On John Bates Clark's "Naive Productivity Ethics." A Note

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Clearly things economic and things moral are less widely separated than we sometimes think.

(Clark 1910, 3)

1. Many discussions of early twentieth century American economic thought, Malcolm Rutherford (2011, 5) observes, assume that the work of John Bates Clark led to a definition and consolidation of neoclassical economics in the United States.[1] This account is far from being accurate. If we look at the decades from the late 1880s to World War I, Rutherford (5-6) continues, "American economics was highly unsettled in nature." Although American economics was then in the process of professionalization, "there was no authoritative figure such as Alfred Marshall in England and Marshallian economics did not dominate the American discourse. Marginalist, Austrian, institutional, historicist, and various evolutionary ideas all contended and were variously intermixed."[2] In many respects it is true, as a then-contemporary observer (Ise 1932, 390) put it, that Clark was the only one among the first-generation American marginalists who "[came] near developing a distinctive school, in the sense of a peculiar and distinctive method of approach." Yet, early American neoclassicism remained pluralistic and highly fragmented. Far from creating a consensus, the publication of Clark's *The Distribution of Wealth* (1899), the work where he

[1] This kind of narrative is best epitomized by Joseph Persky (2000, 96) who argues that, with the publication of Clark's *Distribution of Wealth*, "[American] neo-classicism matured into a major intellectual force within American economic thought, with Clark as its defining figure."

[2] In a survey of American economics, Joseph Schumpeter (1910: translated by and quoted in Fetter 1920, 728) insisted on its inherent heterogeneity and distinguished four distinct theoretical/ groups: "Clark and his tendency; Taussig and some others; Patten and his pupils; Ely and his circle." Although this classification "overlooks many important differences," Frank A. Fetter commented (1920, 728), "is in many ways striking and significant."

presented his strenuous defense of the marginal productivity theory of factor pricing and distribution, elicited more than a critical response from figures who had embraced marginal analysis.

Three aspects of Clark's economics, in particular, invited controversy. The first was his own version of marginal productivity and the set of conditions which he imposed to disentangle the specific products of the various factors of production (Pullen 2010). The second, somewhat related to the first, was Clark's theory of capital and his refutation of the Austrian theory of interest (Cohen 2008). The third aspect—and this is what mostly concerns us here—was Clark's contention that an ethical property attached to the principle of rewarding factors at rates defined by their marginal products. This followed, in Clark's view, from the supposition that, under conditions of perfect competition, marginal products measured the social contribution of each factor. "[W]here natural laws have their way," Clark (1899, 3) wrote in an oft-quoted passage, "the share of income that attaches to any productive function is gauged by the actual product of it. In other words, free competition tends to give to labor what labor creates, to capital what capital creates, and to entrepreneurs what the coordinating function creates." Not only did Clark believed this to be an ethical postulate, but a necessary condition for the very "right of society to exist in its present form, and the probability that it will continue so to exist." Indeed, it should be noted, Clark nowhere explicitly asserted that productivity is an adequate standard of justice. "We might raise the question," he affirmed (1899, 8), "whether a rule that gives to a man his product is in the highest sense just." Scattered throughout his volume, however, we find many passages which might fairly be interpreted as answering this question in the affirmative. His insisted reference to the "honesty" and "beneficence" of the "social system" and the "rewards" received by the agents of production leaves little doubt about the moral significance of his distribution theory and the ethical sanction of competition that it implied.[3]

Clark's normative message hardly passed unchallenged. In this connection, George Stigler (1941, 297) observed that Clark's "naive productivity ethics" had "afforded some grounds for the popular and superficial allegation that neo-classical economics was essentially an apologetic for the existing economic order," leaving Clark's neoclassicism "a made-to-order foil for the diatribes of Veblen."[4] Stigler's words are pertinent and misleading at the same time. Indeed, many attacks on Clark's distributive ethics came from radicals like Thorstein Veblen (1901; 1908) as well as from pro-labor progressive and socialist circles. "The purpose which dominates the development of Professor Clark's theory," asserted the quintessential progressive Richard T. Ely (1900, 101), "is a justification of the competitive order of industrial society," while for George Wicker of Dartmouth, Clark's Distribution of Wealth represented the "apologia of an unwarranted conservatism" (reported in Adriance 1914, 176).[5] Yet, Stigler's sole reference to Veblen tends to convey the idea that these criticisms mostly came from the economic "dissenters" of the day, somewhat obscuring the fact that similar, and in some cases even more vehement, attacks on Clark's normative views were waged also from "neoclassical" (admittedly a rather loose term at the time, and still today!) and more traditionally inclined segments of American economics. The aim of this note is to document exactly this, namely that the profession's reaction to Clark transcended the then existing—and in some case deep rooted—distinctions within the discipline and involved figures of virtually all

[3] On the ethical dimension of Clark's distribution theory see, among others, Morgan (1994), Henry (1995), Persky (2000), and Leonard (2003). We do not need to delve here into the so-called "John Bates Clark" problem: i.e. whether the younger Clark's Social Christian impetus pervading the Philosophy of Wealth can be made consistent with the ethically grounded defense of the marginal productivity theory of distribution later presented in his magnus opus. In the views of some interpreters Clark's work underwent a major break between these two periods, while others (most notably John Henry in 1995) emphasize that the search for an ethical foundation of market economies had been a constant in the whole development of Clark's thought. Our view accord with the continuity argument.

[4] Similarly, Persky (2000, 100) observes that "some economists of the institutionalist school, and particularly Thorstein Veblen, feared that [Clark's] new normative analytics amounted to a new apology for the status quo."

[5] Ely and Wicker were the coauthors of the introductory textbook *Elementary Principles of Economics* (1904).

theoretical and ideological persuasions. To put it differently, our contention is that for American early twentieth century marginalism, let alone American economics at large, Clark's solution of the ethical problem of distributive justice was far more divisive than consolidating.

2. A good starting point for our discussion is to look at the immediate reactions to Clark's *Distribution of Wealth*. As far as academic reviews are concerned, the book had a mixed reception—to say the least.[6] Henry R. Seager (1900), Clark's junior colleague at Columbia, found the volume to be "heroically theoretical" and "full of original suggestion even to students conversant with the author's earlier writings." Seager fully approved Clark's treatment of distribution and found it to be "different from that of any other economist professing the 'productivity theory.'" At the same time, he was critical of Clark's dismissal of "abstinence" in capital formation and by his refusal to distinguish between land and capital as factors of production—a distinction which he considered necessary for dynamic analysis. He nonetheless emphatically concluded that "it is not too much to say that the publication of Professor Clark's *Distribution of Wealth* marks an epoch in the history of economic thought in the United States." Seager's enthusiasm was shared by Charles A. Tuttle from Wabash College in Indiana, a lesser known marginalist of the time and early admirer of Clark (Dorfman 1949, 304). According to Tuttle (1902a, 187), Clark's volume "fully meets the high expectations that were formed concerning it." Its most important theoretical contribution, he explained, consists "in the fact that it carries to its logical conclusion the application of the law of final productivity, coordinating the factors of production and distribution by means of the law of diminishing returns and the rent formula." Ultimately, Tuttle concluded echoing Seager, "it is an

[6] Clark's volume was reviewed in all major journals of the period, with the exception of the Journal of Political Economy. The American Economic Review published a note in 1903 by Charles W. MacFarlane which the author (1903, 154) defined as a "belated review of the Distribution of Wealth." Outside the United States the volume was reviewed, among others, by Francis Y. Edgeworth (1900), Charles Gide (1900), and Knut Wicksell (1902).

epoch-making book and stands as the highest achievement of American economic thought." As we will show below, Seager and Tuttle's admiration did not prevent them to express their disagreement with Clark's productivity ethics.

Of a far different tenor was Thomas Nixon Carver's review article published in 1901 on the *Quarterly Journal of Economics*. Carver, then at Oberlin College but in the process of moving to Harvard, had studied under Clark at Johns Hopkins (Carver 1949, 97), and was well familiar with Clark's marginalist analysis (Carver 1894). In his review, Carver went straight to the point. "It is in the department of distribution that economics borders most closely upon ethics," he stated (1901, 578), and "Professor Clark neither ignores the ethical bearings of his theory nor commits the more serious blunder of confusing economic with ethical problems." To Carver's eyes (578-579), Clark's "justification of the social order" comes down to two distinct propositions, namely: 1) that each agent of production "ought to" be paid according to what she/he creates, and 2) that this is what actually takes place under conditions of perfect competition. The first proposition is inherently normative and is taken for granted; while it is to the defense of the second, which "involves no ethical considerations whatever," that Clark's efforts are principally devoted. Unfortunately, Carver (579) complained, "for this line of defence the single taxer, without being inconsistent, and even the socialist, might admit both propositions and yet demand fundamental changes in the social order." The problem is that Clark discusses only functional distribution—i.e., the distribution of rewards for the services of the factors of production—leaving the whole issue 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 cue 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. [Carver 1901, p. 579]

Whatever may be thought of Clark's argument as a "defense of society," Carver (580) was willing to concede, it is doubtful whether "his main thesis can be successfully assailed in the present state of economic knowledge." After all, he continued, Clark is discussing mere functional distribution and he is not compelled to maintain that the heir to a large fortune is himself ethically responsible of the income which he receives, but only that his income is imputed to his capital. Yet, Carver lamented, "it is to be regretted that more than once in the course of his argument he implies conclusions relating to personal distribution which form no part of his thesis and which by no means follow from his argument." (Carver 1901, p. 580)

As an example of such ethical ambivalence, Carver brought up Clark's contention that the rent of land is not a share determined independently of other shares, nor is the function of land in production essentially different from that of other factors. "If we are considering functional distribution wholly," Carver (598) allowed, "there is no positive reason why land should be distinguished from artificial instruments." By the same token, he added, there is no practical reason why labor should be distinguished from other factors of production—"it is the diminishing returns from successive increments of this particular labor as combined with a fixed quantity of other productive agents of all kinds, including other kinds of labor, upon which its wages depend." It is when we enter the realm of personal distribution, Carver objected, that we find positive reasons for distinguishing land from labor. Wages are paid in return for the exertion of the laborer, while rent compensates no exertion on the part of the landlord. Similar reasons apply in favor of a distinction between land and capital: "[w]ithout capitalists, capital would not exist. The service of capital in production may therefore be said to be, in a sense, the service of capitalists. But without landlords land would exist; and the service of land cannot be said to be, in a sense at least, the service of landlords" (598-599). In affirming that "the rent getter is a product creator" (Clark 1899, 196), Carver sentenced (599), "[Clark] ignores the distinction between functional and personal distribution." Carver insisted on this point, far more vigorously, three years later in an American Economic Association roundtable:

> It may be true, and probably is, that from the standpoint of functional distribution pure and simple, there is no good reason for distinguishing between the income derived from the ownership of land and that derived from the ownership of capital. But a theory of functional distribution which does not in some way throw light oil the more important question of personal distribution is about as useless a piece of speculation as ever occupied the attention of a mediaeval schoolman. Instead of holding … that economics is concerned wholly with functional distribution, I should hold that economics does not care a fig for functional distribution except as it helps us to understand personal distribution. The question of personal distribution is a question of the real world, whereas the question of functional distribution is a question of Platonic ideas. From the standpoint of personal distribution there are abundant reasons for distinguishing between the income from land and the income from produced goods. (1904, 201-202)

“Therefore,” Carver (202) concluded, “the development of the technical or scientific concept of rent has been a logical one. That is to say, economists have been justified in distinguishing as they have, between incomes from these two sources.”

Frank A. Fetter, the American paladin of the Austrian school in the United States, reviewed Clark’s Distribution of Wealth for the lesser known *International Monthly*. With respect to Carver’s, Fetter review was somewhat more laudatory. In his opinion (1901, 130), the “most striking feature” of the volume was the principle of specific productivity—"a thought nearly approached by the school of Austrian economists, and Professor Clark's indebtedness to them is evident, but they never succeeded in stating it in the complete form which it here takes on.” Contrary to Carver, Fetter praised Clark’s abandonment of the old classification of the material agents of production into land and capital. “The old contrasts between rent and interest and the many supposed contrasts in their operation and effects are swept away,” Fetter (131) commented, thereby giving “the discussion of the part played in production by material wealth … a simplicity and a reality before impossible.” The tone of the review changed when it came to on distributive justice. With due differences in style and language, Fetter followed Carver in pointing Clark’s ambiguous blending of the functional and personal sides of distribution:

> The book professedly involves a vindication of the existing distribution of society’s income. It is at this point doubtless that it will receive the strongest criticism. In the minds of many there will appear to be here a non sequitur resulting from the author's firm faith that all’s well with the world. To show that each material agent secures that share of the product which in a logical sense it may be looked upon as contributing to produce, is not to prove that there is assigned “to every one what he has specifically

> produced." The leap from the impersonal agent to the personal receiver of the income is a long one. Questions as to the social sanction of property rights, the influence of unequal taxation, the defects of human laws, the failures of justice, the tremendous leverage of political power and of corporation trusteeship, are not once hinted at in this volume; a fact which must give pause to the acceptance as final ethical judgment of that which is merely abstract economic analysis. 132-133

This passage reveals an interesting convergence. In a way similar to Ely and Wicker, in fact, we find a much more conservative figure like Fetter describing Clark as an apologist for the "existing distribution of society's income." This is not the place to discuss whether and to what extent this characterization contains an element of truth. What is relevant to our discussion is the fact that figures so different in theoretical and ideological stance shared the same views of the ethical implication of Clark's distribution theory.

3. The idea that it is mistaken to draw ethical conclusion from functional, as opposed to personal, distribution became a common theme in many, if not virtually all, appraisals of Clark's economics which followed the publication of the Distribution of Wealth. Examples are numerous and deserve to be reviewed in toto—at the cost of indulging in some lengthy quotations—to provide adequate evidence of how pervasive this line of criticism was among Clark's contemporaries. From the more critically inclined circles, so to speak, we find again Wicker (1910, 160) asserting that "[t]o have proved that the capitalist gets in interest what his capital produces is not to have proved that the capitalist gets what he has earned [as well as] to have proved that the landlord gets what his land produces is not to have proved that the landlord earns his distributive share." Wicker was

followed by another pro labor progressive such as Father John Ryan (1912, 248; see also 1916, 347-348), who affirmed that "even if the claim that labor is at present rewarded in proportion to its productivity … were irrefutably established, the conclusion that each individual laborer is justly remunerated would not follow." According to the socialist John G. Murdock (1913, 127), former Mental Science Fellow at Princeton and amateur economist, Clark's functional group distribution was just a theoretical loophole to avoid the "personal grievance" question.[7] But as "groups after all are not independent somethings wholly superposed or imposed on persons …, so his functional distribution does not escape the personal class distinction of possession."

Among "neoclassicals," and more theoretically inclined figures, Carver's review turned out to be mostly influential. In this regard, Herbert J. Davenport (who will discussed below) represents an interesting case. Although quite unsympathetic towards Carver's version of marginalism, Davenport (1908, 440 n1) perfectly converged with Carver in his criticism of Clark's distributive justice.[8] Even if it could be established that factors paid their marginal product get what they deserve, he ventured, "one might concur in Clark's thesis and be yet the most radical of socialists." The fact that rent is paid as the reward for the services of land as a factor of production. "has nothing to say as to the right of private ownership in land." In Davenport's opinion, "Carver has made this clear in his review of the work under consideration; nothing remains to be said." In a similar vein, we find another prominent marginalist of the time, Frank Taussig, referring with approval to Carver when he pointed out that:

[7] Murdoch was referring to Clark's (1899, 7 margin) contention that "grievances depend on personal distribution, but they are removed by a normal functional distribution."

[8] Davenport (1904) had reviewed negatively Carver's Distribution of Wealth (1904) for the *Journal of Political Economy* and Carver (1905) had reacted with a harsh rejoinder. This, once again, bears witness of high degree of fragmentation and conflict among early American marginalism.

> In Professor Clark's own writings, there is not infrequently a smooth transition from the workers who contribute to the "factors" which contribute, from human beings to capital and land; and there is a doctrine, more or less explicitly put forth, that the grounds which are supposed to make it just that a worker should be paid in proportion to his product make it just that the owner of a factor of production should also be paid in proportion to its "product." This statement … seems to me an unwarranted one, even granting the specific-productivity premise. If we are to prove the "solidarity of industry" and the inevitableness of such distribution of wealth as appears in our modern societies, we must use reasoning more effective than this. (1912, 517-518)

Again, according to Princeton's Walter M. Adriance (1914, 150), of whom more below, "Professor Carver has shown in conclusive fashion that Clark's views as to the justice of society do not follow from his thesis of specific productivity." From the opposite camp, even the leading institutionalist Walton H. Hamilton (1918, 397) was willing to acknowledge that Carver "was quick to see that Clark's ethical conclusions are not an essential part of his system."

Quite significantly, Clark's admirers were by no means less critical when it came to the ethical implications of the "specific productivity" theory. "It is refreshing to read in a recent number of an economic journal," Tuttle affirmed (1902b, 203) drawing verbatim upon Carver, that the "right of the present social order to exist depends upon the laws which govern, not functional, but personal distribution." Columbia's Henry L. Moore, who had dedicated his influential *Theory of Wages* (1911) to Clark "in admiration and affection," was also cautious on the normative consequences of marginal distribution. As a theory, he warned (179), it must by necessity take for granted the "present forms of ownership of property" as well as the "present social and technical conditions of production." Accordingly, "it is entirely conceivable that a form of distribution of property which when tested by any familiar standard of equity would be pronounced inequitable, could coexist with each factor in production tending to get what it produced." Alvin Johnson, probably the most devoted of Clark's followers (Dorfman 1959), phrased his position in even more resolute terms—"functional distribution concerns itself with the inevitableness of returns, not with the morality of incomes. *Essentially it is ethically colorless"* (1914, 438-439: emphasis added). The shares received by each factor of production, this was Johnson's concession, may exert varying dynamic influences upon future distribution, so that they "may have a bearing upon morals in becoming, tho obviously none upon morals in being."

This general climate of skepticism, if not open opposition, towards the marginal productivity ideal of distributive justice (or what was then perceived to be as such) was also reflected in the major textbooks of the period, although the name of Clark was rarely mentioned explicitly. In his widely adopted *Principles of Economics*, a volume of a distinct Clarkian flavor, Seager (1912, 292-293) warned his readers against the "misapprehension" which sees specific productivity theory as the "economist's last word" on distribution ethics: "economically speaking, landowners may get only the equivalent of what their land produces, workmen may get the full equivalent of what their labor produces and capitalists may get only what their capital goods produce, and yet this may be a very unfair division of the product." Seager was echoed by the University of Michigan's Fred M. Taylor in the second edition of his popular *Principles of Economics*. As he put it (1913, 344): "it must not be supposed that, in affirming that the present system tends to give each one what he produces, we mean to claim that the present system is necessarily a just one."[9] Similar remarks can be found in Fetter (1906, 359), Johnson (1909, 379-380), Lewis Haney (1911, 393), Charles Bullock (1913,

[9] A notable exception is provided by Edwin R. A. Seligman, a Columbia colleague, personal friend, and follower of Clark. Seligman vas silent on the ethical content of specific productivity theory but defended Clark's functional approach. According to Seligman (1905, 352), "the study of distribution is primarily a study of the remuneration of the factors of production. Since each factor contributes to the common result known as the social income, there must be a certain part of the product traceable to each factor."

255), and, among socialist textbooks, in Scott Nearing and Frank D. Watson (1909, 452). In his influential *Principles of Economics* (1911), Taussig did not discuss the ethical implications of Clark's productivity theory, limiting himself to the following laconic comment: "J. B. Clark … sets forth a theory of wages and interest as the specific products of labor and capital; I find myself unable to accept the reasoning, but to some economists it seems conclusive" (257). Irving Fisher's Elementary *Principles of Economics* (1912) contained no specific discussion of Clark but argued that, with respect to the personal distribution of income, "no other problem has so great a human interest as this, and yet scarcely any other problem has received so little scientific attention" (Fisher 1912, 465; cited in Golfarb and Leonard 2005, 83).

Allyn Young, who authored the section on distribution for the revised edition of Ely's famous Outlines of Economics (Ely, Adams, Lorenz and Young 1908), went well beyond these passing comments. Ely himself—again, without any mention to Clark—made clear the in the preface the point of view presented in the volume:

> At certain points in the discussion of distribution, use has been made of the so-called "productivity theory." In order that there may be no misapprehension, it may be well to say here, what is repeated in the text, that in our view this theory has little or no ethical significance, and that its principal value is as an expeditious method of approaching the supply and demand theory, with which it is in complete harmony. When properly handled, it has the pedagogical virtue of leading the student directly to a study of the innumerable forces which condition supply and demand. But to regard the productivity theory as an end, is to mistake the problem for its solution; and to pass from this theory lightly to the immediate solution of those problems which the theory of distribution is

designed to explain, is to offer, in place of scientific explanation, a mass of pretentious platitudes. (vi)

Even if less critical towards marginalism, Young followed Ely.[10] "The statement that rewards tend to equal products has no ethical significance," he asserted (328 n1), and "should not be interpreted as a justification of the present economic order." To justify this claim he listed six distinct reasons (328-329 n1): 1) the notion that distribution should be based on productivity is a "debatable proposition"; 2) the "ethical side" of the problem of distribution relates to personal and not functional distribution; 3) the productivity of the individual worker often depends upon the opportunity he has had to "make the most of himself"—and opportunity is mostly a consequence of environment, which is to a large extent amenable to "social control"; 5) marginal productivity theory is "only a statement of a normal tendency," in the sense that it does not necessarily conflict with those "forms of economic friction and inertia" which may have effect on the actual remuneration of the factors; finally, 6) it is possible to imagine an "economic order" very different from the present one in which it would still be true that incomes would tend to equal products. If, for example, "wages were arbitrarily increased 50 per cent by law, while one result would undoubtedly be an increase in unemployment, it would still be true that wages would tend to equal the marginal product of labor, or, rather, that the marginal product of labor would tend to equal wages." Any attempt to avoid each of these difficulties, Young concluded in line with Ely, by "assuming that the present order, or a purely competitive order, is the 'natural' order of things, is to beg the whole question in favor of the existing status."

[10] According to Ramesh Chandra (2020, 41), Young's condemnation of the ethical implications of marginal productivity was included on Ely's insistence, but provides no evidence to support this view. Whether or not Chandra is correct, we agree with Perry Mehrling (1997, 23) when he affirmed that "Young was definitely not among those who advocated neoclassical economics as an alternative to Ely-style institutionalism."

4. The critical reaction to Clark was not limited to his one-sided emphasis on functional distribution but touched upon other aspects of productivity theory which are related to our story. In this connection, the contributions of Davenport, John M. Clark, and Adriance to the debate deserve closer attention. In his Value and Distribution (1908), Davenport devoted a whole section to John B. Clark. He acknowledged the ethical side of Clark's distribution theory—"inclining to identify natural law with providential adjustment" (440, n1)—but dismissed it as irrelevant with respect to the theoretical core of the argument. Davenport's main target was the idea that the change in output stemming from the hiring of an additional factor can be seen as the "specific" product of that factor—a notion already rejected by John Hobson (see the discussion in Pullen 2010, 61-68). Part of this change, Davenport held, is to be attributed to the "togetherness" of the cooperating factors—including entrepreneurship—and since entrepreneurs differ in "equipment and in degrees and kinds of skill," each factor "has as many different productive potentialities as there are different productive complexes." As a consequence,

> there can be no one degree of productivity assignable as the specific productivity of any particular item; and there is no warrant for supposing that the hire paid by the successfully bidding entrepreneur coincides with even his own appraisal of the prospective increased efficiency of his productive complex. The successful bidder pays at the minimum what someone else will pay; at the maximum, all that he can afford to pay; but that he is the successful bidder does not imply that he actually pays this maximum (Davenport 2008, 476).

Davenport reiterated this line of criticism, insisting on the "togetherness" of the productive process, in his subsequent *Economics of Enterprise* (1913). But this time Davenport did not stop here—"another and even more serious difficulty attaches to the productivity theory in its strictly ethical aspect" (153). In a way reminiscent of Veblen, Davenport accused Clark of having confused productivity, the individualistic and efficient output of profitable goods, with serviceability, the broader concern for social welfare.[11] Since entrepreneurs are individuals who are ingenious and creative in finding ways that add to their own wealth, power, and prestige, then the "'productivity' that has to do with the present analysis is not a productivity according to the test of social welfare, but only of private gain." Accordingly

> There is no necessary implication of merit or of deserving or of social service. What the entrepreneur can pay and will pay has to do solely with the advantages to him in his pursuit of gain in terms of price. The wage is earned if the work is of a sort to bring an adequate price return to the employer. It does not matter whether the process be one of adulteration, the compounding of poisons, the writing of advertising lies, the drawing up of false affidavits, the circulating of libels, or even the commission of murder. In the strict logic of business, distinctions of this sort do not exist, and the terms to express them are mere irrelevancy or vituperation. And even when distributive justice may be in some sense attained, it must be solely a justice between employer and employed. Society is not a participant in the distributive equity of competitive business. (153-154; see also Davenport 1910)[12]

[11] According to Veblen (1901, 195 n1), Clark "apparently must be held to conceive the equivalence [between contribution and reward] in terms of productive force rather than of serviceability." The Veblenian element in Davenport's economics was clearly pointed out by Frank Knight as early as in 1931. Davenport, Knight (1931, 9) noted, "combined an almost fervent admiration for Veblenism with personal work conspicuously conservative and 'sound'."

[12] Wicker had made substantially the same point when he asserted: "Professor Clark's analysis shows why the prostitute or pugilist may receive more in our society than does the priest, but he would hardly claim that he has thereby justified

But even if it could be shown that entrepreneurs always act "through ministering to social welfare," to Davenport's eyes one would still far away from justifying rewards according to productivity. The problem was once again that Clark's functional distribution is of limited use when it comes to the ethical defense of rents. Here we find Davenport (156) joining the chorus of his colleagues: "the rent of land accrues not to the land but to the landlord—the rent from the machine or the patent, not to the machine or to the patent, but to the owner of it." Therefore, before any attempt to establish the equivalence between deserving and receiving, "it must first be shown that the present property institutions of society are righteous in every particular—inheritance, property in land, property in franchises, and all the rest."

These criticisms did not pass unnoticed. In his review of Davenport's *Economics of Enterprise*, John Maurice Clark, then at Amherst College, came to his father's support. As to the inseparability of factors' shares, Clark rebutted that he had nothing to quarrel with Davenport's (1913, 156 quoted in Clark 1914, 319) contention that "the maximum payment of any entrepreneur expresses … only the loss of productivity which would attend the withdrawal of the factor—a loss partly due to the reduced efficiency of the other factors." To Clark, this was enough to impute a direct relationship of causality. If total productive efficiency is lowered by the removal of a single factor, he argued (1914, 318), "surely the loss is 'due to' the absence of the absent, not to the continued presence of the present factors." Moreover, he insisted, "Davenport seems at times to be thinking in terms of an equipment disorganized by the loss of one of the complementary running parts and allowed no time for readjustments—hardly an auspicious situation for making the test of marginal

the economic system, of which prostitution and pugilism are natural economic institutions. The marginal productivity of prostitute or pugilist, as of other work people, is due, not to Professor Clark's analysis, but to the economic system of which, perhaps, they are a fitting expression" (1910, 161) productiveness."[13] Clark was here clearly referring to his father's version of marginal productivity where capital is assumed to be perfectly malleable so that it can instantaneously adjust to new conditions of efficient production.

The younger Clark also conceded that the productivity theory ignores the "earnings of the tools of predatory trades" and so does not allow to distinguish between socially productive and unproductive practices. However, he provocatively wondered whether it may be better to supplement specific productivity theory with a "theory of parasites" (319) rather than rejecting it in toto as Davenport seems to suggest. Clark finally turned to the alleged ethical content of marginal distribution theory. The relevant passage deserves to be quoted in full length:

> the productivity theory is said to teach that income is the measure of social deserving, and so to stand apologist for the wrongs of the present order. Here again, if the doctrine has been so abused, let the offenders do penance. All that the hypothesis will justify is the claim that income would measure deserving under ideal competition ("fair," not wasteful or predatory), granted at all times a perfectly just distribution of property, education and opportunity. That does not tell us much about society as it is, but it does furnish something to build on in planning possible reforms. It is no necessary part of the productivity theory to hold that because the owner of capital tends under certain conditions to get what that capital produces, therefore the heir has an ethical right to his inheritance, and the present distribution of property is just. The questions are entirely separate. (320)

[13] In modern jargon, Davenport (see especially 1913, 147) was rejecting the assumption of the possibility of continuous variation in the proportions in which factors are employed.

Such a line of defense, we will see, left completely unsatisfied Walter M. Adriance, a now forgotten figure from Princeton and author of one of the most incisive attacks on Clark's notion of specific productivity.[14] Adriance's critique centered around two themes. First, at a more general level, he saw the marginal productivity theory as explaining not distribution, but rather the "evaluation" process guiding factors employment once distribution has been otherwise determined. When an employer offers wages that are equal for each interchangeable unit of labor, Adriance (1914, 153) explained, "he has not taken the physical product and separated it into parts produced by and ascribable to the respective laborers," so to determine their individual specific product. What he has done is to "set a valuation upon the services of the different laborers" and it is only by the actual payment of wages—which for the individual entrepreneur are given by market conditions—that this process of evaluation becomes effective. In other words, "there is no physical identity between the products of the various laborers," and the only equivalence between these units of work is to be found in "the equal valuations which attach to their labor in the payment of the wage." Second, exactly like Davenport and Hobson, Adriance rejected the possibility of disentangling the specific contribution of each factor—as he put it (157), "when labor and capital cooperate to produce a result that result is their joint product. It is a verbal absurdity to ascribe it to either factor alone."[15]

With these limitations established, Adriance (167-168) was ready to turn his attention to the ethical pretenses of the marginal productivity theory. The main theme was again, needless to say at this point, that introduced by Carver. If social justice is to be established by linking productivity to

[14] Biographical information on Walter Maxwell Adriance (1878-1957) is scant and fragmentary (see Report of the President of Yale University 1905, 65). He attended the High School of Wyoming, Ohio, and received a B.A. from Yale College in 1900. After teaching French and German at the Westminster School, Simsbury, Connecticut, for two years, he returned to Yale to study economics, receiving a master's degree in 1903.

[15] Among American critics of Clark, the idea of the impossibility of disentangling the specific product of each factor can be also found, with differences in style and emphasis, in Patten (1902), MacFarlane (1903), Parker (1907), Laughlin (1906), Murdoch (1913), Kleene (1916), and Ryan (1916).

reward, Adriance stated, “it is not enough to show that payment is in proportion to the productivities of the respective factors.” But even if it could be shown that the product of industry is distributed among individuals in proportion to their productive contributions, Adriance added, this would prove “the injustice rather than the justice of society.” If the factors in production—"animate and inanimate”—are paid in proportion to what they produce, this would lead to a fair distribution only in “that inconceivable sort of a world in which there is a distribution of ownership in exact correspondence with the productive services of men.” In this regard, Adriance insisted, “the surrender of the social significance of the theory has been explicitly admitted in a recent defense of the productivity idea by Professor J. Maurice Clark,” he wrote (1914, 168). To J. M. Clark’s contention that “all that the hypothesis will justify is the claim that income would measure deserving under ideal competition, granted at all times perfectly just distribution of property, education and opportunity,” Adriance objected:

> This stops very far short indeed of the original contentions. And, as we have seen, not even this much is true. If then to Davenport's and Hobson's vigorous and varied criticisms be added the fact, that the thesis of specific productivity is demonstrated only by the employment of a vitiating truism, we must naturally ask ourselves what the residual element in the Clarkian system amounts to. It should be clear at once that what we have left is a theory of value as distinguished from a theory of distribution. The ethical idea of reward in proportion to product has gone by the board; there remains a strictly economic process of evaluation. (168)

What is left of specific productivity theory, Adriance (174-175) concluded, is “merely a theory of value” which that fails to provide an adequate ethical standard of distribution in two distinct connections. In the first place, it takes for granted the existing distribution of wealth, and, in the second place, it gives us competitive shares which "are not with any accuracy an index of productive contribution."

5. Frank Knight is the last figure under scrutiny. A first glimpse of Knight's strictures on Clark's economics can be found, in a scattered and fragmentary fashion, in two early essays published in the *Quarterly Journal of Economics* (1916; 1917).[16] The first source of Knight's discontent was Clark's notion of stationary state as one characterized by constant population, capital, technology, firm organization, and consumer demand. In logical terms, Knight objected, the only variables we can assume as constant are the "natural environment of the society" and "the essential characteristics of the population itself." Conversely, those changes resulting from the "reaction of a static population to a static environment" cannot be eliminated by any legitimate hypothesis, and "it seems clear that a progressive accumulation of capital and fall in the interest rate must be conceded to come in this class."[17] Closely related was Knight's criticism of Clark's views of profits as depending on "frictions" implied by dynamic deviations from the static state. Such an unqualified occurrence of change, Knight (1917, 82) complained, does not provide a satisfactory explanation for the existence of profits, because "in so far as any change can be anticipated its effects will be capitalized in advance and no profit will accrue." The problem was that Clark had not distinguished between foreseeable and unforeseeable change and in so doing he obscured the role of uncertainty in the

[16] Knight made no secret of his dislike of J. B. Clark's economics. "I have not been an especial admirer of Clark's economic theory," he wrote to his former Cornell professor Alvin S. Johnson in 1933. Frank H. Knight to Alvin S. Johnson, August 21, 1933, *Encyclopaedia of Social Sciences*, Inc. Records, 1927–1934, correspondence files, box 5, folder "Frank Knight," Hampshire College Image, Sound and Text Archives, Johnson Library Center, Hampshire College, Amherst, Mass.

[17] In this respect, Knight (1917, 98) pointed out an "interesting contrast" between Clark and Mill's conceptions of the static state. Whereas Clark's static state represented a "mere logical expedient" completely divorced from reality, Mill and the classics saw stationary state as an "imminent reality, not an arbitrary supposition but a naturally static condition on the verge of which society always hovers."

emergence of profits. As Knight put it: “it is uncertainty, the possibility of change occurring or not occurring, or the unpredictable character of its consequences if it does occur, and not change itself, which creates profit.”

Knight found the way to further distance himself from Clark in his classic *Risk, Uncertainty, and Profit* (1921), and this is the part which is of interest for our discussion. “To begin with,” wrote Knight in discussing marginal productivity theory,

> let us insist on the complete separation of the theory of distribution proper from certain sweeping moral and social dogmas, which have been deduced from it. Professor J. B. Clark, the leading American exponent of the theory, is partly responsible for this confusion, through a few unguarded paragraphs in “The Distribution of Wealth.” The illegitimacy of these ethical deductions has been well argued, however, by Professor Carver, another expositor of the theory, as well as by Professor J. M. Clark in defending the theory itself. We may, therefore, pass over the strictures of those writers who do not like social implications which the theory does not have, which include a considerable part of the criticism of Professors Davenport and Adriance. (109-110)

“The confusion of causality with desert is an inexcusable blunder for which the bourgeois psychology of modem society is perhaps ultimately to blame,” Knight (179-180) continued in another passage, and as economists, “we must guard against thinking of the ‘natural’ adjustment of the competitive system as having any moral import.” Distribution according to specific productivity corresponds to a “natural” arrangement only to the extent that, given the existing distribution of productive factors, “no one is under any inducement to make any change.”

Knight decided to come back on these themes two years later in his famous article "The Ethics of Competition" (1923). This time he addressed the issue in a far more systematic fashion. Without ever mentioning the name of Clark, Knight listed a series of objections to the attempt of attaching an ethical stigma to marginal productivity theory. First, Knight (597) wrote, we are only allowed to speak of a "general tendency" to impute to each productive agency its true product and this because a precise imputation would require "perfect technological knowledge and foresight." Second, the tendency to allocate each productive agency in the position where it will make the greatest contribution is even far less effective than that which adjusts remuneration to actual contribution—as Knight explained, "a social system which sets artists to shining shoes and pays them what they are worth in that occupation is no less open to condemnation than one that sets them to work at their art and pays them what they would be worth as bootblacks." Third, productivity is always measured in terms of price, which does not correspond closely with "ethical value or human significance" (598). Fourth, the income does not go to "factors," but to their owners, and "can in no case have more ethical justification than has the fact of ownership." Fifth, the value of any service or product varies according to its capacity to satisfy demand, and this capacity hardly constitutes an "ethical claim to a superior share of the social dividend" (599). Sixth, the value of a productive service varies according to its scarcity—accordingly, even the most trivial performance involving no moral desert becomes exceedingly valuable if sufficiently unique and rare, as when "a human monstrosity satisfies an economic demand by letting people look at him." Finally, Knight pointed out that modern society does "accept and honor the claim of the entirely helpless to a tolerable human existence," and he found "no difference in principle between this recognition and admitting that differences in degree of competence form no valid basis for discriminatory treatment in distribution."

This proclaimed value-neutrality of marginal productivity, however, did not lead Knight to its outright rejection. Knight ([1924] 1935, 135) believed in "a science of economics which reaches laws as universal as those of mathematics and mechanics"—and marginal productivity analysis was part of these laws. As a theoretical construct, Knight (1925, 558) wrote in a rejoinder to the younger Clark, the principle of "payment according to differential contribution" always leads to "socially desirable" results, that is, "it tends to bring about that allocation of productive power, among allocations possible in the given conditions, which will maximize the value product."[18] At the same time, this was Knight's central message, scientific economics can say nothing either about the "personal distribution of income" or the "correctness of the price measure of the product." Knight was well aware that a full appraisal of competition must be accompanied by a complete recognition of its social consequences, but such a form of "institutionalist" assessment has no connection whatsoever with what he saw as considerations of equilibrium theorizing, such as the efficient determination of factor's shares according to marginal productivity. What concerned Knight were the values produced by the competitive process, or any other possible alternative to it, and whether these are compatible to what he considered the traditional social, esthetic, and spiritual values of Western civilization (Fiorito 2016).

6. it is now time to draw some conclusions. This note has documented how, far from being a consolidating moment in American neoclassicism and in American economics at large, the publication of Clark's *Distribution of Wealth* attracted criticisms from all segments of the discipline. Together with some analytical aspects of Clark's marginal distribution theory, it was especially its normative dimension that animated the debate. It has been shown, with plenty of evidence, that

[18] The rejoinder was part of a polemical exchange between J. M. Clark and Knight over marginal productivity distribution theory. See Fiorito 2018 for a reconstruction of the episode.

discontent toward Clark's productivity ethics was widespread and by no means limited to radicals and the more socially minded wing of progressive reformers. Early theoretically inclined figures like Fetter, Carver, Davenport and Taussig, who had all accepted some version of marginal utility, challenged the ethical content in specific productivity theory. A similar critical attitude, maybe phrased more cautiously, is to be found among admirers of Clark like Tuttle, Seager, Johnson, and Moore. Much of the criticism centered around the distinction between functional and personal distribution but figures like Davenport, Adriance, Young and especially Knight offered discussions which went beyond the claim that what matters is how much an individual, rather than a factor, earns. Clark's marginal productivity theory was primarily seen as a theory of factor demand (especially in the case of labor) rather than of factor price determination and all advanced arguments to show that productivity alone, let alone productivity measured in market values, can provide an adequate ethical standard for assessing distribution. It may well be that, as pointed out by Persky, Clark's "productivity ethics" was by no means an apology for the status quo and that his intent was rather to provide a theoretical rationale for those public interventions necessary to guarantee the survival of competition. Yet, our discussion has revealed that Clark's message was almost unanimously perceived by his contemporaries as an unwarranted defense of the existing order and, in this connection, Adriance (1914, 175-176) probably spoke for the larger part of the profession when he stated that "[Clark's] concept of specific productivity … has tended to make us, as economists, more conservative than we have any right to be."

Our reconstruction has also documented how the only explicit attempt to rescue Clark from his critics came from his son John Maurice, who was about to become one of the leading figures of institutionalism. This is significant because provides further evidence on the inherently pluralistic nature of American economics during those years (Morgan and Rutherford 1998). The younger Clark, we have seen, added a crucial qualification to his father's contention that income is the measure of social deserving, namely that this is true only under a perfectly equal distribution of property, education and opportunity. Such an emendation left completely unsatisfied both Adriance and Knight. Specifically, Knight raised a sharp objection:

> The concessions of Professor J. M. Clark seem to me to cover only a portion of the ground. I see nothing morally ideal in a distribution according to innate personal ability—certainly not ability measured by pecuniary demand for its products, unless the rest of the human race are idealized—and suggest that such a distribution would yield vastly more inequality, misery, and despair than does the present order. Nor. in the abstract, can I see any connection between innate ability and moral desert. Is inherited ability on any better footing morally than inherited property? (1921, 179-180 n1)[19]

Knight hit the mark. Writing more than three decades later, the younger Clark felt compelled to reformulate his defense fully conceding Knight his point. "As to the terms in which J. B. Clark's theory of marginal productivity was formulated," Clark now asserted

> I do not know anyone who has seriously claimed that either settles all ethical questions: certainly not the question whether the unequal distribution of inherited property or innate ability is just, or the more practical question whether one whose innate abilities enable him to produce five times as much as another, should justly receive five times as much …. But the idea that of two who have equal abilities or command of property, the

[19] Father Ryan had made exactly the same point when he asked: "When two men who are unequally endowed by nature produce unequal amounts with proportionally equal efforts, are they not equal in desert? The amount by which one product exceeds the other is not due to the original source of creativeness and responsibility in the man who produced it, namely, his will. It is due to a superior endowment of nature for which he is not responsible. Why then should he receive a higher reward than the other man?" (1907, 45)

> one who uses his to render twice the useful service as a claim to twice the reward—this accords with a widespread feeling that this is one important of fairness, in addition to the obvious element of expediency and incentive which it involves. I hope that such criteria are not going to be discredited on the ground that they are partial and limited, because I am sure that perfect and all-embracing ethical formulae for concrete actions are impossible, and that limited and partial ones are the only kind we shall ever have. (quoted in Samuelson 329, n14)

These words appeared as comments to Paul A. Samuelson's (329: emphasis in original) claim that "[J. B.] Clark seems to have felt that his most important contribution lay … in the demonstration that the marginal productivity theory is a theory of *justice*." Apparently, Samuelson was not fully convinced by this line of defense and, in a sort of indirect correspondence with the younger Clark, he added in a following passage:

> It is not clear to me that J. B. Clark ever meant what he seems to have meant. Why should a man of his general sentiments have cared to identify the functional distribution of income with the personal distribution of income? Once he agrees to their separation marginal productivity ceases to be an ethical doctrine and becomes a theory of production (and possibly of incentive). T. N. Carver, among others, pointed this out a half century ago but I do not know whether Clark ever changed his public position. (330)

With Samuelson's reference to Carver's review this note ends where it had begun—but not before having left the younger Clark the last word on the matter:

As to the relation between functional and personal distribution I have construed the principle as stating that the personal owner of a factor receives the share functionally attributable to the factor he owns. This seems to describe a pretty close relation, compounding the ethical problem of ownership with that involved in marginal imputation. Accordingly, I would not “agree to the separation” of functional and personal distribution in any sense that would completely destroy whatever (limited and partial) ethical implications there may be in the theory, and I doubt if my father would have done so.

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