competition* used in the sense of the "competitive system," a loose synonym for private enterprise or capitalism and an antonym for state-managed capitalism or state ownership of capital. Competition in this sense does not refer to market structure, or to price rivalry, or to dynamic efficiency, or to inefficiencies of small scale, but to the very idea of private enterprise.

Eighth, *competition* is sometimes employed as a disapproving term for sharp business practices, from cutthroat competition to fraud and coercion. American reformers applied this eighth sense of the term to their view of how market forces compel ethically minded businessmen to compromise their morals. The Progressive's parable of the "twentieth man" exemplified this view: one unscrupulous operator pays excessively low wages, which compels the nineteen others, all good Christians who would otherwise prefer to share more with their workers, to meet his lower price, thereby lowering the "ethical plane" (Adams 1887, 39–47). The "younger" Clark himself made recourse to this story.

A ninth sense uses *competition* to name a zero-sum process of Darwinian struggle, wherein social evolution is brought about by a selection process—"natural" in the case of conservative Social Darwinians such as William Graham Sumner, and "rational" (i.e., state guided) in the case of left Darwinians such as Sidney Webb.

3. Monopoly Capital: Clark on the Regulation of Trusts

The importance to Clark of competition in promoting natural wages and prices is made still clearer when we consider him on the regulation of trusts.[22] Clark offers a very modern take on the costs and benefits of monopoly. He does not regard trusts as per se contrary to the public interest. Trusts are dangerous, Clark says, only when they behave monopolistically.[23] Clark wants to secure the production efficiencies associated with large-scale operations (his term, typical of the era, is *centralization*), but without the supranormal prices and job losses of restricted output, so he is at pains to distinguish firm size and pricing power.

Clark's unique theoretical contribution is to suggest that a single seller can be deterred from monopoly pricing when the threat of entrants disciplines the incumbent monopolist to price reasonably competitively.[24] Three generations before the advent of Chicago-school antitrust theory, Clark suggests that the absence of entry can be seen not as a threat to competitive pricing, but as evidence of it.

What Clark objects to, and in that objection finds a role for policy, are *anti*competitive practices, extensions of monopoly power that *reduce* the competition provided by existing or potential rivals. Clark (1900a, 51)

22. The term *trust* is generally taken to subsume both integrated corporations and loose combinations of firms attempting cartel behavior.

23. Notwithstanding the central economic importance of industrial combination to the era, American political economy in the 1890s and thereafter was highly and unpredictably eclectic on trust policy. Some observers attribute economists' relative coolness to concerns about trusts during the Sherman-Act era as a lack of sophistication about monopoly (Stigler 1982); others argue that this reading is excessively Whiggish (Mayhew 1998). My own view is that monopoly regulation was a complex problem, as it remains today. A simple answer to the question, "Are the trusts desirable?" requires attending to multiple and interlocking fields in political economy. There is the difficult matter of the trade-off between the benefits of economies of scale and the costs of restricting output. There is the question of whether monopolistic or competitive structures are more innovative, and of which structure is more likely to raise wages. There are also principal-agent problems: many combinations gave investors nonvoting stock in the combination, leaving great latitude to the trust's management. Other matters arise: do the trusts have excessive political influence, and what role do import barriers play in their success? And which of several possible forms of state regulation, if any, is best, particularly when price and structural remedies can backfire with natural monopoly? Arthur T. Hadley (1907, 382), a sophisticated student of the problem, says, "The field covered by these [problems] is so wide it is impossible properly to examine the evidence within the limits of this [single] article."

24. Clark here offers an early version of 1980s contestable-market theory, as noted by Backhouse (1990, 83 n. 14) and Prasch (2000). Clark (1900a, 50) even worries that while potential entrants may discipline the incumbent to lower prices, the monopolist with economies of scale may be able to adopt a limit-pricing strategy, setting prices just low enough to deter entry, although above the competitive price.

instances predatory pricing and exclusionary contracts as anticompetitive practices that should be regarded as illegal restraints of trade:

> If the [trust] should not be allowed to do these abnormal things, the new competitor would be safe [to enter the market]. He would appear promptly, whenever profits should become high enough to call for him. The possibility of his coming would hold prices at a natural level. The trust would benefit the people by its economies, and would not trouble them by exactions.

Clark's trust policy provides a striking illustration of his characteristic view of competition, and of both the rationale for and scope of intervention. First, Clark makes potential competition—the "natural way" (1900a, 52)—the best solution to monopoly pricing power. Second, Clark considers policy intervention only in the event of market failure, which for him is due to monopoly, not to competition. Clark's analysis is subtle when it argues that a single seller need not entail market failure, particularly if there are compensating economies of scale or if the monopolist's market is contestable by potential competitors. Third, Clark's preferred policy—ban anticompetitive practices like predatory pricing and exclusionary contracts—is comparatively modest in scope.

Many Progressives saw industrial bigness (not to be confused with monopoly power, which bigness may or may not entail) as per se objectionable, a populist strain of antitrust. More sophisticated Progressive economists pointed to the compensating virtues of economies of scale. Henry C. Adams's (1887) brilliant monograph, which argues for intervention in the case of natural monopoly, offers a fine illustration. Even with respect to sophisticated Progressives, Clark is more neoclassical, in theory and in policy.

First, Clark argues, as he did in the context of labor markets, that monopoly adversely affects wages and employment. Clark (1900a, 48) identifies his opponents when he states:

> There are two small classes of people who are predisposed to favor trusts, even though they shall prove to be real monopolies. There are, first, the revolutionary classes—socialists, anarchists, communists, and the like; and secondly, the workmen in a few highly organized trades, who have some inclination to favor those trusts which will exact high prices from the purchasing public, and share with their workmen the gains thus realized.

The Fabian socialists offer an example of what Clark had in mind. The Fabians regarded competition as wasteful "higgling" of the market. Monopoly was seen as superior not in spite of monopoly profit, *but because of it*.[25] Fabians saw monopoly as leading to higher wages, whereas Clark is emphatic that reduced output "has the effect of depressing wages in the general field." Trusts cannot become successful monopolies, says Clark, "without reducing the real wages of men outside its own employment" (1903b, 603).

Second, Clark argues that monopoly, both private and public, is less innovative than competition, which is more dynamically efficient. Thus Clark (1914, 30) opposes widespread state ownership of firms, on grounds that it will undermine "the life and vigor which competition [in the dynamic sense] guarantees."[26] Clark says plainly:

> Technical progress . . . is the sole condition of a sound hope for the future of the wage-earner. It will be as necessary under Socialism as under the present system; but under Socialism it will be difficult to get. In so far as it is possible to judge, it depends on the preservation of normal competition in the general economic field. (31–32)

Clark departs from the Progressives in a third sense when he argues that monopoly pricing is best regulated by potential competition. Few Progressives shared Clark's view that potential competition was the best means of regulating monopoly incumbents. Henry C. Adams (1887), for example, argues that the cost efficiencies of natural monopoly cannot be realized without active state regulation.[27]

Clark rejects price regulation on two grounds: (1) official corruption is hard to avoid, and (2) it is too difficult to determine competitive prices in monopoly markets. Clark understands the virtues of economies of scale; he even imagines one huge firm in each industry as theoretically ideal. But Clark is skeptical that his necessary condition—the firm be "*compelled to give the public the full benefit of that economy*" (1900b,

25. For a Fabian view of trusts and monopoly and collectivization, see Macrosty 1901.

26. (Public) monopoly's innovative weakness, its inability to advance productivity, leads Clark (1900a, 50) to predict that "the results of [any] experiment [in socialism] will cause it to be rejected both there and elsewhere." Clark's antitrust view rejects a policy of widespread state ownership of trusts, although he is, if only in private correspondence, a bit warmer to the idea of municipal ownership of utilities, which were regarded as natural monopolies (see Dorfman 1949, 201–2).

27. See, however, Persky 2000, 104, which suggests that Ely was willing to entertain potential competition.

186; emphasis in original)—can be met via price regulation, given the likely problems with regulator corruption and the challenge of determining a competitive price in a monopolistic industry.

Clark is also skeptical about the efficacy of the structural remedies (breaking up a monopoly or large firm), which came to be characteristic of antitrust policy. Breaking up such businesses, while promoting competition, may tempt formerly united competitors to collude (1900b, 188), and it also reduces scale economies, so it is less efficacious than functioning potential competition (188).[28]

In rejecting price regulation, structural remedies, and widespread state ownership, Clark argues that policy should "give to potential competition greater effectiveness" (190). In regarding competition as a virtue, not as a liability, in seeing monopoly market failure as a function not of market structure but of restricted output, in seeing monopoly as necessarily injuring consumers and workers outside the monopoly, and in arguing that (private and public) monopoly is the inferior innovator, Clark clearly departs from his Progressive peers.

4. Clark's Policy in Practice

Clark's neoclassical theory of policy is clear: market failure justifies intervention. But how, in policy practice, did Clark apply it? Did Clark regard real market failures arising from dynamic change as requiring permanent and extensive policy intervention, so that regulation effectively *supplants* markets as the means to competitive prices? Some scholars take just this position. Michael Perelman (1994), for example, goes so far as to call Clark a "corporatist."[29] Or did Clark think that even dynamically changing markets still adequately approximated the competitive outcomes of his static model, so that any market failures were

28. Clark (1900b, 188) suggests that the monopoly trusts' pricing power might be remedied by abolishing tariffs: "We might in this way appeal to the foreign producer to become the protector of the American consumer. There is no denying the efficacy of such a measure. . . . Trusts have very little power in free-trade countries." Clark's recommendation of greater competition as a remedy for monopoly pricing, and his efficiency-minded concern for consumers, are decidedly un-Progressive notions.

29. Perelman (1994, 194) argues that Clark, despite "his advocacy of abstract laissez-faire theory . . . was a solid corporatist in his policy recommendations." By "corporatist," Perelman means one who believes that "competition [is] a primary source of inefficiency, rather than a panacea for all social ills," and that "the economy as a whole would be more efficient if business were free to form trusts, cartels and monopolies" (194). A corporatist advocates a kind of managed capitalism—coordinated economic planning by leaders of large corporations, labor unions, and the state.

better treated with more limited policy responses? I will argue for a position closer to the latter. But any conclusion regarding Clark on policy practice must acknowledge several caveats. First, Clark was a theorist; his commentary on economic events is largely directed to theoretical illustration. He does not seriously attempt a measure of how far the real economy departs from his ideally competitive model. Second, Clark never realized a truly dynamic theory—the place in his scheme where all departures from competitive pricing occur—nor was he able to fully integrate his dynamic and static theories.[30] Third, Clark stopped publishing economics before the effects of most (U.S.) Progressive-Era labor legislation could be evaluated.[31] That said, Clark cannot be seen as a corporatist; he is no advocate of a state-managed economy.[32]

With respect to output markets, Clark's policy position clearly resides in the limited-response category. If anything, Clark is even more restrained than his neoclassical successors.[33] One writer, using an anachronism, claims that Clark "acknowledged that the economic system had evolved so as to largely suspend perfect competition" (Prasch 2000,

30. Clark's *Essentials of Economic Theory* (1907) represents his attempt at dynamics. John Maurice Clark (1968, 506) characterizes his father's conception of dynamics as comparative statics more than a true dynamics. Clark himself (1907, v) did not think that his *Essentials* was an adequate treatment of economic dynamics.

31. For example, Massachusetts passed the first U.S. minimum-wage law in 1912, but the minimum wage did not take effect until 15 August 1914.

32. Perelman may be led astray by the fact that Clark made an antitrust-policy exception for the railroads, a common carrier. Perelman argues that experience with railroad economics led American economists from Henry C. Adams to Clark to Arthur T. Hadley to reject free markets in favor of corporatism. Both Adams (1887) and Hadley (1907), political opposites, agreed that in industries (like railroads) with high fixed costs, marginal-cost pricing, as induced by price competition, was wasteful. So, competition—in the sense of "wasteful competition," an inefficiently high number of firms in an industry seen as a natural monopoly—is inefficient. But it does not follow that competition—in the sense of a system of private enterprise—is thereby rejected in favor of a system of corporatist administration. It is no surprise, then, that Hadley did not reject free markets for corporatism. Even Adams (1887, 57–59) carefully advocates state regulation only in industries (like railroads) characterized by increasing returns to scale. In agriculture (decreasing returns) and most manufacturing (constant returns), Adams eschews intervention.

33. The neoclassical policy era, which we may loosely characterize as running from 1890 into the 1960s, was confident in the state's willingness and ability to remedy market failures. Only with Ronald Coase (1960) and James Buchanan and Gordon Tullock (1962) did the American profession revisit the late-classical belief that government cures may be worse than market diseases. Clark's preference for potential competition is influenced by his worry that monopoly price regulators are placed "in positions that [offer] the maximum inducement for corruption" (1900b, 189). Clark (1902, 559) also worries whether labor arbitrators are competent to determine competitive wages.

261). There is limited evidence that Clark regarded large-scale manufacturing and industrial combination as permanent features of the new economic landscape. But because Clark does not identify firm size or market structure with pricing behavior, he does not interpret this trend as suspending competition, nor as requiring state administration of goods markets. If "competition," in the sense of many small firms, were less common, competition in the sense that matters for Clark—rivalry forcing prices to competitive levels—is still present. As long as the new behemoths are disciplined to price competitively by potential competitors, Clark's policy recommendation is "hands off . . . competition," a regulatory approach he calls "a new and higher type of *laissez-faire*" (1897, 600).

Of all the dynamic changes that perturb static outcomes, Clark thought innovation was the most important. Clark is emphatic that competition is more innovative than monopoly. A corporatist wants to supplant competition, and would reject Clark's view that monopoly, private and public, is "the gravest menace which hangs over the future of economic society" (1907, 559). Clark limits the state's role to ensuring dynamic competition, not to supplanting it, which it could not successfully do in any event. And preserving dynamic competition requires, at most, a minimalist antitrust policy—policing anticompetitive practices. Clark sees the innovation from competition as the sole guarantor of material progress, the "*sine qua non* of any hopeful outlook for the future of mankind" (1914, 7). With respect to goods markets, a less corporatist position is hard to imagine.

On industrial relations, Clark is more interventionist than he is with goods markets, although he could hardly be less. Clark's labor policy stance arises from his asymmetric treatment of goods and labor markets. Where potential competition in goods markets drives output prices to the competitive level, potential competition in labor markets (a permanent army of unemployed) can drive wages *below* the competitive level. Clark does not say by how much he thinks actual wages fall below competitive wages, or how often unfair wages occur, although his limited remarks (1913) regard legal minimum-wage proposals as well above marginal product and thus unfair, wrongheaded, and dangerous.

Clark on labor arbitration is more complicated. For Clark, arbitration is justified because (if successful) it ameliorates the social costs of strikes, lockouts, and other labor conflict. In this sense, Clark does imagine policy intervention as accomplishing what unions and management,

left to themselves, cannot. But Clark's objection is not to competition in labor markets, but to what he sees as the social costs of collective bargaining, what today we call bilateral monopoly. In Clark's view, the task of labor arbitration is not merely to determine fair wages, to stand in for market wage determination. He also envisions fair wages as a means of protecting the public from the costs of labor conflict.

Clark's advocacy of labor arbitration is a consequence of his ambivalence toward unions, which, in turn, derives from his asymmetric theoretical treatment. It is only because wages can fall below their competitive rate (where output prices generally cannot), that Clark sees social value in unions. The obverse risk of union monopoly leads Clark (1902, 565) to empower arbitration courts to police anticompetitive conduct by unions, to ensure that unions "don't build a fence about its field of labor and arbitrarily [exclude] men who have a natural right to enter it." Arbitration courts, says Clark, should "invoke that common-law principle . . . that monopoly is everywhere contrary to public welfare" (565). Clark's arbitration courts do not merely determine fair wages; they also are charged with protecting consumers, and with a kind of antitrust enforcement—a task of promoting labor competition, not of supplanting it.

It is clear that, on labor arbitration, Clark is more interventionist than elsewhere. What is harder to determine is whether Clark proposes labor arbitration in spite of or because of his theory. Did Clark regard unregulated labor markets as hopelessly inefficient, so that, in practice, his arbitration policy is more interventionist than his theory might suggest? Or was Clark's arbitration policy the *product* of his asymmetric theory, which demanded some mechanism for encouraging unions while simultaneously preventing unions from overstepping their useful bounds? The evidence, I think, is inconclusive.

What I see is a theorist's vanity, or perhaps naïveté. A hint is provided by the fact that Clark's arbitration rulings are not legally binding—compliance is strictly voluntary. Clark seems to have hoped that the force of a determinate standard of fairness would offer a natural solution to labor conflict. The public would seize upon fair wages, and hold both parties to account (1907, 494). This was probably naive, but it is consistent with one of Clark's most enduring legacies: his analytical approach to the ethics of distribution.

"It is interesting," said Paul Homan (1928, 92), commenting on Clark, "that a system reminiscent of the earlier advocates of *laissez-faire* should

end up on a note of government regulation." It is only interesting if one regards Clark's theory as laissez-faire, which it is not. A partisan of laissez-faire argues: what is, is fair.[34] Clark, in contrast, argues: competitive prices and wages are fair. Hands off when they obtain, and hands on when they don't. A cautious willingness to use the state as an agent for promoting competition is, in fact, a hallmark of neoclassical economics, and distinguishes it from laissez-faire and corporatism alike.

5. The Academic Progressive's Impulse to Lead Social Reform

We have thus far avoided an attempt to define the term *Progressive*. And with some cause. The Progressive reform coalition included nativists, Social Gospelers, prohibitionists, muckrakers, birth-control advocates, eugenicists, charity reformers, settlement house workers, pacifists, city-beautiful advocates, and conservationists. With such an eclectic mix, it is no surprise that people labeled "Progressive" routinely disagreed on matters such as immigration, especially racially motivated immigration restrictions, birth control, the appropriate family structure, the First World War, eugenics, and whether women's interests were best secured by paternalist legislation or by full legal equality. (See Davis 1967.) What united the Progressives was substantive agreement on the cause of labor reform through legislation, and methodological agreement on what Linda Gordon (1992, 36) calls the "progressive traditions of statism and belief in expertise."

Progressives shared a faith in (1) the power of social science to determine the root causes of social problems, (2) the efficacy of scientific management techniques in ameliorating the problems explained by social science, and (3) the ability of a technocratic band of experts to suspend their own interests and to circumvent (or better, transcend) the messy business of everyday interest-group politics. The "labor problem" unified Progressives substantively, and a statist "cult of expertise" unified them methodologically.

Perhaps no group better embodied this combination than American Progressive political economists. The Progressive impulse to form an

34. Few Progressive-Era scholars, "old-school" economists included, advocated a policy of radical laissez-faire. Even William Graham Sumner, the bête noire of American Progressive economists, and the stock villain of later historical accounts, said that "laissez-faire is a maxim of policy. It is not a rule of science." Laissez-faire, said Sumner, is a "general warning . . . not an absolute injunction" (quoted in Fine 1956, 88).

expert vanguard of scholars actively setting the world to rights was powered by a potent combination—German academic social activism, and the Social Gospel's evangelical will to remake society.

Soon after its founding, the young AEA transformed itself from an agency of Christian social reform into a more scholarly and scientific professional organization (Coats 1960). But the core belief in academic activism for social reform—what Mary Furner (1975) calls "advocacy"—did not disappear; instead, it relocated. Reform-minded American economists, perhaps wiser after the academic-freedom trials at the end of the nineteenth century, founded activist organizations outside universities to conduct research on the labor problem and to lobby, advocate, and rake muck. Labor reform lay at the heart of the Progressive agenda, as did the idea of an expert technocratic vanguard to promote the reform agenda.

Perhaps the most important of the reformist organizations were the National Consumers League (NCL) and the American Association for Labor Legislation (AALL). Ann Shola Orloff and Theda Skocpol (1984, 726) call the AALL the "leading association of U.S. social reform advocates in the Progressive Era." Mostly forgotten today, the AALL was a key labor-reform pressure group. It was extremely influential in effecting Progressive-Era reforms—workplace safety laws, minimum wages, limited hours, and, in time, unemployment, health, disability, and old-age insurance.

The AALL was founded in December 1905 at the Baltimore AEA meetings, principally by two of Gustav Schmoller's students, Henry Farnam of Yale and Adna F. Weber of the New York Bureau of Labor Statistics (Rodgers 1998, 236). The first group meeting was in early 1906. Ely was the AALL's first president, and Commons was its first executive secretary. The latter position was soon taken over by Commons's protégé John B. Andrews, who led the organization for many years, overseeing its transformation from scholarly muckraking shop to politically powerful pressure group. Irene Osgood (who became Irene Osgood Andrews), another Commons disciple, served as the AALL's assistant secretary.

Henry Rogers Seager was involved from the very beginning, serving as its third and fifth president (Commons was the second to hold the AALL presidency). Isaac Rubinow was an important AALL leader during the Progressive Era, as was Charles Henderson, a sociologist from the University of Chicago. Unlike the active leadership of the NCL, the

active leadership of the AALL was dominated by academic political economists.[35] Daniel Rodgers (1998, 253) describes the AALL roster of Progressive economists as "virtually an alumni reunion from the German university connection."

The AALL's leadership constitutes a duty roster of Progressive American political economists. Among Progressives, it is hard to find one important academic political economist who did not serve as an AALL officer, or on its general administrative council. The AALL also induced some academic economists less squarely in the Progressive camp, such as Frank Taussig, to lend their names to the masthead. John Bates Clark, as best I can tell, is completely absent.[36] The most eminent American political economist of the day clearly would have made a desirable addition to the AALL masthead. But Clark was apparently unwilling to lend his name, even for a purely ceremonial title. It was not a matter of ivory-tower aversion to public affairs. Clark was vigorously engaged in the issues of the day, regularly writing for popular outlets and ultimately abandoning economic theory for the cause of preventing war. The AALL mission embodied the Progressive economist's impulse to social activism, and the AALL leadership roster, at one time or another, boasted virtually all of them. Clark's absence is telling, and places him apart from the economists who led the AALL: Ely, Seager, Commons, the Andrewses, Rubinow, and others.

6. Conclusion: Clark's Progressive Credentials

In many respects, Clark *was* a man of his time. He was among the very first American students of political economy to receive graduate training

35. The NCL, led by the indomitable Florence Kelley, was less academic, was run by women, and was more skillful politically (Rogers 1998, 236). The NCL was assembled of local consumer leagues that originally advocated voluntary labor reform via consumer education: raising the consciousness of genteel consumers of ladies garments produced under sweated conditions, using NCL labels (rival to the Union label) that certified satisfactory work conditions. Florence Kelley herself came around to the idea of a legally enforced minimum only in 1908, at an international consumers' league conference in Geneva (Rogers 1998, 238). The NCL tapped the network of Progressive economists in mostly ceremonial positions as "advisors" or board members. Commons was president of the NCL from 1923 to 1935. Seager, A. B. Wolfe of Oberlin College, and Arthur Holcombe of Harvard were members of the NCL minimum wage committee as early as 1909 (Hart 1994, 209 n. 94). Ely and Father John Ryan of Catholic University were active participants.

36. In the modern secondary literature on the AALL, Clark is also invisible. He merits but a single mention in Moss 1996, and Clark is entirely absent from Skocpol's (1992) extensive account.

in the historicist method and state socialism from the German economists. Clark's religious feeling ran deep at a time when nearly all mainline Protestant churches preached a creed of legislated "living wages" for all workers, along with restricted hours and a host of other legal labor reforms (Bateman and Kapstein 1999, 255). Clark was a force in the founding of the AEA, even if he didn't completely share Ely's vision of the AEA as an American *Verein für Sozialpolitik*, and even if he led the committee to tone down Ely's daring anti-laissez-faire statements of principle.[37] Clark's favorite student was the outré Veblen.

Columbia, Clark's final and longstanding academic home, was a locus of reformist political economy and Progressive sentiment. The two members of Columbia's faculty of political and social science before Clark, Richmond Mayo-Smith (1854–1901) and E. R. A. Seligman, were members of the original AEA insurgency, and were prominent reformers. Columbia also boasted Henry Rogers Seager, Samuel McCune Lindsay (himself a Progressive-Era president of the AALL), and charity reformer Edward T. Devine, head of the New York School of Philanthropy, another AALL stalwart. This milieu notwithstanding, Clark was not a Progressive in the way that Seager was, to say nothing of Ely, Commons, John B. Andrews, and Webb.[38]

Clark, like many of his cohort, was descended from a long line of ministers, himself considered the ministry, and attended college (Amherst) in an era when the clerics still ruled, and when political economy was ordinarily taught as an adjunct to moral philosophy. Clark may even have shared with Ely and Commons the Social Gospel's millenarian goal of bringing forth, via social change, heaven on earth (Everett 1946). But, if so, Clark had a different view of the appropriate agent of deliverance, which is why it is hard to imagine Clark saying, as Ely did, "God works through the State in carrying out his purposes more universally than through any other institution" (quoted in Fine 1956, 180). If anything, Clark sees the hand of divinity as did the Scottish classical tradition:

37. In a letter dated 23 June 1885, Ely confides to Seligman that "the idea of the A.E.A. is to accomplish in America what the *Verein für Socialpolitik* has done in Germany—not necessarily accepting all the doctrines of the Germans" (Dorfman 1941, 281).

38. The labels employed to capture the intellectual differences discussed in this essay are less important than the actual arguments for those differences. In this sense, it is possible to characterize Clark, as does Dorothy Ross (1991, 174–75) as a "right-progressive," to be carefully distinguished from "left-progressives," such as Ely, Commons, and Seager. My own view is that the term *neoclassical* better captures the specific ways in which Clark's economic thought and his moderate reform agenda depart from his more radical Progressive peers.

providential design manifesting itself in the relatively harmonious way in which competition works to promote good social outcomes. Clark prefers a natural-law curative to the heavy hand of an overambitious state, which he likens to the iatrogenic physician who wants to treat a bad liver with calomel (a mercury-based emetic) and bleeding:

> In such a case pill and lancet carry the day. Similar results follow on a large scale when some men have violent cures for social diseases, and we suggest no alternative except waiting and depending on nature. *And yet nature is all-powerful*. There is no cure of disease, individual or social, that does not come through the action of her forces. (1897, 592; emphasis in original)

Clark's faith in and preference for patience and "natural cures" is inimical to the Progressive creed—a creed that envisions a technocratic elite guiding a compliant and benevolent state to effect social outcomes otherwise unobtainable. Clark shared the Progressives' religious idealism and their moral earnestness, but he did not entirely share their economics, nor their view of what constitutes the social good, nor their view of which economic policies best promote the social good.

John Bates Clark's thought is too important to be glossed as an apology for laissez-faire capitalism, and the old caricature is giving way. But a more realistic portrait need not elide the differences between Clark and his Progressive peers. There are, of course, many resemblances to be found between the Progressives' political economy and Clark's own. The era's eclectic and tolerant political economy, with its permeable intellectual boundaries, almost ensures broad areas of overlap.

Still, the differences tell. Clark is a pivotal figure during a period when the emerging American branch of the profession is up for grabs. In proposing competitive prices as a normative benchmark, Clark gives American economics an analytical approach to the ethics of distribution. Critics vigorously questioned both the practicability of determining labor's marginal product and the fairness of marginal-product wages. Economists as different as J. Laurence Laughlin, Taussig, Frank Fetter, and Veblen thought that marginalist theory was too abstract.

But Clark's distribution ethics offered a theoretically anchored middle way between radical laissez-faire and socialism. Progressive political economy did not. In part, this was because many Progressives, in rejecting Clark's view of ideally competitive markets as socially best, also rejected the need for a middle way. In addition, Progressive economists,

with no analogue to Clark's competitive-price normative benchmark, lacked determinate policy goals for intervention. "More for labor" does not say when labor has enough, nor obviously constrain intervention.

In this sense, Clark's middle-way policy approach is strategic: it coopts the reform impulse of the Progressives, while simultaneously and determinately delimiting the scope of policy intervention. When, around the time of Clark's death in 1938, American neoclassical economics is importing the more mathematical Continental tradition, marginalism and theoretical abstraction cease to be professional liabilities, and Clark's policy approach becomes more entrenched. This difference in policy approach, among the many others, may help explain the divergent paths of Progressive economics, which was a spent force by the 1930s, and neoclassical economics, which has been ascendant for more than sixty years.

There is in Clark no algebra, and no reflexive assumption of maximization. What's modern in Clark is his faith in the virtues of competitive markets, his marginalist approach to price and wage determination, his aspiration for generality in economic theory, his elevation of a benchmark competitive ideal to which markets and policy should aspire, and his innovative approach to regulation, which I have argued is best characterized as one of market-failure remedy, especially the remedy of promoting more and better competition. In these respects, Clark is not a Progressive, but an early precursor of the American neoclassical ascendancy.

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