

John Bates Clark (January 26, 1847-March 21, 1928)

Reuel R. Reis, Hoang Nguyen

- J.B. Clark was raised in Providence, R. I. and graduated from Amherst College in Massachusetts at the age of 25. From 1872 to 1875 he attended the University of Zurich and the University of Heidelberg where he studied under Karl Knies (a leader of the German Historical School). Upon his return to the United States he became professor of history and political economy at Carleton College until 1882. He then taught at Smith College, Amherst, and Johns Hopkins University. (History). He also became the third president of the American Economic Association (1894-1895). Clark took up residence with the faculty of political science at Columbia University from 1895 until his retirement in 1923.

- Early in John Clark's career his writings reflected his German Socialist background and showed him as a critic of capitalism. During his time at Columbia University however his views gradually shifted to complete support of capitalism. Later he became known as a leading apologist for the capitalist system.

- As an opponent of the Institutionalist School Clark found himself as the favorite target of many economists of his day including Thorstein Veblen (a prominent Institutionalist), von Bohm-Bawerk. Clark's son (John Maurice Clark) initially co-authored several articles with his father but later became a leading Institutionalist.

- Clark was a leader in the Marginalist Revolution (a movement to establish what is now referred to as the Neoclassical approach). Replacing the Classical theory of value as established by Adam Smith, David Ricardo, John Stuart Mill, Karl Marx and others took quite some time. Clark was a key player in this change over with his discovery and the establishment of his *marginal productivity theory of distribution*.

- Clark also drew many ethical conclusions from his development of economic ideas. Many of these ideas are portrayed in his work *The Philosophy of Wealth* (1885). He attacked many disconnected fragmented assumptions from classical thought including the idea that happiness is the sole or chief good in life. These arguments then opened the door to his assumption that society is a living organism subject to collective moral judgment (Akamac). Clark also extended his theory of distribution to say that not only was it correct theory of market incomes but that it was also just (History). This is just one example of the kind of positive economics that Clark ascribed to.

- Clark was a part of the *Marginalist Revolution*. The *Marginalist Revolution* refers to the establishment of what has been since called Neo-classical approach to economic theory. Clark took this approach further than some others in applying it to the business firm and the maximization of profits. (1)

- He was one of the founders of the American Economic Association (of which he was president, 1893-1895). His purpose, along with cofounders Richard Ely and Henry Carter Adams, was to encourage a shift in thinking away from laissez-faire policies. (2)

- He was editor of *Political Science Quarterly* (1895-1911) and served as director of the division of economics and history of the Carnegie Endowment for International Peace (1911-23). (2)

- His last publication *A Tender of Peace* (1935), called for powerful League of Nations to enforce peace. (2)

- The **John Bates Clark Medal** is awarded biannually by the American Economic Association to "that American economist under the age of forty who is adjudged to have made a significant contribution to economic thought and knowledge".
- It is considered one of the two most prestigious awards in the field of economics, along with the Nobel Prize. Around 50% of past Medal winners have gone on to win the more frequently-awarded Nobel, following an average wait of over 20 years.

John Bates Clark model (4)

Assumption

- In formulating the Neo-classical theory of the firm, Clark focused on the short run, so that technology is given and the capital equipment of the firm is a fixed input. He considered labor to be the variable input. He assumed that all labor is homogenous (one labor hour is a perfect substitute for any other labor hour). There are only two things that are **not** given in the John Bates Clark model of the firm. They are the output produced and the labor (variable) input.
- Second, he ignored the distinction between land and capital, grouping together both kinds of non-human inputs under the general term "capital." And he assumed that this broadened "capital" is homogenous.
- There are some importance differences between labor and capital, and they relate to the long run and short run. In short run, the number and equipment of firms operating in each industry is fixed. In the long run, all inputs are variable and firms can come into existence or cease to exist, so the number of firms is also variable.

The Firm's Decision

- the output is decided, and the labor input will have to be just enough to produce that output, or
- the labor input is decided, and the output is whatever that quantity of labor can produce.

Thus, the firm's objective is to choose the labor input and corresponding output that will maximize profit.

Value of the Marginal Product

The Value of the Marginal Product is the product of the marginal product times the price of output. It is abbreviated VMP.

increase in revenue =	value of marginal product
increase in cost =	wage

$$\text{VMP} = \text{wage}$$

where p is the price of output and $\text{VMP} = p \cdot \text{MP}$ the marginal productivity of labor in money terms. This is understood as another instance of the Equimarginal Principle.

Applying J.B.Clark model

We can immediately identify the wage as the price of labor in the John Bates Clark model. But what is the marginal benefit of hiring labor? In order to benefit, the firm must direct the labor to produce goods and services, but must also sell those goods and services. Thus the marginal benefit, in this application, will be the product of the selling price of the output times the marginal product of the labor.

The way to maximize profits then is to hire enough labor so that

$$p \cdot MP = \text{wage}$$

where p is the price of output and MP the marginal productivity of labor.

Conclusion

- John Bates Clark was arguably the first economic theorist from the United States to achieve an international reputation. One reason for this is his extensive published writings (mainly books and highly respected journals). The influence he exerted on the current generation of economists lay more in his development of analytical tools than in the conclusions he drew from them (Book). According to Schumpeter, he was one of the discoverers of the Neoclassical marginal approach and "architect of one of its most significant theoretical structures." (Drexel)

Works Cited

- (1) <http://www.economyprofessor.com/theorists/johnbatesclark.php>
- (2) <http://www.britannica.com/eb/article-9024208>
- (3) http://en.wikipedia.org/wiki/John_Bates_Clark_Medal
- (4) <http://william-king.www.drexel.edu/top/prin/txt/MPCh/newexp4.html>

"BookRags Biography on John Bates Clark." 22 March 2006.

<<http://www.bookrags.com/biography/john-bates-clark/index.html>>

"Clark, J. B (1847.1.27-1938.3.21)." AKAMAC E-Text Links. Akamac. 22 Mar. 2006

<http://www.cpm.ll.ehime-u.ac.jp/AkamacHomePage/Akamac_E-text_Links/clark.html>.

"John Bates Clark, 1847-1938." History of Economic Thought Website. Economics New School. 22

Mar. 2006 <<http://cepa.newschool.edu/het/profiles/clark.htm>>.

"John Bates Clark." Drexel. 22 Mar. 2006 <[http://william-](http://william-king.www.drexel.edu/top/prin/txt/MPCh/JBC.HTML)

[king.www.drexel.edu/top/prin/txt/MPCh/JBC.HTML](http://william-king.www.drexel.edu/top/prin/txt/MPCh/JBC.HTML)>.