A COMPARATIVE STUDY OF THE THEORY OF DISTRIBUTIVE JUSTICE: JOHN BATES CLARK AND C. E. AYRES

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A COMPARATIVE STUDY OF THE THEORY OF DISTRIBUTIVE JUSTICE: JOHN BATES CLARK AND C. E. AYRES

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CHAPTER I

INTRODUCTION

One of the early controversies among American economists stems from Henry George's *Progress and Poverty*, which attempted to show that exploitation in favor of a particular group of resource owners is an inevitable component of industrial development and urbanization within a capitalist economy. George proposed a system of land taxation as a method to eliminate the abuse, and justified it on the basis that rental income rarely could be considered a payment in return for personal contribution of services.¹

The charge that capitalism is inherently exploitative was also at the time being made from another source. By no means, however, could Marx and Engels be considered revisionists when it came to saying what had to be done to eliminate it. Nothing short of the total destruction of capitalist class structures, they argued, could eliminate the "spoliation" of the working class.

One of the defenders of competitive capitalism, John Bates Clark, responded to these criticisms in rather interesting fashion: first, by revising the Ricardian

theory of value which had served Marx as a touchstone for his argument; and second, by extending George's formulation of the Ricardian theory of rent in such a way as to reach quite different conclusions. As Clark saw it, the values (rewards) earned by the factors of production were determined by the value of the commodities produced, not the other way around, as Marx labor theory of value suggests. The question of determining their rightful shares then became one of imputation, of assigning values to the various productive factors "based on their contribution to the joint product." ² It was at this point, in attempting to devise a means to separate the joint product of combined resources, that Clark acknowledged his debt to Henry George for recognizing that the Ricardian theory of differential rent could be used to isolate the wages of labor as well as the rent of land. ³ All Clark then had to do was to follow the implications of this insight to derive a means of differentiating the joint product of what to him were the primary factors of production, capital and labor. Utilizing these revisions, along with his own re-definition of the terms capital and labor, Clark hoped to show that a single law governed the distribution of income within a capitalist economy wherever competition prevails. ⁴ Further, he hoped to prove that the

natural working of competition gives to each specific factor of production the exact equivalent of what each creates. If this could be proven, he believed the charges of exploitation levied against the capitalist system of economic organization could be set aside.\textsuperscript{5}

These were the types of issues relating to the theory of distributive justice being discussed by mainstream American economists in the years preceding the Great Depression. Subsequently, such issues were to become somewhat outmoded as economists began to recognize that what is important about the distribution of income within a capitalist economy is its effect on production or the utilization of resources. Such a point of view, of course, was not without precedent. The famous controversy between Ricardo and Malthus concerning the possibility of general market gluts is an example. Basing his argument on Say's Law, Ricardo had logically disposed of Malthus's contention that distributive inequality leads to a general deficiency of aggregate demand.\textsuperscript{6} David Hume, as early as 1752, in his \textit{Political Discourses}, also had implicitly dealt with the relationship between production and distribution in his discussion of interest rates and the conditions governing investment expenditures. Holding to a subsistence theory

\textsuperscript{5}Ibid., p. 9.

of wages and arguing that landlords tend to be spendthrifts, Hume maintained that the possibility of achieving economic growth depended on the portion of money income flowing to the merchant classes—"the most useful races of men." The implication of this thesis was that distributive inequality was necessary for saving and investment, and for expanding productive enterprise.

In the subsequent re-evaluation of these doctrines following the Depression both have been seriously challenged. One economist who has dealt with them most specifically and directly is G. E. Ayres, currently Professor of Economics at the University of Texas. Ayres' integration of the leading ideas of Thorstein Veblen, John Dewey, and J. M. Keynes represents a reformulation of the doctrine underconsumptionism along Institutionalist lines. Working within this framework, Ayres attempts to show that inequality in the distribution of income is not necessarily conducive to either economic stability or development; in fact, it may be very detrimental. He then argues that since income inevitably tends to be unequally distributed within a capitalist economy, and since this leads to "oversaving," the solution to the problem

8Ibid.
requires planning of a type which would make more income available to those most likely to spend it. Utilizing a revised conception of capital accumulation, Ayres also argues that the enlargement of productive capacity is a function of the advancement of science and technology rather than a system of distribution geared to generate the saving of money income. The fact that so many are poor, he says, results in a limited market for the goods and services being made available by the increasing pace of technological change. The widespread incidence of poverty also prevents substantial numbers of the population from participation in the tool-building (resource development) process which built the modern industrial economy. The future productivity of the economy as a whole, Ayres concludes, thus requires that a minimum income be guaranteed to all members of the community. The elimination of poverty, in other words, is the key element in promoting productive enterprise.9

Comparing the work of Clark and Ayres, a significant difference of emphasis is apparent. Clark's position is that within a capitalist economy individual productivity should be the basis on which income is distributed and that competition would guarantee that it would be. Ayres, on the other hand, maintains that what is important about any system of distribution is its effect on the overall level of production.

Income should be distributed so as to maximize the use and development of resources, which within a capitalist economy requires much more than merely preserving competition.

As these introductory remarks have indicated, each of the above doctrines was developed in a particular historical perspective and in response to a different kind of theoretical challenge. Each also reflects the particular intellectual orientation within which both Ayres and Clark considered specific economic issues. What is of particular significance, however, is that these statements describe quite alternative ways of determining "Who gets what?" and of organizing the economic life of the community. They are two very different conceptions of the meaning of distributive justice and of the means by which it may be attained. The writings of these two economists also represent the most rigorous and straightforward expressions of two very different sets of ideas or ways of thinking which have in recent years been in competition for general acceptance among economists, politicians, and, as Veblen once called them, the underlying population.

The purpose of the present thesis, then, is to find answers to the following specific set of questions:

According to Clark and Ayres,

a. On what basis should the income of society be distributed?

b. Are the conditions under which this goal may be
achieved those which actually prevail at the present time?

   c. If not, what action must be taken to assure that they will prevail in the future?

   In the following chapter, Clark's answers to these questions are given detailed attention, followed in Chapter III by those of Ayres. In Chapter IV, an attempt is made to compare the significance of these doctrines as definitive theories of distributive justice.
CHAPTER II

JOHN BATES CLARK'S THEORY OF DISTRIBUTIVE JUSTICE

The purpose of this chapter is to analyze the distribution theories of John Bates Clark, the leading exponent of the neo-classical reform among American economists during the final years of the nineteenth century. More precisely, the task will be to extract from his theoretical doctrines the answers to the following set of questions:

a. On what basis should the income of society be distributed?

b. Are the conditions under which this goal may be achieved those which actually prevail in society at the present time?

c. What actions, if any, must be taken to assure that these conditions will prevail in the future?

These questions are designed to extract from Clark's work a definition of distributive justice and a description of the means by which it may be attained.

With regard to the materials used in this analysis, primary attention is given to what may be called Clark's magnum opus, published in 1899 under the title, The Distribution of Wealth. Other sources include The Philosophy of Wealth (1884); The Modern Distributive Process (1888);
Essentials of Economic Theory (1907); and The Control of Trusts (1912).

How the Income of Society Should Be Distributed

Clark's analysis of the determinants of income distribution is designed to accomplish a preconceived result. His purpose in writing the Distribution of Wealth, as he explicitly states,

is to show 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 agent creates.¹

Or again, he means to demonstrate that

where natural laws have their way, the share of income that attaches to any productive function is gauged by the actual product of it.²

As seen in greater detail in the pages which follow, these definitions state that productivity should be the sole basis upon which income is distributed and further that productivity is actually a function of a "natural law."

Finally, they imply that where this law is allowed to operate, distributive justice will be attained.

Developing these definitions a bit further, it may be said that there are two essential elements to Clark's theory of distributive justice: (a) the law of diminishing marginal


²Ibid., p. 3.
productivity, and (b) competition. The first governs productivity, and operates independently of any attempts to change it—since it is a universal law of economics. The second, however, may be subverted through monopolization and other unnatural restraints which men from time to time have imposed upon the system of production and distribution (the market mechanism). As will be seen, if Clark's contentions can be proven, the task of economic policy (planning) becomes that of enforcing competition—the removal of "unnatural" impediments—for only so can justice be attained. In essence, if the natural law which governs the productivity of specific agents of production can be supplemented by that force which gives to each its whole product (competition), social distributive justice will prevail, or so Clark maintains.

The importance of this thesis is made quite explicit and sets the tone of Clark's analysis, which though conducted in terms of strict logic is replete with the ethical implications suggested by the fact that so much depends on the success of the argument. "The right of society to exist in its present form, and the probability that it will continue so to exist, are at stake."³

What Clark means by the phrase "society in its present form" is society based on private ownership and control of

³Ibid., p. 4.
property, or in essence, society as characterized by the term capitalism, a system which he not only is seeking to explain but to defend. On the one hand, there is the accusation that capitalist society, by its very existence, denies to labor the right to its whole product.

The indictment that hangs over society is that of "exploiting labor." "Workmen," it is said, "are regularly robbed of what they produce. This is done within the forms of law, and by the natural working of competition.

If this charge were proved, every right-minded man should become a socialist; and his zeal in transforming the industrial system would then measure and express his sense of justice.\textsuperscript{4}

If, on the other hand, it can be shown that "actual wages are the whole product of labor, [that] interest is the product of capital, and [that] profit is the product of a coordinating act . . . property is protected at its point of origin."\textsuperscript{5} Validation is given to the law "on which property is supposed to rest--the rule--'to each what he creates.'"\textsuperscript{6}

"A study of distribution settles this question, as to whether the modern state is true to its principle."\textsuperscript{7}

In summarizing the implications of these remarks, it may be said that Clark, at least implicitly, attempts to do more than establish a criterion of distributive justice; he makes of this a defense of capitalism, and its basic institution, the private ownership and control of property, or, as the

\textsuperscript{4}Ibid., p. 4. \hspace{1cm} \textsuperscript{5}Ibid., p. 9.
\textsuperscript{6}Ibid., p. 9. \hspace{1cm} \textsuperscript{7}Ibid.
socialists would have it, the means of production.

Such issues had long occupied Clark's thinking. As early as 1884, fifteen years before the publication of his Distribution of Wealth, he wrote as follows:

The solidarity of capital on the one hand, and of labor on the other, are things of which the founding fathers of our republic thought as little as the founders of our system of economics. The strain to which this influence is about to subject our institutions would be indefinitely less if the counterclaims in equity could be in so far settled that men not biased by belligerent feeling might be in substantial agreement concerning them. If it is humanly possible to settle the questions at the basis of the law of wages, no scientific work can be more immediately and widely beneficent. These questions tend, if rightly answered, to public order; if wrongly answered, to communism; and, if unanswered, to agitation and peril.8

Over the years Clark's solutions to the problem of establishing justice and equity in the distribution of income and wealth appeared to change rather radically. His first published work, The Philosophy of Wealth, held out the hope that a higher morality would supplant greed and selfish interest in the bargaining between employer and hired man,9 that cooperative enterprises would arise to eliminate class antagonisms,10 and that the danger to social order expressed in the movement toward the centralization of ownership and control of industry would thereby be averted.11 "Individual competition," he declared at the time, "has in important

9Ibid., p. 69. 10Ibid., p. 172. 11Ibid., p. 173.
fields, practically disappeared. Going further, he added, "It ought to disappear; it was, in its latter days, incapable of working justice." Later, in his Distribution of Wealth, 1899, he was to state that "competition is an inextinguishable force," and that this fact comprised the only buffer against the necessity of revolution.

This ambiguity can perhaps best be explained by the fact that apparently it was not competition to which Clark was objecting. His real target in The Philosophy of Wealth seems to be the doctrine of "laissez-faire," for when left alone competition appeared to destroy itself.

With the tendency to consolidation on the side of capital, ... unions become inevitable and right. Yet they oppose to the solidarity of capital a solidarity of labor, make wage adjustments to be bargains between two parties without rivalry on either side, and threaten to introduce into the industrial system an element of strife for which there is no analogy in anything which appears in a system truly competitive, and which, for possible brutality, may perhaps be accurately likened to a club contest between two cave-dwelling men. It is Ricardianism, the competitive system duly "let alone," the natural action of self-interest in men, that has brought us face-to-face with this condition.

The ambiguity still remains, however, since, by this showing, competition cannot be considered "an inextinguishable force."

Perhaps it is again only apparent rather than real. As will be mentioned later, Clark's final position with regard to

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12 Ibid., p. 148
13 Ibid.
14 Clark, The Distribution of Wealth, p. 441.
15 Clark, The Philosophy of Wealth, pp. 68-69.
competition was not so much that it is an eternal verity, but that it should be made one.

Assumptions Relating to the Nature of the Economic Science

In order to get an accurate understanding of Clark's theoretical justification of competition as the regulator of the distributive process, it is first necessary to understand his conception of the nature of the economic science. He believed it vitally necessary to recognize (1) that "a division may be made between the static economic forces which are permanent and the dynamic forces which introduce changes in economic life," and (2) that "a proper understanding of static laws is . . . essential to the analysis of dynamic forces." 16

On the basis of these assumptions, Clark proceeded to revise the traditional division of the economic science into three separate but related fields of inquiry. The boundaries of these "three natural divisions of the science" are staked out as follows.

The first embraces the universal phenomena of wealth. If anything is true of the wealth-getting and the wealth-using process under every condition of social development, it is material for this division. The second includes social economic statics, and tells what further happens, in connection with wealth, if society is organized, and if no changes take place in its form of organization or in its mode of action. The third includes social economic dynamics, and

tells what still further happens, as regards the wealth and welfare of the community, by reason of the fact that society is changing in form and in modes of activity.

Within each division "are to be found distinct, though related, sets of economic laws."

The three sets of laws are the Universal Laws of Economics, which may be discovered by studying the principles which govern the life of an isolated man; Static Social Economics, disclosing the laws operative in a changeless society [where pure and perfect competition prevails]; and Dynamic Social Economics, in which the laws governing the process of social change are unfolded.

**Universal Economic Laws**.--In Clark's explanation, the fundamental (Universal) laws of economics apply equally within primitive and advanced societies, by definition. The same principles by which "an isolated hunter" organizes or allocates his energies among different employments, e.g., in deciding whether to devote a particular hour to hunting game, to constructing a bow and arrow, or to pursuing leisure, are those which within advanced societies are reflected in the standards of prices, wages, interest, and profits set by the force of competition operating in the market places where exchanges of commodities and productive services are

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17 Clark, *The Distribution of Wealth*, p. 34.

18 Homan, p. 49.
made. When reduced to their simplest form, there are only two such principles: (a) the law of diminishing marginal utility, and (b) the law of diminishing marginal productivity. In what follows, only the second of these laws is of significance.20

Social Economic Statics.--The second of Clark's divisions applies these universal economic laws to a social context, or market economy, within which the availability of resources and the needs of consumers are presumed constant. This is done with the avowed purpose of isolating the effects of competition upon achieved levels of values (prices), wages, and interest.

Reduce society to a stationary state, let industry go on with entire freedom, make labor and capital absolutely mobile... and you will have a regime of natural values. These are the values about which rates are forever fluctuating in the shops of commercial cities. You will also have a regime of natural wages and interest; and these are the standards about which the rates of pay for labor and capital are always hovering in actual mills, fields, mines, etc. In this connection, the terms,

19"There is a distinct set of economic laws, the action of which is not dependent on organization. They are fundamental; and we now have to note that they are universal. They act in the economy of the most advanced state, as well as in that of the most primitive. Wealth has everywhere the same distinguishing marks. The producing and the consuming of it are always subject to the same general conditions." Clark, The Distribution of Wealth, p. 26. For an extended treatment of the operation of these laws within an "isolated state" see Ibid., Chapter IV, especially pp. 48 ff.

20The first of these laws applies to Clark's theory of value and will consequently be treated only in an oblique fashion within the scope of the present inquiry.
natural, normal, static are synonymous. That division of economic science with presents natural standards of values, wages, and interest ought consciously to take the shape of a theory of Social Economic Statics.  

Clark's theoretical discussion of the concept of distributive justice is conducted almost exclusively within such a "static" framework. The Distribution of Wealth, he wrote in 1899

... will ... present the static laws of distribution. It will offer a pure theory of what may be called natural wages and interest. Statistical studies it will not make, and it will not discuss in detail the practical mechanism by which exchanges are effected. It will contain no treatment of money and banks, of taxation, or of political action that is taken for the purpose of influencing the terms of distribution.  

More perhaps than at any other, it is at this point that objections may be raised as to the relevance and importance of Clark's theoretical argument. Aside from its logical consistency, there is the question of whether, in limiting the argument to so restricted a plane, he has ignored important facts which impinge upon the allocation of wealth and income within capitalist society. There is reason to think that he has. Further discussion on this point must wait, however, since the present task is one of analysis rather than criticism.

21 Clark, The Distribution of Wealth, pp. 28-29.

22 Ibid., p. 36.
Social Economic Dynamics.--As mentioned previously, the division of Social Economic Dynamics inquires into "what happens, as regards the wealth and welfare of the community, by reason of the fact that society is changing in form and in modes of activity." As Clark defines them, there are but five possible generic changes which society may experience:

a. changes in population (labor force)

b. changes in the supply of capital

c. changes in the methods of production (the level of technology)

d. changes in business organization ("the less efficient shops, etc., are passing from the field, and the more efficient are surviving")

e. changes in the wants of consumers.

A clearer picture of what, in Clark's estimation, constitutes a truly static society thus arises. Population (the labor force) and the supply of productive wealth (capital) are fixed in amount; the state of the industrial arts (technology) remains constant, with the result that no innovations or changes are made or applied to industry, production is going on exactly as it has in the past; finally, the demand for products remains quantitatively and qualitatively the same. Clark puts it this way:

23Ibid., p. 34.  
24Ibid., p. 56.
A state can be imagined in which the social organism should keep its shape intact and in which life should continue. Men might work and eat, they might be born and die, in a world in which the forms of industrial organization would show no change. As generations should succeed each other the men of each would take up the trades of their fathers and transmit them to their children. As tools should be worn out, they would be replaced by others exactly like them. Changeless in its population, its wealth, its local abodes, its modes of production and the forms of its wealth, such a society would live, indeed, but it would show no change in its organic form. Having life, but not growth, it would be what we identify as a static society.25

It is only by creating in the imagination such a world, Clark argues, that the impact of the static (i.e., natural) law which governs distribution can be adequately described and understood.

This observation is further verified in Clark's portrayal of the significance of his division of static from dynamic forces. Static laws are not considered separately merely as an analytical device, or as a matter of convenience, but as forces which are actually at work in the "changing world of reality." Admittedly, the static state he has described "is imaginary, . . . yet this does not invalidate the conclusions of a static theory; for static laws are nevertheless real laws."26

The forces that would work in a world that should be held in a fixed shape and made to act forever in a fixed manner still operate in a changing world of reality. We can always see them working in

25Ibid., pp. 59-60.

26Ibid., p. 29. Emphasis is supplied.
connection with other forces, but we have to imagine them working alone. We study them separately, in order that we may understand one part of what goes on in dynamic society. To do this, we imagine a static society, thus making a heroic but necessary application of the isolating method.27

Only by reason of its omissions . . . is the imaginary and static state unlike the real and dynamic one. All the forces that would work in the unchanging world are not only working in the changing one, but are even the dominant forces in it. They do not keep values exactly at the natural standards, but they keep them fluctuating about those standards; and they keep real wages and interest always comparatively near to the natural rates.28

Clearly then, it is of primary importance to identify these forces and to demonstrate their effect upon the allocation of income. If the natural standards of wages and interest are defined as those which correspond to the actual product of labor and capital, and if there is at work in the "real" economy a set of forces which assures that such standards will be approximated at all times, even when account is taken of the assorted dynamic changes also unceasingly operative within that economy, then indeed much has been shown.

A Study of Functional Income Shares

One final point must be made relating to the general framework of Clark's logical analysis. As indicated in the definition of terms given above, his argument concerns itself

27Ibid., pp. 29-30.  
28Ibid., p. 30.
with functional rather than personal income shares.

The whole income of the world is, of course, distributed among all the persons in the world; but the science of distribution does not directly determine what each person shall get. . . . Only the resolving of the total income of society into wages, interest and profits, as distinct kinds of income, falls directly and entirely within the field of economics.29

What we wish to ascertain is solely what fixes the rate of wages, as such, and what fixes the rates of pure interest and net profits as such. When these rates are determined, a particular man's income depends on the amount and kind of work that he performs, the amount of capital that he furnishes, and the extent and kind of co-ordinating that he does. That which is beyond his control, and fixed by a general and purely economic law, is the determination of the product that labor and capital, in themselves, can create and ultimately get.30

As might be expected, however, the solution in favorable terms of the controversy relative to functional distribution has an added emolument that much of the heat is taken from that regarding personal shares--"if each productive function is paid-for, according to the amount of its product, then each man [person] gets what he produces."31

If a man works, he gets what he creates by working; if he also provides capital, he gets what his capital produces; and if, further, he renders service by co-ordinating labor and capital, he gets the product that can be separately traced to that function. In only one of these three ways can a man produce anything. If he receives all that he brings into existence through any one of these three functions, he receives all that he creates at all. If wages, interest, and profits, in themselves considered, are fixed according to a sound principle,

29Ibid., p. 5. 30Ibid., pp. 5-6.
31Ibid., p. 7.
then the different classes of men who combine their forces in industry have no grievances against each other. If functions are paid according to their product, men are also.\(^32\)

As a practical matter, this view of the relationship between personal and functional distribution implicitly condones or at least certainly does not condemn a high degree of inequality in the distribution of income among individuals and family units. It even attributes to it an aura of equity and justice. By this logic, in other words, whatever the pattern of income distribution that exists is justified as that which ought to exist, at least when viewed on the basis of productivity, and where natural laws are assumed to prevail. This is rather an extreme position to defend even on a theoretical level, and indeed, Clark recognizes that objections might be made on grounds of equity to productivity as the basis for distribution of the social product. However, he professes to be unwilling to engage in what is a "purely ethical inquiry,"\(^33\) regardless of the willingness of the socialists to do so. Like them, he says,

> We might raise the question, whether a rule that gives to each man his product is, in the highest sense, just. Certain socialists have, indeed, contended that such a rule cannot attain justice. Work according to ability and pay according to need, is a familiar formula, which expresses a certain ideal of equity in distribution.\(^34\)

\(^{32}\)Ibid., pp. 7-8.  \(^{33}\)Ibid., p. 8.  \(^{34}\)Ibid.
There are, however, complications to such an ideal of justice, he argues further, of which everyone should be reminded.

This rule would require the taking from some men of a part of their produce in order to bestow it on others who might be more necessitous. It would violate what is ordinarily regarded as a property right.35

As Paul T. Homan has suggested,

He [Clark] is thus involved in this dilemma, that he is engaged in an inquiry with ethical implications, but that another approach to the same problem is irrelevant because it has ethical implications. He resolves the dilemma to his own satisfaction by contending that the truth or falsity of his own thesis is a matter of "pure fact." . . . Other institutions of society are later subjected to criticism on grounds of morals and public policy. But the laws of private property are merely sweepingly approved. This fact, of course, will throw no suspicion on the argument as to the allocation of income. It will of necessity, however, create in the mind of the candid reader some question as to the validity of the ethical implications of the argument.36

This matter is mentioned at this point in order to illustrate what is surely the personal preconception, or frame of reference, within which Clark's analysis is carried out. As Homan points out, this need not reflect adversely upon its scientific validity; that must be evaluated on its own grounds. It merely suggests that there is a level at which objection can be made to Clark's theory quite

36Homan, op. cit., p. 40.
independently of its "scientific" authority, and which Clark in no way has met, except by tautological assertion.

The Static Theory of Income Determination

If Clark were to be asked the question who is entitled to an income, his answer would run along the following lines. Under static conditions, he would likely say, those who get income are those who create it. He would argue that under such conditions "the entire study of distribution is" essentially "a study of specific production."

It is an analysis of the wealth-creating operation, and a tracing to each of the three agencies that together bring wealth into existence of the part which it separately contributes to the joint result. To each agent a distinguishable share in production, and to each a corresponding reward - such is the natural law of distribution. 37

As indicated, there are three income shares to be accounted for, and which come in for considerable discussion within Clark's Static Social Economics.

The natural law of distribution separates the gross earnings of society into three generic shares that are unlike in kind. It causes the annual gains of society to distribute themselves into three great sums - general wages, general interest, and aggregate profits. These are, respectively the earnings of labor, the earnings of capital, and the gains from a certain coordinating process that is performed by the employers of labor and the users of capital. This purely coordinating work we shall call the entrepreneurs function, and the rewards for it we shall call profits. The function in itself includes no working and no owning of capital: it consists entirely in the establishing and maintaining of efficient relations between the agents of production. 38

37 Ibid., p. 3. 38 Ibid., pp. 2-3.
As a further step in describing Clark's theory of distributive justice, these three economic functions--actually they are distributive categories so defined as to include all economic activity whatsoever--are discussed below in some detail. Also considered is the basis upon which each can justifiably claim a share of the income of society. Special emphasis is given to the entrepreneurial function, in order to contrast its claim to a share of income to that established for labor and capital, and to illustrate its importance in establishing "natural standards" of wages and interest in the absence of continued "dynamic" change.

Capital and interest.--Capital, as Clark defines it, is a fund of wealth, which is permanent, productive, and mobile. The term is used to describe what the businessman means in his ordinary use of it--"money" invested in productive goods.39 Because of its inherent productivity, capital is self-perpetuating, earning not only an amount sufficient to replace itself, but in addition a sum which justifiably goes

39"Throughout this work the thing described by the term capital will be what a businessman understands by that word. It is a permanent fund of productive wealth, and is what is commonly meant by 'money' invested in productive goods, the identity of which is forever changing. The articles that embody the fund are, like particles of water in a river, vanishing things; while the fund itself, like the river, is the abiding thing." Clark, The Distribution of Wealth, p. 157. See also, Ibid., pp. 121 ff.
to the "owner" of capital, as interest. Finally, capital must be differentiated from capital-goods or the physical (material) forms, including land, which the fund at any time may take. Unlike the latter, true capital can assume a multitude of different forms, and be employed in innumerable uses, and indeed, is continually being transferred from one use to another, losing none of its inherent capacity to

40. "If the men who own the capital keep it in their own hands, they will get the product of it; but if they loan the capital, they virtually sell the product of it, and they may ask for an equivalent, as they do in making any other sale." Ibid., pp. 135-136.

41. Capital, says Clark, "consists of instruments of production, and these are always concrete and material. This fact is fundamental." Although he recognizes that when "spending money in training or educating himself for a useful task" a man "gets something, indeed, that increases his productivity; he deprives himself of pleasure in order that thereafter he may produce more than he otherwise would," that is to say, "He is obliged to practice abstinence." There is thus a "certain similarity" between such expenditures and "money spent in buying a tool." Clark maintains, however, the strict position that capital is material in the forms which it takes. "In using the term, we shall be strict constructionists, and shall insist that capital is never a quality of man himself, which he uses for productive purposes. The capital of the world is, as it were, one great tool in the hand of working humanity--the armature with which humanity subdues and transforms the resisting elements of nature." Ibid., pp. 116-117.

42. For a critical analysis of Clark's treatment of land as a form of capital, Cf., Homan, op. cit., pp. 64 ff. Homan's principal point is that Clark is forced to ignore "three uncomfortable facts--that land does not arise from abstinence; that it cannot, like other embodiments of capital, shift its form; and that the personal appropriation of the product of land has an ethical significance which differentiates it from other types of income, from the social viewpoint." Ibid., p. 69.
create wealth.\textsuperscript{43}

The notion that capital is itself productive justifies the payment of interest in quite a different way than had been the case within the Classical economics. Classical thinking on the matter, following Senior, held interest to be a payment, or reward for the pain of a continuing abstinence on the part of the consumer-capitalist.\textsuperscript{44} In Clark's interpretation, such an argument is unnecessary; the only connection between abstinence, or saving, and the fund of wealth being that

abstinence . . . originates new capital: it diverts income in money from the expenditure that would secure goods for consumption to that which secures instruments of production. This is the same thing as saying that abstinence consists in taking one's income in the form of producers' goods--electing to take draft horses instead of

\textsuperscript{43}Clark carefully separates social capital from capital goods. The latter consists of land and the physical tools of production, whereas the former is "a sum of productive wealth, invested in material things which are perpetually shifting - which come and go continually - although the fund abides." Clark, The Distribution of Wealth, p. 119. "Capital is absolutely mobile; it can go anywhere. It can leave any business and betake itself to any other; and it is therefore the object of a competition that is universal. Any single unit of capital is desirable for use in any productive process that is going on; and it is by the general competition for it that the rate of interest is fixed." Ibid., p. 258. "Concrete things . . . do not circulate in any true sense. They go through a series of hands into the possession of users, and remain there. There is, however, something that truly circulates. True capital passes through an endless series of outward forms. We have called it a permanent fund, and it is so; but it perpetuates itself only by passing continually out of one body into another. It lives by transmigration and its movement must be as perpetual as its life." Ibid., p. 145.

\textsuperscript{44}Homan, op. cit., p. 64.
driving horses, trading vessels instead of steam yachts, factories instead of pleasure palaces, always as a part of the income of the men who do the abstaining.

Once the abstaining is done, no further diverting of income is involved. The keeping up of the series of capital-goods is, in a sense, automatic. The mill, the ship, etc., virtually replace themselves as they are worn out; and these facts signify that, in a static condition or one in which no net saving occurs, capital-goods would be created forever in limitless variety and number, but that no capital would be created.45

Capital thus being self-sustaining, interest cannot be regarded as a payment to the capitalist for "keeping capital intact" or to induce abstinence as a source of funds to replace worn-out instruments.46 It can only be regarded as income attributable to the productivity of capital itself, and accrues to those who by their initiating act, in abstaining from consumption, have purchased a right to the income it creates.47

Clark illustrates the claim that capital is inherently productive in the following manner:

45Clark, The Distribution of Wealth, p. 134.

46Homan, op. cit.

47This implicitly reveals the motive for accumulating capital, for saving. "Abstinence is the relinquishment, once for all, of a certain pleasure from consumption and the acquisition of a wholly new increment of capital. The particular . . . that a man might have had, if he had spent his money for consumers' goods, he will never have if he saves it. He has abandoned it forever; and, as an offset for it, he will get interest. In the absence of disaster, the new capital will create its outflowing product henceforth forever." Clark, The Distribution of Wealth, p. 134. The motive for saving, in other words, "is to get an income that will never cease." Ibid., p. 136.
It is the nature of the bow to add something to the hunters product; and, moreover, it is the nature of it to add enough to the product to enable him to take time to make another bow, when the first one is worn out, and still have more game for his own use than he could have had otherwise. The laws of matter, in short, make capital productive. Being productive it may make over its product to its owner directly or it may make it over to someone else, who will pay the owner for it. Paying interest is buying the product of capital, as paying wages is buying the product of labor. The power of capital to create the product is, then, the basis of interest. 48

Interest, in these terms, is "the fraction of itself that a permanent fund of wealth annually earns." 49

This treatment of interest as a function of the productivity of capital lends an aspect of unity to Clark's theory of distributive justice. Under static conditions, as will be seen, there are but two income shares—interest and wages—corresponding to the product attributable to the combination (or synthesis) of two distinct productive factors—capital and labor. Both are entitled to a share of that income on the equal basis of their inherent productivity. Given competition, and the fixed supply of these factors, and abstracting from all other dynamic elements, there is but one law needed to explain the rate of interest, and the rate of wages, or, ipso facto, the productivity of each specific unit of capital and labor, to which these rates correspond—that being the law of diminishing marginal productivity.

48 Clark, The Distribution of Wealth, p. 136.

49 Ibid., p. 123.
Labor and wages.--Like capital, labor, as Clark defines and uses the term, is a permanent, productive, mobile force; "a fund of human energy that never ceases to exist or act."\(^{50}\)

Again, like capital, its claim to a share in the social product (income) is based upon the fact of its inherent productivity, or the "productive power that resides in labor."\(^{51}\)

As to its permanency and mobility:

Labor, the permanent personal agent, is as changeful in its forms as is capital, the permanent material agent. As a worn-out instrument may be succeeded by one of a different kind, so may a retiring laborer be followed by one who will do a different kind of work. Men come and go, but work continues. Because the men are changing, however, the kinds of work change also.\(^{52}\)

As capital is embodied in ever-changing material forms, labor is embodied in men occupied in a myriad of different and changing tasks.

The fund of labor can increase both quantitatively, through procreation, and qualitatively, through education and training of individual workers. Both are considered as dynamic elements within Clark's definitions, however, since each has an impact upon wages quite apart from that exerted by "static laws." As noted previously, within a static society, no changes in population (a quantitative change in the labor force), nor any changes in business organization

\(^{50}\)Ibid., p. 157. \(^{51}\)Ibid., p. 2. \(^{52}\)Ibid., p. 158.
(made possible, say, by an improvement in the skills of labor) are allowed.

Such dynamic elements are by intention supposed not to occur so that the impact of the static law governing wages—diminishing marginal productivity—can be isolated. When a given number of units of labor are combined with a fixed amount of capital, this law fixes the product of each unit. It is, in short, "the deep-acting natural law at work amid the confusing struggles of the labor market."

Wages are usually paid by one person to another. The amount thus paid is adjusted by bargain, and may seem to depend on the comparative power and the adroitness of the parties to the contract; for commercial strategy is an important art, practised by both employers and workmen according to their several abilities. There is, however, a market rate of wages; and this is, in the main, controlled by ulterior and positive forces. The so-called "higgling of the market," in fact, affects the rate of pay for labor only in a local way and within narrow limits. The amount that workmen can generally, by any shrewdness or firmness, exact from employers is limited . . . by the productive power that resides in labor; and the forces that control the prevailing terms of wage contracts are those which determine the amount of that productive power. 53

On the basis of these facts, Clark argues that the problem of wages has to do with the continuous earning power that the imperishable agent, labor, possesses and will possess. The question is, What will labor as such create and get during this year, next year and all the following years? If the rate of wages is hereafter to rise, this means that labor will acquire, as the years pass by, an increasing power of production. The attention of practical men is

53Ibid., p. 2.
directed to the interests, the rights and struggles, not of particular laborers, but of labor in its permanence. 54

It is the productivity of labor in its permanence which determines the market rate of wages, and therefore, what any particular unit of labor (and therefore, any particular laborer) earns and can command. If individuals are to prosper, the productivity of labor as a whole must first be attended to; for in no other way can wages be raised, wherever competition holds forth. Static social laws, in other words, govern individual welfare. This is why an understanding of their impact is so essential.

Entrepreneurial activity and profits.--Entrepreneurial activity as a functional claimant to social income is qualitatively distinct from labor or capital, as defined above. So also is the basis on which this claim is redeemed. As opposed to capital and labor, there is nothing inherently productive in the function performed by employers, as entrepreneurs, except as reflected in the enhanced productivity of these two agents (labor and capital).

Profits, or entrepreneurial income, represent the "gains from a certain co-ordinating process that is performed by the employers of labor and users of capital;" a process which "itself includes no working and no owning of capital." 55

54 Ibid., p. 157. 55 Ibid., p. 3.
These gains are made possible only by continuing improvement of the conditions within which production is carried on. Or, paraphrasing Clark, entrepreneurs, as such, earn income by continuously establishing and maintaining more efficient relations between the agents of production. By virtue of such innovation—the introduction of new technology, or the closer alignment of capital and labor to changes in consumer demand—the employer (entrepreneur) earns a pure profit, or an income above that which corresponds to the wages of superintendence and administration.

On this basis, profit is essentially a creature of a dynamic rather than static world. Tracing its origins to their furthest reveals that whatever forces there are at work in society which cause variations in the supply of capital and labor, the level of technology, organization, and/or consumer demand provide the opportunity for employers to "turn a profit," as the businessman would say.

The task of uncovering and describing these elemental or causative forces Clark relegates to the third of his divisions of economics—to the field of Social Economic Dynamics—an area which, by admission, is left relatively unexplored within The Distribution of Wealth. For present purposes, however, it is only necessary to note that dynamic changes are constantly going on in the real world, whatever

56 Ibid., p. 3.  
57 Ibid., p. 112.
may be their causes, and further, that these changes by their varying impact within different industrial sectors of the economy, both in degree, and in point of time, provide the impetus or incentive (the prospect of profits) and the necessity (the need to adjust the deployment of the means of production--labor and capital--to take advantage of these changes) for continuing activity on the part of entrepreneurs. Once these adjustments have been made or where equilibrium has been established in the deployment of capital and labor among the various industrial sectors of the economy, no further profit is to be made; there is no more work, in other words, for co-ordinating entrepreneurs to do.

Summarizing Clark's argument, it appears that competition among entrepreneurs accomplishes two essential tasks:

a. it assures the most efficient and desirable (from

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58 "Any unbalanced state of the group system [i.e., among the industrial sectors and sub-groups of the economy] gives profits to some one. Too much labor [or capital] here and too little there . . . means that somewhere labor [and capital] creates more than, for the moment it gets. Its pay is fixed by its general or social productivity, but here and there its productive power is above this general standard [due to the impact of the dynamic forces mentioned above]. The profit that is here to be had is the lure to the movement that adjusts the local productivity of labor [and capital] to the general standard." Clark, *The Distribution of Wealth*, p. 291.

59 "... the competition that tends to annihilate . . . profit cuts it off at both ends. By bidding against each other in selling goods, employers make the prices smaller; and by bidding against each other in hiring labor and capital, they make wages and interest larger." *Ibid.*, p. 179.
the viewpoint of the consumer) use of the productive agents—capital and labor. Only by continually introducing new efficiencies, and more closely aligning the employments of these agents to the needs of consumers can entrepreneurs earn a profit:

b. in addition, it assures to these agents their rightful share of the social product (as governed by static law) by continually bidding up their prices (wages and interest) to the point which corresponds to their actual product.60

The following discussion illustrates this dual role of competition as the connecting link between static and dynamic forces, and indicates how dynamic changes are assimilated within a static environment, through its action.

With population as it is at any moment, and with the other elements that determine the shape of society unchanged, there is a certain part of the working force that naturally belongs in each sub-group in the system. There is at any time a certain allocation of labor [and capital] which static forces working alone would establish. But with an accession of new workers, a new adjustment is called for; and labor will proceed to move toward the points at which, under the conditions created by the enlarged population, static forces alone would locate it. Capital must, to some extent, move also. If the dynamic changes were not again to take place, the labor and the capital of society would find their new places and keep them. They would so locate themselves that each unit of labor [and capital]

60 The effect of gains in productivity are thus passed on to the owners of capital and to contributors of labor, again by the force of competition.
would create as much wealth [product, income] as any other. 61

Competition thus establishes equilibrium in the deployment of productive agents and reduces the productivity of specific units of these agents to equality (assuming as Clark does that each unit of capital and labor is interchangeable, i.e., homogeneous). The market rate of interest and wages, when such an equilibrium is established, expresses the earning power of these agents of production throughout the general field of industry. This rate is not only what each earns; it is all each can get. Employers must pay this rate to command any resources at all; but they need not, indeed they cannot, under competitive conditions, pay more. A thorough-going transformation of the economy is involved when dynamic forces are allowed to operate within Clark's system. Yet each change is absorbed in such a way that each factor is guaranteed the whole of its product, or so it would seem.

How the Productivity of Capital and Labor Is Gauged Under Static Conditions

Within Clark's static framework there are but two factors of production, labor and capital. Both are considered as highly mobile funds of wealth and manpower which at any given time are fixed in kind and quantity but which may assume quite different shapes and forms when given incentive to do so. What is of the essence, however, is that

61 Ibid., pp. 62-63.
these two agents of production are combined at any given time in the most efficient way through the activities of entrepreneurs. They are combined, in other words, in such a way that the productivity of one unit of labor or capital would not be improved by a shift to another form or to another industrial use. Such a static equilibrium is truly a stand-pat proposition. Nobody moves.

This does not mean, of course, that all activity has ceased. From the combination of capital and labor inevitably results an effusion of goods and services available for distribution. This sets the problem: how are these goods and services to be distributed? Clark envisioned the following general answer.

The great income of all society—that which is to be distributed—really consists of concrete articles, all for some use. Most of them are goods for consumption; and they serve to stock retailers' shops, while waiting for purchasers. In some way this promiscuous stock of consumers' goods gets divided into shares, of which every man, whether he be a laborer or a capitalist, gets a part. There is no way in which the fixing of the terms of this division can be begun and completed after the goods are finished and exposed for sale. If, before the stock of goods was ready to be taken by consumers, nothing had been done to decide how much each laborer and each capitalist might have, the distribution would have to be made according to some arbitrary rule and by some officer of the state. The terms of the division that is actually made, however, are fixed as the production of the goods goes on; the goods are really apportioned in the making.\(^{62}\)

\(^{62}\)Clark, The Distribution of Wealth, p. 13.
According to this conception of the matter, the study of distribution involves a process of imputation, of ascribing to the primary agents of production, labor and capital, their separate share of the total output. While production may be regarded as a synthesis, or a bringing together (an organizing) of productive agents which results in the creation of wealth, distribution, by the same token, may be described as an analysis of this same process.

Unravel the web of the social product, tracing each thread to its source, and you will have solved the problem of distribution. This is an analytical study. It traces backward, step by step, the synthesis by which, through the putting together of many different things, the great social dividend of usable goods it created.

There are some difficulties in the way of success, however, if the problem is to separate the shares of capital and labor on the basis of their productivity. The major barrier to be overcome is the evident fact that the productivity of neither capital nor labor can be measured autonomously due to the very nature of the productive process, which, in essence, is a joint effort. The product of labor in large part depends on the amount of capital it must work with; conversely, the productivity of capital depends on how it is apportioned, or what forms it must take in aid of labor.

There seems but one way out of this conumdrum: Suppose

63Ibid., p. 3.  
64Ibid., p. 21.
a hypothetical situation in which the quantity of one resource stays constant while consecutive units of another are combined with it. Observe first the effect of such combinations on the forms which the two resources will be forced to take in relation to each other. Then observe the effect on production.

The following results, in Clark's estimation, would be obtained from such a deductive exercise:

1. The fact that any increase or diminution in the amount of labor that is employed in connection with a given amount of capital causes that capital to change its forms. Where there is a capital of five hundred dollars for each worker, that fund is in one set of forms; and where there is a capital of a thousand dollars per man, it is in a different set. Now, the labor changes its forms the same way. The men who are working with the smaller capital perform one set of acts, and those who have the greater capital in their hands perform another set. Arts are always practiced in new and changed ways, when capital multiplies itself and takes the shape of costly and elaborate machinery. That the relative amounts of labor and capital should change, means the forms of both should change; it means that each agent must fit itself to the other's requirements. Mutual adaptations are the rule wherever the two agents are combined.65

2. The effect on productivity can be summarized as follows:

... if a little more labor be injected into a situation otherwise stable, its product per unit will be reduced because of the necessity of working with a smaller pro rata share of capital and a less effective form of capital. ... Similarly, an increase of capital, other things being equal, will

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65 Clark, The Distribution of Wealth, pp. 159-160.
cause a lesser return per unit since the earlier forms will have embodied the more essentially productive qualities.66

The important distinction made here is that a change in the relative supply of capital and labor affects all units equally. What is true about a marginal or final unit of labor (or capital) when combined with a constant stock of capital (or labor) is true of all units in the entire series. Thus, if the productivity of a marginal unit of either of these resources could be determined, the portion of the total output attributable to it could be determined directly by multiplication. For example, if the marginal productivity of a marginal unit of labor were multiplied by the total number of units used in generating final output, the portion of this total product assignable to labor, the wage bill, could be found. The product assignable to capital could then be determined indirectly by subtraction.

Thus there are two concepts, which when combined, make it possible according to Clark, to separate the income/product attributable to combined capital and labor: (1) the law of final productivity, and (2) the Ricardian principle of differential rent.

"One law," Clark maintained, "governs wages and interest--the law of final [or diminishing marginal] productivity."67

66Ibid., p. 160. 67Ibid.
In broad terms, this principle derives from the observation that when a variable quantity of one factor of production is combined with a fixed quantity of another, *ceteris paribus*, the combined product increases at a slower rate as the margin of output expands.

This law, that diminishing productivity is attached to all the factors of production, provides the basis for Clark's expanded application of the Ricardian rent formula to isolate wages and profits. Ricardo originally developed the method to measure the impact of an increasing population upon the rental value of land.\(^{68}\) Later, Henry George, in his Progress and Poverty,\(^{69}\) employed similar procedures in his analysis of wage levels within a developing economy. It was George's work, in fact, which inspired Clark's far more pervasive efforts.\(^{70}\)

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\(^{68}\)David Ricardo, Principles of Political-Economy and Taxation (London, 1891), pp. 44 ff.

\(^{69}\)Henry George, Progress and Poverty (New York, 1879), pp. 213 ff.

\(^{70}\)Clark acknowledges this intellectual debt in the Preface of The Distribution of Wealth. "It was the claim advanced by Mr. Henry George, that wages are fixed by the product which a man can create by tilling rentless land, that first led me to seek a method by which the product of labor everywhere may be disentangled from the product of cooperating agents and separately identified; and it was this quest which led to the attainment of the law that is here presented according to which the wages of all labor tend, under perfectly free competition, to equal the product that is separately attributable to the labor." Clark, The Distribution of Wealth, p. vii.
Clark's expansion of Ricardian principles for the purpose of deriving the product of labor as a component of total output, and wages as a component of total income can be shown diagrammatically as follows.

FIGURE I

Assuming labor to be combined successively, unit by unit, with a fixed supply of capital, the impact of the law of diminishing returns or diminishing marginal productivity is clearly evident in the diagram. Each unit adds successively less to total output than the one which precedes it, as indicated by the sloping line, CD. As shown also, given AB units of labor, its marginal product is BC. Moreover, since all units of labor are homogeneous or identical—each is combined with the same amount of capital, each can be
substituted for any other—the product attributable to the marginal or final unit of labor, B, defines also the specific product of all the units in the series, A through B. In other words, the wage which any unit in the series earns and can command is governed by the product created at the margin, total wages earned, and total product attributable to labor then being ABCE.

A further point should be noted. Having defined the marginal product of labor (the wage rate) and its total product (the wage bill), a residual income, the difference between the total product (wages) of labor, ABCE, and total output, ABCD, yet remains. Evidently, remembering that under static conditions, there are no profits, this must represent the product of the stock of capital with which labor is combined. By determining wages directly, interest is determined indirectly.

As implied previously, a reversal of this procedure defines interest directly, while deriving wages indirectly. This is indicated in the figure below, which portrays the diminishing productivity of capital as successive units are combined with a fixed labor supply. BG measures the marginal productivity of AB units of capital; ABCE represents total interest earned (and total product attributable to AB units of capital). Wages, the residual income, equal CDE. BC also defines the market rate of interest.
Clark's static theory of income determination thus may be described as founded upon a single universal law—final, or marginal productivity.

One law governs wages and interest—the law of final productivity. By one mode of statement of the law [Figure I above], we get wages as an amount directly determined by this principle: [the area ABCE of Figure I]. Arithmetically stated, the earnings of all labor equal the product of the final unit of labor multiplied by the number of units. In [Figure I], in which wages are thus determined, interest is a surplus that is of the nature of rent. By another mode of stating the law [Figure II above] we get interest as the amount that is positively fixed by the final productivity law, and wages are now the surplus that is akin to rent. These amounts together make up the whole static income of society.

Profit has no place in such static conditions. The two incomes that are permanent and independent of dynamic changes are the products, respectively, of labor and capital. Each of them is directly
determined by the final productivity law, and each is also a remainder—a surplus or a differential quantity.71

Finally, the point has arrived to state Clark's grand conclusion. Underlying the strict logic of his theoretical model there is one issue which outruns all else in importance; i.e., the charge that even at its best (under conditions of free and perfect competition) the capitalist system of economic organization is inherently exploitative; the system denies to labor the whole of its product. Here is Clark's answer to this charge.

In a static state the working force continues forever, without addition or diminution, and methods and conditions of production remain forever, the same. The personnel of the force undergoes the change of identity that must occur as one man dies and another replaces him; but the laboring force, as such, suffers no change. The processes and the environment of the labor are fixed. There is no building up of the force from a small beginning, and no change in its per capita product. Yet the earnings of the men are fixed by the law of final productivity. This means, in reality, that every laborer gets what would be lost to the employer if any one man now in the force were to stop working. One way of measuring this final product of the labor, and at the same time presenting to the mind a principle that governs the amounts of it, is to imagine that the force grows, unit by unit, to its present size. Each unit, when it adds itself to the force, is for the time being the final; and it transiently sets the standard of pay. But when the last unit comes, its product becomes the permanent standard; as the force is not further enlarged, and the pay of the men is not again changed. The whole process is imaginary; but it illustrates two principles that together control the fortunes of laboring humanity, namely: (1) At any one time wages tend to equal the product of the final unit of labor; and (2) this product becomes

71 Ibid., pp. 200-01.
smaller or larger as, other things remaining the same, the force becomes larger or smaller.\(^2\)

By this proof, the misery of the laboring class, if there be such, cannot be traced to the foundations of capitalist society. The problem is not institutional; rather, it is "natural." Productivity, after all, is determined by a natural or physical law which governs the inherent capacity of human energy to create wealth when working with the aid of material instruments of production. That capacity can be measured; and, in fact, is continuously being measured in the market places where productive services are exchanged by their owners for economic gain. Where competition prevails, the rewards so obtained always tend to equal the value of services so rendered.

In assessing the importance of his own theoretical position, Clark apparently believed that his conclusions, also held good "in real life." Evidence of this fact is contained in the following passage taken from his *The Distribution of Wealth*. On the one hand, the limitations of the analytic model he has erected are recognized:

As has again and again been said, we have constructed an ideal society in which disturbing facts are omitted, and we have so far described none of the obstacles that pure law encounters in real life. We have made no estimate of the amount of deviation from the final productivity standard that the pay of workmen actually reveals.\(^3\)


\(^3\)Ibid., pp. 179-180.
On the other hand, and particularly significant, these limitations are made to seem quite small in substance when compared with the basic rule which has been uncovered.

As real as gravitation is the force that draws the actual pay of men toward a standard that is set by the final productivity law. This law is universal and permanent: everywhere it will outlive the local and changeful influences that modify its operation. We are to get what we produce--such is the dominant rule of life; and what we are able to produce by means of labor, is determined by what a final unit of labor can add to the product that can be created without its aid. Final productivity governs wages.\(^7^4\)

This point of view should be kept continuously in mind throughout the next section of the present thesis in which the very important question of how distributive justice may be maintained over time is examined. On a purely theoretical level, it appears to be Clark's position that competition is omnipresent: he implies that competition, like the existence of God in the opinion of the true believer, "was" in the beginning, "is" now, and evermore "shall be." When all has been said and done, however, it may come as no surprise to find that Clark can better be classified, to carry the metaphor a little further, as a reincarnation of that inveterate pragmatist, "doubting Thomas." In spite of all this, Clark's position with regard to competition retained a fair amount of consistency over time, especially from the point of view of those who, in a different setting, would

\(^{7^4}\)Ibid.
affirm the notion that if there was no god, man would have
to create one.

What Must Be Done to Maintain Distributive Justice?

There is one force it seemed to Clark necessary and
sufficient to lead ever onward and upward to the achievement
of economic progress and social order. In a memorable
passage, he goes far toward attributing to this force all
the power needed to lead men to the best of all possible
worlds:

We are living in a half developed system, and in the
law of its growth may discern more clearly than was
formerly possible an outline of the form it will
ultimately take. That law connects the rewards of
business life with services, and gauges them in
amount by the value of these services. It gives more
to intellect than to muscle, and more to character
than to either; the largest stipends that it offers
are for fidelity to trusts. It checks undue
discrimination in favor of mere position, and ensures
to the men of the industrial ranks rates of pay not
too far below those enjoyed by their leaders. It
offers special prizes for the discovery of secrets
of effective work. It limits more closely than
statute law could do the personal benefits that
accrue to the men who render this service, so that
when the law is invoked it is for the purpose of
increasing them. By organization and discovery it
constantly places humanity upon new vantage ground in
the struggle for well-being. Less and less, measured
in effort, is becoming the cost of a day's enjoyment;
greater and greater, measured in enjoyments are the
returns of a day's labor. In cheapened production,
which is never appreciated, and is often blindly
resisted, lies, according to this social law, the
chief hope for modern workers. The leaders and
discoverers whose labor insures this constant gain
find their rewards limited in amount and in time,
while the wealth that they diffuse throughout society
is, in both directions limitless. The outline of
the coming industrial state has the shape neither of despotism nor of democracy; it is the outline of a true republic. 75

The law at the basis of the developing system thus described was clearly the force of competition and no more optimistic nor laudatory exposition of its ameliorative capacities can easily be imagined. Indeed, it was Clark's notion that "if nothing suppresses competition, progress will continue forever." 76

If competition was thus regarded as the apotheosis of everything good, its extreme opposite, private monopoly, was condemned in no less definite a manner.

There is in many quarters an impression that monopoly will dominate the economic life of the twentieth century as competition has dominated that of the nineteenth. If the impression is true, farewell to the progress which in the past century has been so rapid and inspiring. The dazzling visions of the future which technical gains have excited must be changed to an anticipation as dismal as anything ever suggested by the Political Economy of the classical days—that of a power of repression checking the upward movement of humanity and in the end forcing it downward. No description could exaggerate the evil which is in store for a society given hopelessly over to a regime of private monopoly. . . . Monopoly checks progress in production and infuses into distribution an element of robbery. It perverts the forces which tend to secure to individuals all that they produce. It makes prices and wages abnormal and distorts the form of the industrial mechanism. 77

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77 Ibid., pp. 374-375.
The problem of maintaining distributive justice comes down to this--whether the evil effects of monopoly can be eliminated and whether the beneficial effects of competition can be preserved. Clark answers that "this may be done--that competition can be liberated, though the liberation can be accomplished only by difficult action on the part of the state."78

Origins of Monopoly

In tracing the development of "forces which pervert" the progressive working out of natural forces, Clark noted that the earliest forms of confederation among producers were somewhat loosely tied and difficult to maintain. Pools of interest and other forms of agreement, even among gentlemen, he believed, could not long withstand the pressures created by internal devisiveness, on the one hand, and the mobility of externally held capital on the other. Moreover, such practices ran against the sanctions of the common law. The trouble lay in the fact that these rather primitive forms of concentrating economic power were rapidly giving way to more sophisticated techniques which, it seemed, were entitled, under statutory law, to complete immunity. It was more difficult, in other words, to make a case against the corporation and its step-child, the holding company, than

78Ibid., p. 375.
against the boys in the backroom.\textsuperscript{79} To make the point, it was the granting to the fictitious corporate entity all the property rights formerly enjoyed only by individuals which Clark deplored, if this meant that such "individuals" were then to be left free to exercise these rights in whatever manner they saw fit. It was true, he admitted, that this institution had also brought great benefits in the form of expanded production, since in many instances, great size was necessary to achieve commensurate results. The economies of large scale production could not be ignored.\textsuperscript{80} Nevertheless, there were apparently definite limits beyond which concentration could not be allowed to go.\textsuperscript{81}

These limits were not set, Clark emphasized, by any physical measure, or by arbitrarily specifying the portion of industry which a particular firm could safely be allowed to control. Its actions rather than its size determined whether a given corporation should be called to account. Monopoly, he explained exists whenever a consolidation, after putting an end to such competition as once existed among its constituent members, has (1) taken unfair action against new competitors and (2), for the sake of profits, put a check on the amount of goods produced and sold. Without these two practices the mere

\textsuperscript{79}John Bates Clark and John Maurice Clark, \textit{The Control of Trusts} (Boston, 1888), p. 74.

\textsuperscript{80}\textit{Ibid.}, pp. 12-13.

\textsuperscript{81}\textit{Ibid.}, p. 24.
ending of competition between the parties in the combination would not necessarily lead to any evil.82

The upshot of this thesis is clearly that a consolidation is to be faulted not for the reason that it has the power to do harm; it must be shown that this power has been exercised.

Just what constituted "unfair action" and how it was to be proved that an unnatural restraint had been put upon production are in themselves rather difficult issues to resolve, a fact of which Clark was not unmindful. In two of his more practical works, Essentials of Economic Theory, and The Control of Trusts, he went to some length in documenting specific abuses practiced within various industries, and outlined numerous measures to repress them. Of particular importance, however, was his resolution (in the latter of these two books) of the question of whether competition had to be actual or potential if it was to be effective.

At one early point, he evidently leaned toward the latter view; that given the mobility of money capital and the diligence which entrepreneurs generally employed in finding outlets for it, even the most hardened of consolidators would think again before acting to restrain production. High prices, as the saying went, "builds more mills."83 Perhaps in no other context can be understood his pronouncement in The Distribution of Wealth that a study of

82Ibid., p. 130. 83Ibid., p. 26.
economic dynamics would show that "competition is an inextinguishable force."^84

By 1912, however, it had become clear that more was going to be needed to control the trusts than a simple reliance upon "potential" competition and ad hoc palliatives. In the enlarged edition of The Control of Trusts, published in that year, Clark wrote that

... more may need to be done than to define, forbid, and repress those particular acts of the trust [or corporation] which are essential parts of its predatory tactics. It is clear that, besides the competition which is only potential, there needs to be a goodly amount which is active. The condition in which society will be quite safe is not one in which an overgrown company possesses most of the field and an obscure remnant of independent production is here and there found. Under such conditions there is no evidence than [sic] even the possibility of a really efficient competition survives. The trust may have clubbed its principal rivals and may have its weapon in hand ready for new ones. The only sure evidence that competitors can come into a field is the fact that they do so when prices are high enough to furnish the lure.\(^8^5\)

This goes far toward saying that the only way to tell whether "competitors can come into a field" is the fact that they are already there.

There is one major aspect of Clark's argument that goes beyond the commonly held liberal positions of his time and which, even today, if carried to its logical end, might prove embarrassing to those who hold government enterprise

\(^8^4^\text{Clark, The Distribution of Wealth, p. 441.}\)

\(^8^5^\text{Clark, The Control of Trusts, pp. 130-131.}\)
to be essentially wasteful and inefficient. This argument runs as follows:

There is a possibility that in a few lines of production the American government may so far follow the route marked out by European states as to own plants and even operate them, and may do so in the interest of general competition. It may construct a few canals, with the special view to controlling charges made by railroads. It may own coal mines and either operate them or control the mode of operating them, for the purpose of curbing the exactions of monopolistic owners and securing a continuous supply of fuel. It may even own some railroads for the sake of making its control of freight charges more complete. Such actions as these may be slightly anomalous, since they break away from the policy of always regulating and never owning; nevertheless, they are a part of a general policy of regulation and a means of escape from a policy of ownership. The selling of coal by the state may help to keep independent manufacturing alive, and carrying by the state may do so in a marked way. If so, these measures have a generally anti-socialistic effect, since they obstruct that growth of private monopoly which is the leading cause of the growth of socialism. 86

Implied in this statement is the general conclusion that if state enterprise can be used to set the standard for private industry, albeit for purposes of promoting competition, it could just as logically be substituted to encompass the entire field on grounds that it would be less dangerous and more efficient to do so.

In order to determine the reasons Clark was unwilling to go this far requires a closer examination of his description of the role of government in promoting economic progress and distributive justice.

86Clark, Essentials of Economic Theory, pp. 385-386.
The Role of Government

On the theoretical level, Clark's discussion of the determination of factor shares under so-called static conditions had clearly and unequivocally left it to competition to assure that distributive justice would prevail. The role of government was conceived rather narrowly as being merely the protection of property. Given the tone of the analysis, it certainly did not appear to be the case that the duty of protecting property would of necessity include the regulation of commerce. Yet when it came time to discuss how the theory of distributive justice, so ardously derived in a world of abstraction, could be applied to the workaday world where corporate giants were already going about their ordinary business, this is exactly what protecting property came to mean.87

87"Great indeed is the contrast between the present condition and the one in which the government had little to do but to let industry alone. Letting free competitors alone was once desirable, but leaving monopolies quite to themselves is not to be thought of.... What is of the utmost importance is the kind of work the government is called on to do. It is chiefly the work of a sovereign and not that of a producer. It is the work of a law-giving power, which declares what may and what may not be done in the field of business enterprise. It is also the work of a law-enforcing power, which makes sure that its decrees are something more than pious wishes or assertions of what is abstractly right. All of this is in harmony with the old conception of the state as the protector of property and the preserver of freedom. The people's interests, which the monopoly threatens, have to be guarded. The right of every private competitor of a trust to enter a field of business and to call on the law for protection when he is in danger of being unfairly clubbed out of it, is what the state has to preserve. It is only protecting property in more subtle and difficult ways than those in which the state has always protected it." Clark, Essentials of Economic Theory, pp. 384-385. Emphasis supplied.
What is not quite so immediately obvious, and serves to vitiate somewhat this claim of inconsistency, is that Clark viewed this relationship as working in both directions. Competition was necessary to save the country from Socialism, while government regulation was needed "to control the trusts." A pragmatic approach was demanded to steer a careful course between private monopoly on the one hand, and public monopoly on the other, and so to maintain, on balance, "society as it presently exists."

The practical measures to be used in such an undertaking were described most fully in the expanded edition of Clark's The Control of Trusts, completed in 1912 with the cooperation of his son, John Maurice Clark, who was himself to have a long and distinguished career within the profession. In the following rather extended passage lies the essence of their approach to the problem:

... our task is to prevent the growth of combinations of such size that competition is impossible, and to break them up when they have so grown. The breaking up of existing corporations may be expected to go on under the Sherman Law, with the help, perhaps, of an administrative commission in supervising reorganizations and in watching the results that follow. In preventing the growth of combinations so big as to dominate the field, we shall probably follow the method of issuing federal charters, or licenses, to corporations of large size wishing to do inter-state business, and these licenses will be withheld or withdrawn from any concern so great as to have a monopoly power. To make this effective, we shall have to prevent these corporations from combining, either through holding each other's voting stock or through communities of interest, just as we shall have to prevent these measures from
being used to cement the pieces of trusts that have been dissolved under the Sherman Act. We may find it necessary to limit the rights of individuals to vote stock in competing companies, and to prevent the choosing of directors who have substantial interests in outside and presumably competing enterprises. Here again is work for a commission.  

Each of these specific measures, as well as others mentioned at various points within The Control of Trusts were based on the principle that in order to be effective, competition had to be active rather than potential. There was some difficulty, however, in using this principle as a measuring rod, and ultimately, after those practices which were clearly repugnant to any true believer in fair competition had been specifically outlawed by appropriate legislation, decisions to whittle down the size of particular

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89"No fixed rule of size can be framed, for the present at least, which would work well. We cannot pass the country's industries through a legal seive with a mesh of just the right size to stop all monopolies and let all others pass. The law might take some notice of size. Any corporation controlling over half its field, for instance, may be required, as a condition of getting and keeping its license, to show affirmatively that there is enough competition remaining to safeguard the interests of the public. All smaller corporations should then be assumed to be free from monopoly unless some special complaint were brought against them. Such a rule would simplify the work of granting licenses, while it could still be adapted to the needs of particular cases, however varied."-Ibid., p. 195.
corporations had to be left to a small band of men. 90

It is a curious irony that a theory of distributive justice which begins with a grand certainty that economic progress and social order are assured by immutable laws should end on such a note of pragmatic difficulty.

Evaluation of Clark's "Defense of Capitalism:"
Its Relation to Marxism

Clark's theory, as has been quite evident, is carried on in terms of pure deductive logic; it traces the impact of what he considers a universal principle upon production and distribution of income within a carefully defined framework—a perfectly competitive, static economy.

It is on this level of abstraction which he seeks to defend "society as it presently exists," meaning by this phrase, the system of competitive capitalism. The charge

90 "It is clear enough that in regulating trusts there are things to be done and needs to be met that cannot be accurately foreseen and provided for by detailed and self-acting statutes. Our methods must be so far as possible elastic, adaptable as to ways and means though inflexible in underlying purposes; and yet these laws must be applied definitely and forcibly. We cannot afford to have any large section of the business world in doubt whether they have broken the laws or not, and we cannot let the laws become a dead letter through vagueness. In this view it is clear that an administrative commission can render invaluable service. After commanding everything we can definitely command, and forbidding everything we can definitely, we may cover the rest of the field in general terms and leave the commission to enforce them. . . . The need of such a body is probably the one thing on which the various plans now before the people are most generally agreed."—Ibid., pp. 190-191.
against this system is that it "exploits labor," but if it can be proven that labor receives what it creates then the proletarians, to use the socialists' term, have no right to complain.

The welfare of the laboring classes depends on whether they get much or little; but their attitude toward other classes--and, therefore, the stability of the social state--depends chiefly on the question, whether the amount that they get, be it large or small, is what they produce. If they create a small amount of wealth and get the whole of it, they may not seek to revolutionize society; but if it were to appear that they produce an ample amount and get only a part of it, many of them would become revolutionists, and all would have the right to do so. 91

Within such a context a clearer insight may be gained concerning the nature and scope of Clark's theory of distributive justice. Economic theory, as noted in the previous chapter of this thesis, is in many instances as much a response to what has been done by others as it is an attempt to describe from an objective point of view the problems encountered in going from what is to what ought to be. Especially does this observation hold good with respect to the form and content of Clark's analysis which may best be interpreted as a reaction to Marxian economics. Marx, in his Das Kapital, working within the framework of the Ricardian economics, had made of the capitalist economy and the property institution on which it rests exactly what Proudhon had once called it--an organized system of robbery.

91 Clark, The Distribution of Wealth, p. 40.
Clark took upon himself the responsibility of answering these charges.

There is a remarkable similarity in the method of argument followed by both these men. Each dealt with essentially identical "models" of a perfectly competitive capitalist system, free of all extraneous (monopolistic) forces which might affect the allocation of income among the participating "agents of production." Both extensively utilized deductive logic to establish their respective conclusions.

The main source of disagreement between the two men lies in their definitions of the agents of production. Marx, starting with the assumption that labor constitutes the sole source of value, held what Clark called interest and profits to be deletions from the product of labor, expropriated by the owners of the means of production (material wealth) as a kind of legal blackmail. All income other than wages was "surplus value."

On the other hand, Clark defines material wealth (capital) as, in itself, inherently productive, and justifies interest as a functional share of income on this basis. With regard to its personal distribution he defends interest by the same law which gives to all, including workers, the right to what their income buys; in this case, the right to the product of capital. With respect to the theory of value, Clark, in common with most late 19th century economists, held to the
rather strict interpretation that subjective utility is the source and measure of value. Labor, indeed, may produce or add to the utility of a commodity but then so may the other agents of production, including what he calls natural capital (land) and artificial capital (instruments, tools, machines, etc.).

There are, of course, other very significant differences between the Marxian analytic framework and that employed by Clark. One of these arises from the fact that Marx did not limit himself to the study of a static economy; he was primarily interested in the laws of motion embodied in a developing, high energy system of organization. It was only in such a context that his thesis of the necessity for revolution could be fully justified. Clark, on the other hand, chose not to deal with this aspect of the matter. The scope of his theoretical analysis (as opposed to his pragmatic investigations) is limited to the division of economic science labelled Social Economic Statics.

With this reservation in mind, Paul T. Homan may be correct when he says that "a skillful use of dialectic, used with imagination and a genius for systematic thought and based upon premises of his own choosing . . . brought Clark to a complete refutation of Marx."\(^{92}\) On such a basis, the conflict boils down to which set of preconceptions one is

\(^{92}\)Homan, op. cit., p. 99.
inclined to accept; that is, whether one accepts the Marxist or the neo-classical definition of value. If, however, the comparison is expanded to include the dynamic elements of both men's arguments, there is still room to doubt the merit of this conclusion.

The essence of Marx' dynamic analysis is contained in his theory of economic crises, which suggests that the technological and institutional aspects of capitalist society become increasingly more contradictory. He sought to prove, in other words, that periodic economic crises of increasing severity and duration are inevitable given a system which divides the wealth and income of the community into very unequal shares. The problem of maintaining distributive justice becomes quite different within such a context. Whether labor is being exploited is not so important a question when it is once recognized that distributive inequality involves significant economic costs to the entire community in the form of wasted economic resources. Marx' call for revolution and for the introduction of collective economic planning was based quite as much upon this argument as upon his exploitation thesis.

For this reason, Clark's theoretical position appears rather narrow in approach. Within his static economy, full employment and maximum production are assumed. Moreover, the dynamic elements of his system are quantitative in type and mechanistic in their interaction. Changes in population,
technology, the supply of capital, and the demands of consumers are quite readily absorbed within this system. There is no hint that general economic crises might be generated or that the institutional structure would be changed in any appreciable way. On the other hand, Clark's more pragmatic concern with controlling trusts and limiting the power of railroads and labor unions implicitly recognized that such changes in institutions do occur, and that the unlimited use of economic power by these units becomes a danger to the public welfare. The emergence of such forces, however, could not have been predicted from Clark's theoretical writing, and indeed seem to directly contradict the implications of that analysis. For these reasons, to repeat, there is room to doubt that Clark was able to achieve a "complete refutation of Marx." Many of his practical proposals were designed as partial remedies to the kinds of problems Marx predicted would arise.

Another similarity between the theories of these two men is that both deal primarily with impersonal income shares. Marx's analysis, like that of his Classical forebear, Ricardo, is concerned with class shares—the two classes being those who own the means of production (capitalists) and those who have only their own labor power to sell (the proletariat).

Clark's analysis, though similar in being impersonal, is otherwise wholly different in tone from that of Marx. Rather than being a theory of class shares, it concerns
itself with economic functions. More explicitly, it deals with the reward of labor, as labor, and with capital, as capital. Under his hand, labor becomes an abstract fund of human energy, while capital becomes an abstract fund of material wealth, which really is nothing more than what the ordinary businessman means when he speaks of capital--money. The hum and clatter of machines, and factory wheels, and the mechanical genius which is incorporated in them, are not so important as the fact that a taint is yet upon each machine, each factory, and piece of land--diminishing returns. Workers have become units of labor, each of which is subject to the same law. If wages and interest are low it is no fault of the capitalist, nor can it possibly be due to the entrepreneur, who, poor fellow, likely earns no income at all. The fault seems to be that these "units" of labor have been too fecund for their own good, and that those who "contribute" capital simply have been overly generous. There is a natural law which governs interest, and wages, and it is far beyond anyone to change that law; capital and labor get what they create and that's all. Competition guarantees them that much, but it can do no more. Considered altogether, Clark's theory could not be more bloodless, nor less revolutionary. There is no Mr. Moneybags, no proletariat, and no surplus value. There is only capital, labor, and that ineluctable law--diminishing productivity.
Criticism of Clark's Defense of Capitalism and Competition on the Basis of Functional Shares

Clark's defense of capitalism and competition, at least in part, depends on the validity of his assertion that if the specific agents of production are rewarded according to their productivity, men are likewise so rewarded. The content of his formal theory, however, leaves room for a serious objection to this assertion. Strictly defined, on a personal basis interest is a legal rather than natural share of income; that is, if Clark's own definition of the term "natural" is kept in mind. The receipt of income is natural insofar as the function which receives that income is responsible for creating it. The creativity of capital is not attributable to any personal rendering of productive effort; rather, it is embodied in the very nature of capital itself. Capital is endowed, in other words, with an inherent capacity to create wealth. If, in fact, capital is so inherently capable, it would seem quite logical to assign it a share of the wealth produced. It is not so obvious that individuals should be so entitled. If it could be imagined, for instance, that the ownership and control of the material means of production, or capital goods, were given over to society as a whole, as under the conditions of Socialism, rather than to private individuals, the fruits resulting from the productivity of these instruments would clearly not of necessity flow to individuals in the form of
interest but might be accrued to the account of the community as a whole in the form of a social gain. It is the legal structure of capitalism, in other words, which gives to particular individuals first claim to the product which capital serves to create.

In this connection, a comparison of Clark's use of the term capital and that developed by Thorstein Veblen, in his *Absentee Ownership*, proves quite interesting. The essence of Veblen's definition of the term is that capital resources and technology are functional reciprocals, and therefore are cultural rather than individual in point of origin.

The state of the industrial arts determines what natural materials will be useful as well as how they will be made use of. For the greater part the state of the industrial arts is a heritage out of the past, a knowledge of ways and means hit upon and tried out by past generations and from them handed on to their posterity; and for the greater part also any addition, extension, advance, or improvement in technology is a rearrangement of and a refinement upon the elements of such knowledge so handed down from the past. Industrial inventions and improvements invariably consist, in the main, of elements of knowledge drawn from common notoriety but turned to new and technologically unexpected uses. The novelties of today are a technologically later generation of the commonplaces of the day before yesterday. Evidently the state of the industrial arts is of the nature of a joint stock, worked out, held, carried forward, and made use of by those who live within the sweep of the industrial community. In this bearing the industrial community is a joint stock concern.93

By this proof, it is clear that the supply of material resources available for use by the community cannot be

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attributed to "abstinence" on the part of a small group of individuals. From a technological, or even "natural," point of view, the productivity of capital is entirely a community asset.

When viewed from an institutional vantage point the situation works itself out quite differently, as Veblen explains it.

Modern industry is a system of mechanical processes devised and directed by expert knowledge and carried out by means of mechanical apparatus and raw materials. For the transient time being, therefore, any person who has a legal right to withhold any part of the necessary industrial apparatus or materials from current use will be in a position to impose terms and exact obedience, on pain of rendering the community's joint stock of technology inoperative to that extent. Ownership of industrial equipment and natural resources confers such a right legally to enforce unemployment, and so to make the community's workmanship useless to that extent. This is the Natural Right of Investment. Ownership confers a legal right of sabotage, and absentee ownership vest the owner with the power of sabotage at a distance, by help of the constituted authorities whose duty it is to enforce the legal rights of citizens.94

By this showing, the collection of interest comes near to being nothing more than a legally validated form of extortion. At least there is some doubt as to whether its receipt represents a return for personal effort, i.e., abstinence.

Other voices of dissent have from time to time been raised against Clark's defense of competitive capitalism. Thomas Nixon Carver, editor of the Quarterly Journal of Economics at the time Clark's Distribution of Wealth was

94 Ibid., pp. 65-66.
published argues the point mentioned previously in this paper, that Clark made his case by attempting to prove that, given competition, each factor of production is equitably paid.

Unfortunately for this line of defence the single taxer, without being inconsistent, and even the socialist, might admit the propositions and yet demand fundamental changes in the social order. The author's argument relates wholly to functional distribution, and leaves the more vital question of personal distribution untouched. The disciple of Henry George might therefore admit that the land creates a definite share in the product, and at the same time deny that the landlord had any part in it. He might also admit that the land ought to be paid for on the basis of its productivity, and deny that the private landlord should receive rent. The alternative would be to allow the State to receive the share which is attributable to land. The socialist might take the same position as to all instruments of production. The right of the present social order to exist depends upon the laws which govern not functional, but personal distribution. Our only interest in functional distribution is due to the light which it throws on the vastly more important question of personal distribution. We need to be shown that the tendency of the present social order is to give to each individual producer the share which he individually creates, and no more.95

As seen earlier, Clark is not altogether silent in this respect. He says in fact, that "if productive function is paid-for, according to the amount of its product, then each man gets what he produces."96 Contrary to what Carver indicates, Clark seems thus to have believed that in solving


96See page 21 above.
the functional problem he had, ipso facto, solved the matter of personal shares. The objection which Carver raises however, is quite valid, and was not adequately met. Clark was unwilling to engage in what he considered to be a "purely ethical inquiry." He likely would have thrown out these objections with the simple assertion that the arbitrary taxation of land, or the socialization of industry "violates what is ordinarily regarded as a property right," as indeed it perhaps does.

Somewhat the same type of criticism is expressed in the following general evaluation of marginal productivity theory by Joan Robinson, in her recently published little book, Economic Philosophy (1962). It is offered as a completely candid treatment of the doctrine by one whose career began at the feet of one of its leading exponents--her teacher at Cambridge, Alfred Marshall.

Her summary and evaluation of neo-classical doctrine begins with the notation that "the allocation of scarce means among alternative uses was regarded as the central subject matter of economics." Another common trait was that "the supply of the factors of production were taken as given." Continuing: within the neo-classical world

Each employer of factors seeks to minimize the cost of his product and to maximize his own return, each particle of a factor seeks the employment that maximizes its income and each consumer plans his consumption to maximize utility. There is one equilibrium position in which each individual is doing the best for himself, so that no one has any
incentive to move. (For groups to combine to better themselves collectively is strictly against the rules.) In this position each individual is receiving an income governed by the marginal productivity of the type of factor that he provides, and marginal productivity is governed by scarcity relative to demand. Here "capital" is a factor like all the rest, and the distinction between work and property has disappeared from view. Setting the whole thing out in algebra is a great help. The symmetrical relations between $x$ and $y$ seem smooth and amiable, entirely free from the associations of acrimony which are apt to be suggested by the relations between "capital and labor"; and the apparent rationality of the system of distribution of the product between the factors of production conceals the arbitrary nature of the distribution of the factors between the chaps.

This final sentence effectively states the case against an uncritical acceptance of the marginal-productivity analysis. Clark, by his own testimony, omits from his analysis all statistical studies, the practical mechanisms by which exchanges are effected, any treatment of money and banks, taxation, or of political action taken for the purpose of influencing the terms of distribution. Perhaps in so doing, in offering a "pure theory of natural wages and interest," and thus ignoring the institutional forces which so largely affect the allocation of income, he has over-simplified the case.

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97 In Clark's case, the theory is set forth in diagramatic rather than mathematical form.

CHAPTER III

AYRES' THEORY OF DISTRIBUTIVE JUSTICE

The purpose of this chapter is to inquire into the meaning of distributive justice, as defined by C. E. Ayres, currently Professor of Economics at the University of Texas. In accord with the procedure followed in the previous chapter, this task involves the examination of Ayres' answers to these three basic questions.

a. On what basis should the income of society be distributed?

b. Are the conditions under which this goal may be attained those which actually prevail in society at the present time?

c. What action, if any, must be taken to assure that these will prevail in the future?

Ayres brings to the problem of defining distributive justice a formidable array of intellectual tools. From the work of Thorstein Veblen and John Dewey he derives a technological instrumental theory of value which serves as the key element to his definition of this term. To this is added the doctrine of underconsumptionism as a means of bringing the implications of this theory of value and distributive justice into sharp focus within the context of
a capitalist economy. When put together in this fashion Veblen's institutionalism, Dewey's instrumentalism, and Ayres' own reformulation of the underconsumptionist doctrine help define the strategy of modern economic planning. A "new economics,"^1 transcending what Ayres deems the limitations of the Classical system of thought thus arises.

The primary sources consulted in the following study of Ayres are the following: The Problem of Economic Order (1938); The Theory of Economic Progress (1944); The Divine Right of Capital (1948); and The Industrial Economy (1952). Several journal articles and contributions to edited works by other authors have also been used; especially important among the latter is Ayres' "Guaranteed Income: An Institutionalist View," included in Robert Theobald's recently published, The Guaranteed Income (1965).

The General Framework of Ayres' "Institutionalist" Economics

Some indication of the framework within which Ayres proposes to study the problem of defining distributive justice is given by his definition of the science of economics. In his view, economics is essentially the study of the progress man has made toward effectively organizing the means by which he gains his living.^2 Central to this

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^2Rosser B. Melton, Lectures given at North Texas University, Spring, 1964.
study is the concept of culture, for human progress in
general, and economic progress in particular, he says, is in
essence a learning process—the gradual accumulation of a
knowledge of the use of tools and devices by which specific
tasks are made amenable to human capacities. One side of
this learning process, its technological or scientific
aspect, as the above remarks imply, tends to be "continuous,
cumulative, progressive, change-inducing." There is, however,
another side of cultural evolution, its ceremonial or
institutional aspect, which tends to be "static, rigid,
change-resistant."  

The history of the human race is that of a perpetual
opposition of these forces, the dynamic force of
technology continually making for change, and the
static force of ceremony [institutionalized habits
of thought] opposing change.  

Ayres proposes to find the "meaning of the economy" in the
interplay of these two forces (technology and institutions)
and to make of them "the basic analytic principles" of his
economics. 

These are, in fact, the specific terms by which he

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4C. E. Ayres, unpublished lecture delivered on the campus of North Texas State University, April 7, 1965.


defines economic value and progress. "If economic value means anything at all, its meaning is that of a gradual and continuous realization of a more effective organization of the technological life-process."  

Throughout the ages every community has owed its existence to its heritage of tools and apparatus, the "know-how" which is a function of the tools, and the materials which owe their significance to the tools with which they are manipulated. It is by carrying on this instrumentally organized activity that every community--and each separate individual--"makes a living." Whatever contributes to carrying on this activity is economically valuable, and whatever arrests or even hinders this activity is therefore economically deleterious.

And from this context emerges his definition of economic progress:

If the technological process is the locus of value, the continuous development of the technological arts and crafts and the accompanying recession of superstition and ceremonially invested status [institutions] is progress.

This conception of economic value and progress is undoubtedly the most important and unique feature of Ayres' "institutionalist" economics. In large part, it is the product of "thinking out the implications of modern science for the whole of human life and the whole organization of society." As an example of this line of reasoning, Ayres

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8Ibid., pp. 222-223.
9Ibid., p. 231.
suggests that within the continuum of technological evolution, all tools and instruments necessarily have been valued in terms of what they could do, or in terms of what could be achieved through their use, in combination with others. That is to say, they have been evaluated pragmatically or scientifically. "All life consists in large part of the observation, verification, re-examination, and reverification" of the relationships between tools and instruments, of how they affect and add to the on-going life process of the community.\textsuperscript{11} It is by so considering all aspects of economic life (severally and together) that progress is achieved. "That is what we have in fact been doing through the ages, and that is what we must continue to do and do continually better--technologically better--if we are to continue to exceed the achievements of the past."\textsuperscript{12}

It is from such a point of view that Ayres describes the basis on which the income of society should be distributed.

On What Basis Should Income Be Distributed?

Ayres' definition of distributive justice is set forth in explicit terms. Income, he says, should be distributed so as to provide for the maximum development of economic resources and for their utilization in production. Income and/or resources should be allocated, in other words "so

\textsuperscript{11}Ibid., pp. 229-230.

\textsuperscript{12}Ayres, \textit{Theory of Economic Progress}, p. 230.
that there will be continually more to allocate."13

The implication of this definition is that the distributive mechanism evolved as part of the growth process of the capitalist economy must be continually re-evaluated in terms of its effect upon achieved levels of production and the rate of industrial expansion, for obvious reasons. Resources are, after all, factors of production, and their availability, efficiency, and use determine and measure the level and degree of economic welfare attainable by the community. The relevant question then becomes whether the conditions which govern the distribution of income are those which are most conducive to the achievement of an optimum level of production and rate of growth. If not, then presumably they should be changed in some definite manner.

Before this question is dealt with directly, one very important preliminary point must be mentioned. In contrast to the thinking of John Bates Clark and other neo-classical economists, Ayres holds that the distribution of income within a capitalist economy is governed primarily by institutional rather than technological forces.

In its distributional aspect, our economy is what it is because the institutional structure of Western society is what it is. Who gets what is wholly determined by that organizational structure.14


The rewards afforded to different occupations, in other words, are largely to be explained in terms of the differences in status and position imputed to each by generally accepted opinion passed from generation to generation and held among commonplace members of the community. Some of these positions may be more "honorific" or "ceremonial" than "workmanlike" and still command a high price, but this only serves to prove the point. "Productivity," as defined in the theories of Clark and the neo-classicists, may have had some role in this process of evaluation, but when compared to the impact on the distribution of income of the premier institution of capitalism, private property, its role seems very minor indeed.

Private property, Ayres believes, "has more effect on the flow of income than any other institution." "We might define property as that institution by which the flow of income is determined."15 In the absence of death duties, or other such measures, and in the presence of laws favoring property income by guaranteeing the inviolability of contracts and the right of inheritance, particularly fortunate individuals may accumulate very large amounts of wealth from which they gain proportionate incomes. The point is that under these conditions some incomes are likely to be larger than others, even a great deal larger. This is what is

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15Ibid., p. 70.
important. Ayres never really stops to explain, at least in a definitive manner, how it gets that way; he merely suggests that in a capitalist economy, income inevitably tends to be unequally divided. The question then is whether this is good or bad, and why?

The Relation Between Distributive Inequality and Economic Progress

"Even to the casual observer," says Ayres, "the economy of modern Western society presents two aspects," one technological, the other institutional. "One reveals a prodigiously and increasingly efficient system of industrial production. The other reveals great extremes of poverty and wealth."16 The question is what functional relationship exists, if any, between the one and the other?

As mentioned in the introduction of this thesis, there is much in classical ("orthodox") economics--the work of Hume, Smith, Senior, Ricardo, Say, and their followers--to suggest that there is a very definite and positive relationship between distributive inequality and economic progress. Ayres depicts their argument thus:

According to tradition such inequality is necessary to such industrial growth since industrial growth has been presumed to be contingent on the accumulation of capital funds upon which the growth of capital equipment has been thought to depend.17


17Ibid.
[The orthodox argument] has always been that such a distributive system as the one we inherited from feudalism [i.e., one that results in a highly skewed distribution of income] has been and is essential to industrial production; that the social dividend of industrial society is dependent on such a distributive system. For industrial production is dependent upon the supply of capital, the supply of capital is dependent upon saving, and saving is dependent upon inequality of incomes.¹⁸

Moreover, it is in these same terms that capitalism itself has been defended.

Industry can be carried on only with capital; capital comes into existence only through saving; saving is made possible only by the institutions of capitalism; and therefore the institutions of capitalism are, by the law of nature, the only ones--call them what we will--by virtue of which the industrial system can be made to operate.¹⁹

Within the "orthodox" economics, progress thus seems to hinge on the accumulation of money capital, and the power it contains.²⁰ The underlying contention is that where (as in

¹⁸Ayres, The Divine Right of Capital, p. 23.


²⁰For an example of this approach to the matter, one need look no further than the work of J. B. Clark, whose theory of capital was examined in the previous chapter of this thesis. Clark's definition of capital reflects what he called the ordinary businessman's understanding of the term; that is to say, capital is money. The personal receipt of interest is justified on the basis that capital (money) is inherently productive and that its possession and use entitle the owner to the return it brings. On the matter of how the stock of capital increases, it is first of all necessary that saving takes place. Individuals must be willing to refrain from using their money for more immediate consumption needs. Abstinence, in a word, is required to generate the increased supply of "money" needed to enlarge the stock of capital goods held by a particular firm and to thereby
a capitalist economy) everything is for sale, and where it is money that commands the use of men and machines (economic resources), production can be undertaken and maintained only through the prior accumulation of money capital. There is, of course, a sense in which this is true. From Ayres point of view, however, to express the situation in such terms is to misconceive the entire matter. He puts it this way:

The question is whether money power as such brought the industrial system of machine production into existence. There is only one reason for supposing that it did, the supposition that money power and machine production are identical, and that is an illusion of double meanings.\(^{21}\)

The argument has been that an industrial society must provide for the accumulation of "capital"—in short, must be essentially capitalistic—since provision for the growth of "capital" is essential to the roundabout industrial process. However, it has become quite clear that this argument is a travesty of double

increase its interest earning potential. And what is true of the individual business also holds good for the business community as a whole.

This, in essence, is the type of thinking to which Ayres so strenuously objects. Holding to a theory of capital accumulation developed by Thorstein Veblen (cited earlier in this paper), he states his disagreement with orthodoxy as follows: "Ours is a commercial, as well as an industrial society; and as such it has all along suffered from an obsession with the supposed creative power of money. Because command of funds does indeed enable an individual to set up shop and begin turning out whatever products are made possible by existing scientific knowledge and technological equipment, we have supposed that what determines the level of scientific knowledge and technical skill is the accumulation of funds; and this obsession has blinded us to the actualities of our own industrial history." - C. E. Ayres, "Guaranteed Income: An Institutionalist View," The Guaranteed Income, Robert Theobald, (ed.) (Garden City, New York, 1965), p. 163.

meanings. The meaning of the word "capital" is quite different in the major premise of the argument from that of the minor premise. Correctly stated it runs thus: the growth of industry depends on the fabrication of tools; sums of money are accumulated by "saving;" therefore an inequitable distributive system is prerequisite to the conduct of industry.22

The "orthodox" argument supporting distributive inequality thus rests upon a confusion of the term "capital."23

If this conception is unsound, if the realities of industrial production are not what this argument supposes, then the soundness of capitalism itself is open to question. For if [alternatively] the real causes of industrial growth are science and invention, the spread of literacy and scientific enlightenment to the whole community and the gradual acquisition by the community of industrial skills, then industrial advancement is a community affair in the broadest possible sense. . . .

We now know that such is the case. The social dividend of industrial society is the creation of the whole community. The supposition that this social process is dependent upon the accumulation of sums of money by a distributive system calculated to perform that function is a fantastic error. That system is indeed a source of power. But it is not the source of the social dividend.24

In thus attributing economic (industrial) progress to "science and technology" rather than to a "social structure characterized by a high degree of inequality of wealth and income," Ayres emphasizes the fact that such a pattern of

23Ibid.
distribution may have a profound negative effect on the attained level of industrial output and economic growth. Indeed, he says, "the evidence is now conclusive that it does" have such an impact.25

"The great depression of the nineteen thirties," he continues, "administered a severe shock to the belief" that distributive inequality is positively related to the functioning and development of the industrial economy "since it revealed general economic stagnation in the presence of unprecedentedly large, but unused, accumulations of funds."26

This led to the discovery (or rediscovery of facts long known but long ignored) that although the economy generates funds in direct proportion to its production of goods, as asserted by Say's law, the funds so generated do not necessarily and automatically flow back into the markets for the goods.

Specifically, savings are not necessarily and automatically invested in the purchase of capital goods. Furthermore, the failure of investment to keep pace with savings is transmitted to the whole economy by the multiplier effect. When investment flags, the whole economy flags, and national income contracts. . . .27

Thus, Ayres concludes that the fault of the capitalist distributive mechanism is that it results in "too much" saving rather than "not enough," and that, as a result, the capacity of the community to consume continually lags.


27Ibid., p. 165.
behind its capacity to produce; all of which serves to limit, in detrimental fashion, the development and use of economic resources.

The classical ("orthodox") economists maintained, of course, that no such glut of savings could ever occur since "what moves men to save is the prospect of getting interest on their money."

If the demand for investment funds were to slacken, that would automatically lower the interest rate, which after all is only the premium enterprisers pay for funds. This would automatically check saving, and so balance [between saving and investment and therefore aggregate income and spending] would be restored [or rather maintained]. The presumption apparently is that people would forthwith eat more and save less.28

In other words, the classical economists argued that the funds earned in producing the social output would always be spent, either for consumption or investment purposes, and that therefore demand would ever be sufficient to clear the markets of goods, and maintain full employment of resources, once "normal" or "equilibrium" prices have been established. In essence, saving was investment since both were considered functions of the same variable--the rate of interest.

In Ayres' view, this argument overlooks what is the actual character of saving within the modern economy and for this reason is grossly misleading.

If "saving" were Puritan abstemiousness translated into funds, such an automatic adjustment might

28Ayres, The Divine Right of Capital, p. 28.
conceivably occur. There would be some ground for misgiving as to whether it would happen fast enough to be effective. That, indeed, is what economists have mostly argued about. But if saving is not a matter of abstemiousness at all—and we know that it is not—if it is in fact a consequence of a distributive system in which some incomes are unspendable, then what we call "saving" is going to continue quite irrespective of the interest rate.29

By putting the matter in these terms, Ayres constructs what may be called an impersonal theory of the cause of saving—which is defined implicitly as being a function of the pattern of income distribution. In such a context, his meaning might be more accurately conveyed by using the term "automatic saving" since such accumulation occurs independently of the will of particular individuals and since it is income which, in effect, "cannot be spent," either for investment or consumption. This idea is further justified and more clearly implied in the following statement by Ayres relating to the causes of instability.

. . . our economy is suffering from oversaving and underconsumption . . . [because] small incomes are too small and big ones are too big—too small to consume the product of industry and too big for investment in a market so limited. [Moreover,] the trouble is progressive. As the community income increases in periods of prosperity and industrial expansion, the part of it that flows into large incomes cuts ever deeper and wider channels. This tendency is a matter of fact.30

Ayres thus traces the instability of the modern economy (oversaving and underconsumption) to the fact of

29Ibid. 30Ibid., p. 64.
distributive inequality.

Along with this theory of automatic saving there is another related explanation which involves individual or personal factors. More than being merely an alternative or supplementary explanation of saving (and therefore of instability) it also suggests, from a different point of view, why the pattern of income distribution tends to be as it is within capitalist society. The essential feature of this explanation is Ayres' substitution of the desire for economic power in place of the rate of interest as the motivating force behind the accumulation of funds.

Ours is a money economy in the sense that money is power. This is true for the man of limited means no less than for the greatest capitalist. It is by accumulating money that one establishes his sons in the professions and the other extends his control over additional industries. The motive in both cases is entirely independent of the interest rate, or any other expression of the needs or wishes of society. That such a motive should not lead to overaccumulation would be miraculous. We know now that it does.31

The terms of this discussion (taking both its aspects into account) imply that the causes of oversaving may be traced even further back. Why is it that money is power? Why has it been possible for particular individuals to lay claim to so large an aggregate of such power (so much income) that it causes instability and social injustice? As indicated earlier in the chapter, the answer to both questions

31 Ibid., p. 29.
is the same: It is because the institutional structure of capitalist society (its power or property aspect) is what it is. In the first instance, this structure makes the private accumulation of wealth and income possible; in addition, it makes it highly desirable from the individual point of view. These conditions, when taken together, result in a pattern of income distribution which makes oversaving (underconsumption) not only probable but inevitable.

In a society in which power can be achieved by the accumulation and investment of capital funds, it goes without saying that ambitious men will devote themselves to this activity. . . . It is fantastic to suppose, as classical theory has done, that a preference of future for present consumption is the guiding motive, a preference which is therefore thought to be expressed in and guided by the interest rate. This idea contains the antecedent assumption that the accumulation and investment of capital funds is the true essence of industrial growth, which is thus supposed to be automatically adjusted to the "needs" of the community by the rise and fall of the interest rate. But the point is one which has always given trouble, since it is obvious that people of modest circumstances who are "saving for a rainy day" will hardly be moved to desist by a fall of the interest rate, while to people who are engaged in carving empires for themselves out of the commonweal a per cent or two of interest is of no concern whatever.

Granted the existence of the financial power system, the participants, both large and small, in the struggle for economic power will accumulate all they can. . . . Since saving is alternative to consumption and chiefly to the consumption of the masses; and since consumption is the sole eventual outlet for

32 A minor correction in wording should be noted at this point. The Classical theory of interest, correctly stated, suggests that individual behavior is guided by a preference for immediate consumption and that interest is a payment to induce abstinence.
the product of industry this means that the inevitable effect of the struggle to accumulate financial power is the constriction of industrial output—the precise opposite to what has been conventionally supposed.  

That is, it is conceivable that the productive powers of industrial society have grown not because of the institutions of capitalism but in spite of them; that the chief and catastrophically serious, obstacle to the full utilization and continued growth of those powers is precisely the distributive system which perennially baulks industrial production by failing to provide the consumer purchasing power which is essential to the absorption of the product of industry.  

It thus appears that Ayres has taken the orthodox position and turned it upside down. If he is correct, it means that the distributive system to which industrial society has submitted is wholly without justification. Not only is it not a blessing in disguise; it is the well-spring of all economic evil, the curse of Adam upon industrial society.  

Such melodrama is not often found in the usually mordant pages which economists are prone to write. Perhaps it is necessary, however, to dispell the "fetish" that money is the creative force of modern industrial society, and the corollary notion that progress (increasing the community's ability to produce) can be attained only at the cost of poverty (inequality in the distribution of income). At least Ayres seems to think so. He, for one, is convinced that "the accumulation of funds and the enlargement of the  

33Ayres, Theory of Economic Progress, pp. 264-265.  
34Ibid., p. 262.  
tool-equipment of industry are two distinct processes, either one of which may quite conceivably occur without the other.\textsuperscript{36}

It is on this single point, Ayres maintains, that "institutionalism makes its most important theoretical . . . contribution" to the economic science.

By some stroke of genius, and perhaps with an assist from Marx and Feurbach, Veblen saw three quarters of a century ago what the peoples of Africa and Asia are now learning the hard way: that what determines the economic level of any community is not money but the knowledge and skills that have been slowly and painfully acquired by the whole community. . . . \textsuperscript{37}

Veblen's description of the process of capital accumulation was quoted earlier in this paper in comparison with that espoused by John Bates Clark. It is repeated here because, in essence, it represents the foundation on which Ayres' theory of distributive justice is built.

For the greater part the state of the industrial arts is a heritage out of the past, a knowledge of ways and means hit upon and tried out by past generations and from them handed on to their posterity; and for the greater part also any addition, extension, advance, or improvement in technology is a rearrangement of and a refinement upon the elements of such knowledge so handed down from the past. Industrial inventions and improvements invariably consist, in the main, of elements of knowledge drawn from common notoriety but turned to new and technologically unexpected uses. The novelties of today are a technologically later...

\textsuperscript{36}Ayres, "The Significance of Economic Planning," p. 473.

\textsuperscript{37}Ayres, "Guaranteed Income: An Institutionalist View," p. 164.
generation of the commonplaces of the day before yesterday.

Evidently the state of the industrial arts is of the nature of a joint stock, worked out, held, carried forward, and made use of by those who live within the sweep of the industrial community. In this bearing, the industrial community is a joint going concern. 38

Certainly this description of capital accumulation is very far from what the ordinary businessman (or, for that matter, the neo-classical economist) means when using the term. The existence of such a stock of community assets cannot be attributed to the "abstinence" of a few individuals nor to a distribution system geared to promote such. Rather, it is attributable to the activities of countless individuals working within the continuum of the machine process, who, by insight or chance, discovered more effective ways to accomplish specific tasks, and thus add bit by bit to the general stock of human knowledge.

The origins of this process lie far back in human history and extend to many different regions of the Earth. From the beginning, mankind has been set apart from other animal species by an ability to utilize tools and instruments (including articulate speech patterns) in varied combinations. A continuing stream of new inventions and discoveries has been the cultural emolument of this basically human biologic inheritance.

38 Thorstein Veblen, Absentee Ownership (Boston, 1967), pp. 63-64.
The tool-combination principle so implied (illustrated in such events as the printing press, the ocean-going vessel, and the differential calculus, among others) is a key element in Ayres' explanation of the unprecedented increase in industrial and scientific technology which has accompanied and paved the way for the rise of modern Western civilization. It follows from this principle that the more tools there are available for combination, the more inventions and discoveries there will be, and the faster human knowledge will expand. In its beginnings, in other words, the advancement of technology typically occurs only slowly and gradually; but in its later stages, the pace is likely to be "vertiginously fast."^39

A discussion of the technological aspect of the "industrial" and "scientific" revolutions engendered within Western societies during recent times tells "only half the story,"^40 according to Ayres; i.e., it neglects the equally strategic role which institutions have played in promoting the kinds of activities and behavior patterns which were involved in this process.

Most societies strangle novelties at birth or even practice technological contraception by outlawing the kind of maverick behavior that leads to serendipitous discoveries... But for some

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^39Ayres, Unpublished lecture delivered on the campus of North Texas University, April 7, 1965.

obscure reason, or combination of reasons, the institutional patterns of Western society have for many centuries been sufficiently fluid to permit fateful changes to occur. Perhaps the fact that Western culture developed on the periphery of ancient civilization, and not at any center, had something to do with it. Perhaps the fact that the Western peoples were recently (and only partially) civilized barbarians had something to do with it. Perhaps it is significant that "the feudal system" was never a system but only a conglomerate of makeshift institutions. At all events the fact is that an institutional breakthrough of world shattering importance did occur. 

The rise of the Western industrial economy must be explained, Ayres thus maintains, in terms of the dynamic operation of the tool-building process within a flexible and readily adaptable institutional framework. Private property was the institution which broke the fetters of feudalism and, in the process, once the New World had been discovered, and Magellan's "East by West" voyage had been made, doomed the Medieval manor, and the way of life it represented.

Individual enterprise and a freedom to move from one station in life to another supplanted the traditional and customary habits of thought and behavior which bound serf and lord to the land. The accelerating pace of economic activity which

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41 Ibid.

42 "It was through the cracks in the ancient institutional structure that the upward flow [of individuals from lower to higher income brackets]--so characteristic of Western society--began; and one of these cracks might be labeled 'property.'" - Ibid.

43 K. P. Cochran, Unpublished lecture delivered at North Texas State University, Fall, 1968.
was the extension of this institutional "breakthrough," Ayres maintains, was what built the modern industrial economy.\footnote{It is security of private property that through the centuries has inspired millions of former peasants to try their luck in the cities and even in the New World. This is the great upward flow of which modern industrial society is the result. Modern industry has not been built by stodgy peasants trudging after their oxen with slow reluctant footsteps from sunup to sundown. Throughout the history of mankind there is no parallel to the vigor, the energy, and the self-commitment of the modern industrial worker; and the reason for it is the not-attainable dream of a better life. Joe Hill of the I.W.W. called "pie in the sky, by and by"; but despite the common cynicism, countless millions have actually found the pot of gold at the end of the sooty rainbow, and--thanks to private property--have kept it." Ayres, "Guaranteed Income: An Institutionalist View," pp. 166-167.}

As a corollary of this interpretation of history, Ayres suggests that if the modern economy is to "spurt ahead," similar adaptations of the institutional framework will have to be made. On the one hand, this is required because the economy fails to generate a volume of effective demand sufficient to "keep pace with perpetually expanding production."\footnote{Ibid., p. 173.} Equally malicious is the fact that "the institutions and ideas of capitalism" have left a substantial segment of the American population (one family in five) living poverty stricken lives in "backwater" areas of the developing economy.\footnote{Ibid., p. 164.}
The Strategy of Economic Planning: Revolution or Revision?

Ayres' analysis of the rise of capitalist society bears, in its general outline, a remarkable resemblance to that of Marx. In the thinking of both men, the role of private property is central: first, as the "institutional breakthrough" which opened the way for the increasingly rapid development of technology and machine production; and second, as the cause of the polarization of capitalist society (into rich and poor classes) which now militates against the efficient operation of that system. The capitalist property concept, in other words, creates antagonisms within the development process which in time must be worked out in some fashion or other, if further progress is to be sustained.

In contrast to the position taken by Marx, however, Ayres maintains that the inherently contradictory nature of capitalist development can be resolved by treating symptoms rather than causes; i.e., if the private ownership and control of the means of production is taken as the "cause" of the institutional difficulty which confronts the modern economy and if the unequal distribution of income is taken as a "symptom" of that difficulty.

There are two explanations for this apparently anomalous position. The first derives from Ayres' understanding of the process of social change.
If the success of economic planning, or any sort of planning for that matter, depended on the outright liquidation of obstructing institutions [e.g. private property] and the substitution of altogether different arrangements [e.g. state ownership of the means of production], it is doubtful if any progress would be possible. Fortunately, it does not.47

The basis of this optimistic view is that capitalism, and its premier institution, private property, have already proven sufficiently flexible as to offer the hope that future adaptations can readily be made, once the need for change has been recognized.

One of the distinguishing characteristics of capitalism is, and has always been, its flexibility. Notwithstanding its feudal heritage, capitalism has shown itself to be uniquely adaptable. Capitalism is still a power system. But it is a power system that has been, and may continue to be uniquely responsive to the technical requirements of industrial organization and operation.48

The second explanation of why it is possible to treat the "symptom" of the institutional difficulty which presently confronts the modern economy lies in the fact that, during the past century, with the rising importance of the corporation, "property has become two institutions: an income institution and a control institution."

Having a more or less independent existence, each of these institutions is subject to more or less independent modification. Each is subject to more or less distinct governmental regulation. ... This means that income patterns can be modified quite independently of control patterns. Liquidation

47Ayres, The Industrial Economy, p. 194.

48Ibid., p. 127.
of private property in the instruments of production will transform both. But that is not the only way the flow of income can be dealt with. The separation of the income function from the control function means that income patterns are subject to modification—even total transformation—by measures which leave the operation of industry virtually unaffected.49

In line with this observation, Ayres rarely considers persons and groups (classes) directly as either owners or non-owners of the factors of production. Rather, they are considered only indirectly as potential spenders, as either rich or poor. It is not the source or kind of income they receive which is important but the amount.

There is one other point to be considered and re-emphasized when attempting to explain Ayres' somewhat predisposed affection for revisionist (as opposed to revolutionary) policies; that being the importance he assigns to the role of "private enterprise" in bringing about the rise of industrial society. There runs throughout his writing a trend of thought which can be traced at least as far back as 1776; that if given a more or less free reign, the activities of self-directed individuals will result in the greatest possible increase in the "wealth of nations." No "invisible hand" is involved in Ayres' defense of this position, however. His argument is based on the fact that the tool-combination process requires for its own operation a willingness and capacity on the part of all individuals,

49 Ayres, The Divine Right of Capital, p. 73.
whether rich or relatively poor, to seek out new and better (because more efficient) ways of "getting things done." An institutional setting which serves to obviate this kind of individual activity, whether by decree, or by default, becomes inconsistent with the needs of a progressive society.

Such a view clearly does not constitute a renewed or revitalized advocacy of laissez-faire; neither, however, does it imply the need for "revolution." The essential point to recognize, in summary, is that a plan which would maximize the development and utilization of economic resources need not, according to Ayres, involve substantial (i.e., revolutionary) changes in the institutional structure of capitalist society. Indeed, there are definite reasons to argue that such a plan should not do so.

... the real obstacle to the achievement of an institutional setting consonant with full production has been the general belief that such an institutional structure already existed. Rejection of that belief does not necessarily mean the immediate and total collapse of the present institutional structure, much of which is very well worth saving for quite different reasons. But it does mean the opening of the way to whatever institutional may be necessary to remove the obstacles to the full utilization of our heritage of improvement, [i.e., the economics resources of the community.]

Ayres' hope for the future attainment of distributive justice thus hinges upon the continued movement of capitalism

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"towards a reasonable society." His reconstruction of the doctrine of underconsumptionism within an institutionalist framework is essentially an attempt to foster that movement.

The Tools of the Planning Trade

Ayres' definition of the nature and scope, i.e., the strategy of economic planning, runs as follows:

... in every age economic planning (and for that matter all planning) consists in finding technical devices adequate to the solution of the technical problems of the age. The merchants of early modern times, seeking the means of promoting the exchange of goods, required first legal devices to safeguard the transfer of property and then national protection of their trade. Later, when the industrial revolution of the eighteenth century made England "the machine-shop of the world," a nation of manufacturers was best able to press its advantage by removing all legal barriers to trade (that is, laissez faire). Now that industrial revolution has become world-wide, the critical problem is the tendency of industrialized production to exceed "the propensity to consume." That propensity is conditioned by the whole institutional structure of Western society; by an immemorial class structure and all the attitudes and sentiments which accompany that structure. But the mechanism which has been developed, as an incident to industrial revolution, to give effect to that social system is the income mechanism. The immediate technical problem, therefore, is that of devising some modification of the income mechanism calculated to correct the imbalance of production and consumption.

"The economic mechanisms by which [such] a general change [in the distribution of income] might be affected," he maintains, "are few, simple, and familiar:"

a. a differential system of taxation

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b. a program of public works and development projects, and
c. a system of social security.  

These, supposedly, are the necessary and sufficient instruments required to achieve and maintain distributive justice. Each of these mechanisms is justified within the context of Ayres' underconsumption theorem as means of curtailing oversaving and thereby promoting production. His argument for an expanded social security program may be cited as an example of this orientation.

The all-sufficient reason for making use of such instrumentalities as we now lump together under the heading of social security is their indispensability to the stabilization of the economy. Our economy suffers from a chronic deficiency of mass consumer purchasing power, along with a chronic surfeit of savings. It is this tendency which makes it so dangerously unstable. To avoid the hazards of instability we must correct it; and doing so involves both a resolute curtailment of the flow of income into the savings channel and an equally resolute amplification of the flow of income into the purchasing power channel. The latter effort requires that somebody shall spend more. To alter the institutional patterns which determine the distribution of income to the whole community would be a gigantic and extremely hazardous task. To alter the living habits of the whole community is otherwise impossible. But it is possible to get more money spent by giving it to people who have none. The decisive reason for doing so, then, is not their need, or welfare, or security. It is the need, security, and welfare of the whole economy.

This general observation also applies to the other

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instruments of economic planning Ayres has recommended. Progressively taxing some people more than others as a means of providing for the maximum development and utilization of resources implies a context within which traditional canons of taxation are somewhat irrelevant. The issue is not whether such a tax is either fair or equitable on a personal (taxpayer) level; rather it is a matter of efficiency measured on a social scale. So also with government spending. Immediately, it is not so much the kind of spending (whether public or private) which government may undertake which is important but the amount. If such spending adds to the ability of the community to utilize its stock of economic resources (by augmenting the level of aggregate demand), then such spending is justified in the same way as all other tools, or means of "getting things done"—it works.

This is also a context in which Ayres might approach agreement with J. B. Clark that indeed money can be creative. Ayres would argue however that it is not money itself which is creative or, in Clark's words, "inherently productive," only that the purposive control over the flow of money income can result in a more efficient use of basic resources—land, labor, capital, and technology, the real determinants of economic welfare. While money must not be confused with the term capital, it should not, according to Ayres, be viewed as simply a medium of exchange, unit of account, or store of value; it should also be regarded as a tool by which the
industrial economy can be made to work better.

In line with this argument, the three measures listed as means to promote distributive justice become, in effect, mutually complementary tools of the planning trade, as Ayres conceives it. All are means to either redirect or supplement the flow of money income. Combined, they constitute a single mechanism designed to transfer income from the "savings channel" to the "consumer-purchasing-power channel." This is to be done with the avowed purpose of "redressing the balance of production and consumption (and so of technology and the prevailing institutional system)."\(^5^4\)

There are, as Ayres suggests, two considerations which must be dealt with in regard to the "operation of such a mechanism." The first is "whether it would be adequate." The second involves the guidelines by which such a mechanism should be managed; that is, "how it could be controlled."

His answer to the first of these questions follows:

Our assurance of the adequacy of a transfusion of income from the savings channel to the consumer-purchasing-power channel derives from Say's law of markets.

It is true, of course, that all the wealth of the rich would not go very far if it were to be distributed among all the (relatively) poor. A fortune of one hundred fifty million dollars, distributed equally among all the people of the United States, would provide only one dollar apiece; and there are not very many fortunes of that size. But to reckon in such a fashion is to ignore what we are chiefly concerned about: that is, the

\(^{5^4}\)Ibid., pp. 195-196.
operation of the economy. We are concerned not with wealth as a condition but with income as a process, with its flow and the relation of its flow to the operation of the economy. Clearly it is by the level of production ("why all of us, taken together, are as well off, or as ill off, as we are") that the fortunes of the community are determined. It is the effect of additional purchasing power on the level of production that is important. That effect, as we know, is "multiplied" by the cumulative process of expanding production: so that the diversion of income from the savings channel, where it is stagnating, to the consumer-purchasing-power channel, where it stimulates production, has a continuously expansive effect on the whole economy.

If the transfusion of income at any given moment were sufficient to check oversaving (that is, saving in excess of real investment), we have the assurance of Say's law that it would be adequate to absorb the entire product of industry.55

This makes it quite clear that Ayres is not concerned directly with promoting equality in the distribution of income, as such. In line with his definition of distributive justice, greater equality is necessary only because it is required to promote the maximum development and utilization of resources. This is the variable which determines how far toward equality it may be necessary to go.

Further proof of this statement is provided by the following description of the guidelines by which the redistributive mechanism should be administered:

The question of what volume of funds must be diverted by a transfusion mechanism [can be answered thusly]. It is the extent of oversaving that sets the maximum. But this is not a static amount. From the beginning of such an operation,

increasing consumer purchasing power stimulates the market for construction goods. Anticipation of further increased sales of consumers' goods still further stimulates interest in enlarged capacity. Thus the investment market responds to transfusion from the moment it begins, thereby lowering the discrepancy between the volume of investment and the volume of savings; so that the limit to which such a transfusion need be (or can safely be) carried is considerably short of the volume of oversaving as it appears at the beginning of the process.

Thus the operation of the mechanism must be guided, not by any preconceived amount, but by the readings of various gauges as the operation proceeds, in particular the volume of employment (or unemployment) and the level of prices.56

56Ibid., p. 200.
In most particulars, Ayres' theory of oversaving relies rather heavily upon the formal theoretical analysis of the determinates of aggregate spending, income, and employment contained in J. M. Keynes' The General Theory of Employment, Interest, and Money (1936). Some confusion arises, however, concerning the relationship between saving and investment as posited by Keynes and that which is indicated in the above quotation of Ayres. It was Keynes' thesis that as investment rises, saving also increases; and if investment falls, so also must the amount saved. Specifically, the community can, in fact, save only what it invests. The term "oversaving" has little descriptive meaning in such a context.

The confusion can be explained by the fact that Keynes was attempting to show that there are a number of possible equilibrium positions at which the economy may operate, and that given a stable relationship between consumption, saving, and the level of income (his consumption function), the position actually realized will depend upon the amount of investment spending currently taking place.

Ayres' argument, on the other hand, begins with the notion that at whatever level it initially may be operating, the economy generates an amount of saving which may or may not be sustainable in the absence of remedial measures which would either increase the level of private investment and/or government borrowing or which would artificially cut back the amount being saved in the private sector, i.e., the amount not being spent. In this sense, oversaving can be said to be an inherent fact of the capitalist economy as we know it.

Keynes and Ayres are thus describing the same phenomena, only from slightly different points of view.
The Importance of Extending the Coverage of the Social Security Program to the Whole of Society

Aside from a flexible tax structure which takes proportionately more income from those least likely to spend it, there are two other mechanisms within the tool-kit Ayres provides to economic planners for use in building a "just" system of distribution: (1) public works spending, and (2) social security. In his 1965 article, "Guaranteed Income: An Institutionalist View," Ayres seems to favor the latter approach as the most adequate means to carry on the technical chore of adapting institutions to the needs of a developing economy.

What we need is some device that can be permanently instituted as a regular feature of the industrial economy by which demand can be made to keep pace with a constantly proliferating supply. The guarantee of a basic income, but to all members of the community irrespective of the earnings of employment . . . would provide the flow of effective demand that the economy more and more desperately requires.57

The basis for preferring social security above a direct public expenditures program is that such an approach would serve two purposes:

Our most immediate need for universal guaranteed income independent of employment is, of course, as a supplement to aggregate demand. But the most important function such an institution could perform would be to restore the reality of free private enterprise.58

57 Ayres, "Guaranteed Income: An Institutionalist View," p. 162.

58 Ibid., p. 161.
Why it is so important to promote free enterprise has already been mentioned. Economic development, Ayres maintains, depends upon the active participation of all segments of the population, rich or poor, in the process of tool-building. This "was what built the industrial economy."\(^{59}\) The fact that a large (and increasing) portion of the population has been left behind by the rapid pace of technological change (one family in five exist on incomes below the level required to offer them much hope of attaining more) represents a troubled future. The economics of rising expectations, Ayres suggests, applies not at all to such people except in reverse of what is generally meant by the term. In urban and rural ghettos, in other words, the conditions of ordinary living imply that nothing can be gained because there is so little to lose.

Poverty and insecurity thus tie people to the tenement house in much the same way that feudal serfs were tied to the manor.

Property relationships being what they were in Medieval times, it was a dangerous undertaking for a peasant to exchange his claim to a share of the manorial income, small though it may have been, for the more uncertain return he might have hoped to gain (and keep) as an independent craftsman or wandering merchant. A change in the property

\(^{59}\)Ibid., pp. 166-167.
relationship was what made these chances worth the taking, Ayres maintains, and in the process created modern society. Similar institutional adaptations will have to be made if this process is to be continued and if modern day slum dwellers are to contribute their share in transforming the life of industrial society by first transforming their own.

A guaranteed income, independent of employment, would most nearly suit this need.

To cope with this situation we desperately need a new institution: a new form of economic security to supplement private property by filling the gap between small property and no property at all. That new institution is guaranteed income. For the victims of grinding, self-perpetuating poverty—not all, perhaps, but the majority—a guaranteed income would make the difference between continuing to endure intolerable conditions (as they would seem to everyone who enjoys comfortable circumstances) and venturing forth to do something about it.60

Security is the key to the enigma of poverty, as it was to the impasse of feudal serfdom. With the guarantee of a subsistence income, so that come what may they could feel assured that they would not starve to death, most of the present victims of poverty would make the effort of reorienting themselves in the industrial economy. Not all, perhaps. Some are already "dead to the world," as we commonly say in words that are far more vivid than we commonly realize. But for the great majority a guaranteed income would mean the difference between continuing to endure and doing something about it.61

A guaranteed income approach to income maintenance, in other words, improves upon currently utilized governmental

60Ibid., pp. 167-168.

61Ibid., pp. 168-169.
fiscal and monetary policy by dealing more directly with the hard core of the unemployed; i.e., those who are least likely to be affected by an advancing level of overall production and spending.

The broader implications of this problem are developed, although indirectly, in Ayres' discussion of "independent income," in his *The Industrial Economy* (1952). The tendency for production to outrun the means of consumption within a capitalist economy, it should be remembered, is taken by Ayres to be a long range, almost inevitable fact. "This means," therefore

that the recipients of transfused income must be available at all times. They must . . . belong to groups which are permanent and "normal" components of the community. 62

This is just a step away from saying that a social security program designed to achieve a "just" distribution of income, one which would promote the maximum use of available and potential resources, would have to include everyone. It would be a mistake, in other words,

to rely chiefly on the unemployed. Even if the transfusion of income to the unemployed alone (or even chiefly) were sufficient to bring consumption into line with the productive potential of the economy, the discontinuance of the flow of transfused income with re-employment would again lead to disemployment. 63

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By 1965, Ayres had taken this additional step. Everyone, he wrote at that time, should be included as potential recipients of income without regard to their "circumstances"; i.e., their "age, color, morals, religion, or previous condition of servitude." Additionally, their entitlement to a guaranteed basic income "must be independent of any and all other sources of income."^64

On this point Ayres' theory of distributive justice contrasts quite sharply with that of J. B. Clark. Clark's thesis was essentially that personal rights to property (income) should be granted solely on the basis of (1) personal effort (productive labor), or, (2) the ownership of capital (i.e., the ownership of inherently productive resources which embody capital). Ayres, however, maintains that this interpretation of property rights should be extended to include the right to a guaranteed basic income independent of either employment or ownership of the means of production.

The movement toward such a redefinition of property, Ayres maintains, has long been underway as part of the continuing process of institutional adaptation within American and Western European societies.

If we look back to the actual development of "social insurance and allied services" in recent years . . . [it appears that] Western society is

^64Ayres, "Guaranteed Income: An Institutionalist View," p. 169.

^65Ibid.
in the process of developing a new category of income. Hitherto all personal income has been either a return for services (real or imaginary) or a return from property (also real or imaginary). What now seems to be developing is a third type. It is "independent income" in the same sense that income from property is independent income—that is, independent of any sort of industrial, commercial, or professional activity. It is also basic in the sense of being the same for all.\(^66\)

On the other hand, it has apparently been very difficult to recognize the emergence of "independent income" as implying a much different conception of property rights than that held in the past.

Because this type of income is quite different from the old and familiar categories of service and property income, and because it involves a new conception of the role of government and most of all because we have been moving in this direction in consequence of a great many apparently unrelated decisions affecting a great many special and apparently limited problems, we now find it peculiarly difficult to see all these developments in perspective as spelling out a new and different and very important economic category: that of basic independent income. But the principle involved is very simple. It is only that of every member of the community receiving three types of income: a basic independent income, the same for all, and just sufficient to cover the "minimum of subsistence"; a service income, for all those who are gainfully employed; and a property income for all those who own property.\(^67\)

Ayres quite clearly would like to see the implications of these developments brought into sharp perspective and adopted as a basis for economic planning. This should be

\(^{66}\)Ayres, The Industrial Economy, p. 262.

\(^{67}\)Ibid., pp. 262-263.
done, to repeat an earlier remark, simply for the reason that the need, welfare, and security of the economy as a whole demands it.\footnote{Ayres, "Guaranteed Income: An Institutionalist View," p. 174.}
CHAPTER IV
SUMMARY AND CONCLUSIONS

Comparison of Clark and Ayres

Economics has traditionally been concerned with value and distribution. That is, beginning at least with Ricardo, one economist has attempted to offer what they considered to be a scientific—i.e., impersonal and analytic—theory of the determinants of value and distribution. The logical culmination of the traditional theory of distribution, built in large part upon Ricardian principles, was discussed in a preceding chapter of the present thesis. A theory of value, one which attempts primarily to explain the significance of price, was also reflected in that discussion. J. B. Clark's theory of distributive justice, to be more specific, was clearly an attempt to show that under certain conditions, the prices (wages, interest, profits, etc.) accorded to

1"Ricardo believed that the solution to the problem of relative shares was the principle desideratum of economics. In a famous letter to Malthus, Ricardo wrote: 'Political Economy you think is an enquiry into the nature and causes of wealth—I think it should rather be called an enquiry into the laws which determine the division of the produce of industry amongst the classes who consume in its formation. No law can be laid down respecting quantity, but a tolerably correct one can be laid down respecting proportions. Every day I am more satisfied that the former enquiry is vain and delusive and the latter only the true object of the science.'" Paul A. Davidson, Theories of Aggregate Income Distribution (New Brunswick, 1960), p. 3.
specific factors of production are the equivalent of their contribution to the productive process; i.e., their "productivity" or "value."

To thus explain prices, of commodities as well as the factors of production, as the equivalent of their social value was the primary function of the traditional way of thinking. Value and distribution theory was, in fact, price theory. This was particularly true of Clark's theoretical analysis. Prices, being market valuations, were said to reflect, on the one hand, the inherent wants of individual consumers, and as well, the real social costs of satisfying these wants (presupposing the relative scarcity of resources).

The underlying question with which "price-oriented" economists attempted to deal was indeed a very important one. They were attempting to define, according to their orientation, the proper way to allocate resources within a capitalist economy. They were, in other words, explicitly dealing with the question of what comprises the basic of a good society. As the previous discussion of J. B. Clark's economics illustrates, the resolution of this question was generally expressed in terms of a competitive market. Under competition, traditionally oriented economists maintained, consumer satisfaction (utility) is maximized at the lowest possible price, i.e., the lowest real cost of production. In other words, where competition prevails, prices tend to move toward a point at which the values of commodities
correspond to the lowest real cost of their production. At this point, values, prices, and costs are equivalents and such standards were variously termed natural, normal, and/or static; each term being but a synonym for a "just" price. Not only was this situation fair and equitable, it also meant that resources were being efficiently organized; i.e., deployed in such a way that the needs of all consumers were most accurately being met and at the lowest possible real cost in terms of resource usage.

Ayres strenuously objects to this conception of just price and value because, in his view, it gives rise to a confused and therefore misleading approach toward solving economic difficulties. His argument against this doctrine begins with the notion that prices are essentially neutral phenomena; i.e., they are statistics indicating primarily the institutional arrangements which govern the distribution of income and therefore the effective demand for various kinds of economic goods and services.

All the transactions which the pricing mechanism quantifies are conducted within the limits of the prevailing distribution of financial means. With regard to value this means that price registers the limitations which are imposed upon the choices, preferences, decisions, and judgments of the members of the community by existing financial arrangements. Which is as much to say that real value is antecedent to price and is registered in price to a very limited degree.2

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The traditional belief was, of course, that the "prevailing distribution of financial means" was a function of individual "productivity" and thus could be treated as "just," or at least as conforming to a pattern consistent with the principle of private property. In Ayres' opinion, however, there is reason to doubt the validity of the method used to prove this claim.

According to traditional theory the entire income of the community is divided among the "factors of production" in the form of wages, rent, interest, and profits. How this is done forms an important part of the legend of capitalism. The legend is that each "Factor" receives exactly what he deserves. The laborer, the landlord, the moneylender, and the manipulating financier--each is worthy of his hire.

We call these agents "factors of production" but in actuality we identify them, not in terms of what they do, but in terms of what they receive. Thus, the laborer is not identified by his sweat. Housewives do not qualify as laborers however hard they work. We then go on to declare that the income received by laborers (that is, those who receive wages) is wages.

The argument by which we establish that the wages are just is somewhat more complicated, but it comes down to this. If we know what wages labor is getting, and if we assume the impossibility of labor's getting any more--conditions being what they are--then it appears that labor is getting all it can, conditions being what they are. Each factor receives exactly what it produces, if you mean by "what it produces" what it receives.³

The proof that under competition "each receives what each contributes" thus becomes no more than another of the tautologies which tradition has thrust upon an unsuspecting

community in the guise of a "natural law."

A similar judgement, Ayres maintains, might also be levied against the argument that competition maximizes utility or consumer welfare.

... the term "utility," defined as "the want-satisfying quality" of any and all commodities, is so employed as to convey the suggestion that the adjustments of the market bring about the greatest happiness of the greatest number—that is, the maximization of utilities. But in order to show how this comes about, it is necessary to know what is for sale at what prices, and how much people buy with such incomes as they have. It is then possible to argue that people would not have bought what they did if they had not got the greatest possible satisfaction from such a demand schedule. But this is only juggling with words: substituting a presumed "satisfaction" (or quantum of happiness) for the known fact of purchase.  

Ayres further criticizes economic orthodoxy (the price theory of value) by suggesting a more positive or pragmatic approach to the problem: value, he argues, is technological, rather than subjective in nature. It can therefore be specified in quite objective terms: what is most important about any economic mechanism is how it affects production and the implementation of the technological know-how available to the community. In some cases, he would undoubtedly agree, the price mechanism may very well contribute to this process by providing an efficient framework within which individual or personal decisions can be made and carried out. Also, and in some cases, competition may serve to limit abuses of

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economic power. In other instances, it may prove to be entirely inapplicable or irrelevant. This can be judged however, only by investigation of specific cases. The principal point is that the development of public policy (economic planning) is not merely a matter of enforcing competition or providing a framework for personal decision-making; it is also a matter of maximizing production. As his construction of the underconsumptionist doctrine has shown, this involves a somewhat more sophisticated set of procedures.

Most significant about Ayres' criticism of Clark and the Neo-classical economics is his willingness to re-evaluate the doctrine of private property and the allied notion that the right to property (and/or income) should hinge upon direct and clearly recognizable contributions to the welfare of society. Clark's position on this issue seemed to suggest that property rights have at some point been fixed by a natural law similar in force to what he called the Universal law of distribution—Final Productivity. Both private property and the law of final productivity, in other words, were apparently to be taken as concepts which society is not at liberty to change or question.

5"No one," writes Ayres, "is against competition," least of all economic planners. But neither are they "for" it, in the sense that no other mode of collective action is consistent with promoting economic welfare. - Ayres, "The New Economics," p. 228.
Ayres, of course, rejects this idea. In one respect, his attitude resembles that expressed more than a century ago by John Stuart Mill, in his *Principles of Political Economy* (1848). Mill recognized that what man has made, man can change (including the legal system which protects and defines the individual's right to own and control the basic means of production). He wrote that while the laws and conditions of the production of wealth partake of the character of physical truths [e.g., the law of diminishing returns] ... it is not so with the Distribution of Wealth. This is a matter of human institution only. The things once there, mankind individually or collectively ... can place them at the disposal of whomsoever they please, and on whatever terms.6

Even this construction of the matter, however, is incomplete and inaccurate if Ayres' position is correct. In terms of his conception of distributive justice it is necessary to recognize that the "laws and conditions" of both production and distribution are "matters of human institution;" i.e., the interplay between technological and institutional forces. Static concepts, whether of property rights or resource utilization have only a very limited applicability within a theoretical framework which conceives the economy as a going concern (rather than as a structured set of economic variables which tends toward equilibrium), and which treats technology as a dynamic, change-inducing process (rather

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than as a restricted and inert fund of human knowledge).

This suggests another of the contrasts between Ayres and neo-classical economics which has been implied earlier but which now can be discussed more fully. Clark dealt with two essential factors of production; that is to say, economic resources—labor and capital. Both were deemed productive on the basis of their inherent capacity to create wealth. Entrepreneurial activity was also mentioned in passing as a co-ordinating function needed to assimilate dynamic changes in the conditions of supply and demand within Clark's model of a static economy. Characteristically, technology was not included within Clark's analysis as a separate functional category. For his purposes, technology could be assumed as constant.

In contrast, Ayres regards technology as the premier resource of human society and explains the rise of Western industrial civilization as functionally related to the ever-increasing pace of technological change; i.e., the cumulative increase in man's tool-using capabilities.

Two rather interesting questions thus arise. Assuming (1) that income should be distributed to the factors of production which create it, and (2) that technology is itself a significant factor of production:

a. how is the share attributable to technology to be differentiated?

b. to whom should it be allocated?
No clear answer can be given to these questions within the context of marginal productivity analysis due essentially to the fact that the Ricardian methods employed assume that all factors of production are subject to the law of diminishing productivity; i.e., that marginal units of a particular resource when combined with a constant supply of all other resources results in a consistently smaller increment in realized output. There is reason to argue, however, that technology is qualitatively distinct from other resources and that a marginal increment in the community's stock of practical knowledge may indeed result in increasingly larger increments in realized production by improving the efficiency (productivity) of capital and labor and by converting the material substances found in Nature into usable resources. Technology, in other words, is the one resource of which it can be said, "the more we use today, the more we will have tomorrow." It is difficult, if not impossible to fit such a definition into the static model which Clark employed to analyze factor shares of production.

Another way to deal with this problem, and the one which Ayres' has adopted, would be to say that all production is essentially a function of the cumulative expansion of the one resource, technology. In his view, furthermore, the

expansion of scientific and technological know-how which characterizes the formation of modern industrial civilization is clearly an evolutionary or cultural phenomena. The contribution of any single individual or group of individuals is infinitesimally small when compared with the size of the overall stock of such assets. The technological stockpile thus truly belongs to the community as a whole.

Who then (on a personal basis) is to get the income-output attributable to technology? In dealing with this question, Ayres suggests that an answer must first be given to the related question of economic value. Any activity is valuable, he maintains, that facilitates the operation of the tool-combination process by which the community is enabled to produce more and better economic goods and services—the real determinants of economic welfare. The technological process, in other terms, constitutes a value system in which the relative success or failure of any particular activity or policy is readily identifiable, i.e., subject to measurement, and thus offers a viable alternative to the notion that values are subjective and individual in nature and are therefore undefinable. Thus, in answer to the question of "Who should get what on a personal basis?" it is possible to adopt the general strategy that income should be allocated in such a manner that there will continually be more to allocate.
In the past, Ayres maintains, the discoveries which built the New World emerged as increasing portions of European populations abandoned the traditions and security of long established behavior patterns for other modes of economic and social activity which, though previously untried, held out a prospect of a better life for all. Economic freedom, combined with a new form of economic security (private property) encouraged the kind of maverick behavior later exhibited in such events as Columbus' voyage and in Henry Ford's conclusion that five dollars constitutes a fair day's pay. The essence of the matter is that discoveries and innovations, of which these events are but examples, cannot be predicted very precisely. They occur as part of the on-going technological life-process of the community and through the efforts of multitudes of free men. What can and should be done, Ayres suggests, is to assure that a maximum number of people are encouraged and supplied with the capacity to participate in the tool-building-accumulating process. Given his description of the tool-building process as the basis for defining economic value, and accepting productivity as the basis for distributing income thus seems to suggest that the attainment of distributive justice requires a more equitable distribution of income to all factors of production, i.e., to everyone.

For purposes of clarification, the above argument can be rephrased as follows. Given the nature of the
tool-combination process, it is impossible to determine, a priori, what the potential productivity of any single individual will become, just as it is impossible to assess that contributed by any single individual in the past. The pertinent fact is that society cannot gamble that nothing will be lost by allowing the potential contribution of anyone to be blocked by the lack of a sufficient income to satisfy basic needs and to take the initial steps toward becoming viable participants in economic society.® Thus the call for

8Ayres' advocacy of a guaranteed income is in one sense a policy designed to increase investment in human resources. It is interesting to note that the point made in the above text in interpretation of his analysis can be supplemented with a quotation from the work of Alfred Marshall, a leading exponent of the type of analysis which Ayres rather adamantly rejects. (It should also be noted that Marshall was not unaware of the problem posed by increasing returns. See, e.g., Appendix H of his Principles of Economics.) On the matter of investment in human resources, Marshall wrote: "We may . . . conclude that the wisdom of expending public and private funds on education is not to be measured by its direct fruits alone. It will be profitable as a mere investment, to give the masses of the people much greater opportunities than they can generally avail themselves of. For by this means many, who would have died unknown, are enabled to get the start needed for bringing out their latent abilities. And the economic value of one great industrial genius is sufficient to cover the expenses of the education of a whole town; for one new idea, such as Bessemer's chief invention, adds as much to England's productive power as the labour of a hundred thousand men. Less direct, but not less in importance, is the aid given to production by medical discoveries such as those of Jenner or Pasteur, which increase our health and working power, and again by scientific work such as that of mathematics or biology, even though generations may pass away before it bears visible fruit in greater material well-being. All that is spent during many years in opening the means of higher education to the masses would be well paid for if it called out one more Newton or Darwin, Shakespeare or Beethoven." - Alfred Marshall, Principles of Economics (London, 1962), pp. 179-180.
a guaranteed income as a matter of individual right and social progress.

Evaluation and Conclusion

One of the basic questions which every economic system must be organized to answer is that of "Who gets what"? The purpose of this thesis has been simply to examine two of the possible ways in which this question can be considered. More accurately, the question which has been examined is "Who should get what"?

Clark's reply was that individual productivity should be the basis of distribution. He attempts to show, on logical grounds, that competition (as defined by economists) is the means to attain this goal. In part, his work may be considered as a response to the Marxian doctrine that competitive capitalism is inherently exploitative; it also is an attempt to isolate the impact of what he called a Universal Law of economics; specifically, the law of diminishing marginal productivity. Clark recognized that his theory was "heroically abstract;" he intended it as such. His only point was that if it could be proven logically that competition among entrepreneurs for capital and labor gives to each a just reward, then it follows that the role of public policy should be to "enforce" competition. As he conceived it, the effect of such a policy would protect property and justify the continuation of "society as it presently exists."
Ayres' theory of distributive justice begins with the notion that the freedom and well-being of the community as a whole, and therefore as well, its individual members, depend upon its ability to utilize and take full advantage of its technological and scientific know-how as applied economically as forces and instruments of production, i.e., as economic resources. Where these lie idle and underdeveloped it signifies the disruption of economic order and that the technical problem of organizing the economic life of the community has not been solved. The fact that economic instability has continually plagued the capitalist economy Ayres attributes to income inequality and to the institutional structure of capitalist society (especially the institution of property) which has produced this imbalance. His argument favoring the redistribution of income from high to low income groups is based on the recognition that the efficient working of the economic system as a whole depends upon it. The fortunes of all members of the community, the rich and the poor, are in effect bound up together. More specifically, the nature of the situation within a capitalist society makes it impossible for the former to long prosper at the expense of the latter. By Ayres showing, it seems that the one thing the rich cannot afford is the continuing indigence of the poor; progress cannot be maintained in the midst of poverty.
On the basis of this apparent paradox, Ayres criticizes the type of theory advanced by Clark on two basic grounds: First, he rejects the relevance (and the possibility) of determining the correct or just level of wages, interest, rent, and profits, as such. The important thing is not the name or source of a person's income, but its amount. Secondly, he rejects individual productivity, or active participation in the process of production, as a possible basis for building a definitive theory of distributive justice on the ground that at times it will prove necessary to make income available to those whose active role in this process is initially quite minimal.

Essentially, Ayres' position is that the distributive mechanism should be used as a tool to promote production, or the maximum development and utilization of economic resources. Who gets what should be determined by this fundamental strategy. The tactics of economic planning as Ayres envisions them consequently become somewhat different from those developed by Clark. Regulation of prices or the size of particular firms, while not irrelevant, still does not deal specifically with the essential problem of maintaining a sufficient level of aggregate demand to absorb the potential product of industry. Still less does it answer the need to direct income toward resource expansion, a goal which Ayres regards as critically important.
Ayres has argued that the tools required to reach these objectives are "few, simple, and familiar." He has not, however, dealt in much detail with the administrative and political difficulties which inevitably become involved in implementing the type of guaranteed income program he invisions. And this by far is the greatest deficiency of his analysis. Just as it was not enough for Clark to assume that competition is an "inextinguishable force," it is not enough for Ayres to assume that once it is recognized that the organizational structure of capitalist society does not automatically provide for full production or resource development that the way will be opened "to whatever institutional adjustments may be necessary" to do so. Maximizing the use and development of economic resources is indeed an admirable definition of economic strategy. It cannot be made an effective basis of action, however, by asserting that, in the long run, ideas are more powerful than vested interests, or that technology will gradually erode static, change-resistant institutions.

The political difficulties associated with instituting the radical, if not clearly revolutionary, changes in the distributive mechanism suggested by Ayres have been rather forcefully presented, although in preliminary fashion, in Gabriel Kolko's Wealth and Power in America. Kolbo's main point is that the power structure of American capitalism is such that no significant or pervasive change in institutions
is likely within the foreseeable future.

The central point that must be made . . . is that poverty and inequality are not the result of temporary distortions in the economy that can be easily remedied by concerted publicity campaign and a few legislative acts. Inequality is integral to a society where the richest tenth receives 30 per cent of the annual money income, as in 1961, or 14 per cent of the nation owns 68 per cent of the net wealth, as in 1962. Some must profit if we are to maintain our economic structure in this form; others must not. The poor will remain along with the inequality long after they have been discussed, studied, and forgotten by politicians and academics. Indeed, the poor are likely to be with us more than ever before, not merely for a variety of economic and sociological reasons . . . but because the political paralysis that dominates American life today makes it extremely difficult to enact even the most minor reforms.

The fact that there has been no major social-welfare legislation in America for a quarter of a century makes it highly unlikely that Congress will soon introduce any important changes. Similarly, our conservative trade-union movement, bedeviled by permanent unemployment and a consistent decline in jobs despite mounting production, is only one more sign of a moribund society. Yet even if such factors were not operative, the American economic structure, with its deeply entrenched privileges and inequities, could hardly be changed, for no socially significant movement in American society today seeks to end poverty by attacking the basic, essential inequality upon which the economy rests, much less has a broad vision of a new society. And it is for this reason that all the bills and measures advocated by political leaders, the unions, and most tragically, the present civil-rights movement have little chance of altering the structure of poverty, wealth, and economic power now prevailing in America.

Admittedly, and hopefully, Kolko may be wrong in his evaluation. Yet it would certainly be an error to ignore

his conclusions. In order to see why this is true, it is necessary to take a closer look at Ayres' definition of distributive justice and to recognize that this definition is subject to at least three interpretations. Income, he says, should be distributed so as to maximize the development and use of economic resources. Refining this definition, it appears that there are three aspects to the problem. First, there is the static aspect--the attainment of full employment or the maximum use of given resources at a given point in time. Second, there is the problem of maintaining this situation over time. Here the problem is one of partial dynamics, involving quantitative variations in the levels of production and demand (aggregate spending) through an extended period of time. The third aspect of the matter is that of developing new resources, a truly dynamic problem, since it involves not merely quantitative change, but rather the use of income in terms of qualitative considerations; i.e., in terms of its effect on resource development.

When all these aspects of the matter are taken into account, the problem of attaining distributive justice becomes much more complex than it might initially appear. It is clearly not simply a matter of initially redistributing income. It becomes also a matter of controlling the flow of income and making and implementing discriminatory choices as to how it should be employed, for some uses are presumably better than others.
It is beyond the scope of the present thesis to assess the possibilities for change within American society which will have to be made if Ayres' and others' arguments in support of a guaranteed income to all are to become part of a revised institutional framework for providing for the expansion of economic resources. The foregoing criticism has been listed as an indicator of the fact that if such a change is to be made a substantial bloc of interested voters will have to be organized and provided with the intellectual and monetary tools required to force the enactment of enabling legislation; i.e., the need for such a policy will have to be made clear to those whom Veblen called the underlying population and in whom the responsibility for such decisions still ultimately lies.

The administrative details of a guaranteed income program are also still to be worked out and this process is again likely to involve a great deal of controversy. The battle, in other words, has just begun. The essential groundwork, however, has been established. The fundamental issue has been laid bare. Whether it will be possible in the future for the community consciously and purposively to design a distributive mechanism which severs the connection between claims to production and what has traditionally been regarded as productive activity still remains an open question.
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